**IMPORTANT NOTICE**

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

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (**THE SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION. THE ISSUING ENTITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED. THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (**REGULATION S**)), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE SECURITIES ARE NOT TRANSFERABLE EXCEPT UPON SATISFACTION OF CERTAIN CONDITIONS AS DESCRIBED IN THE SECTIONS ENTITLED "**SUBSCRIPTION AND SALE**" AND "**TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS**" HEREIN.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are reminded that the base prospectus has been delivered to you on the basis that you are a person into whose possession the base 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 base 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 issuing entity in such jurisdiction.

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

This base prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Permanent Master Issuer PLC, Bank of Scotland plc, Lloyds Bank Corporate Markets plc (as arranger, manager and dealer),or any manager nor any dealer nor any person who controls any such person or any director, officer, employee nor agent of any such person (or affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the base prospectus distributed to

you in electronic format and the hard copy version available to you on request from Permanent Master Issuer PLC or Lloyds Bank Corporate Markets plc.

**BASE PROSPECTUS**

**PERMANENT MASTER ISSUER PLC**
***(incorporated in England and Wales with limited liability under registered number 05922774)***

**Legal entity identifier (LEI): 213800MVYG7MLQM2LF25**

**Residential Mortgage Backed Note Programme**
**(ultimately backed by the mortgages trust)**

**Programme establishment**

The issuing entity established a mortgage backed note programme (the **programme**) on 17 October 2006 (the **programme date**).

**Issuance in series**

Notes issued under the programme have been and will be issued in series. Each series will normally: (a) be issued on a single date; (b) be subject to the terms and conditions; and (c) consist of one or more classes of notes. Notes of the same class rank *pari passu* and *pro rata* among themselves. Each series of the same class will not, however, be subject to identical terms in all respects (for example, interest rates, interest calculations, expected maturity and final maturity dates will differ). The issuing entity may from time to time issue class A notes, class B notes, class M notes, class C notes and class D notes in one or more series (together, the **notes**).

**The notes**

The notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or the securities laws of any state of the United States or any other relevant jurisdiction. The notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**)) (**U.S. persons**) unless an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act is available and in accordance with any applicable state or local securities laws.

The programme provides that the issuing entity may issue notes to be sold outside the United States to non-U.S. persons in reliance on Regulation S. Such notes are collectively referred to herein as **Reg S notes**. In addition to Reg S notes, the issuing entity may also issue notes that will be sold within the United States only to qualified institutional buyers (**QIBs**) within the meaning of Rule 144A under the Securities Act (**Rule 144A**) in reliance on Rule 144A. Such notes are collectively referred to herein as **Rule 144A notes**. Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For the avoidance of doubt, no US Notes (as defined in the terms and conditions) are being offered pursuant to this base prospectus. For a description of certain further restrictions on offers, sales and transfers of notes in this base prospectus, see "**Subscription and sale**" below and "**Transfer restrictions and investor representations**" below.

The issuing entity may agree with any dealer and/or manager and the note trustee that notes may be issued in a form not contemplated by the terms and conditions of the notes herein in which event (in the case of notes admitted to the Official List only) a supplementary prospectus or a further base prospectus or a drawdown prospectus will be made available which will describe the effect of the agreement reached in relation to such series and class of notes.

Lloyds Bank Corporate Markets plc will not offer or sell any notes into the United States unless pursuant to an available exemption from registration as a broker-dealer under the United States Securities Exchange Act of 1934, as amended (the **Exchange Act**).

**United States Federal Income Tax**

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

(including opinions or other tax analyses) that are provided to it relating to such U.S. federal income tax treatment and U.S. federal income tax structure.

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

The issuing entity expects to issue notes in series from time to time. Notes may be issued under a new series and backed by the same portfolio without the consent of existing noteholders, and may have different terms from outstanding notes.

**Volcker Rule**

The issuing entity is not, and after giving effect to any offering and sale of notes and the application of the proceeds thereof will not be, a "covered fund" for purposes of regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended (commonly known as the **Volcker Rule**). In reaching this conclusion, although other statutory or regulatory exemptions under the Investment Company Act of 1940, as amended (the **Investment Company Act**) and under the Volcker Rule and its related regulations may be available, the issuing entity has relied on the determinations that it may rely on the exemption from registration under the Investment Company Act provided by Rule 3a-7 thereunder, and (ii) it does not rely on Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act for its exemption from registration under the Investment Company Act and, accordingly, may rely on the exemption from the definition of a "covered fund" under the Volcker Rule made available to entities that do not rely solely on Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act for their exemption from registration under the Investment Company Act.

Any prospective investors in the notes (including a U.S. or foreign bank or subsidiary or other affiliate thereof) should consult its own legal advisors regarding the effects of the Volcker Rule.

**Final terms/ drawdown prospectus**

Each series will be subject to final terms or a drawdown prospectus, which, for the purpose of that series only, completes (or incorporates by reference, as applicable) the conditions of the notes in this base prospectus and must be read in conjunction with this base prospectus. A drawdown prospectus may be used when the issuing entity intends to issue notes in a form not contemplated by the terms and conditions of the notes herein, or if it considers that the information contained in this base prospectus and the final terms needs to be supplemented, amended and/or replaced in the context of an issue of a particular series or class of notes. In other cases, a final terms may be used in relation to a series of notes. The final terms and drawdown prospectuses for listed notes will be filed with the UK Listing Authority (and in the case of a drawdown prospectus approved by the UK Listing Authority) and made available to the public in accordance with the prospectus rules made pursuant to the Financial Services and Markets Act 2000 (as amended, the **FSMA**) (the **Prospectus Rules**).

**Benchmarks Regulation**

Interest payable under the Notes may be calculated by reference to LIBOR, EURIBOR, SOFR or SONIA, as specified in the relevant Final Terms.

Central bank-set benchmarks (such as SONIA provided by the Bank of England) are subject to certain exemptions pursuant to Article 2 of Regulation (EU) 2016/1011 (the **Benchmarks Regulation**), but the Bank of England has issued a statement of compliance with the principles for financial benchmarks issued in 2013 by the International Organisation of Securities Commissioners.

At the date of this Base Prospectus, ICE Benchmark Administration Limited and the European Money Markets Institute appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority in accordance with Article 36 of Regulation (EU) 2016/1011 (the Benchmarks Regulation).

**Rating agencies**

Standard & Poor's Rating Services, a division of Standard & Poor's Credit Market Services Europe Limited (**Standard & Poor's** or **S&P**), Moody's Investors Service Limited (**Moody's**) and Fitch Ratings Ltd. (**Fitch**, and together with S&P and Moody's, the **rating agencies**). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating

agency established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) (the **CRA Regulation**) or issued by a credit rating agency established in a third country but whose credit ratings are endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation or which is certified in accordance with the CRA Regulation (and such endorsement or certification, as the case may be, has not been withdrawn or suspended).

**Credit ratings**

Each of Moody's, S&P and Fitch is established in the European Union and is registered under the CRA Regulation. As such each of the rating agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation. Standard & Poor's Credit Market Services Europe Limited operates under its trading name Standard & Poor's Rating Services.

Ratings may be assigned to all or some of the notes of a series on or before each closing date and such ratings will be set out in the applicable final terms or drawdown prospectus for the relevant series.

The ratings (if any) assigned by Fitch and S&P for each series and class of notes address the likelihood of (a) timely payment of interest due to the noteholders on each interest payment date and (b) full payment of principal by a date that is not later than the final maturity date for that series and class of notes. The ratings (if any) assigned by Moody's to each series and class of notes address the expected loss posed to investors by the legal final maturity and reflect Moody's opinion that the structure allows for timely payment of interest and ultimate payment of principal in respect of a series and class of notes by the final maturity date (being legal final maturity) of that series and class of notes.

Certain nationally recognised statistical rating organisations (**NRSROs**), as defined in Section 3(a)(62) of the Exchange Act, that were not hired by the issuing entity may use information they receive pursuant to Rule 17g-5 under the Exchange Act (**Rule 17g-5**) to rate the notes. No assurance can be given as to what ratings a non-hired NRSRO would assign.

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

**Underlying assets**

The issuing entity's primary source of funds to make payments on the notes will be derived from, *inter alia*, payments pursuant to the master intercompany loan agreement entered into between the issuing entity and Funding 2. Funding 2 pays amounts due under the master intercompany loan principally from its share of the trust property. The trust property comprises a portfolio of first ranking residential mortgage loans originated by Halifax or (after the reorganisation date) by Bank of Scotland under the "Halifax" brand, which have been sold by Halifax or Bank of Scotland to the mortgages trustee. The mortgages trustee holds the portfolio on trust for certain beneficiaries (including Funding 2). Neither the issuing entity nor the noteholders will have any direct interest in the trust property, although the issuing entity will share in the benefit of the security interest created by Funding 2 over its share of the trust property. The issuing entity's primary asset will be its rights under the master intercompany loan agreement and the security for such rights created by Funding 2.

The loans included in the portfolio consist of several different types with a variety of characteristics relating to, among other things, calculation of interest and repayment of principal and include or will include loans with all or certain of the following terms:

- loans which are subject to variable rates of interest set by reference to a variable base rate of interest, which the servicer determines based on general interest rates and competitive forces in the UK mortgage market from time to time;
- loans which track a variable rate of interest other than a variable rate set by the seller or the servicer (currently this rate is the Bank of England repo rate); and

- loans which are subject to fixed rates of interest.

See "**The loans – Characteristics of the loans**" below for a more detailed description of the loans offered by the seller and included in the portfolio. For each issuance, selected statistical information on the portfolio as at the relevant cut-off date will be set out in the applicable final terms or drawdown prospectus for that issuance.

**Credit enhancement**

– subordination of more junior ranking notes (see "**Credit structure – Priority of payments among the class A notes, the class B notes, the class M notes, the class C notes, the class D notes and the issuing entity subordinated loans**");

– subordination of the Funding 2 Z loans (see "**Risk factors – Subordination of the Funding 2 Z loans to the loan tranches may not protect noteholders from all risks of loss**" and "**The Funding 2 Z loan agreement**");

– subordination of issuing entity subordinated loans (see "**Credit structure – Priority of payments among the class A notes, the class B notes, the class M notes, the class C notes, the class D notes and the issuing entity subordinated loans**");

– a Funding 2 general reserve fund (see "**Credit structure – Funding 2 general reserve fund**");

– excess spread (see "**Credit structure – Credit support for the notes provided by Funding 2 available revenue receipts**"); and

– in the case of the Funding 2 yield reserve notes only, the Funding 2 yield reserve fund (see "**Credit structure – Funding 2 yield reserve fund**").

**Liquidity support**

– use of principal to cover interest shortfalls (see "**Credit structure – Use of Funding 2 principal receipts to pay Funding 2 income deficiency**"); and

– establishment of a Funding 2 liquidity reserve fund (if established following a seller rating downgrade) (see "**Credit structure – Funding 2 liquidity reserve fund**").

**Redemption provisions**

Information on any optional and mandatory redemption of the notes is summarised in "**Overview of the notes – Redemption and repayment**" and "**Overview of the notes – Optional redemption or repurchase of the notes**" and set out in full in Condition 5.

**Listing**

This document dated 7 October 2019 comprises a base prospectus (the **base prospectus**) for the purpose of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (the **Prospectus Regulation**).. This base prospectus supersedes any previous prospectus describing the programme. Any notes issued under the programme on or after the date of this base prospectus are issued subject to the provisions described herein. An application has been made to the Financial Conduct Authority (the **FCA** (previously known as the Financial Services Authority, the **FSA**)) in its capacity as competent authority (the **UK Listing Authority** or **UKLA**) under the FSMA in order for the base prospectus to be approved. This base prospectus is not a prospectus for purposes of Section 12(a)(2) or any other provision of or rule under the Securities Act. An application will be made to the UK Listing Authority for the notes specified as listed notes in any drawdown prospectus, or the applicable final terms when issued under the programme during the period of 12 months from the date of this base prospectus, to be admitted to the Official List (the **Official List**) and application will be made to London Stock Exchange plc (the **London Stock Exchange**) for such notes to be admitted to trading on its regulated market. The regulated market of the London Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive (2014/65/EU) (as amended or superseded, the **Markets in Financial Instruments Directive** or **MiFID II**) (the **London Stock Exchange's Regulated Market**).

The issuing entity may also issue unlisted notes for which no prospectus is required to be published under the Prospectus Regulation and which will not be issued pursuant

to (and do not form part of) this base prospectus, and will not be issued pursuant to any final terms document under this base prospectus. The FCA has neither approved nor reviewed information contained in this base prospectus in connection with any unlisted notes.

This base prospectus has been approved by the FCA, as competent authority under the Prospectus Regulation. The FCA only approves this base prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the issuing entity that is the subject of this base prospectus or the quality of the securities the subject of this base prospectus. Investors should make their own assessment as to the suitability of investing in the securities.

**Obligations**

The notes will be obligations of the issuing entity alone and will not be guaranteed by, or be the responsibility of, any other entity. The notes will not be obligations of or guaranteed by Bank of Scotland, the managers, the arranger, the dealers, the note trustee, the Funding 1 security trustee, the Funding 2 security trustee, the issuing entity security trustee, the previous Funding 1 issuing entities, Funding 1, Funding 2, the mortgages trustee, the subordinated loan provider, the Funding 2 Z loan provider, the start-up loan provider, the corporate services provider, the issuing entity corporate services provider, the mortgages trustee corporate services provider, the Funding 2 swap provider, the issuing entity swap providers or their guarantors, as applicable, the paying agents, the registrar, the transfer agent, the agent bank or any company in the same group of companies as Bank of Scotland or any other party to the transaction documents (but without prejudice to the obligations of Funding 2 to the issuing entity under the master intercompany loan agreement), their affiliates or any other party named in this base prospectus.

**Definitions**

Please refer to the section entitled "**Defined terms and conventions**" below and the Glossary for a list of defined terms and their meanings.

**Securitisation Regulation requirements**

The seller confirms that it in its capacity as originator, will:

(a) retain on an on-going basis a material net economic interest in the securitisation of not less than 5 per cent. as required by Article 6(1) of Regulation (EU) 2017/2402 (the **Securitisation Regulation**) (which does not take into account any national measures). The seller initially intends to satisfy the Securitisation Regulation requirements by maintaining a seller share in the master trust in an amount at least equal to 5 per cent. of the aggregate outstanding principal balance of all loans in the portfolio, and the seller will not hedge, sell or otherwise mitigate such risk unless it is permitted to do so under the Securitisation Regulation. Any change to the manner in which such interest is held will be notified to noteholders. Please refer to the section entitled "**Certain Regulatory Requirements** — Securitisation Regulation" below; and

(b) provide on a timely basis all information required to be made available by the issuing entity pursuant to Article 7 of the Securitisation Regulation subject always to any requirement of law, provided that the seller will not be in breach of such undertaking if it fails to comply due to events, actions or circumstances beyond its control.

The issuing entity, for the purposes of Article 7(2) of the Securitisation Regulation, has been designated as the entity responsible for compliance with the requirements of Article 7 and will either fulfill such requirements itself or shall procure that such requirements are complied with on its behalf. In relation to any Notes which are awarded STS status, Bank of Scotland as the sponsor and the originator is responsible for compliance with Article 7 of the Securitisation Regulation.

**Simple, Transparent and Standardised Securitisation (STS)**

The seller, as originator, may procure a notification to be submitted to the European Securities and Markets Association (**ESMA**), in accordance with Article 27 of the Securitisation Regulation, and the FCA, that the requirements of Articles 19 to 22 of the Securitisation Regulation have been satisfied with respect to a series of notes.

| | |
|---|---|
| | In relation to such notification, the seller has been designated as the first contact point for investors and competent authorities. |
| **U.S. Credit Risk Retention Requirements** | The seller is required under Section 15G of the Exchange Act (the **U.S. Credit Risk Retention Requirements**) to acquire and retain (or to ensure that a majority-owned affiliate of the seller acquires and retains) an economic interest in the credit risk of the interests created by the issuing entity on the closing date of each issuance of notes and on a monthly basis thereafter. The seller initially intends to satisfy the U.S. Credit Risk Retention Requirements by maintaining a seller share in the master trust in an amount at least equal to 5 per cent. of the aggregate outstanding principal balance of all notes issued by the issuing entity, with certain exceptions, calculated in accordance with U.S. Credit Risk Retention Requirements. Please refer to the section entitled "**Certain Regulatory Requirements — U.S. credit risk retention**" below. |

**THE "RISK FACTORS" SECTION STARTING ON PAGE 26 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.**

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

**Arranger**

**Lloyds Bank Corporate Markets**

**Dealer**

**Lloyds Bank Corporate Markets**

Base prospectus dated 7 October 2019

**IMPORTANT NOTICE**

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THEREFORE THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS. ACCORDINGLY, (A) THE REG S NOTES ARE BEING OFFERED AND SOLD ONLY TO PERSONS (OTHER THAN US PERSONS) OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT AND (B) THE RULE 144A NOTES ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO PERSONS WHO ARE "QUALIFIED INSTITUTIONAL BUYERS" (QIBS), ACTING FOR THEIR OWN ACCOUNT, OR FOR THE ACCOUNT OR BENEFIT OF ONE OR MORE QIBS, IN RELIANCE ON RULE 144A OR ANOTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON RESALES OR TRANSFERS, SEE "**SUBSCRIPTION AND SALE**" BELOW.

THE NOTES OFFERED HEREBY HAVE NOT BEEN APPROVED OR DISAPPROVED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR ANY OTHER UNITED STATES REGULATORY AUTHORITY AND THE ISSUING ENTITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

THE NOTES ARE NOT INTENDED TO BE SOLD AND SHOULD NOT BE SOLD TO RETAIL INVESTORS. FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF MIFID II; OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (AS AMENDED AND/OR SUPERSEDED, THE **INSURANCE MEDIATION DIRECTIVE**), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. PROSPECTIVE INVESTORS ARE REFERRED TO THE SECTION HEADED "**SUBSCRIPTION AND SALE — RETAIL INVESTOR RESTRICTION"** ON PAGE 431 BELOW FOR FURTHER INFORMATION.

THE REG S NOTES HAVE NOT BEEN AND WILL NOT BE QUALIFIED UNDER ANY APPLICABLE CANADIAN SECURITIES LAWS. NEITHER THE REG S NOTES NOR ANY INTEREST OR PARTICIPATION THEREIN MAY BE REOFFERED, RESOLD, ASSIGNED, TRANSFERRED OR OTHERWISE DISPOSED OF TO PURCHASERS IN CANADA UNLESS THEY ARE (A) SOLD IN COMPLIANCE WITH OR PURSUANT TO AN EXEMPTION FROM APPLICABLE DEALER REGISTRATION REQUIREMENTS OF ANY APPLICABLE CANADIAN SECURITIES LAWS AND (B) SOLD OR TRANSFERRED TO AN "ACCREDITED INVESTOR" (AS DEFINED IN CANADIAN NATIONAL INSTRUMENT *45-106 PROSPECTUS AND REGISTRATION EXEMPTIONS*).

THE ERISA ELIGIBILITY OF THE RULE 144A NOTES WILL BE SET FORTH IN THE APPLICABLE FINAL TERMS OR DRAWDOWN PROSPECTUS. THE REG S NOTES AND ANY RULE 144A NOTES NOT SPECIFIED IN THE APPLICABLE FINAL TERMS OR DRAWDOWN PROSPECTUS AS ERISA-ELIGIBLE ARE NOT DESIGNED FOR, AND MAY NOT BE PURCHASED OR HELD BY, ANY "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), WHICH IS SUBJECT THERETO, OR ANY "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), OR BY ANY PERSON ANY OF THE ASSETS OF WHICH ARE, OR ARE DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 OF THE CODE TO BE, ASSETS OF SUCH AN "EMPLOYEE BENEFIT PLAN" OR "PLAN", OR BY A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN WHICH IS SUBJECT TO ANY NON-U.S. OR U.S., FEDERAL, STATE OR LOCAL LAW OR REGULATION THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE UNLESS, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN, ITS ACQUISITION, HOLDING AND DISPOSITION OF SUCH NOTES WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY SUCH SUBSTANTIALLY SIMILAR NON-U.S. OR U.S. FEDERAL, STATE OR LOCAL LAW OR REGULATION; AND EACH PURCHASER OF SUCH NOTES WILL BE DEEMED TO HAVE REPRESENTED, WARRANTED AND AGREED THAT IT IS NOT, AND FOR SO LONG AS IT HOLDS SUCH NOTES WILL NOT BE, SUCH AN "EMPLOYEE BENEFIT PLAN", "PLAN", PERSON, OR GOVERNMENTAL, CHURCH, NON-US OR OTHER PLAN UNLESS, IN THE CASE OF A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN,

ITS ACQUISITION, HOLDING AND DISPOSITION OF SUCH NOTES WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY SUCH SUBSTANTIALLY SIMILAR NON-U.S. OR U.S. FEDERAL, STATE OR LOCAL LAW OR REGULATION. SEE "**ERISA CONSIDERATIONS**".

There is no undertaking to register the notes under U.S. state or federal securities laws. Until 40 days after the commencement of the offering, an offer or sale of the notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in compliance with Rule 144A, or pursuant to another exemption from the registration requirements of the Securities Act.

**Available Information**

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

**Enforcement of Judgments**

The issuing entity is a UK public limited company incorporated with limited liability in England and Wales and its executive offices and administrative activities are located outside the United States. Any final and conclusive judgment of any United States federal or state court having jurisdiction recognised by England or Wales in respect of an obligation of the issuing entity in respect of the notes which is for a fixed sum of money and which has not been stayed or satisfied in full, would be enforceable by action against the issuing entity in the courts of England and Wales without a re-examination of the merits of the issues determined by the proceedings in that United States federal or state court, as applicable, unless:

- the proceedings in that United States federal or state court, as applicable, involved a denial of the principles of natural or substantial justice;
- the judgment is contrary to the public policy of England or Wales;
- the judgment was obtained by fraud or duress or was based on a clear mistake of fact;
- the judgment is of a public nature (for example, a penal or revenue judgment);
- there has been a prior judgment in another court between the same parties concerning the same issues as are dealt with in the judgment of the United States federal or state court, as applicable;
- enforcement would breach section 5 of the Protection of Trading Interests Act 1980; or
- enforcement proceedings are not instituted within six years after the date of the judgment.

A judgment by a court may be given in some cases only in sterling. The issuing entity expressly submits to the non-exclusive jurisdiction of the courts of England for the purpose of any suit, action or proceedings arising out of this offering.

All of the directors and executive officers of the issuing entity reside outside the United States. Substantially all or a substantial portion of the assets of all or many of those persons are located outside the United States. As a result, it may not be possible for holders of the notes to effect service of process within the United States upon those persons or to enforce against them judgments obtained in United States courts predicated upon the civil liability provisions of federal securities laws of the United States. Based on the restrictions referred to in this section, there is doubt as to the enforceability in England and Wales, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated upon the federal securities laws of the United States.

THE NOTES WILL BE OBLIGATIONS OF THE ISSUING ENTITY ONLY. THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN THE ISSUING ENTITY. IN PARTICULAR, THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY OF BANK OF SCOTLAND, THE MANAGERS, THE ARRANGER, THE DEALERS, THE NOTE TRUSTEE, THE FUNDING 1 SECURITY TRUSTEE, THE FUNDING 2 SECURITY TRUSTEE, THE ISSUING ENTITY SECURITY TRUSTEE, THE PREVIOUS

FUNDING 1 ISSUING ENTITIES, FUNDING 1, FUNDING 2, THE MORTGAGES TRUSTEE, THE SUBORDINATED LOAN PROVIDER, THE FUNDING 2 Z LOAN PROVIDER, THE START-UP LOAN PROVIDER, THE CORPORATE SERVICES PROVIDER, THE ISSUING ENTITY CORPORATE SERVICES PROVIDER, THE MORTGAGES TRUSTEE CORPORATE SERVICES PROVIDER, THE FUNDING 2 SWAP PROVIDER, THE ISSUING ENTITY SWAP PROVIDERS OR THEIR GUARANTORS, AS APPLICABLE, THE PAYING AGENTS, THE REGISTRAR, THE TRANSFER AGENT, THE AGENT BANK OR ANY COMPANY IN THE SAME GROUP OF COMPANIES AS BANK OF SCOTLAND OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS, THEIR AFFILIATES OR ANY OTHER PARTY NAMED IN THIS BASE PROSPECTUS. NO LIABILITY WHATSOEVER IN RESPECT OF ANY FAILURE BY THE ISSUING ENTITY TO PAY ANY AMOUNT DUE UNDER THE NOTES SHALL BE ACCEPTED BY ANY OF BANK OF SCOTLAND, THE MANAGERS, THE ARRANGER, THE DEALERS, THE NOTE TRUSTEE, THE FUNDING 1 SECURITY TRUSTEE, THE FUNDING 2 SECURITY TRUSTEE, THE ISSUING ENTITY SECURITY TRUSTEE, THE PREVIOUS FUNDING 1 ISSUING ENTITIES, FUNDING 1, FUNDING 2, THE MORTGAGES TRUSTEE, THE SUBORDINATED LOAN PROVIDER, THE FUNDING 2 Z LOAN PROVIDER, THE START-UP LOAN PROVIDER, THE CORPORATE SERVICES PROVIDER, THE ISSUING ENTITY CORPORATE SERVICES PROVIDER, THE MORTGAGES TRUSTEE CORPORATE SERVICES PROVIDER, THE FUNDING 2 SWAP PROVIDER, THE ISSUING ENTITY SWAP PROVIDERS OR THEIR GUARANTORS, AS APPLICABLE, THE PAYING AGENTS, THE REGISTRAR, THE TRANSFER AGENT, THE AGENT BANK OR ANY COMPANY IN THE SAME GROUP OF COMPANIES AS BANK OF SCOTLAND OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS (BUT WITHOUT PREJUDICE TO THE OBLIGATIONS OF FUNDING 2 TO THE ISSUING ENTITY UNDER THE MASTER INTERCOMPANY LOAN AGREEMENT), THEIR AFFILIATES OR ANY OTHER PARTY NAMED IN THIS BASE PROSPECTUS.

The issuing entity accepts responsibility for the information contained in this base prospectus and each final terms. To the best of the knowledge of the issuing entity, the information contained in this base prospectus is in accordance with the facts and that this base prospectus makes no omission likely to affect their import.

The seller accepts responsibility for the section entitled "**Certain Regulatory Requirements**" and declares that the information contained in such section is, to the best of its knowledge, in accordance with the facts and that such section makes no omission likely to affect their import.

Where information has been sourced from any other third party, the Issuer confirms that this information has been accurately reproduced and that 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 representation or warranty is made or implied by the arranger, the dealers, the managers or any of their respective affiliates, advisers, directors or group companies, and neither the arranger, the managers, the dealers nor any of their respective affiliates, advisers, directors or group companies makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this base prospectus.

The arranger, the dealers and the managers do not accept any responsibility for compliance of the issuing entity, the mortgages trustee, Funding 2 or the seller (as applicable) with the requirements of the Securitisation Regulation and has not assisted or advised the issuing entity, the mortgages trustee, Funding 2 or the seller (as applicable) with its compliance with the requirements of the Securitisation Regulation or the seller with its compliance with the requirements of the U.S. Credit Risk Retention Requirements.

A copy of this base prospectus and the applicable final terms or drawdown prospectus relating to listed notes will be available for inspection at the registered office of the issuing entity and at the specified office of the paying agents in accordance with the Prospectus Rules.

If at any time the issuing entity shall be required to prepare a supplemental prospectus pursuant to section 87G of the FSMA, the issuing entity will prepare and make available an appropriate amendment or supplement to this base prospectus which, in respect of any subsequent issue of a series of notes to be listed on the official list and admitted to trading on the London Stock Exchange's regulated market, shall constitute a supplemental prospectus as required by the UK Listing Authority and section 87G of the FSMA.

No person is or has been authorised in connection with the issue and sale of the notes to give any information or to make any representation not contained in this base prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of Bank of Scotland, the managers, the arranger, the dealers, the note trustee, the Funding 1 security trustee, the Funding 2 security trustee, the issuing entity security trustee, the previous Funding 1 issuing entities, Funding 1, Funding 2, the mortgages trustee, the subordinated loan provider, the Funding 2 Z loan provider, the start-up loan

provider, the corporate services provider, the issuing entity corporate services provider, the mortgages trustee corporate services provider, the Funding 2 swap provider, the issuing entity swap providers or their guarantors, as applicable, the paying agents, the registrar, the transfer agent, the agent bank or any company in the same group of companies as Bank of Scotland or any other party to the transaction documents, their affiliates or any other party named in this base prospectus.

Neither the delivery of this base prospectus nor any sale or allotment made in connection with the offering of any of the notes shall under any circumstances constitute a representation or create any implication that there has been no change in the affairs of Bank of Scotland, the managers, the arranger, the dealers, the note trustee, the Funding 1 security trustee, the Funding 2 security trustee, the issuing entity security trustee, the previous Funding 1 issuing entities, Funding 1, Funding 2, the mortgages trustee, the subordinated loan provider, the start-up loan provider, the corporate services provider, the issuing entity corporate services provider, the mortgages trustee corporate services provider, the Funding 2 swap provider, the issuing entity swap providers or their guarantors, as applicable, the paying agents, the registrar, the transfer agent, the agent bank or any company in the same group of companies as Bank of Scotland or any other party to the transaction documents, their affiliates or any other party named in this base prospectus, or in the information contained herein since the date hereof or that the information contained herein is correct as at any time subsequent to the date hereof or that there has been no change in any other information supplied in connection with the programme as of any time subsequent to the date indicated in the document containing the same or that such information is correct at any time subsequent to the date thereof.

Other than the approval of this base prospectus by the UK Listing Authority, the filing of this base prospectus with the UK Listing Authority and making the base prospectus available to the public in accordance with the Prospectus Rules, no action has been or will be taken to permit a public offering of any notes or the distribution of this base prospectus in any jurisdiction where action for that purpose is required. The distribution of this base prospectus and the offering of notes in certain jurisdictions may be restricted by law. Persons into whose possession this base prospectus (or any part hereof) comes are required by the issuing entity, the dealers and/or the managers to inform themselves about, and to observe, any such restrictions. For a further description of certain restrictions on offers and sales of notes and distribution of this base prospectus, see "**Subscription and sale**" below. Neither this base prospectus, nor any part hereof, constitutes an offer of, or an invitation by, or on behalf of, the issuing entity, the dealers and/or the managers to subscribe for or purchase any of the notes and neither this base prospectus, nor any part hereof, may be used for or in connection with an offer to, or solicitation by, any person in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

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

Permanent Funding (No. 1) Limited (referred to in this base prospectus as **Funding 1**), a company of common ownership with the issuing entity and Funding 2, has an interest in the same trust property (being the pool of residential mortgage loans held by the mortgages trustee and originated by Halifax and following the first closing date after the reorganisation date, by Bank of Scotland under the Halifax brand). Certain issuing entities (the **previous Funding 1 issuing entities**) previously issued notes and used the proceeds thereof to make intercompany loans to Funding 1. Such Funding 1 issuing entities have now been dissolved as at the date of this base prospectus and the notes issued by those entities have been redeemed. New issuing entities may be established from time to time to issue notes and make new intercompany loans to Funding 1. Subject to certain conditions described further in this base prospectus, from time to time, new issuing entities may also be established to issue notes and make new intercompany loans to Funding 2. In addition, a new Funding beneficiary may be created in the future and new issuing entities may be established to issue notes and make intercompany loans to such new Funding beneficiary. Any new notes issued by new Funding 1 issuing entities will ultimately be, secured by the same trust property as the notes issued by the issuing entity under this base prospectus and the accompanying final terms or a drawdown prospectus. The allocation of trust property as between Bank of Scotland, Funding 1 and Funding 2, each in their capacities as a **beneficiary** of the trust property, is described in this base prospectus under "**The mortgages trust**".

A note is not a deposit and, unless stated otherwise in the applicable final terms or drawdown prospectus neither the notes nor the underlying receivables are insured or guaranteed by any United Kingdom or United States governmental agency.

## Stabilisation

In connection with the issue of any series and class (or sub-class) of notes, the dealer(s) named as stabilising dealer(s) (or persons acting on behalf of any stabilising dealer) in the applicable final terms or drawdown prospectus may over-allot such notes or effect transactions with a view to supporting the market price of that series and class (or sub-class) of notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant series and class (or sub-class) of notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the date of issue of the relevant series and class (or sub-class) of notes and 60 days after the date of the allotment of the relevant series and class (or sub-class) of notes. Any stabilisation action or over-allotment must be conducted by the relevant stabilising dealer(s) (or persons acting on behalf of any stabilising manager(s)) in accordance with all applicable laws and rules.

**Forward-looking statements**

This base prospectus contains statements which constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, including, but not limited to, statements made under the headings **"Risk factors**", "**The loans**", "**The servicer**" and "**The servicing agreement**". These forward-looking statements can 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, Bank of Scotland, the Halifax 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 or Bank of Scotland or the business carried on by it under the Halifax brand, changes in business strategy, lending practices or customer relationships and other factors that may be referred to in this base prospectus. Some of the most significant of these risks, uncertainties and other factors are discussed in this base prospectus under the heading "**Risk factors**", and you are encouraged to carefully consider those factors prior to making an investment decision in relation to the notes. The dealers or arrangers have not attempted to verify any such statements, nor do they make any representations, express or implied, with respect thereto.

**Prohibition of sales to European Economic Area retail investors**

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

**MiFID II product governance / target market**

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

**Defined terms and conventions**

Key defined terms used in this base prospectus are set out in the Glossary. Where terms first appear in the text, such terms are also defined there or refer you to a definition elsewhere.

References to a provision of law is to be construed as a reference to such provision as the same may have been amended or re-enacted and any reference to a provision of any Law of the European Union is to be construed as including a reference to such provision as the same may have been implemented, transposed, enacted or retained under the Laws of the United Kingdom. References in this base prospectus to **issuing entity**, **we** or **us** mean Permanent Master Issuer PLC and references to **you** mean potential investors in the notes.

References in this base prospectus to the **depositor** or **Funding 2** mean Permanent Funding (No. 2) Limited.

References in this base prospectus to the **SEC** mean the United States Securities and Exchange Commission.

References in this base prospectus to **£**, **pounds** or **sterling** are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland. References in this base prospectus to **US$**, **$**, **US dollars** or **dollars** are to the lawful currency of the United States of America. References in this base prospectus to **€**, **euro** or **Euro** are to the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time.

References to a **class** of notes are to the class A notes or the class B notes or the class M notes or the class C notes or the class D notes of any series or, if applicable, any sub-class of such class of notes.

**Important notice about information provided in this base prospectus and the accompanying final terms or a drawdown prospectus**

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

- the timing of interest and principal payments;
- financial and other information about the assets of the issuing entity, Funding 2 and the mortgages trustee;
- the ratings for your series and class of notes;
- information relating to the Funding 2 yield reserve notes (if applicable);
- information about enhancement for your series and class (or sub-class) of notes;
- the method of selling the notes; and
- other terms and conditions not contained herein that are applicable to your series and class of notes.

This base prospectus may be used to offer and sell any series and class of notes only if accompanied by the applicable final terms or incorporated by reference into a drawdown prospectus for that series and class.

In this base prospectus any reference to a matter being set out in the most recent final terms or drawdown prospectus shall mean the most recent final terms or if later, the most recent drawdown prospectus.

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

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

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

If you require additional information, the mailing address of Funding 2's principal executive offices is 35 Great St. Helen's, London EC3A 6AP, United Kingdom and the telephone number is +44 (0)20 7398 6300. For other means of acquiring additional information about the issuing entity or a series of notes, see "**Documents incorporated by reference**" in this base prospectus.

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## Documents incorporated by reference

The (i) audited annual accounts of the issuing entity and Funding 2 for the years ended 31 December 2016, 31 December 2017, and 31 December 2018 and the auditors reports thereon, (ii) the audited consolidated annual financial statements of Lloyds Bank plc for the financial year ended 31 December 2018, together with the audit report thereon, as set out on pages 170 to 282 and pages 161 to 169, respectively, of Lloyds Bank plc's Annual Report and Accounts 2018, (iii) the audited consolidated annual financial statements of Lloyds Bank plc for the financial year ended 31 December 2017, together with the audit report thereon, as set out on pages 166 to 274 and pages 158 to 165, respectively, of Lloyds Bank plc's Annual Report and Accounts 2017, (iv) the audited consolidated annual financial statements of Lloyds Bank plc for the financial year ended 31 December 2016, together with the audit report thereon, as set out on pages 179 to 300 and pages 171 to 178, respectively, of Lloyds Bank plc's Annual Report and Accounts 2016, in each case, which have previously been published and have been filed with the FCA shall be deemed to be incorporated in, and to form part of, this base prospectus save that any statement contained herein or any of the documents incorporated by reference in, and forming part of, this base prospectus shall be deemed to be modified or superseded for the purpose of this base prospectus to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement (whether expressly, by implication or otherwise), provided that such modifying or superseding statement is made by way of a supplement to this base prospectus pursuant to Article 19 of the Prospectus Regulation. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this base prospectus. Items (ii), (iii) and (iv) are being incorporated by reference in this base prospectus solely with respect to maturity purchase notes in Lloyds Bank plc's capacity as maturity purchaser, and these accounts are not relevant to any of the other notes issued under this programme.

Any documents themselves incorporated by reference in the documents incorporated by reference in this base prospectus shall not form part of this base prospectus. The information contained in those parts of Lloyds Bank plc's Annual Report and Accounts 2016, Lloyds Bank plc's Annual Report and Accounts 2017 and Lloyds Bank plc's Annual Report and Accounts 2018 which are not incorporated by reference in this base prospectus is not considered by Lloyds Bank plc or the issuing entity to be relevant to prospective investors in the notes to be issued under the programme.

Funding 2 will provide or cause to be provided without charge to each person to whom this base prospectus and accompanying final terms or a drawdown prospectus is delivered in connection with the offering of one or more classes of the related series of notes, on written or oral request of that person, a copy of any or all reports incorporated in this base prospectus by reference, in each case to the extent the reports relate to one or more of the classes of the related series of notes, other than the exhibits to those documents, unless the exhibits are specifically incorporated by reference in the documents. Requests should be directed either by telephone to +44 (0)20 7398 6300 or in writing to Permanent Funding (No. 2) Limited, 35 Great St. Helen's, London EC3 6AP, United Kingdom, Attention: The Directors.

The issuing entity will provide, without charge, to each person to whom a copy of this base prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Written requests for such documents should be directed to the issuing entity at its registered office as set out at the end of this base prospectus.

In addition, any document deemed to be incorporated herein by reference can be viewed electronically, free of charge, at http://www.lloydsbankinggroup.com/Investors.

**Cross Reference List**

| ***IFRS Financial Statement Commission Regulation (EC) No. 2017/1129, Annex 7, 11.1.1*** | ***Annual Report and Accounts 2015*** | ***Annual Report and Accounts 2016*** | ***Annual Report and Accounts 2017*** | ***Annual Report and Accounts 2018*** |
|---|---|---|---|---|
| Balance Sheet ..... | Pages 181-182 | Pages 181-182 | Page 168-169 | Page 172-173 |
| Consolidated Income Statement..... | Page 179 | Page 179 | Page 166 | Page 170 |
| Statement of Comprehensive Income..... | Page 180 | Page 180 | Page 167 | Page171 |

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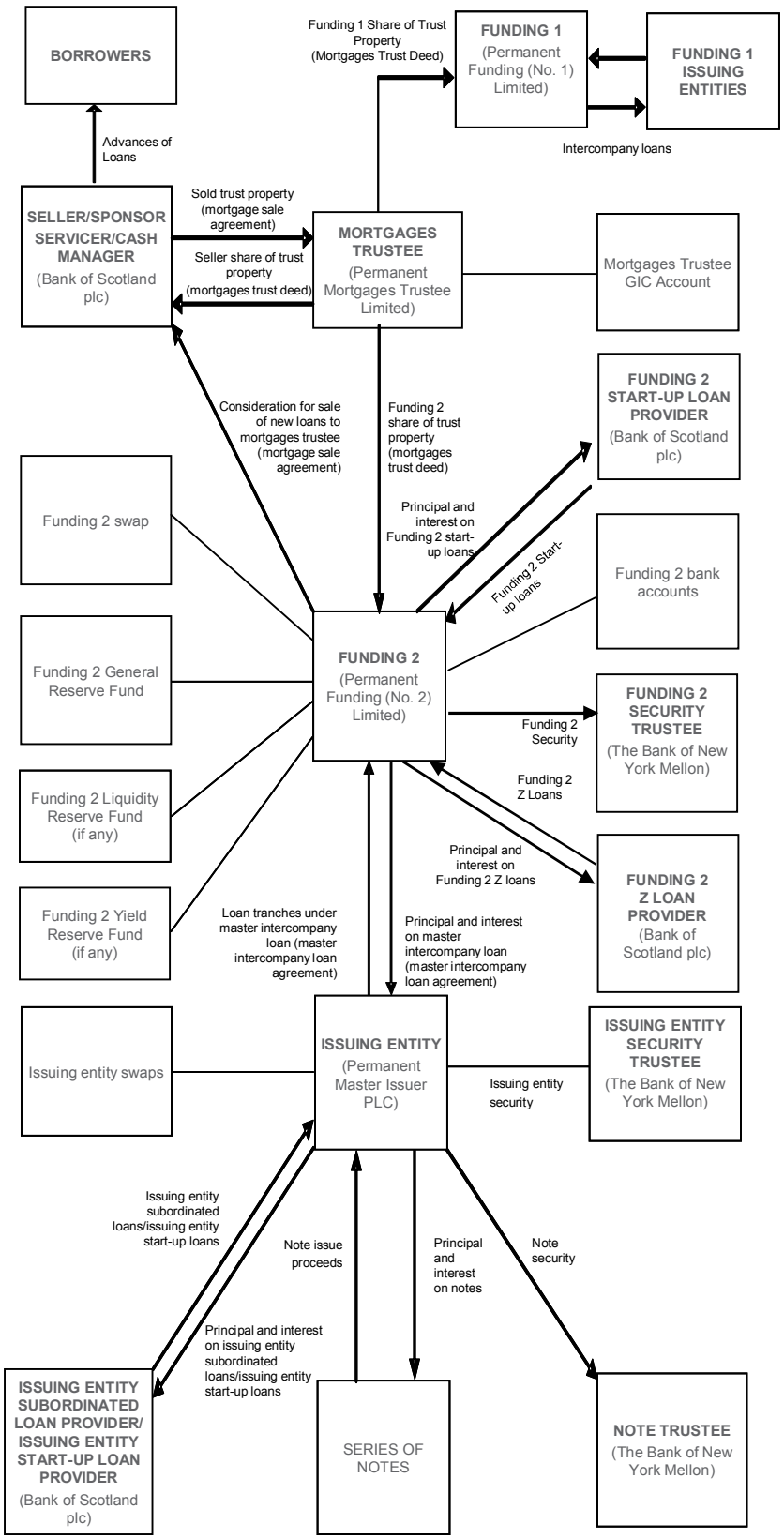
| Statement of Changes in Equity ..... | Pages 183-185 | Pages 183-184 | Pages 170-171 | Page 174-175 |
| Cash Flow Statement..... | Page 186 | Page 185 | Page 172 | Page 176 |
| Accounting Policies and Explanatory Notes..... | Pages 187-288 | Pages 186-284 | Pages 173-261 | Page 177-274 |
| Directors' Report and Directors ..... | Pages 107-110 | Pages 81-83 | Pages 81-83 | Page 79-81 |
| Principal Risks and Uncertainties ... | Pages 112-169 | Pages 123-169 | Pages 115-156 | Page 114-159 |
| Auditors' Report ..... | Pages 171-178 | Pages 171-178 | Pages 158-165 | Page 161-169 |

## Overview

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

## Diagrammatic overview of the transaction


BORROWERS
Advances of Loans
SELLER/SPONSOR SERVICER/CASH MANAGER (Bank of Scotland plc)
Funding 1 Share of Trust Property (Mortgages Trust Deed)
FUNDING 1 (Permanent Funding (No. 1) Limited)
FUNDING 1 ISSUING ENTITIES
Intercompany loans
Sold trust property (mortgage sale agreement)
Seller share of trust property (mortgages trust deed)
MORTGAGES TRUSTEE (Permanent Mortgages Trustee Limited)
Mortgages Trustee GIC Account
Consideration for sale of new loans to mortgages trustee (mortgage sale agreement)
Funding 2 share of trust property (mortgages trust deed)
FUNDING 2 START-UP LOAN PROVIDER (Bank of Scotland plc)
Principal and interest on Funding 2 start-up loans
Funding 2 Start-up loans
Funding 2 swap
Funding 2 bank accounts
Funding 2 General Reserve Fund
FUNDING 2 (Permanent Funding (No. 2) Limited)
FUNDING 2 SECURITY TRUSTEE (The Bank of New York Mellon)
Funding 2 Security
Funding 2 Z Loans
Funding 2 Liquidity Reserve Fund (if any)
Principal and interest on Funding 2 Z loans
FUNDING 2 Z LOAN PROVIDER (Bank of Scotland plc)
Funding 2 Yield Reserve Fund (if any)
Loan tranches under master intercompany loan (master intercompany loan agreement)
Principal and interest on master intercompany loan (master intercompany loan agreement)
Issuing entity swaps
ISSUING ENTITY (Permanent Master Issuer PLC)
ISSUING ENTITY SECURITY TRUSTEE (The Bank of New York Mellon)
Issuing entity security
Issuing entity subordinated loans/issuing entity start-up loans
Note issue proceeds
Principal and interest on notes
Note security
Principal and interest on issuing entity subordinated loans/issuing entity start-up loans
ISSUING ENTITY SUBORDINATED LOAN PROVIDER/ ISSUING ENTITY START-UP LOAN PROVIDER (Bank of Scotland plc)
SERIES OF NOTES
NOTE TRUSTEE (The Bank of New York Mellon)

## Diagrammatic overview of Funding 2 on-going cashflows

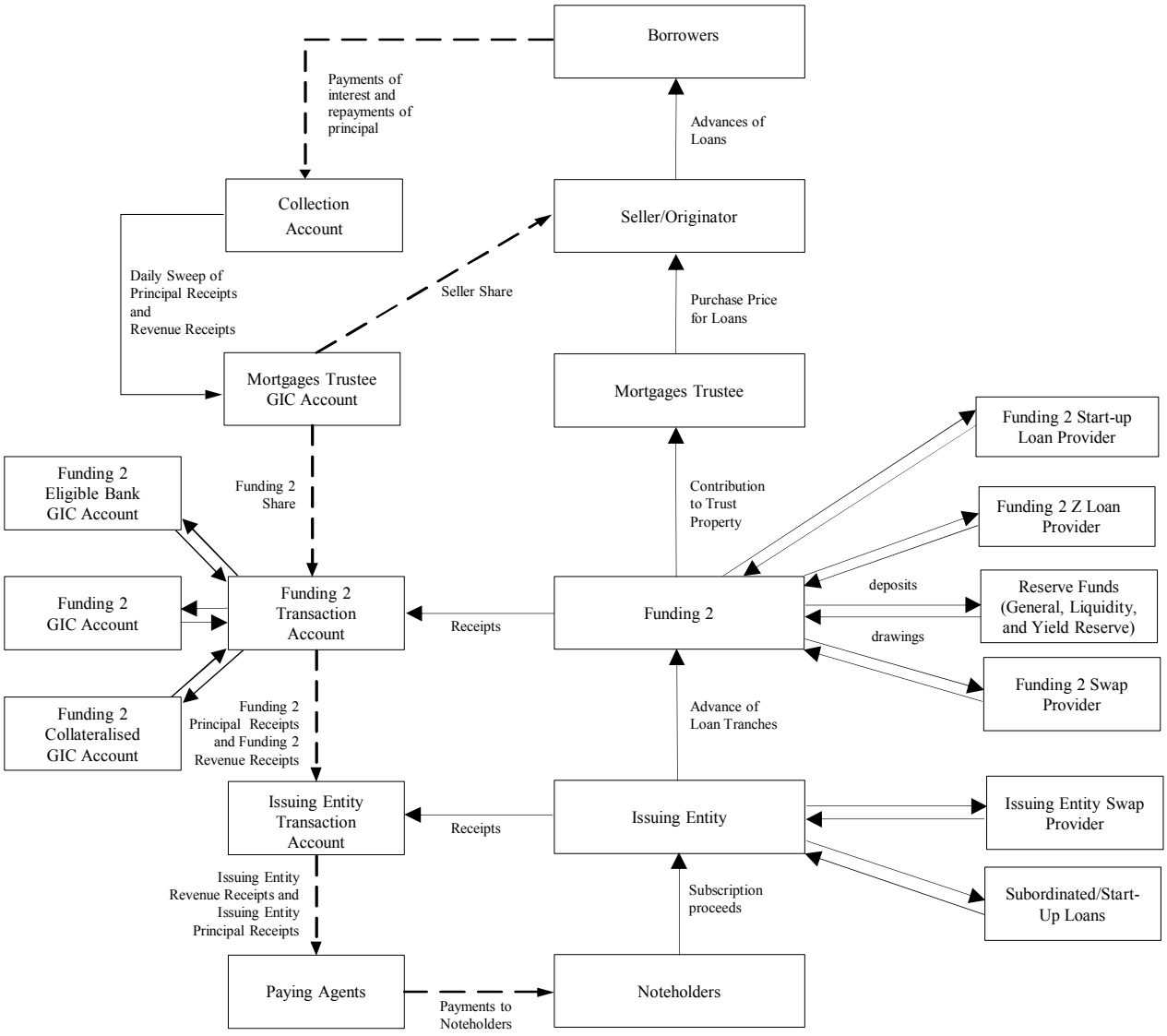
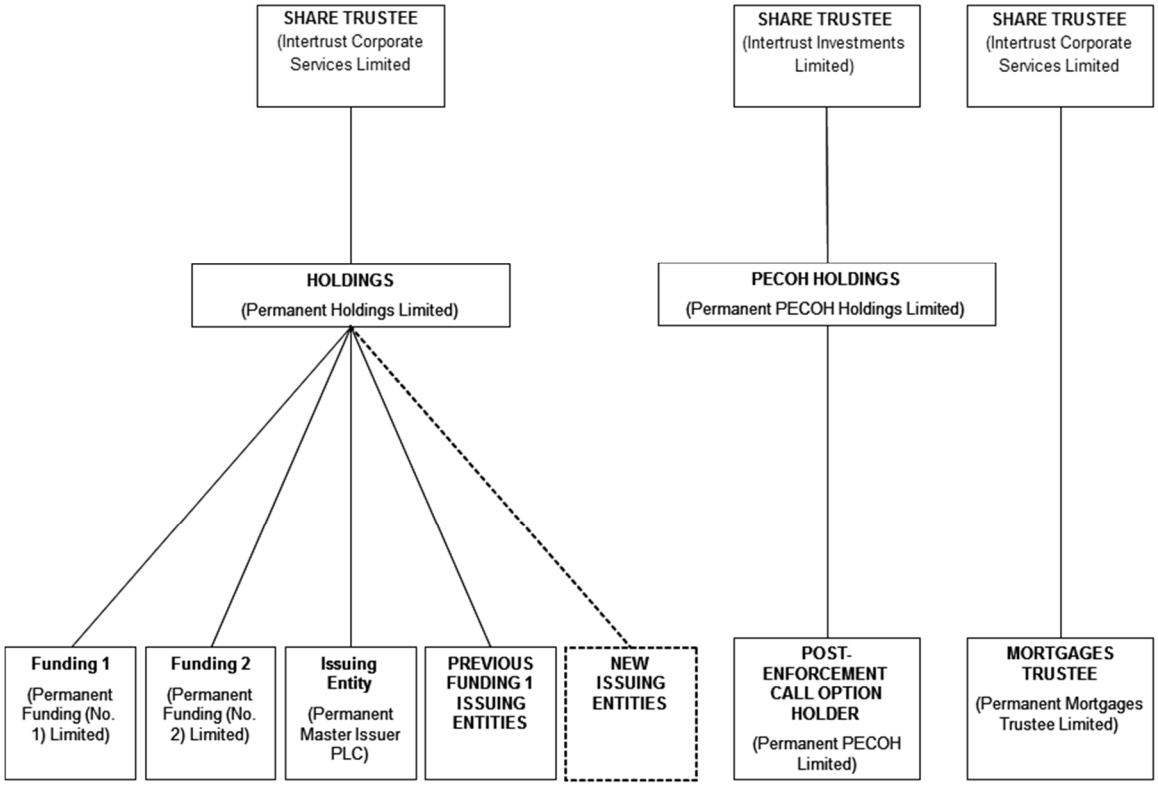


**Diagram of ownership structure of special purpose vehicles**




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

- Each of Funding 1, Funding 2 and the issuing entity is, and the previous Funding 1 issuing entities were, and any new issuing entity is expected to be, a wholly-owned subsidiary of Permanent Holdings Limited (**Holdings**). See "**Funding 1**", "**Funding 2**", "**The issuing entity**" and "**Funding 1 issuing entities**" below.

- The entire issued share capital of Holdings is held on trust by a share trustee, not affiliated with the seller, under the terms of a discretionary trust for the benefit of one or more charities. See "**Holdings**" below.

- The entire issued share capital of the mortgages trustee is held beneficially on trust by another share trustee, not affiliated with the seller, under the terms of a discretionary trust for the benefit of one or more charities. See "**The mortgages trustee**" below.

- The post-enforcement call option holder is a subsidiary of Permanent PECOH Holdings Limited (**PECOH Holdings**). See "**PECOH**" below.

- The entire issued share capital of PECOH Holdings is held on trust by another share trustee, not affiliated with the seller, under the terms of a discretionary trust for the benefit of one or more charities. See "**PECOH Holdings**" below.

- Halifax was, and from the first closing date following the reorganisation date, Bank of Scotland has been, the sponsor who organises and initiates each issuance of notes under the programme and/or advance of any issuing entity subordinated loan and/or issuing entity start-up loan under the programme (and Halifax was the sponsor for the transactions by the previous Funding 1 issuing entities), and has no ownership interest in any of the entities in the diagrams above. As a result, any such issuance of notes will not be directly linked to the credit of Bank of Scotland, and Bank of Scotland has no obligation to support any such transaction financially, although Bank of Scotland may still have a connection with any such transaction for other reasons (such as acting as servicer of the loans and as a beneficiary under the mortgages trust). See "**Bank of Scotland plc**" below.

- The previous Funding 1 issuing entities issued notes to investors and loaned the proceeds to Funding 1 pursuant to separate intercompany loan agreements on each previous closing date. See "**Funding 1 issuing entities**" below.

- New issuing entities may in the future, in connection with Funding 1, Funding 2 or a new Funding beneficiary, issue new notes from time to time and Funding 1, Funding 2 or any new Funding beneficiary, as the case may be, may apply the proceeds to acquire an interest in the trust property. Thus, the notes issued will be secured by the same trust property as the notes offered under this base prospectus and the relevant final terms or a drawdown prospectus. See **"Risk factors – Holdings may establish another company which may become an additional beneficiary under the mortgages trust**" below.

- In certain circumstances (including when new series and classes of notes are issued by the issuing entity or when new issuing entities are established in connection with Funding 1, Funding 2 or a new Funding beneficiary), the Funding 2 security trustee and/or the issuing entity security trustee may, subject to certain conditions being satisfied, consent to modifications to be made to some of the transaction documents. Your consent will not be obtained in relation to those modifications. See "**"Risk factors – The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**" below.

## Risk factors

*The following section contains certain risk factors of which prospective noteholders should be aware. These risk factors are material to an investment in the notes and in an assessment of the issuing entity. This section describes the principal risks associated with an investment in the notes but prospective noteholders should also read the detailed information set out elsewhere in this document prior to making an investment decision.*

## 1. RISKS RELATING TO THE AVAILABILITY OF FUNDS TO PAY THE NOTES

**You cannot rely on any person other than the issuing entity to make payments on your notes**

The notes will not represent an obligation or be the responsibility of Lloyds Banking Group plc, Bank of Scotland plc or any of its affiliates, the arranger, the dealers, the managers, Funding 2, the mortgages trustee, the Funding 2 security trustee, the issuing entity security trustee, the note trustee, the servicer, the cash manager, the issuing entity cash manager, any swap provider, the subordinated loan provider, the start-up loan provider, the Funding 2 Z loan provider, the paying agents, the registrar, the transfer agent, the agent bank, Funding 1, any new Funding beneficiaries, any new issuing entities or any other party to the transaction documents other than the issuing entity.

**The issuing entity has a limited set of resources available to make payments on your notes**

The issuing entity's ability to make payments of principal and interest on the notes and to pay its operating and administrative expenses will depend primarily on the payments being received by it under the master intercompany loan agreement. In addition, the issuing entity will rely on the issuing entity swaps applicable to such series of notes to provide currency and/or interest rate hedging (as appropriate) so as to meet its obligations under the relevant notes.

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

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

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

If a borrower fails to repay its loan and the related property is repossessed, the likelihood of there being a net loss on disposition of the property is increased if there is a higher loan-to-value ratio. In addition, the ability of a borrower to sell a property given as security for a loan at a price sufficient to repay the amounts outstanding under the loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time and, ultimately, may materially adversely affect the ability of the issuing entity to make payments on the notes. The relevant final terms or drawdown prospectus will provide information on the distribution of the loan-to-value ratios at origination of the loans sold to the mortgages trustee in connection with a particular issuance of notes. See "**Statistical information on the portfolio**" in the accompanying final terms or drawdown prospectus.

In order to enforce a power of sale in respect of a property, the relevant mortgagee or (in Scotland) heritable creditor (which may be the seller or the mortgages trustee) 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 issuing entity's ability to make payments on the notes may be reduced.

**The issuing entity's ability to pay interest on and/or redeem the notes on the interest payment, scheduled redemption or final maturity dates may be affected by a high rate of default on the loans**

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

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

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

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

Prepayments on the loans may result from refinancings, sales of properties by borrowers voluntarily or as a result of enforcement proceedings under the relevant mortgages, as well as the receipt of proceeds under the insurance policies. In addition, repurchases of loans (for example following further advances or certain product switches) will have the same effect as a prepayment of such loans. The yield to maturity of the notes of any class may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the loans.

The rate of prepayment of loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, local and regional economic conditions, homeowner mobility and the availability of financing. Generally, when market interest rates increase, borrowers are less likely to prepay their mortgages, while conversely, when market interest rates decrease, borrowers are generally more likely to prepay their mortgage loans. For instance, prepayments on the loans may be due to borrowers refinancing their loans and sales of properties by borrowers (either voluntarily or as a result of enforcement action taken). In addition, if the seller has the option to repurchase a loan (such as a deedstore loan, a credit impaired loan, a second home loan or if a loan is in arrears) or is required to repurchase a loan or loans under a mortgage account and their related security because, for example, one of the loans does not comply with the representations and warranties in the mortgage sale agreement or due to a further advance or in limited circumstances a product switch, then the payment received by the mortgages trustee will have the same effect as a prepayment of all of the loans under that mortgage account. Because these factors are not within the issuing entity's control or the control of Funding 2 or the mortgages trustee, no assurances can be given as to the level of prepayments that the portfolio may experience.

Variation in the rate of prepayments of principal on the loans may affect each series and class of notes differently depending upon amounts already repaid by Funding 2 to the issuing entity in respect of the corresponding loan tranche and whether a trigger event has occurred or a note acceleration notice or an intercompany loan acceleration notice has been given. If prepayments on the loans occur less frequently than anticipated, there may be insufficient funds available to the issuing entity to redeem notes of any series and class in full on their respective scheduled redemption dates.

Prepayment rates in respect of the loans have declined recently in line with industry performance. If lower prepayment rates continue, this could leave the issuing entity with insufficient proceeds to repay notes on the relevant expected maturity date. Although the seller has on certain previous dates acquired part of the Funding 1 share or, as applicable, the Funding 2 share of the trust property in circumstances where the proceeds were used to repay certain loan tranches, which repayment in turn funded payment of the corresponding series and classes of notes, there is no obligation on the seller to take such action and there is

no guarantee or assurance that the seller would or will (including in similar circumstances) acquire any part of the Funding 1 share or the Funding 2 share of the trust property on any future date.

**Excess revenue receipts available to Funding 2 may not be sufficient to replenish principal that has been used to pay interest due on loan tranches, which may result in your notes not being repaid in full**

If, on any Funding 2 interest payment date, revenue receipts available to Funding 2 (including the Funding 2 reserve funds) are insufficient to enable it to pay interest on the rated loan tranches to the issuing entity and its other expenses ranking in priority to interest due on rated loan tranches, then Funding 2 may use principal receipts received from the mortgages trustee to make up that revenue shortfall.

Funding 2 will use principal receipts that would have been applied to repay the subordinated loan tranches and then the rated loan tranches with the lowest rating designation to pay interest on those other rated loan tranches and senior expenses described in the preceding paragraph where there is a shortfall of monies to pay those amounts. If Funding 2 uses principal to repay interest and senior expenses in this manner, there will be less principal available to repay the Funding 2 Z loans, then the subordinated loan tranches, then the BB loan tranches, then the BBB loan tranches, then the A loan tranches, then the AA loan tranches and finally the AAA loan tranches at which point an asset trigger event will occur. Similarly, if Funding 2 uses principal receipts in such manner, there will be a corresponding reduction in principal available to repay the issuing entity subordinated loans, then the class D notes, then the class C notes, then the class M notes, then the class B notes and finally the class A notes, at which point a note event of default will occur.

Funding 2 will be obliged to keep a ledger that records any principal applied to pay interest and senior expenses (as well as any losses on the loans causing a principal deficiency). If there is a shortfall in the amount of Funding 2 available revenue receipts to pay the interest due on the BB loan tranches then Funding 2 will not be permitted to use principal receipts to make up such shortfall if to do so would result in a deficiency being recorded or an existing deficiency being increased on the BBB principal deficiency sub-ledger (or such other principal deficiency sub-ledger relating to a higher ranking loan tranche). If there is a shortfall in the amount of Funding 2 available revenue receipts to pay the interest due on the BBB loan tranches then Funding 2 will not be permitted to use principal receipts to make up such shortfall if to do so would result in a deficiency being recorded or an existing deficiency being increased on the A principal deficiency sub-ledger (or such other principal deficiency sub-ledger relating to a higher ranking loan tranche). If there is a shortfall in the amount of Funding 2 available revenue receipts to pay the interest due on the A loan tranches then Funding 2 will not be permitted to use principal receipts to make up such shortfall if to do so would result in a deficiency being recorded or an existing deficiency being increased on the AA principal deficiency sub-ledger (or such other principal deficiency sub-ledger relating to a higher ranking loan tranche). If there is a shortfall in the amount of Funding 2 available revenue receipts to pay the interest due on the AA loan tranches then Funding 2 will not be permitted to use principal receipts to make up such shortfall if to do so would result in a deficiency being recorded or an existing deficiency being increased on the AAA principal deficiency sub-ledger

During the term of the programme, however, it is expected that these principal deficiencies will be recouped from subsequent excess Funding 2 available revenue receipts and amounts standing to the credit of the Funding 2 reserve funds.

The revenue receipts will be applied first to cover any principal deficiency in respect of the loan tranches with the highest rating designation, and then the loan tranches with the next highest rating designation and so on down to the loan tranches with the lowest rating designation.

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

(A) the interest and other net income of Funding 2 may not be sufficient, after making the payments to be made in priority, to pay, in full or at all, interest due on the Funding 2 Z loans, the subordinated loan tranches, the BB loan tranches, the BBB loan tranches, the A loan tranches and the AA loan tranches;

(B) there may be insufficient funds to repay the principal due and payable on any of the Funding 2 Z loans, the subordinated loan tranches, the BB loan tranches, the BBB loan tranches, the A loan tranches and the AA loan tranches prior to their final repayment dates unless the other net income of Funding 2 is sufficient, after making other prior ranking payments, to reduce any principal deficiency in respect of the Funding 2 Z loans, the subordinated loan tranches, the BB loan tranches, the BBB loan tranches, the A loan tranches and the AA loan tranches;

(C) if the amount of principal deficiencies exceeds the principal amount outstanding of any of the Funding 2 Z loans, the subordinated loan tranches and the rated loan tranches (and the principal deficiencies

cannot be covered by the other income of Funding 2), then respectively the Funding 2 Z loan provider and the issuing entity may not receive the full principal amount of any or all of the Funding 2 Z loans and the subordinated loan tranches and the rated loan tranches and, accordingly, the Funding 2 Z loans and the subordinated loan tranches and/or the Funding 2 Z loans may not be repaid or you may not receive the full principal amount of the class D notes, the class C notes, the class M notes, the class B notes and the class A notes, as the case may be; and/or

(D) Funding 2 may be unable to pay, in full or at all, interest due on the subordinated loan tranches or the issuing entity may be unable to pay, in full or at all, interest due on the class D notes, the class C notes, the class M notes, the class B notes and the class A notes, as the case may be.

For more information on principal deficiencies, see "**Credit structure – Funding 2 principal deficiency ledger**" below.

**Funding 2 is not obliged to make payments on the loan tranches if it does not have enough money to do so, which could adversely affect payments on your notes**

Funding 2's ability to pay amounts payable under the loan tranches will depend upon:

(1) Funding 2 receiving enough funds from its entitlement to the trust property on or before each Funding 2 interest payment date;

(2) Funding 2 receiving the required funds from the Funding 2 swap provider;

(3) the amount of funds credited to the Funding 2 general reserve fund (as described in "**Credit structure – Funding 2 general reserve fund**" below);

(4) the amount of funds credited to the Funding 2 liquidity reserve fund (if any) (as described in "**Credit structure – Funding 2 liquidity reserve fund**" below);

(5) the amount of funds credited to the Funding 2 yield reserve fund (if any) (as described in "**Credit structure – Funding 2 yield reserve fund**" below); and

(6) the allocation of funds between the loan tranches and any new loan tranches provided by any new issuing entities.

You should be aware however that not all classes of notes are scheduled to receive payments from the reserve funds referred to above. Payments out of the reserve funds referred to above are described under "**Credit structure – Funding 2 general reserve fund**", "**Credit structure – Funding 2 liquidity reserve fund**" and "**Credit structure – Funding 2 yield reserve fund**" below.

According to the terms of the mortgages trust deed, the mortgages trustee is obliged to pay to Funding 2 the Funding 2 share percentage of revenue receipts on the loans (subject to payment of prior ranking amounts) by crediting those amounts to the Funding 2 GIC account, the Funding 2 eligible bank GIC account or (to the extent such amounts constitute Funding 2 deposit non-reserved amounts) the Funding 2 collateralised GIC account on each distribution date. The mortgages trustee is obliged to pay to Funding 2 the Funding 2 share of principal receipts, pursuant to the terms of the mortgages trust deed, on the loans by crediting those amounts to the Funding 2 GIC account, the Funding 2 eligible bank GIC account or (to the extent such amounts constitute Funding 2 deposit non-reserved amounts) the Funding 2 collateralised GIC account as and when required.

Funding 2 will be obliged to pay amounts (other than principal) due to the issuing entity in respect of a loan tranche under the master intercompany loan only to the extent that it has revenue receipts available to it after making payments ranking in priority to such loan tranche, such as payments of certain fees and expenses of Funding 2 and payments of interest on loan tranches of a more senior ranking, and taking into account payments of interest on loan tranches ranking equally with such loan tranche (such as other loan tranches of the same ratings designation). See "**Cashflows – Distribution of Funding 2 available revenue receipts before master intercompany loan acceleration**" below. Funding 2 will be obliged to pay principal amounts due to the issuing entity in respect of a loan tranche under the master intercompany loan only to the extent it has received principal receipts available for that purpose after repaying amounts ranking in priority to such loan tranche (including repaying any loan tranches with higher rating designations) and taking into account repayments on loan tranches ranking equally with such loan tranche. See "**Cashflows – Distribution of Funding 2 available principal receipts**" below.

If Funding 2 does not pay amounts to the issuing entity in respect of a loan tranche under the master intercompany loan agreement because it does not have sufficient funds available, those amounts will be due but not payable until funds are available to pay those amounts in accordance with the relevant Funding 2 priority of payments. Funding 2's failure to pay those amounts to the issuing entity when due in such circumstances will not constitute a master intercompany loan event of default until the latest occurring final repayment date of any loan tranche advanced under the master intercompany loan agreement. Following enforcement of the Funding 2 security and application of the proceeds of enforcement, any remaining shortfall will be extinguished.

If there is a shortfall between the amounts payable by Funding 2 to the issuing entity in respect of a rated loan tranche under the master intercompany loan agreement and the amounts payable by the issuing entity on the related series and class of notes, you may not, depending on what other sources of funds are available to the issuing entity and to Funding 2, receive the full amount of interest and/or principal which would otherwise be due and payable on those notes.

**Subordination of other note classes, issuing entity subordinated loans and issuing entity start-up loans may not protect noteholders from all risk of loss**

The class B notes, the class M notes, the class C notes and class D notes of any series will be subordinated in right of payment of both interest and principal to the class A notes of any series. The class M notes, the class C notes and the class D notes will be subordinated in right of payment of both interest and principal to the class B notes of any series. The class C notes and the class D notes of any series will be subordinated in right of payment of both interest and principal to the class M notes of any series. The class D notes of any series will be subordinated in right of payment of both interest and principal to the class C notes of any series.

Furthermore, all issuing entity subordinated loans will be subordinated in right of payment of both interest and principal to the class D notes and all issuing entity start-up loans will be subordinated in right of payment of both interest and principal to the issuing entity subordinated loans.

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

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

Furthermore, if the issuing entity exercises an option to redeem a series and class of notes in any of the circumstances set out in Condition 5) under "**Terms and conditions of the notes**" below, then those series and classes of notes so redeemed will be repaid before other series and classes of notes which are not so redeemed, irrespective of the ranking or final maturity date of those notes.

**Subordination of the Funding 2 Z loans to the loan tranches may not protect noteholders from all risks of loss**

The Funding 2 Z loans are subordinated in right of payment of interest and principal to the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches and the BB loan tranches.

You should be aware that despite the priority of payments described above, subject to no trigger event having occurred, the satisfaction of the repayment tests and there being no debit balance on the Funding 2 Z loan principal deficiency sub-ledger, the Funding 2 Z loans may be repaid as to principal in an amount required (if any) to reduce the principal amount outstanding under the Funding 2 Z loans to the Funding 2 Z loan required amount before the loan tranches have been repaid in full. There can be no assurance that the Funding 2 Z loan required amount will not reduce in the future, which could allow the Funding 2 Z loans to be partially repaid and still ensure that the Funding 2 Z loan required amount is maintained. Furthermore, there can be no assurance that the level at any time of the Funding 2 Z loan required amount or the subordination rules will protect you from losses on your notes. To the extent that the losses at any time are greater than the Funding 2 Z loan required amount at such time (which amount should be equal to the aggregate principal amount outstanding on the Funding 2 Z loans at such time), then losses will be borne by the loan tranches (and consequently by noteholders) in inverse order of seniority (i.e. starting with the lowest ranking), but subject always to the relevant priority of payments and any related rules at such time. For a detailed understanding of the ranking of payments of principal on Funding 2 Z loans please see "**Cashflows – Distribution of Funding 2 available principal receipts**" and "**Cashflows – Distribution of Funding 2 principal receipts and Funding 2 revenue receipts following master intercompany loan acceleration**", although please note that there are also circumstances when Funding 2 Z loans may be paid outside of these priorities as described under "**The Funding 2 Z loan agreement – Repayment**".

## 2. RISKS RELATING TO THE UNDERLYING ASSETS

**Prepayments may also be affected by property values and availability of buyers**

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

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

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

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

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

**Risks related to the maturity purchase notes**

The purchase arrangements for the maturity purchase notes provide that in respect of the transfer date, any of the outstanding maturity purchase notes may be purchased by the maturity purchaser at the maturity purchase price in accordance with Condition 5.8 and the relevant conditional note purchase deed.

The maturity purchaser is not obliged to purchase maturity purchase notes if a note event of default has occurred which is continuing on the transfer date. Moreover, the purchase price payable by the maturity purchaser in respect of the maturity purchase notes on the transfer date is subject to reduction by the amount of any principal deficiency losses. Therefore, the purchase arrangements are not intended to provide credit support for the assets of the mortgages trust or assets backing the maturity purchase notes and should not be viewed as a guarantee that investors in the maturity purchase notes will receive the full outstanding principal amount of such notes on the transfer date. See "**Overview of the notes - Description of the maturity purchase notes**" below.

Investors should consider carefully the risk posed if (a) a note event of default has occurred which is continuing on the transfer date or (b) the maturity purchaser defaults in its obligations to pay the maturity purchase price for the maturity purchase notes on the relevant transfer date. In such situations a noteholder may be unable to sell its maturity purchase notes on the relevant transfer date or at any other time (or, if it is able to sell its maturity purchase notes, the price received from a third party purchaser may be less than the purchase price set forth in the conditional note purchase deed). In addition, maturity purchase notes may be subject on any step-up date relating to such maturity purchase notes (which may occur on or after the expected maturity date) to a decrease in the margin which would have an adverse effect on the yield of such maturity purchase notes.

Investors should note that they will be reliant on the financial condition of the maturity purchaser as of the transfer date to the extent the maturity purchaser is obliged to purchase the maturity purchase notes. Investors therefore will need to satisfy themselves independently of the ability of the maturity purchaser to comply with its obligations under the purchase arrangements described under "**Overview of the notes - Description of the maturity purchase notes**".

The purchase arrangements relating to the maturity purchase notes depend on the facilities of Euroclear and Clearstream, Luxembourg, DTC and the registrar, as applicable. If definitive notes (other than registered uncleared notes) are issued in any circumstances described in this base prospectus, or if the relevant clearing system ceases to offer the relevant mechanisms to enable the purchase of the relevant maturity purchase notes by the maturity purchaser as contemplated in Condition 5.8 and the relevant conditional note purchase deed or if such mechanisms are disrupted, then the purchase arrangements established for the maturity purchase notes may no longer be able to be implemented and/or may be delayed as described in "**Overview of the notes - Description of the maturity purchase notes**" below. Although the parties to the conditional note purchase deed have agreed that in such circumstances they will make reasonable efforts to enter into alternative purchase arrangements, there can be no assurance that they will be able to do so, in which case the maturity purchaser may not be required to purchase the maturity purchase notes.

The ratings assigned by the rating agencies to any maturity purchase notes do not address the mandatory purchase arrangements relating to such maturity purchase notes as described in "**Overview of the notes - Description of the maturity purchase notes**" below or the likelihood of the maturity purchaser not being required to purchase the maturity purchase notes under the maturity purchase commitment.

Reference to a change in the margin, in respect of the maturity purchase notes on any step-up date, may refer to either a positive or a negative change in such margin.

**Risks related to money market notes**

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

- the rating currently assigned to the money market notes is lowered or withdrawn;
- a material default occurs with respect to the money market notes;
- the money market fund determines that the money market notes no longer present minimal credit risk;
- certain events of insolvency occur with respect to the issuing entity; or

- the money market notes otherwise cease to meet the eligibility criteria under Rule 2a-7.

Where the issuing entity has entered into a 2a-7 swap provider arrangement, money market note purchase agreement or remarketing agreement in respect of a series and class of money market notes, the eligibility of the notes for investment by money market funds will be dependent upon timely receipt of proceeds from the 2a-7 swap provider, money market note purchaser, remarketing agent or conditional purchaser.

The ability of the remarketing agent to procure payment of the transfer price on a transfer date will depend upon the remarketing agent either (a) procuring third party purchasers for any tendered notes prior to the relevant transfer date and obtaining the transfer price from those third party purchasers or (b) exercising the issuing entity's rights under the conditional purchase agreement to require the conditional note purchaser to acquire the unremarketed notes. After the occurrence of a mandatory transfer termination event, the remarketable notes will no longer be subject to any mandatory transfer.

There can be no assurance that the remarketing agent will be able to identify purchasers willing to acquire the tendered notes on a transfer date. In such event the transfer of any unremarketed notes would be dependent upon the ability of the conditional purchaser to pay the transfer price and acquire unremarketed notes.

You should consider carefully the risk posed if your tendered notes cannot be remarketed on a transfer date and either (a) the conditions to the conditional note purchaser's obligation to purchase unremarketed notes are not satisfied or (b) the conditional note purchaser defaults in its obligation to purchase unremarketed notes under the conditional purchase agreement. In those situations you may be unable to sell your notes on the relevant transfer date or at any other time.

If a 2a-7 swap provider swap arrangement is specified as applying to a certain series and class of notes in the accompanying final terms or drawdown prospectus, the 2a-7 swap provider will be required to make a principal payment under the relevant issuing entity swap agreement to the issuing entity to enable the issuing entity to redeem the series and class of notes in full on their bullet repayment date notwithstanding that the 2a-7 swap provider has not received the corresponding principal payment required to be made by the issuing entity under the relevant issuing entity swap agreement. A failure by the issuing entity to make the full principal repayment on the bullet repayment date of the loan tranche corresponding to the relevant series and class of notes for which the relevant issuing entity swap was entered into will not constitute an event of default or a termination event under that swap. In such circumstances, noteholders in respect of such notes will be dependent on the performance of the 2a-7 swap provider and no assurance can be given that the issuing entity will have sufficient funds to make payments due on the relevant series and class of notes.

Neither the issuing entity nor any of the dealers, the managers, any remarketing agent or any conditional note purchaser will make any representation as to the suitability of the money market notes for investment by money market funds subject to Rule 2a-7 under the Investment Company Act. Any determination as to such suitability or compliance with Rule 2a-7 under the Investment Company Act is solely your responsibility.

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

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

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

The proceeds from an investment plan or other investment may be insufficient to cover the repayment of the principal of the loan. There can be no assurance that the borrower will have the funds required to repay the principal at the end of the term. If a borrower cannot repay the loan and a loss occurs on the loan, then this

may affect repayments of principal on the notes if that loss cannot be cured by application of excess Funding 2 available revenue receipts. In respect of loans sold to the mortgages trustee in connection with the issuance of notes, the applicable final terms or drawdown prospectus will state the amount of the loans in the expected portfolio that are interest-only loans. See "**Statistical information on the portfolio**" in the accompanying final terms or drawdown prospectus.

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

The yield to maturity of the notes of each class will depend, *inter alia*, on (a) the amount and timing of payment of principal on the loans and (b) the price paid by the noteholders of each class of notes.

The yield to maturity of the notes of each class may be adversely affected by a higher or lower than anticipated rate of prepayments on the loans. The factors affecting the rate of prepayment on the loans are described in "**– The issuing entity's ability to redeem the notes on their scheduled redemption dates or their final maturity dates may be affected by the rate of prepayment on the loans**" below. See also "**Characteristics of the United Kingdom residential mortgage market**" in the accompanying final terms or drawdown prospectus.

No assurance can be given that Funding 2 will accumulate sufficient funds during the cash accumulation periods relating to bullet loan tranches or scheduled amortisation instalments to enable it to repay these bullet loan tranches or scheduled amortisation instalments to the issuing entity so that the corresponding series and classes (or sub-classes) of bullet notes and scheduled redemption notes respectively will be redeemed by the issuing entity in accordance with their scheduled redemption dates. During the cash accumulation period for the bullet loan tranches and the scheduled amortisation term instalments owed to the issuing entity, repayments of principal will only be made on the pass through loan tranches that are due and payable if the quarterly CPR of the loans in the portfolio is greater than 15 per cent. and other repayment tests are met as described in "**Cashflows – Distribution of Funding 2 available principal receipts**". The extent to which sufficient funds are saved by Funding 2 during a cash accumulation period or received by it from its share of the mortgages trust for application on a scheduled repayment date will depend on whether the actual principal prepayment rate of the loans is the same as the assumed principal prepayment rate.

If Funding 2 is not able to save enough money during a cash accumulation period or does not receive enough money from its share in the mortgages trust to pay the full amount scheduled to be repaid on a bullet loan tranche or scheduled amortisation instalment on a scheduled repayment date and the issuing entity is therefore unable to redeem the corresponding series and class (or sub-class) of bullet notes and scheduled redemption notes respectively on their scheduled redemption dates, then Funding 2 will be required to pay to the issuing entity on those scheduled redemption dates only the amount that it has actually saved or received. Accordingly, the issuing entity will only be obliged to pay the amount of funds received from Funding 2 to holders of the corresponding series and classes of notes. Any shortfall (other than a shortfall in the amount of interest due under a AAA loan tranche) will be deferred and paid on subsequent Funding 2 interest payment dates when Funding 2 has money available to make the payment. In these circumstances, there will be a variation in the yield to maturity of the relevant class of notes.

During the cash accumulation period for a bullet loan tranche, payments of principal in respect of scheduled amortisation loan tranches will be restricted and may not be made if certain CPR tests and other repayment tests are not met as set out in "**Cashflows – Distribution of Funding 2 available principal receipts**" below. Additionally, during the cash accumulation period for a bullet loan tranche and/or a scheduled amortisation instalment, payments of principal on pass-through loan tranches will be restricted and may not be made if certain CPR, cash accumulation shortfall and other repayment tests are not met as set out in the repayment tests under "**Cashflows – Distribution of Funding 2 available principal receipts**" below.

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

There is no guarantee that any new loans sold to the mortgages trustee will have the same characteristics as the loans in the portfolio as at the relevant closing date. In particular, new loans may have different payment characteristics from the loans in the portfolio as at the relevant closing date. In addition, there is no guarantee that loans repurchased by the seller pursuant to the mortgage sale agreement will be representative of the portfolio. The ultimate effect of this could be to delay or reduce the payments you receive on the notes. However, subject to "**– The criteria for the sale of new loans to the mortgages trustee may change over time without your consent**" above, any new loans will be required to meet the conditions described in "**Sale of the loans and their related security – Sale of loans and their related security to the**

**mortgages trustee on the sale dates**" below. See further "**Risk factors – The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**".

After the relevant closing date, existing loans may, or will be required to be, repurchased, as applicable in the limited circumstances established in the mortgage sale agreement, which include the repurchase of loans as a result of a material breach of a representation or warranty, repurchase of loans following a further advance or product switch, repurchase of loans in arrears, deedstore loans, credit impaired loans, second home loans and non-compliant loans. For example, from time to time, the seller may become aware that a loan may not materially comply with the representations and warranties made under the mortgage sale agreement, and, if such breach is not remedied within 20 London business days, then the mortgages trustee will require the seller to purchase the relevant loan and its related security from the mortgages trustee at a price equal to their outstanding principal balances, together with any arrears of interest and accrued and unpaid interest and expenses as at the date of repurchase. For further details, see "**Sale of the loans and their related security—Repurchase of loans under a mortgage account**", "**—Further advances**", "**—Product switches**" and "**—Repurchase of loans in arrears, deedstore loans, credit impaired loans, second home loans and non-compliant loans**".

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

Each of the loans sold to the mortgages trustee by the seller was originated in accordance with the seller's lending criteria at the time of origination, subject only to exceptions made on a case-by-case basis as would be acceptable to a reasonable, prudent mortgage lender. The current lending criteria as at the date of this base prospectus are set out in the section "**The loans – Underwriting**" below. In the event of the sale by the seller of any new loans and new related security to the mortgages trustee, the seller will warrant that those new loans and new related security were originated in accordance with the seller's lending criteria at the time of their origination. However, the seller retains the right to revise its lending criteria as determined from time to time, and so the lending criteria applicable to any loan at the time of its origination may not be or have been the same as those set out in the section "**The loans – Underwriting**" below.

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

The criteria for new loans to be sold to the mortgages trustee may be amended in the future without your consent. As a result, the mortgages trust may include types of mortgage loans in the future with different characteristics from those currently in the mortgages trust. This may occur, for example, due to the development of new mortgage loan types in response to changing market conditions. Any such amendments, as provided in the mortgage sale agreement, would require the consent of the parties to the mortgage sale agreement, including the Funding 2 security trustee and receipt of confirmation from each of the rating agencies that its then rating of the notes will not be reduced, withdrawn or qualified as a result thereof.

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

The seller does not require a solicitor, licensed conveyancer or (in Scotland) qualified conveyancer to conduct a full investigation of the title to a property in all cases. Where the borrower is remortgaging there will be a limited investigation to carry out some but not all of the searches and investigations which would normally be carried out by a solicitor or conveyancer conducting a full investigation of the title to a property. Properties which have undergone such a limited investigation may be subject to matters which would have been revealed by a full investigation of title and which may have been remedied or, if incapable of remedy, may have resulted in the properties not being accepted as security for a loan had such matters been revealed, though to mitigate against this risk search indemnity insurance is obtained in respect of such properties. The introduction of loans secured by such properties into the trust property could result in a change of the characteristics of the trust property. This could lead to a delay or a reduction in the payments received on the notes.

**The portfolio may be subject to geographic concentration risks**

The portfolio may also be subject to geographic concentration risks. To the extent that specific geographic regions within the United Kingdom have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions, a concentration of the loans in such a region may be expected to exacerbate all of the risks relating to the loans described in this section. The

economy of each geographic region within the United Kingdom is dependent on different mixtures of industries. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of the borrowers in that region or the region that relies most heavily on that industry. Any natural disasters in a particular region may reduce the value of affected mortgaged properties. This may result in a loss being incurred upon sale of the mortgaged property. These circumstances could affect receipts on the loans and ultimately result in losses on the notes. For an overview of the geographical distribution of the loans sold to the mortgages trustee in connection with a particular issuance of notes, see "**Statistical information on the portfolio**" in the accompanying final terms or drawdown prospectus.

**Set-off risks in relation to retention loans, home cash reserves and delayed cashbacks may adversely affect the funds available to the issuing entity to repay the notes**

As described in "**– There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on the notes**" below, the seller has made, and in the future may make, an equitable assignment of the relevant loans and their related security, or in the case of Scottish loans a transfer of the beneficial interest in the relevant loans and their related security, to the mortgages trustee, with legal title being retained by the seller. Therefore, the rights of the mortgages trustee may be subject to the direct rights of the borrowers against the seller, including rights of set-off existing prior to notification to the borrowers of the sale of the mortgages. The mortgages trust includes flexible loans, retention loans and delayed cashbacks. Set-off rights (including analogous rights in Scotland) may occur if the seller fails to advance to a borrower a drawing or permit the borrower to make an underpayment or take a payment holiday under a flexible loan when the borrower is entitled to draw additional amounts or make an underpayment or take a payment holiday under a flexible loan or if the seller fails to pay to a borrower a retention drawing or a drawing under a home cash reserve or if the seller fails to pay to a borrower any delayed cashback which the seller had agreed to pay to that borrower after completion of the relevant loan. In such event, the relevant borrower may set-off any damages claim (or exercise analogous rights in Scotland) arising from the seller's breach of contract against the seller's (and, as assignee or holder of the beneficial interest in the loans and their related security, the mortgages trustee's) claim for payment of principal and/or interest under the loan as and when it becomes due. These set-off claims will constitute transaction set-off as described in the immediately following risk factor.

The amount of the claim in respect of a drawing will, in many cases, be the cost to the borrower of finding an alternative source of finance although, in the case of flexible loans which are or relate to Scottish loans, it is possible that the borrower's rights of set-off could extend to the full amount of the relevant drawing. The borrower may obtain a loan elsewhere in which case the damages would be equal to any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the borrower is unable to obtain an alternative loan, he or she may have a claim in respect of other losses arising from the seller's breach of contract where there are special circumstances communicated by the borrower to the seller at the time the mortgage was taken out or which otherwise were reasonably foreseeable. In either case, the damages claim will be limited by general legal principles concerning remoteness of loss and mitigation. These include (i) the principle that something, which is a real possibility but would only occur in a small minority of cases, will not usually fall within the contractual measure of damages and (ii) the borrower's duty to mitigate loss.

In respect of a delayed cashback, the claim is likely to be in an amount equal to the amount due under the delayed cashback together with interest and expenses and consequential losses (if any).

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

The exercise of set-off rights by borrowers would reduce the incoming cashflow to the mortgages trustee during such exercise. However, the amounts set-off will be applied firstly to reduce the seller share of the trust property only. If the minimum seller share is exhausted, then the amount of any set-offs would be applied to reduce the Funding 1 share of the trust property and the Funding 2 share of the trust property in accordance with each company's percentage share.

See also "**– Changes to mortgage regulation and to the regulatory structure in the United Kingdom may adversely affect payments on your notes**" below.

Further there may be circumstances in which certain drawings may rank behind security created by a borrower after the date upon which the borrower entered into its mortgage with the seller.

The minimum seller share has been sized in an amount expected to cover borrower set-off risk, although there is no assurance that it will. The minimum seller share may be adjusted to take into account amounts (including deposits) which a borrower may set-off against the amounts due under the loans. Any such adjustment is subject to (i) the agreement of the seller and (ii) confirmation from the rating agencies that there would be no adverse effect on the then current ratings of the notes as a result thereof and no assurance can be given that any potential set-off claim from a borrower would be sized for (in part or in full) in the minimum seller share. If the minimum seller share is not sufficient in this respect then there is a risk that you may not receive all amounts due on the notes or that payments may not be made when due.

**Independent set-off risks which a borrower has against the seller may adversely affect the funds available to the issuing entity to repay the notes**

Once notice has been given to borrowers of the transfer of the loans and their related security to the mortgages trustee, independent set-off rights which a borrower has against the seller will crystallise (such as, for example, set-off rights associated with borrowers holding deposits with the seller) and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under transaction set-off (which are set-off claims arising out of a transaction connected with the loan) will not be affected by that notice. These set-off rights if exercised could reduce the loan receipts available to the mortgages trustee to distribute to Funding 2, and could ultimately affect the amounts available to the issuing entity for payments on the notes. The minimum seller share may be adjusted to take into account amounts (including deposits) which a borrower may set-off against the amounts due under the loans. Any such adjustment is subject to (i) the agreement of the seller and (ii) confirmation from the rating agencies that there would be no adverse effect on the then current ratings of the notes as a result thereof and no assurance can be given that any potential set-off claim from a borrower would be sized for (in part or in full) in the minimum seller share. If the minimum seller share is not sufficient in this respect then there is a risk that you may not receive all amounts due on the notes or that payments may not be made when due.

**Funding 2 or the issuing entity may not receive the benefit of any claims made on the buildings insurance which could adversely affect payments on the notes**

The current practice of the seller in relation to buildings insurance is described under "**The loans – Insurance policies**" below. The seller no longer has the benefit of a block insurance policy if a borrower fails to maintain insurance cover in respect of his or her property and, accordingly, it is no longer the practice of the seller to have the interest of the mortgages trustee endorsed on an insurance policy. As described in that section, no assurance can be given that Funding 2 will always receive the benefit of any claims made under any applicable insurance contracts. This could reduce the principal receipts received by Funding 2 according to the Funding 2 share percentage and could adversely affect the issuing entity's ability to redeem the notes. You should note that buildings insurance is usually renewed annually. As the seller does not verify if buildings insurance has been taken out by a borrower, the seller cannot be certain that a borrower has taken out or maintained building insurance or that any such cover would be sufficient to cover any loss. Amounts paid under the buildings insurance are generally utilised to fund the reinstatement of the property and, only on very rare occasions, are paid to the seller to reduce the amount of the loan(s). In the latter circumstance, all insurance cover will be removed but, as noted, no assurance can be given that amounts paid under buildings insurance will be paid to the seller.

**The mortgages trustee's entitlement to be indemnified for liabilities undertaken during the enforcement process may adversely affect the funds available to Funding 2 to pay amounts due under the master intercompany loan agreement, which may in turn adversely affect the funds available to pay the notes**

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 mortgages trustee) must first obtain possession of the mortgaged property unless the property is vacant. Possession is usually obtained by way of a court order although this can be a lengthy process and the mortgagee or heritable creditor must assume certain risks. The mortgages trustee is entitled to be indemnified to its satisfaction against personal liabilities which it could incur if it were to become a mortgagee or heritable creditor in possession before it is obliged to seek possession.

## 3. OTHER RISKS RELATING TO THE NOTES AND THE STRUCTURE

**The required subordinated loan tranche principal amount outstanding for a class of notes may be changed**

The issuing entity may change the required subordinated loan tranche principal amount outstanding for any class of notes, or the method of calculating the required subordinated amount for such class, at any time without the consent of any noteholders if certain conditions are met, including confirmation from each rating

agency that such change would not cause a reduction, qualification or withdrawal of its then-current rating of any outstanding notes that would be affected by such change.

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

On any interest payment date on which a payment of principal is due on the Funding 2 Z loans and any series of class B, M, C, or D notes, the issuing entity's obligation to make such principal payments will be subject to the satisfaction of the repayment tests described under "**Cashflows – Distribution of Funding 2 available principal receipts**" below, including an arrears test, a general reserve fund requirement and a principal deficiency sub-ledger test to the extent that any class A notes of any series or any other senior ranking notes of any series are outstanding on that date.

**Principal payments on the original pass-through loan tranches and the subordinated loan tranches will be deferred in some circumstances**

Principal repayments on the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches and subordinated loan tranches will be deferred in the following circumstances:

If on a Funding 2 interest payment date:

(A) there is a debit balance on the BB principal deficiency sub-ledger, BBB principal deficiency sub-ledger, the A principal deficiency sub-ledger or the AA principal deficiency sub-ledger, after application of the Funding 2 available revenue receipts on that Funding 2 interest payment date; or

(B) the adjusted Funding 2 general reserve fund level is less than the Funding 2 general reserve fund threshold; or

(C) the aggregate outstanding principal balance of loans in the mortgages trust, in respect to which the aggregate amount in arrears is more than three times the monthly payment then due, is more than 5 per cent. of the aggregate outstanding principal balance of loans in the mortgages trust,

then if to the extent that any AAA loan tranches remain outstanding (whether or not such AAA loan tranches are then due and payable) after the allocation of principal on that Funding 2 interest payment date to those loan tranches, the AA loan tranches will not be entitled to principal repayments until the relevant circumstance as described above has been remedied or otherwise ceases to exist. In addition:

(D) If any AA loan tranches remain outstanding (whether or not such AA loan tranches are then due and payable) after the allocation of principal on that Funding 2 interest payment date to those loan tranches, the A loan tranches will not be entitled to principal repayments until the relevant circumstances as described above have been remedied or otherwise cease to exist, and

(E) if any A loan tranches remain outstanding (whether or not such A loan tranches are then due and payable) after the allocation of principal on that Funding 2 interest payment date to those loan tranches, the BBB loan tranches will not be entitled to principal repayments until the relevant circumstances as described above have been remedied or otherwise cease to exist, and

(F) if any BBB loan tranches remain outstanding (whether or not such BBB loan tranches are then due and payable) after the allocation of principal on that Funding 2 interest payment date, the BB loan tranches will not be entitled to principal repayments until the relevant circumstances as described above have been remedied or otherwise cease to exist, and

(G) if any BB loan tranches remain outstanding (whether or not such BB loan tranches are then due and payable) after the allocation of principal on that Funding 2 interest payment date to those loan tranches, the subordinated loan tranches will not be entitled to principal repayments until the relevant circumstances described above have been remedied or otherwise cease to exist, and

(H) if any subordinated loan tranches remain outstanding (whether or not such subordinated loan tranches are then due and payable) after the allocation of principal on that Funding 2 interest payment date to those loan tranches, the Funding 2 Z loans will not be entitled to principal repayments until the relevant circumstances described above have been remedied or otherwise cease to exist.

This means that payments of principal on the class D, class C, class M, and the class B notes of all series and, as applicable, all subordinated loans and Funding 2 Z loans will be deferred until the earlier of the time when the relevant circumstance described in this risk factor has been remedied (if ever) and the final maturity date of the relevant notes.

Furthermore, if, on a Funding 2 interest payment date:

(I) one or more bullet loan tranches and/or scheduled amortisation instalments are then in a cash accumulation period; and

(J) the quarterly CPR is less than 15 per cent.; and

(K) there is a cash accumulation shortfall at that time,

then, on or before their step-up dates, the loan tranches which are original pass-through loan tranches, the subordinated loan tranches and the Funding 2 Z loans will be entitled to principal repayments only to the extent permitted under the pass-through repayment restrictions see "**Cashflows – Distribution of Funding 2 available principal receipts**".

**The occurrence of an asset trigger event and/or service of a note acceleration notice and/or an intercompany loan acceleration notice may accelerate the repayment of certain notes and/or delay the repayment of other notes**

If an asset trigger event has occurred, the mortgages trustee will distribute principal receipts on the loans to Funding 1, Funding 2 and the seller proportionally based on their percentage shares of the trust property. Funding 2 will, on each Funding 2 interest payment date following the occurrence of an asset trigger event or the service of a note acceleration notice and/or an intercompany loan acceleration notice, apply those principal receipts received by it from the mortgages trustee, after making the requisite payments (i) to the Funding 2 general reserve fund and/or the Funding 2 liquidity reserve fund (if any) (other than in the case of the Funding 2 post-enforcement priority of payments) or (ii) to Funding 2's prior ranking secured creditors, to repay:

(A) first, the AAA loan tranches until each of those AAA loan tranches is fully repaid;

(B) then, the AA loan tranches until each of those AA loan tranches is fully repaid;

(C) then, the A loan tranches until each of those A loan tranches is fully repaid;

(D) then, the BBB loan tranches until each of those BBB loan tranches is fully repaid;

(E) then, the BB loan tranches until each of those BB loan tranches is fully repaid;

(F) then, the subordinated loan tranches until each of those subordinated loan tranches is fully repaid; and

(G) then, the Funding 2 Z loans until each of those Funding 2 Z loans is fully repaid.

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

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

If a non-asset trigger event has occurred and until the occurrence of an asset-trigger event and/or the service of a note acceleration notice and/or an intercompany loan acceleration notice, the mortgages trustee will distribute all principal receipts to Funding 2 and Funding 1 proportionally based on the Funding 2 share percentage and the Funding 1 share percentage of the trust property until the Funding 2 share percentage and the Funding 1 share percentage of the trust property are each zero and will thereafter apply all principal receipts to the seller. Funding 2 will, on each Funding 2 interest payment date following the occurrence of a non-asset trigger event and until the occurrence of an asset-trigger event and/or the service of a note acceleration notice and/or an intercompany loan acceleration notice, apply those principal receipts received by it from the mortgages trustee, after making the requisite payments to the Funding 2 general reserve fund and the Funding 2 liquidity reserve fund (if any), to repay:

(A) firstly, the AAA loan tranches in order of final repayment date, beginning with the earliest final repayment date until each of those AAA loan tranches is fully repaid;

(B) then, the AA loan tranches in order of final repayment date, beginning with the earliest final repayment date until each of those AA loan tranches is fully repaid;

(C) then, the A loan tranches in order of final repayment date, beginning with the earliest final repayment date until each of those A loan tranches is fully repaid;

(D) then, the BBB loan tranches in order of final repayment date, beginning with the earliest final repayment date until each of those BBB loan tranches is fully repaid;

(E) then, the BB loan tranches in order of final repayment date, beginning with the earliest final repayment date until each of those BB loan tranches is fully repaid;

(F) then, the subordinated loan tranches in order of final repayment date, beginning with the earliest final repayment date until each of those subordinated loan tranches is fully repaid; and

(G) then, the Funding 2 Z loans until each of those Funding 2 Z loans is fully repaid.

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

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

The issuing entity expects to issue notes in series from time to time. Notes may be issued under a new series and backed by the same portfolio without the consent of existing noteholders, and may have different terms from outstanding notes. Existing noteholders will be deemed to have notice of the issuance of a new series of notes via publication of the relevant final terms or drawdown prospectus in accordance with terms and conditions of the notes and any regulatory announcements as applicable. For a description of the conditions that must be met before the issuing entity can issue new series of notes, see "**Overview of the notes**".

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

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

A loan will be subject to a product switch if the borrower and the seller agree on, or the servicer sends an offer of, a variation in the financial terms and conditions applicable to the relevant borrower's loan, other than those variations set out in "**Sale of the loans and their related security – Product switches**" below.

Loans subject to product switches will not be repurchased unless (i) the seller is, on the distribution date immediately preceding the relevant product switch, in breach of the conditions precedent to the sale of new loans to the mortgages trustee set out in "**Sale of the loans and their related security – Sale of loans and their related security to the mortgages trustee on the sale dates**" below or (ii) prior to the date on which all notes issued prior to 1 June 2016 are redeemed in full, the seller accepts an application from, or makes an offer (which is accepted) to a borrower for a product switch, the effect of which is to extend the final maturity date beyond June 2040 or (iii) on and following the date on which all notes issued prior to 1 June 2016 are redeemed in full, the seller accepts an application from, or makes an offer (which is accepted) to a borrower for a product switch, the effect of which is to extend the final maturity date beyond the date determined in accordance with the relevant representation and warranty in the mortgage sale agreement. From and including that date to but excluding the date when those conditions precedent have been satisfied, the seller will be required to repurchase any loans and their related security that are subject to product switches (save for any loans in arrears). The seller will be required to repurchase the relevant loan or loans under the relevant mortgage account and their related security from the mortgages trustee at a price equal to the outstanding principal balance of those loans together with accrued and unpaid interest and expenses to the date of purchase.

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

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

If the seller at its discretion decides to grant a borrower a further advance under a loan which has been sold to the mortgages trustee, then the seller will repurchase that loan under the relevant mortgage account and its related security from the mortgages trustee (save for any loan in arrears) at a price equal to the outstanding principal balance of those loans together with any accrued and unpaid interest and expenses to the date of purchase.

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

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

Funding 2 may refinance some or all of the master intercompany loan through proceeds received from the issuing entity, the proceeds received from a new Funding 2 issuing entity under new Funding 2 intercompany loans or payments received from the seller and/or Funding 1 and/or a new funding entity. The issuing entity or the new Funding 2 issuing entity would fund such loans through the issuance of new notes. For example, a rated loan tranche outstanding under the master intercompany loan might be re-financed in order to provide the issuing entity with funds to redeem a series and class of notes after their step-up date. If the proceeds of a refinanced rated loan tranche under the master intercompany loan were used by the issuing entity to exercise an optional redemption of notes prior to their expected maturity, your notes could be repaid early. This, in turn, could have an adverse effect on the yield on your notes. See "**Terms and conditions of notes – Redemption, purchase and cancellation**" below.

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

The only remedy for recovering amounts on the notes is through the enforcement of the issuing entity security. The issuing entity security is only enforceable in certain circumstances and such enforcement may be subject to certain conditions, including a requirement that the issuing entity security trustee be indemnified and/or secured to its satisfaction. The issuing entity does not have any recourse to the assets of Funding 2 unless Funding 2 has also defaulted on its obligations under the master intercompany loan agreement and the Funding 2 security has been enforced as the Funding 2 security will only be enforced following the service of a master intercompany loan acceleration notice and not automatically as a result of the enforcement of the issuer security, see "**Security for Funding 2's obligations - Enforcement**" below). So, for example, if an issuing entity swap provider failed to pay amounts due to the issuing entity under the relevant issuing entity swap agreement, then the issuing entity may have insufficient funds to pay amounts due and payable under relevant notes, which in turn may result in the issuer security being enforced. However, Funding 2 may have paid all amounts due and payable under the corresponding loan tranche and therefore the Funding 2 security would not be enforceable (see "**Security for the issuing entity's obligations - Enforcement**", "**Security for Funding 2's obligations - Enforcement**" and "**Cashflows**" below).

If the security created pursuant to the terms of the issuing entity deed of charge is enforced, the proceeds of enforcement may be insufficient to pay all principal and interest and/or other amounts due on your notes.

See also "**PECOH**" for a description of the post enforcement call option, which may only be exercised following a note acceleration notice and application of enforcement proceeds.

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

If the issuing entity security is enforced, then the issuing entity security trustee will distribute funds in the manner described in "**Cashflows – Distribution of issuing entity principal receipts and issuing entity revenue receipts following note acceleration and master intercompany loan acceleration**". As a consequence, certain series and classes (or sub-classes) of notes may be repaid more rapidly than expected and other series and classes (or sub-classes) of notes may be repaid more slowly than expected and there is a risk that such notes may not be repaid by their final maturity date.

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

After a master intercompany loan acceleration notice is given (as described in "**The master intercompany loan agreement – Master intercompany loan events of default**" below and "**Security for Funding 2's obligations**" below), the Funding 2 security trustee may, but shall not be obliged to, sell the Funding 2 share of the trust property. There is no assurance that a buyer would be found or that such a sale would realise enough money to repay amounts due and payable under the master intercompany loan agreement.

The issuing entity, the issuing entity security trustee and the note trustee will not, and Funding 1, Funding 2, the Funding 1 security trustee, the Funding 2 security trustee and the mortgages trustee will not other than in respect of a breach of warranty under the mortgage sale agreement and as described here as it relates to certain set-off risks intended to be covered by the minimum seller share as described further below, have any recourse to the seller.

The issuing entity, the issuing entity security trustee and the note trustee will not, and the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and the Funding 2 security trustee will also not, undertake any investigations, searches or other actions on any loan or its related security but instead will rely solely on the warranties given in the mortgage sale agreement by the seller.

If any of the warranties made by the seller is materially untrue on the date on which a loan is sold to the mortgages trustee, then the seller will be required to remedy the breach, failing which it will be required to repurchase the loan or loans under the relevant mortgage account and their related security at their outstanding principal balance as at the date of repurchase together with any arrears of interest and accrued and unpaid interest and expenses. There can be no assurance that the seller will have the financial resources to repurchase the loan or loans under the relevant mortgage account and their related security. However, if the seller does not repurchase those loans and their related security when required, then the seller share of the trust property will be deemed to be reduced by an amount equal to the principal amount outstanding of those loans together with any arrears of interest and accrued and unpaid interest and expenses. See "**Sale of the loans and their related security – Repurchase of loans under a mortgage account**" below.

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

The sale by the seller to the mortgages trustee of the English mortgages and their related security on each sale date will take effect in equity only. The sale by the seller to the mortgages trustee of the Scottish mortgages and their related security has been given effect by a number of Scottish declarations of trust by the seller in favour of the mortgages trustee (and any sale of Scottish mortgages and their related security in the future will be given effect by further Scottish declarations of trust by the seller in favour of the mortgages trustee) by which the beneficial interest in the Scottish mortgages and their related security has been or, as applicable, will be transferred to the mortgages trustee. In each case this means that legal title to the loans in the portfolio remains with the seller, but the mortgages trustee has all the other rights and benefits relating to ownership of each loan and its related security (which rights and benefits are subject to the trust in favour of the beneficiaries). The mortgages trustee has the right to demand that the seller give it legal title to the loans and the related security in the circumstances described in "**Sale of the loans and their related security – Legal assignment of the loans to the mortgages trustee**" below. Until then, no notice of the sale of the English mortgages and their related security will be given to any borrower, no application will be made to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the English mortgages and their related security and no steps will be taken to complete or perfect its title to the Scottish mortgages and their related security. For more information on the Scottish mortgages see "**Material legal aspects of the loans – Scottish loans**" below.

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

(A) first, if the seller wrongly sold a loan to another person which has already been sold to the mortgages trustee, and that person acted in good faith and did not have notice of the interests of the mortgages trustee or the beneficiaries in the loan, then she or he might obtain good title to the loan, free from the interests of the mortgages trustee and the beneficiaries. If this occurred then the mortgages trustee would not have good title to the affected loan and its related security and it would not be entitled to payments by a borrower in respect of that loan. This may affect the ability of the issuing entity to make payments on the notes; and

(B) second, the rights of the mortgages trustee and the beneficiaries may be subject to the rights of the borrowers against the seller, such as the rights of set-off (see in particular "**– Set-off risks in relation to flexible loans, retention loans, home cash reserves and delayed cashbacks may adversely affect the funds available to the issuing entity to repay the notes**" above) which occur in relation to transactions or deposits made between some borrowers and the seller (which since the reorganisation date also includes deposits originally made by some borrowers with other entities in the HBOS group whose businesses have like that of Halifax transferred to Bank of Scotland in accordance with the HBOS Group Reorganisation Act 2006 and further deposits by such borrowers with Bank of Scotland) and the rights of borrowers to redeem their mortgages by repaying the loan directly to the seller. If these rights were exercised, the mortgages trustee may receive less money than anticipated from the loans, which may affect the ability of the issuing entity to repay the notes.

However, if a borrower exercises any set-off rights (including any analogous rights in Scotland), then an amount equal to the amount set-off will firstly reduce the total amount of the seller share of the trust property only, and the minimum seller share has been sized in an amount expected to cover this risk, although there is no assurance that it will. If the minimum seller share is exhausted, then the amount of any set-offs would be applied to reduce the Funding 1 share of the trust property and the Funding 2 share of the trust property in accordance with each company's percentage share.

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

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

**No new loans may be sold to the mortgages trustee if the step-up date in respect of any Funding 1 notes issued by any previous Funding 1 issuing entity or notes issued by the issuing entity has occurred and the relevant previous Funding 1 issuing entity or issuing entity (as applicable) has not exercised its option to redeem such notes**

No sale of new loans may occur if, at the relevant sale date, the step-up date in respect of the Funding 1 notes and/or any series and class of notes has occurred and the previous Funding 1 issuing entity or issuing entity (as applicable) has not exercised its option to redeem those Funding 1 notes and/or that relevant series and class of notes as at that date. If the minimum trust size is not maintained, then this could result in the occurrence of a non-asset trigger event. See **"Sale of the loans and their related security – Sale of loans and their related security to the mortgages trustee on the sale dates"** for further details of the conditions that new loans are required to meet.

**Repurchase of arrears mortgage loans, deedstore loans, credit impaired loans, second home loans and non-compliant loans**

The seller may from time to time request that the mortgages trustee sell it a loan and its related security included in the trust property if such loan is in arrears, is a deedstore loan, a credit impaired loan, a second home loan, or a non-compliant loan by delivering a written notice to the mortgages trustee, Funding 1 and/or Funding 2, the servicer, the cash manager and the Funding 1 security trustee and/or the Funding 2 security trustee identifying the loans to be repurchased pursuant to the terms of the mortgage sale agreement. Within two business days of receipt of such notice, the mortgages trustee (or the cash manager on its behalf) shall sign the acknowledgment to the repurchase notice thereby agreeing to reassign or retransfer to the seller free from the security interests created by the Funding 1 deed of charge and/or the Funding 2 deed of charge and any supplement thereto, each relevant loan and their related security. On completion of such repurchase the seller shall pay to the mortgages trustee GIC account (or as the mortgages trustee shall direct) an amount equal to the aggregate current balance of such loan or loans and any related security and all arrears of interest and accrued interest related thereto. The amount of loans repurchased pursuant to the terms of the mortgage sale agreement shall be notified to the servicer for inclusion in the monthly investor report.

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

The yield to maturity of the notes may be affected by the repurchase of loans in arrears, deedstore loans, credit impaired loans, second home loans and non-compliant loans.

**New Funding 2 issuing entities may share in the same security granted by Funding 2 to the issuing entity, and this may ultimately cause a reduction in the payments you receive on the notes**

Any new Funding 2 issuing entity may become party to the Funding 2 deed of charge and, if so, will be entitled to share in the security granted by Funding 2 for the benefit of the issuing entity (and the benefit of the other Funding 2 secured creditors) under the Funding 2 deed of charge. If the Funding 2 security is enforced and there are insufficient funds to make the payments that are due to all Funding 2 issuing entities, the issuing entity expects that each Funding 2 issuing entity will only be entitled to its proportionate share of those limited funds. This could ultimately cause a reduction in the payments you receive on your notes.

In addition, Funding 2 may enter into new Funding 2 start-up loans and/or new Funding 2 Z loans at the same time as it enters into new Funding 2 intercompany loans or that loan tranches are made available to it by the issuing entity under the master intercompany loan agreement. Such new Funding 2 start-up loans and/or new Funding 2 Z loans will share in the security granted by Funding 2 for the benefit of the issuing entity.

## 4. RISKS RELATED TO CHANGES TO THE STRUCTURE AND DOCUMENTS

**The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**

Pursuant to the terms of the Funding 2 deed of charge and the issuing entity deed of charge, the Funding 2 security trustee and the issuing entity security trustee may concur with any person in making or sanctioning any modifications to the transaction documents (in the case of the Funding 2 security trustee) if so directed by the issuing entity security trustee and (in the case of the issuing entity security trustee) if so directed by the note trustee and (as provided for in the issuing entity deed of charge) with the prior consent of any other relevant issuing entity secured creditors. The note trustee may give such direction (other than in relation to a basic terms modification), without the consent or sanction of the noteholders, provided that:

(A) the note trustee is of the opinion that such modification will not be materially prejudicial to the interests of the holders of any series and class of notes; or

(B) in the sole opinion of the note trustee such modification is necessary to correct a manifest error or an error established as such to the satisfaction of the note trustee or is of a formal, minor or technical nature.

The note trustee will be entitled to assume that any such exercise of its rights, powers, duties and discretions will not be materially prejudicial to the interests of any series and class of noteholders if each of the rating agencies has confirmed that the then current rating by it of such series and class of notes would not be adversely affected by such exercise.

Similarly, in certain circumstances and subject to certain conditions being met, the note trustee shall be obliged, without the consent or sanction of any noteholders or any other secured creditors, to concur with the issuing entity in making any modification (other than a basic terms modification) to any transaction document to which it is a party or in relation to which the issuing entity security trustee holds security that the issuing entity considers necessary. See below "**Overview of rights of noteholders – Right of modification without noteholder consent**".

These modifications include those required in order to (i) enable the issuing entity (or the cash manager on its behalf) to change the screen rate or the base rate that applies to any notes issued after the base rate modification reference date from such screen rate or base rate that applies at such time to an alternative base rate (and make such other amendments as are necessary or advisable in the reasonable judgment of the issuing entity (or the cash manager on its behalf) to facilitate such change) under certain circumstances including to the extent there has been or there is reasonably expected to be a material disruption or cessation to the screen rate or the relevant base rate that applies to any such notes at such time and (ii) changing the base rate that then applies in respect of an issuing entity swap agreement solely as a consequence of, and solely for the purpose of aligning such base rate with, the base rate of the notes following a base rate modification. See below "**Changes or uncertainty in respect of LIBOR and/or EURIBOR and/or interest rate benchmarks may affect the value or payment of interest under the notes**".

In respect of proposed modifications to any transaction document or any document relating to the matters summarised in (i) and (ii) above, the note trustee is bound to concur or provide its consent (as the case may be) (without the consent or sanction of any noteholder or any other secured creditors or security beneficiary) provided that (among other things) the proposed modification would not adversely affect the current ratings of the notes (and the note trustee may rely on certifications to that effect from a relevant transaction

party); and the issuing entity has provided at least 30 calendar days' notice to the noteholders of each series which would be affected by the proposed modification (together the **affected note series**) of the proposed modification and noteholders representing at least 10 per cent. of the aggregate principal amount outstanding of the most senior class of notes then outstanding across the affected note series have not notified the issuing entity via the principal paying agent to inform them 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 then outstanding across the affected note series have not notified the issuing entity via the principal paying agent that such noteholders do not consent to the modification, the note trustee will be bound to concur with the issuing entity to implement such modification. In this regard, noteholders of the most senior class of an affected note series will have to take active steps to notify the issuing entity and the principal paying agent of any objections to proposed modifications in the manner described in "**Overview of rights of noteholders – Right of modification without noteholder consent**" and conditions 11.8 (*Additional Right of Modification*) and 11.4 (*Meetings of Noteholders; Modification and Waiver*) under "**Terms and Conditions of the Notes**".

Any modifications made in the manner described above will be binding on all noteholders, including noteholders who are not the holders of the most senior class of notes of the affected note series. Noteholders who are not in the most senior class of notes of the affected note series will not be entitled to object to, or vote on, any proposed modification. There is no guarantee that any modification to the transaction documents will not ultimately adversely affect the rights of noteholders or payments on the notes.

In addition, as further described in "**Security for Funding 2's obligations – Appointment, powers, responsibilities and liabilities of the Funding 2 security trustee**" and "**Security for the issuing entity's obligations – Appointment, powers, responsibilities and liabilities of the issuing entity security trustee**", below, each of the Funding 2 security trustee and the issuing entity security trustee will give its consent to any modifications to any transaction document that are requested by Funding 2 (or the cash manager on its behalf), Funding 1 (or the cash manager on its behalf) or the issuing entity (or the issuing entity cash manager on its behalf), provided that Funding 2 (or the cash manager on its behalf), Funding 1 (or the cash manager on its behalf) or the issuing entity (or the issuing entity cash manager on its behalf) certifies to the Funding 2 security trustee in writing that such modifications are required in order to accommodate, among other things:

(A) notes to be issued by the issuing entity and/or loan tranches to be made available by the issuing entity to Funding 2 under the master intercompany loan agreement (including new classes of notes and their corresponding loan tranches),

(B) new Funding 2 intercompany loan agreements and/or the issue of new type of notes by new Funding 2 issuing entities or the issue of notes by Funding 2 directly,

(C) the addition of a new funding beneficiary as a beneficiary of the mortgages trust,

(D) the addition of other relevant secured creditors of Funding 2,

(E) the sale of new types of loans or mortgages to the mortgages trustee,

(F) changes to the Funding 2 reserve required amount, the Funding 2 Z loan required amount, the Funding 2 liquidity reserve fund required amount or the manner in which the Funding 2 general reserve fund, the Funding 2 liquidity reserve fund or the Funding 2 yield reserve fund is funded,

(G) changes to the Funding 2 Z loan agreement and the subordination of the Funding 2 Z loans provided that payments to the Funding 2 Z loan provider will always be made after payment of amounts due by Funding 2 to the issuing entity in respect of the rated loan tranches or by the issuing entity to the noteholders in respect of the notes,

(H) different interest payment dates for any new notes to be issued by the issuing entity (including modifications of the Funding 2 interest payment dates, the interest period and/or the basis for calculation of interest in respect of any outstanding loan tranches under the master intercompany loan agreement), or

(I) changes to the asset trigger events and non-asset trigger events,

in each case, subject to applicable conditions.

The modifications required to give effect to the matters listed above may include, among other matters, amendments to the provisions of the Funding 2 deed of charge relating to the application of monies.

Accordingly, there can be no assurance that the effect of the modifications to the relevant transaction documents will not ultimately adversely affect your interests.

**Holdings may establish another company which may become an additional beneficiary under the mortgages trust**

Holdings may establish a separate entity (a **new Funding beneficiary**) which may issue (directly or indirectly) debt from time to time and use the proceeds to acquire a direct interest in or increase its share in the trust property. Simultaneously with the acquisition by such new Funding beneficiary of an interest in the trust property, the seller, Funding 1 and Funding 2, as beneficiaries of the mortgages trust, would be required to agree to a decrease in their beneficial interest in the trust property (which would require a partial release of security by Funding 1 and Funding 2 over their respective shares of the trust property).

The seller, Funding 1, Funding 2 and the new Funding beneficiary would each have a joint and undivided interest in the trust property but their entitlement to the proceeds from the trust property would be in proportion to their respective shares of the trust property from time to time. However, if any new Funding beneficiary besides Funding 1 and/or Funding 2 has a cash accumulation requirement at a time when Funding 2 has no cash accumulation requirement, then such new Funding beneficiary will receive principal receipts from the mortgages trustee in priority to Funding 2. In addition, if any Funding beneficiary besides Funding 2 is in a cash accumulation period, this will affect the amount of principal receipts payable to Funding 2 and the ability of Funding 2 to repay pass-through loan tranches.

On each distribution date, the mortgages trustee would distribute interest and principal receipts to one or more beneficiaries, depending on the terms of the mortgages trust at that time.

It is anticipated that such new Funding beneficiary would issue notes (directly or indirectly) to investors from time to time backed by its share of the trust property. You would not have a direct or indirect interest in the new Funding beneficiary's share of the trust property.

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

(A) the mortgage sale agreement to enable (among other things) the purchase by the new Funding beneficiary of interests in the trust property by paying the purchase price for new loans and their related security sold by the seller from time to time and to give the new Funding beneficiary the benefit of the covenants in the mortgage sale agreement;

(B) the mortgages trust deed (i) to establish the new Funding beneficiary as a beneficiary of the mortgages trust, (ii) to enable the acquisition by the new Funding beneficiary of an interest in the trust property from time to time and (iii) to regulate the distribution of revenue receipts and principal receipts in the trust property to the new Funding beneficiary and the other beneficiaries;

(C) the cash management agreement to regulate the application of monies to the new Funding beneficiary;

(D) the servicing agreement, to ensure that the new Funding beneficiary receives the benefit of the servicer's duties under that agreement;

(E) the master definitions and construction schedule; and

(F) the controlling beneficiary deed.

There may be conflicts of interest between Funding 1, Funding 2 and the new Funding beneficiary, in which case it is expected that the mortgages trustee will follow the directions given by the relevant beneficiary (excluding the seller) that has the highest ranking class of notes then outstanding and, if each relevant beneficiary represents one or more issuing entities (as applicable) with the same class as their highest ranking class of notes then outstanding, then the beneficiary representing the issuing entities with the greatest outstanding principal balance of the highest ranking class of notes. The interests of Funding 1 and/or Funding 2 may not prevail, which may adversely affect your interests.

Your prior consent to the inclusion of a new Funding beneficiary of the mortgages trust and the subsequent amendments to the documents and/or release of security by Funding 2 will not be required. Before becoming a beneficiary of the mortgages trust, however, the new Funding beneficiary will be required to satisfy a number of conditions, including:

(G) obtaining a written confirmation from each of the rating agencies that the then current rating of the Funding 1 notes and the notes then outstanding at that time will not be adversely affected as a result of the new Funding beneficiary becoming a beneficiary of the mortgages trust;

(H) providing written certification to the mortgages trustee that no master intercompany loan event of default has occurred which has not been remedied or waived; and

(I) that no principal deficiency is recorded on the Funding 2 principal deficiency ledger (other than the Funding 2 Z loan principal deficiency sub-ledger) as at the most recent Funding 2 interest payment date.

There can be no assurance that the inclusion of a new Funding beneficiary of the mortgages trust would not affect cashflows available to pay amounts due on your notes and therefore adversely affect your interests.

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

If the issuing entity obtains confirmation from each rating agency that the issuance of a new series and class (or sub-class) of notes would not cause a reduction, qualification or withdrawal of the then-current rating of any outstanding notes rated by that rating agency, then some of the other conditions to issuance of notes (e.g., the absence of a note event of default in respect of a series and/or class of notes) may be waived by the note trustee. For a description of the conditions to issuance and the waiver of such conditions see "**Overview of the notes**".

**There may be conflicts between your interests and the interests of any of the other issuing entity secured creditors**

In certain circumstances, the note trustee, the issuing entity security trustee or, as applicable, the Funding 2 security trustee can make modifications to the documents without your prior consent, as described in "**–The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**". Save as described in that section, the issuing entity deed of charge provides that the issuing entity security trustee will not, and will not be bound to, take any steps, institute any proceedings, exercise its rights and/or to take any other action under or in connection with any of the transaction documents (including, without limitation, enforcing the issuing entity security) unless the issuing entity security trustee is directed to do so by the note trustee or, if there are no notes outstanding, the other issuing entity secured creditors. Similarly, the Funding 2 deed of charge provides that the Funding 2 security trustee will not, and will not be bound to, take any steps, institute any proceedings, exercise its rights and/or to take any other action under or in connection with any of the transaction documents (including, without limitation, enforcing the Funding 2 security) unless the Funding 2 security trustee is directed to do so by the issuing entity security trustee (itself acting on the instructions of the note trustee) or, if there are no notes outstanding, the other Funding 2 secured creditors.

In addition, where a transaction party and/or any of its affiliates act in numerous capacities (including, but not limited to, issuing entity swap providers and managers in respect of the notes) there may be actual or potential conflicts between (1) the interests of the transaction party and/or any such affiliates in such various capacities and (2) the interests of the noteholders and such transaction parties and/or any such affiliates.

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer, the seller and its affiliates in the ordinary course of business. The joint lead managers will be receiving a fee in connection with the issue of the notes. Nothing in the transaction documents shall prevent any of the parties to the transaction documents from rendering services similar to those provided for in the transaction documents to other persons, firms or companies or from carrying on any business similar to or in competition with the business of any of the parties to the transaction documents. certain of the joint lead managers and their affiliates may have positions, deal or make markets in the notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

Accordingly, conflicts of interest may exist or may arise as a result of parties to this transaction: (a) having previously engaged or in the future engaging in transactions with other parties to the transaction; (b) having multiple roles in this transaction; (c) purchasing some of the notes and subsequently dealing in such notes and/or (d) carrying out other transactions for third parties.

In addition, in the ordinary course of their business activities, the joint lead managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related

derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. such investments and securities activities may involve securities and/or instruments of the issuer or the issuer's affiliates. certain of the joint lead managers or their affiliates that have a lending relationship with the issuer routinely hedge their credit exposure to the issuer consistent with their customary risk management policies. typically, such joint lead managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the notes. any such positions could adversely affect future trading prices of the notes or whether a specified barrier or level is reached. the joint lead managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**A conflict between the interests of the holders of class A, class B, class M, class C, class D and other classes of notes may result in a decision prevailing over your interests**

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

(A) the note trustee is to have regard only to the interests of the class A noteholders in the event of a conflict between the interests of the class A noteholders on the one hand and the class B, M, C, and/or D noteholders on the other hand;

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

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

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

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

There may be circumstances where the interests of a sub-class of the notes conflict with the interests of another sub-class of the notes. For example, the interests of a sub-class of class A noteholders may conflict with the interests of another sub-class of the class A noteholders, and so on.

The note trust deed provides and the conditions of the notes will provide that where, in the sole opinion of the note trustee, there is such a conflict, then a resolution directing the note trustee to take any action must be passed at separate meetings of the holders of each such sub-class of the class A, B, M, C, or the D notes respectively (as applicable). A resolution may only be passed at a single meeting of the noteholders of each sub-class if the note trustee is, in its absolute discretion, satisfied that there is no conflict between them.

Similar provisions apply in relation to requests in writing from holders of a specified proportion of the principal amount outstanding of the notes of each sub-class (the principal amount outstanding being converted into sterling for the purposes of making the calculation). You should note that, as a result of repayments of principal on the notes, the principal amount outstanding of each series and class (or sub-class) of the notes of the issuing entity will change after the relevant closing date.

## 5. COUNTERPARTY RISKS

**The issuing entity and Funding 2 are reliant on third parties in order to meet their secured obligations**

The principal source of income for repayment of the notes by the issuing entity is the intercompany loan. The principal source of income for repayment by Funding 2 of the intercompany loan is its interest in the loans held on trust by the mortgages trustee for Funding 2, the seller and the other beneficiaries. If the timing and payment of the loans is adversely affected by any of the risks described in this section, then the payments on the notes could be reduced or delayed.

Both Funding 2 and the issuing entity are, respectively, parties to contracts with third parties that have agreed to perform certain services for each of them in relation to the intercompany loan (in respect of Funding 2) and the notes (in respect of the issuing entity). For example, both the Funding 2 swap provider and the issuing entity swap providers have agreed to provide certain interest rate and currency swaps (as applicable) to Funding 2 and the issuing entity, respectively; the Funding 2 corporate services provider and the issuing entity corporate services provider have also agreed to provide corporate services to each of Funding 2 and the issuing entity respectively; the agent bank and paying agents have agreed to provide payment and calculation services to the issuing entity in connection with each series of notes. In the event that any relevant third party were to fail to perform its obligations under the respective agreements to which it is a party, payments on your notes may be adversely affected.

To the extent that there are principal amounts outstanding on remarketable notes on any mandatory transfer date, the ability of the issuing entity to procure payment of the mandatory transfer price will be dependent upon the remarketing agent, as agent for the issuing entity, agreeing terms for the sale of the remarketable notes to third party purchasers on or prior to the relevant mandatory transfer date or exercising the issuing entity's rights under the conditional purchase agreement to require the conditional purchaser to acquire the remarketable notes. (See "- **Risks relating to money market notes**".)

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

The seller has been appointed by the mortgages trustee and the beneficiaries as servicer to service the loans. If the servicer breaches the terms of the servicing agreement, then the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and/or the Funding 2 security trustee will be entitled to terminate the appointment of the servicer and appoint a new servicer in its place.

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

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

**Risks associated with the Funding 2 swaps**

To provide a hedge against (a) the mortgages trustee variable base rate payable on the variable rate loans, the rates of interest payable on the tracker rate loans and the fixed rates of interest payable on the fixed rate loans and (b) the rate of interest payable by Funding 2 on the loan tranches under the master intercompany loan agreement and on each Funding 2 Z loan, Funding 2 has entered into the Funding 2 swap agreement. If Funding 2 fails to make timely payments under a Funding 2 swap, it will have defaulted under that Funding 2 swap. The Funding 2 swap provider is obliged only to make payments under the Funding 2 swaps if and for so long as Funding 2 makes payments under the same and Funding 2 has not otherwise defaulted under the Funding 2 swap agreement. If the Funding 2 swap provider is not obliged to make payments, or if it exercises any right that it may have under a Funding 2 swap to terminate that Funding 2 swap or if it defaults in its obligation to make payments under a Funding 2 swap, Funding 2 will be exposed to the variance between the rates of interest payable on the loans and the rate of interest payable by it under the master intercompany loan and each Funding 2 Z loan unless one or more replacement Funding 2 swaps are entered into. If a Funding 2 swap terminates, Funding 2 may as a result be obliged to make a termination payment to the Funding 2 swap provider. Any variance between the rates of interest payable on the loans and the rate of interest payable by Funding 2 in respect of the loan tranches under the master intercompany loan and each Funding 2 Z loan and any termination payment payable by it to the Funding 2 swap provider may adversely affect the ability of Funding 2 to meet its obligations under the master intercompany loan agreement and each Funding 2 Z loan (see also "**– Funding 2 is not obliged to make payments on the loan tranches if it does not have enough money to do so, which could adversely affect payments on your notes**" below).

Changes to LIBOR may also adversely affect the operation of the Funding 2 swaps (see also "**– Changes or uncertainty in respect of LIBOR and/or EURIBOR and/or interest rate benchmarks may affect the value or payment of interest under the notes**" below).

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

If any of the issuing entity swaps terminates, the issuing entity may as a result be obliged to make a termination payment to the relevant issuing entity swap provider. The amount of the termination payment will be based on the cost of entering into a replacement issuing entity swap. Under the master intercompany loan agreement, Funding 2 will be required to pay the issuing entity an amount equal to any termination payment due by the issuing entity to the relevant issuing entity swap provider in accordance with the applicable Funding 2 priority of payments. Funding 2 will also be obliged to pay the issuing entity any extra amounts which the issuing entity may be required to pay to enter into a replacement issuing entity swap in accordance with the applicable Funding 2 priority of payments.

There is no assurance that Funding 2 will have the funds available in accordance with the applicable Funding 2 priority of payments to make that payment or that the issuing entity will have sufficient funds available in accordance with the applicable issuer priority of payments to make any termination payment under any of the issuing entity swaps or to make subsequent payments to you in respect of the relevant series and class (or sub-class) of notes. Nor can the issuing entity give any assurance that it will be able to enter into a replacement issuing entity swap or, if one is entered into, that the credit rating of the replacement issuing entity swap provider will be sufficiently high to prevent a downgrading of the then current ratings of the notes by the rating agencies.

Except where an issuing entity swap provider has caused the relevant issuing entity swap to terminate by its own default or by its failure to take remedial action following a ratings downgrade (but see "**Risk factors – Insolvency considerations - US insolvency considerations and proceedings**" below), any termination payment due by the issuing entity will rank equally not only with payments due to the holders of the series and class (or sub-class) of notes to which the relevant issuing entity swap relates but also (after the delivery of a note acceleration notice and a master intercompany loan acceleration notice and subject always to the issuing entity post-enforcement priority of payments) with payments due to the holders of any other series and class (or sub-class) of notes which rank equally with the series and class (or sub-class) of notes to which the relevant issuing entity swap relates. Any additional amounts required to be paid by the issuing entity following termination of an issuing entity swap (including any extra costs incurred (for example, from entering into "spot" currency transactions or interest rate swaps) if the issuing entity cannot immediately enter into a replacement issuing entity swap) will also rank equally not only with payments due to the holders of the series and class (or sub-class) of notes to which the relevant issuing entity swap relates but also (after the delivery of a note acceleration notice and a master intercompany loan acceleration notice and subject always to the issuing entity post-enforcement priority of payments) with payments due to the holder of any other series and class (or sub-class) of notes which rank equally with the series and class (or sub-class) of notes to which the relevant issuing entity swap relates. Furthermore, any termination payment or additional amounts required to be paid by the issuing entity following termination of an issuing entity swap will, subject to the applicable issuing entity priority of payments, rank ahead of payments due to the holders of any series and class (or sub-class) of notes which ranks below the series and class (or sub-class) of notes to which the relevant issuing entity swap relates. Therefore, if the issuing entity is obliged to make a termination payment to the relevant issuing entity swap provider or to pay any other additional amount as a result of the termination of the relevant issuing entity swap, this may affect the funds which the issuing entity has available in accordance with the applicable issuing entity priority of payments to make payments on the notes of any class (or sub-class) and any series. See "**The swap agreements – Termination of the swaps**" and "**Cashflows – Distribution of issuing entity principal receipts and issuing entity revenue receipts following note acceleration and master intercompany loan acceleration**" below.

Prior to the delivery of a master intercompany loan acceleration notice and a note acceleration notice, the amounts available to the issuing entity in accordance with the applicable issuing entity priority of payments to make a termination payment or pay additional amounts in respect of an issuing entity swap entered into in respect of a particular series and class (or sub-class) of notes may be limited to the amounts received by the issuing entity from the related loan tranche only. Therefore, if the issuing entity is obliged to make a termination payment to the relevant issuing entity swap provider or to pay any other additional amount as a result of the termination of an issuing entity swap, this may affect the funds which the issuing entity has available in accordance with the applicable issuing entity priority of payments to make payments on the notes of the related series and class (or sub-class). See in particular "**Cashflows - Distribution of issuing entity revenue receipts before note acceleration**" below.

**You may be subject to exchange rate risks and interest rate risks on any series of notes that are denominated in a currency other than sterling**

Investors will pay for the U.S. dollar notes in U.S. dollars, for the euro notes in euro and for notes issued in any other currency, in such other currency as such notes are denominated in, but the loan tranches to be made by the issuing entity to Funding 2 and repayments of principal and payments of interest by Funding 2 under the master intercompany loan will be in sterling. To hedge the issuing entity's currency exchange rate exposure, including the interest rate exposure connected with that currency exposure, the issuing entity will enter into the issuing entity currency swaps for the applicable series of notes. See "**The swap agreements – The issuing entity currency swaps**" below.

If the issuing entity fails to make timely payments of amounts due under an issuing entity swap, then the issuing entity will have defaulted under that issuing entity swap. Each issuing entity swap provider is obliged only to make payments under an issuing entity swap if and for so long as the issuing entity makes payments under the same and the issuing entity has not otherwise defaulted under the relevant issuing entity swap agreement. If an issuing entity swap provider is not obliged to make payments, or if it exercises any right that it may have under the relevant issuing entity swap agreement to terminate that issuing entity swap agreement, or if it defaults in its obligations to make payments of amounts equal to the full amount to be paid by it on the payment dates under the relevant issuing entity swap (which are the same dates as the interest payment dates in respect of the notes), the issuing entity will be exposed to changes in the relevant currency exchange rates, in the associated interest rates on these currencies and/or in fixed versus floating interest rates (as the case may be). Unless a replacement issuing entity swap is entered into, the issuing entity may have insufficient funds to make payments due on not only the corresponding notes but also on the notes of any class (or sub-class) and any series that are then outstanding.

**You may be subject to interest rate risks on certain series of notes that are denominated in sterling**

The issuing entity may issue sterling notes which accrue interest at a fixed rate of interest or a floating rate of interest which differs from the LIBOR-based or SONIA-based (as applicable) rate on the corresponding loan tranche to be made by the issuing entity to Funding 2 under the master intercompany loan agreement.

To hedge the issuing entity's interest rate exposure, the issuing entity will enter into the issuing entity interest rate swaps for the applicable series of notes. See "**The swap agreements – The issuing entity interest rate swaps**" below.

If the issuing entity fails to make timely payments of amounts due under an issuing entity swap, then the issuing entity will have defaulted under that issuing entity swap. Each issuing entity swap provider is obliged only to make payments under an issuing entity swap if and for so long as the issuing entity makes payments under the same and the issuing entity has not otherwise defaulted under the relevant issuing entity swap agreement. If an issuing entity swap provider is not obliged to make payments, or if it exercises any right that it may have under the relevant issuing entity swap agreement to terminate that issuing entity swap agreement, or if it defaults in its obligations to make payments of amounts equal to the full amount to be paid by it on the payment dates under the relevant issuing entity swap (which are the same dates as the interest payment dates in respect of the notes), the issuing entity will be exposed to interest rate risk. Unless a replacement issuing entity swap is entered into, the issuing entity may have insufficient funds to make payments due on not only the corresponding notes but also on the notes of any class (or sub-class) and any series that are then outstanding.

**The mortgages trustee GIC provider or the Funding 2 GIC provider may cease to satisfy certain criteria to provide the mortgages trustee GIC account or the Funding 2 GIC account or the Funding 2 collateralised GIC account**

The mortgages trustee GIC provider and the Funding 2 GIC provider are required to satisfy certain rating criteria (including certain criteria and/or permissions set or required by the FCA from time to time) in order to continue to receive deposits in the mortgages trustee GIC account, the Funding 2 GIC account, and the Funding 2 collateralised GIC account respectively. If either the mortgages trustee GIC provider, the Funding 2 GIC provider, or the Funding 2 collateralised GIC provider ceases to satisfy those criteria and this is not remedied within the relevant grace period, then (unless, in the case of a failure to satisfy the mortgages trustee account bank required ratings or the Funding account bank required ratings, as applicable, the relevant account bank takes the actions described below under "**—The mortgages trustee account bank and the Funding 2 account bank may continue to hold deposits when they cease to satisfy certain criteria**") the relevant account may be transferred to another entity which does satisfy those criteria. In these circumstances the new GIC provider may not offer a GIC account on terms as favourable as those provided by the mortgages trustee GIC provider, the Funding 2 GIC provider or the Funding 2 collateralised GIC provider.

The criteria referred to above include rating requirements as set out in "**Credit structure – Mortgages trustee GIC account/Funding 2 GIC account/Funding 2 eligible bank GIC account/Funding 2 collateralised GIC account**".

**The mortgages trustee account bank and the Funding 2 account bank may continue to hold deposits when they cease to satisfy certain criteria**

Even if the mortgages trustee account bank or the Funding 2 account bank ceased to satisfy the criteria described above under "—**The mortgages trustee GIC provider or the Funding 1 GIC provider may cease to satisfy certain criteria to provide the mortgages trustee GIC account, the Funding 2 GIC account, or the Funding 2 collateralised GIC account**" the mortgages trustee account bank may continue to hold all amounts in the mortgages trustee GIC account and (as applicable) the Funding 2 account bank may continue to hold Funding 2 deposit non-reserved amounts in the Funding 2 collateralised GIC account; provided that, (i) in the case of the mortgages trustee GIC account, if the mortgages trustee account bank ceases to satisfy such criteria, the mortgages trustee must establish a standby mortgages trustee bank account with another entity which does satisfy such criteria and (ii) in the case of the Funding 2 GIC account, the Funding 2 account bank posts collateral against such deposits pursuant to the terms of the transaction documents. Any amounts received by Funding 2 that do not constitute Funding 2 deposit non-reserved amounts must be deposited in a Funding 2 GIC account with an entity that satisfies the Funding account bank required ratings. Although any collateral posted against amounts on deposit in the Funding 2 collateralised GIC account is required to be in an amount greater than the amount on deposit in the relevant account, there is no guarantee that the value of such collateral when realised will be sufficient to cover losses on such account.

If at any time the mortgages trustee account bank's or the Funding 2 account bank's "Issuer Default Ratings" from Fitch are below BBB-", the relevant account bank must transfer the relevant account to another entity which has the requisite ratings.

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

In the UK, regulation of residential mortgage business under the FSMA came into force on 31 October 2004 (the **Regulation Effective Date**). Residential mortgage lending under the FSMA is regulated by the FCA. Entering into, arranging or advising in respect of, and administering, regulated mortgage contracts, and agreeing to do any of those activities, are (subject to certain exemptions) each regulated activities under the FSMA and the FSMA (Regulated Activities) Order 2001 (SI 2001/544) (as amended) (the **RAO**) requiring authorisation and permission from the FCA.

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

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

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

Credit agreements which were originated before 21 March 2016, which were regulated by the Consumer Credit Act 2006 (the **CCA**), and that would have been regulated mortgage contracts had they been

entered into on or after 21 March 2016 are 'consumer credit back book mortgage contracts' and are also therefore regulated mortgage contracts (see "Regulation of residential secured lending").

On and from the Regulation Effective Date, subject to any exemption, persons carrying on any specified regulated mortgage-related activities by way of business must be authorised under the FSMA. The specified activities currently are: (a) entering into a Regulated Mortgage Contract as lender; (b) administering a Regulated Mortgage Contract (administering in this context broadly means notifying borrowers of changes in mortgage payments and/or collecting payments due under the mortgage loan); (c) advising in respect of Regulated Mortgage Contracts; and (d) arranging Regulated Mortgage Contracts. Agreeing to carry on any of these activities is also a regulated activity. If requirements as to the authorisation of lenders and brokers are not complied with, a Regulated Mortgage Contract will be unenforceable against the borrower except with the approval of a court and the unauthorised person may commit a criminal offence. An unauthorised person who carries on the regulated mortgage activity of administering a Regulated Mortgage Contract that has been validly entered into may commit an offence, although this will not render the contract unenforceable against the borrower. Failure to comply with the financial promotion regime (as regards who can issue or approve financial promotions) is a criminal offence and will render the Regulated Mortgage Contract or other secured credit agreement in question unenforceable against the borrower except with the approval of a court. In addition, a borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FCA rule, and may set-off the amount of the claim against the amount owing by the borrower under a loan or any other loan that the borrower has taken with that authorised person (or exercise analogous rights in Scotland). Any such claim or set-off may reduce the amounts available to meet the payments due in respect of the issuing entity notes.

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

None of the issuing entity, Funding 2, the Funding 1 issuing entities, Funding 1 or the mortgages trustee are, or propose to be, authorised persons under the FSMA. The mortgages trustee does not require authorisation in order to acquire legal or beneficial title to a regulated mortgage contract. None of the issuing entity, Funding 2, the Funding 1 issuing entities, Funding 1 or the mortgages trustee carry on the regulated activity of administering (servicing) regulated mortgage contracts, because the loans are serviced pursuant to the servicing agreement by the servicer, which has the required FCA authorisation and permission under the FSMA. If the servicing agreement terminates, however, the mortgages trustee will have a period of not more than one month in which to arrange for mortgage servicing to be carried out by a replacement servicer having the required FCA authorisation and permission under the FSMA. During that period, the mortgages trustee will also be exempt from the authorisation requirement in respect of any debt-counselling, debt administration or debt-collecting activities it carries out. In addition, no variation may be made to the loans in the portfolio and no further advance or product switch has been or will be made in relation to a loan in the portfolio where it would result in the issuing entity, Funding 2, any Funding 1 issuing entities, Funding 1 or the mortgages trustee arranging or advising in respect of, administering (servicing) or entering into a Regulated Mortgage contract or debt-counselling or debt-collecting or performing debt administration in respect of, an unregulated first charge mortgage or agreeing to carry on any of these activities, if the issuing entity, Funding 2, any Funding 1 issuing entities, Funding 1 or the mortgages trustee would be required to be authorised under the FSMA to do so. If the servicing agreement terminates, however, the issuing entity, Funding 2, any Funding 1 issuing entities, Funding 1 and the mortgage trustee will have a period of not more than one month in which to arrange for mortgage administration to be carried out by a replacement servicer having the required FSMA authorisations and permissions.

## 6. ORIGINATOR RISKS

**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 programme 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 programme 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 Requirements*" below.

In addition, Lloyds Banking Group entities undertaking roles under the programmes 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.

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 programme) or being required to indemnify entities under the programme 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.

On 26 May 2016, Lloyds Banking Group was informed that an enforcement team at the FCA had commenced an investigation in connection with Lloyds Banking Group mortgage arrears handling activities. This investigation is ongoing and Lloyds Banking Group continues to cooperate with the FCA. It is currently not possible to make a reliable assessment of any liability that may result from the investigation including any financial penalty or public censure.

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 programme and could impact their businesses and products including businesses and products directly relevant to the programme.

Lloyds Banking Group and its subsidiaries, including Bank of Scotland, perform various roles in the programme, including Lloyds Bank plc as Maturity Purchaser and Bank of Scotland as seller of loans to the mortgages trust, servicer of such loans, cash manager to Funding 1, Funding 2, the mortgages trustee and the issuing entity, the Funding 1 account bank, the mortgages trustee account bank, the issuer account bank, the Funding 2 Z loan provider, the Funding 1 swap provider and the Funding 2 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 programme and also the market for the notes, which could result in risks to noteholders including, but not limited to, the occurrence of a Non-Asset Trigger Event, the risk of set-off and/or other adverse consequences leading to noteholders incurring a loss on their investment.

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

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.

## 7. MACRO-ECONOMIC AND MARKET RISKS

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

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

Limited liquidity in the secondary market may continue to have an adverse impact on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of certain categories of investors.

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

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

The ratings assigned by S&P and Fitch to each class of notes address the likelihood of full and timely payment to noteholders of all payments of interest on each interest payment date under that class (or sub–class) of notes in accordance with the terms of the transaction documents and the terms and conditions of the notes. The ratings also address the likelihood of "ultimate" payment of principal by the final maturity date of each class of notes. The ratings assigned by Moody's to each class of notes address the expected loss in proportion to the initial principal amount of such class (or sub-class) and express Moody's opinion that the

structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. The expected ratings of a series and class of notes offered under this base prospectus will be set out in the final terms or drawdown prospectus applicable to that series and class of notes.

A credit rating is not a recommendation to buy, sell or hold securities and any rating agency may qualify, suspend, lower its rating or withdraw its rating for any reason, including as a result of changes in, or unavailability of, information or a revision of its relevant rating methodology or if, in the sole judgment of the rating agency, the credit quality of the notes has declined or is in question or circumstances so warrant. If any rating assigned to the notes is subsequently qualified, suspended, lowered or withdrawn, the market value of the notes may be reduced and, in the case of money market notes, such money market notes may no longer be eligible for investment by money market funds.

A change to the ratings assigned to each class of notes will not affect the relevant term advance ratings assigned to each relevant term advance under the intercompany loan.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. The ratings assigned to each class of notes will be disclosed in the applicable final terms or drawdown prospectus.

The CRA Regulation was amended by European Regulation 462/2013 of 21 May 2013 (known as **CRA III**) and, as such, entered into force on 20 June 2013. Its provisions increase the regulation and supervision of credit rating agencies by ESMA but also impose new obligations on issuers of securities which have an EU element. Under Article 8b of the CRA Regulation, the issuing entity, originator and sponsor of structured finance instruments (**SFI**) established in the European Union (a definition which the notes issued by the issuing entity under the programme fulfil) must jointly publish certain information about those SFI on a specified website set up by ESMA. This includes information on: the credit quality and performance of the underlying assets of the SFI; the structure of the securitisation transaction; the cashflows and any collateral supporting a securitisation exposure; and any information that is necessary to conduct comprehensive and well-informed stress tests on the cashflows and collateral values supporting the underlying exposures. On 30 September 2014, the European Commission adopted a delegated regulation containing regulatory technical standards (RTS) which set out in detail the information on SFI which must be published and rules on the presentation and updating of such information. The Regulation will apply from 1 January 2017, in order to provide issuers, originators and sponsors with reasonable time to prepare for compliance with the new disclosure obligations. The issuing entity will appoint an appropriate entity to provide the requisite information before the Regulation becomes applicable in 2017. ESMA has not yet launched the website on which information about SFI must be published or published certain technical reporting instructions concerning, amongst other things, the transmission of the relevant information to ESMA. Therefore, there remains some uncertainty surrounding the precise nature of the issuing entity's and originator's/sponsor's obligations under the revised CRA Regulation and how the submission of information will work in practice.

**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 E.U. and/or any changes to, including any break up of, the Eurozone), then these matters may cause further severe stress in the financial system generally and/or may adversely affect the U.K. housing market, the issuing entity, one or more of the other parties to the transaction documents (including the seller, the servicer, the account bank, the master issuer account bank and/or the swap providers) and/or any borrower in respect of the underlying loans. Given the current uncertainty and the range of possible outcomes, no assurance can be given as to the impact of any of the matters described above and, in particular, no assurance can be given that such matters would not adversely affect the rights of the noteholders, the market value of the notes, the U.K. housing market, the existence of a secondary market for the notes and/or the ability of the issuing entity to satisfy its obligations under the notes.

Prospective investors should note that, pursuant to a referendum held in June 2016, the UK has voted to leave the European Union and the UK Government invoked article 50 of the Treaty on the European Union relating to withdrawal from the European Union on 29 March 2017 and officially notified the European Union of its decision to withdraw from the European Union. This commenced the formal two-year process of negotiations regarding the terms of the withdrawal and the framework of the future relationship between the UK and the European Union (the article 50 withdrawal agreement). As part of those negotiations, a transitional period has been agreed in principle which would extend the application of European Union law, and provide for continuing access to the European Union single market, until the end of 2020 and possibly longer.

The article 50 withdrawal agreement has not yet been ratified by the UK or the European Union. The parties have agreed to an extended time line which allows for ratification to take place any time prior to 31 October 2019. To the extent ratification does take place ahead of 31 October 2019, the UK would leave on the first date of the month following ratification. However, it remains uncertain whether the article 50 withdrawal agreement, or any alternative agreement, will be finalised and ratified by the UK and the EU ahead of the 31 October 2019 deadline. If that deadline of 31 October 2019 is not met, unless the negotiation period is further extended or the Article 50 notification revoked, the Treaty on the EU and the Treaty on the Functioning of the European Union will cease to apply to the UK and the UK will lose access to the EU single market. Whilst continuing to discuss the article 50 withdrawal agreement and political declaration, the UK Government has commenced preparations for a “hard” Brexit (or “no-deal” Brexit) to minimise the risks for firms and businesses associated with an exit with no transitional agreement. This has included publishing draft secondary legislation under powers provided in the EU (Withdrawal) Act 2018 to ensure that there is a functioning statute book after any exit without a transitional period.

Due to the on-going political uncertainty, it is not currently possible to determine the precise impact that the UK’s departure from the European Union may have on general economic conditions in the UK, including the performance of the UK housing market. It is also not possible to determine the precise impact that these matters will have on the business of the issuing entity (including the performance of the underlying loans), any other party to the transaction documents and/or any borrower in respect of the underlying loans, or on the regulatory position of any such entity or of the transactions contemplated by the transaction documents under EU regulation or more generally.

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

Finally, the EU Referendum has resulted in downgrades of the UK sovereign and the Bank of England by Standard & Poor's and by Fitch. Standard & Poor's, Fitch and Moody's have all placed a negative outlook on the UK sovereign rating and that of the Bank of England, suggesting a strong possibility of further negative rating action. The rating of the sovereign affects the ratings of the entities operating in its territory, and in particular the ratings of financial institutions. Further downgrades may cause downgrades to counterparties on the programme meaning that they cease to have the relevant required ratings to fulfill their roles and need to be replaced. If rating action is widespread, it may become difficult or impossible to replace counterparties on the programme with others who have the required ratings on similar terms or at all. Moreover, a more pessimistic economic outlook for the UK in general could lead to increased concerns around the future performance of the portfolio and accordingly the ability of the issuing entity to pay interest and repay principal to noteholders and the ratings assigned to the notes could be adversely affected.

**Changes or uncertainty in respect of LIBOR and/or EURIBOR and/or interest rate benchmarks may affect the value or payment of interest under the notes**

Various interest rate benchmarks (including the London Inter-Bank Offered Rate (**LIBOR**)) and the Euro Interbank Offered Rate (**EURIBOR**) are the subject of recent national and international regulatory guidance and proposals for reform most recently in the form of the EU Benchmark Regulation (Regulation (EU) 2016/1011) (the **Benchmarks Regulation**).

Under the Benchmarks Regulation, which applied as from 1 January 2018 in general, new requirements apply with respect to the provision of a wide range of benchmarks (including LIBOR and EURIBOR), the contribution of input data to a benchmark and the use of a benchmark within the European Union. In particular, the Benchmarks Regulation will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and to comply with extensive requirements in relation to the administration of benchmarks and (ii) prevent certain uses by EU-supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, deemed equivalent or recognised or endorsed). The scope of the Benchmarks Regulation is wide and, in addition to so-called "critical benchmark" indices, such as LIBOR,

applies to many interest rates, foreign exchange rate indices and other indices where used to determine the amount payable under or the value or performance of certain financial instruments traded on a trading venue (EU regulated market, EU multilateral trading facility, EU organised trading facility) or via a systematic internaliser, certain financial contracts and investment funds.

Based on the foregoing, investors should be aware that any of these reforms or pressures described above or any other changes to a relevant interest rate benchmark (including LIBOR and EURIBOR) could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be. In addition, in July 2017, the FCA announced its intention to discontinue LIBOR and transition away from the benchmark. LIBOR will be sustained until the end of 2021, at which time the benchmark will be discontinued. The Working Group on Sterling Risk-Free Reference Rates has identified the Sterling Overnight Index Average (**SONIA**) as the preferred alternative risk-free rate. SONIA relates exclusively to sterling and is based on historical data, so rates may not be available until the end of a given interest period.

In March 2017, the European Money Markets Institute (formerly Euribor-EBF) (the **EMMI**) published a position paper referring to certain proposed reforms to EURIBOR, which reforms aim to clarify the EURIBOR specification, to develop a transaction based methodology for EURIBOR and to align the relevant methodology with the Benchmarks Regulation, the IOSCO Principles for Financial Benchmarks and other regulatory recommendations. The EMMI is currently developing a hybrid methodology for EURIBOR; the calculation of EURIBOR which is supported by transaction data (where available) but also relies on other techniques or data sources. In July 2019, the EMMI published the Benchmark Statement for the administration of EURIBOR. .

These reforms and other pressures may cause such benchmarks to be discontinued entirely or to perform differently than in the past (as a result of a change in methodology or otherwise), create disincentives for market participants to continue to administer or participate in certain benchmarks or have other consequences which cannot be predicted. Generally, any such modification or potential consequence of the discontinuation of LIBOR or EURIBOR could have a material adverse effect on the value of and return on any of the notes.

Investors should note the various circumstances in which a modification may be made, in respect of notes issued after the date of the date of this base prospectus, to the conditions or any other transaction documents for the purpose of changing the screen rate and such other related or consequential amendments as are necessary or advisable in the reasonable judgment of the master issuer (or the cash manager on its behalf) to facilitate such change (including, but not limited to alignments to the base rate in any related issuing entity swap agreement (a **base rate modification**). These circumstances broadly relate to the disruption or discontinuation of screen rate, but also specifically include, among other things, any public statements by the administrator of the applicable screen rate or certain regulatory bodies that LIBOR or EURIBOR, as applicable, will be discontinued or may no longer be used, and a base rate modification may also be made if the master issuer (or the cash manager on its behalf) reasonably expects any of these events to occur within six months of the proposed effective date of the base rate modification, subject to certain conditions. Investors should note the various circumstances in which a base rate modification may be made in respect of notes issued after the date of this base prospectus, which are specified in condition 11.8 (*Additional Right of Modification*) and should also note the various options permitted as an "**alternative base rate**" specified in condition 11.8.

Investors should also be aware that:

(a) if the screen rate is discontinued or is otherwise permanently unavailable and a base rate modification (as described in the paragraph above) has not been made, then the rate of interest on the notes will be determined for a period by the fall-back provisions provided for under condition 4 (Interest), although such provisions, being dependent in part upon the provision by reference banks of offered quotations for the LIBOR and/or EURIBOR rate, may not operate as intended (depending on market circumstances and the availability of rates information at the relevant time);

(b) while an amendment may be made under condition 11.8 (*Additional Right of Modification*) to change the screen rate on the notes to an alternative base rate under certain circumstances broadly related to LIBOR and/or EURIBOR dysfunction or discontinuation and subject to certain conditions, there can be no assurance that any such amendment will be made or, if made, that it will (i) fully or effectively mitigate interest rate risks or result in an equivalent methodology for determining the interest rates on the notes or (ii) be made prior to any date on which any of the risks described in this risk factor may become relevant (in this regard, please also refer to the risk factor above entitled "**The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents without noteholder consent**"); and

(c) if LIBOR and/or EURIBOR is discontinued, there can be no assurance that the applicable fall-back provisions under any issuing entity swap agreements or the Funding 2 swap agreement would operate so as to ensure that the rate used to determine payments under the issuing entity swap agreements or the Funding 2 swap agreement is the same as that used to determine interest payments under the notes the corresponding loan tranches, or that any such amendment made under condition 11.8 (*Additional Right of Modification*) would be utilised in such a way that the transactions under the issuing entity swap agreements or the Funding 2 swap agreement to effectively mitigate currency or interest rate risks on the notes or the corresponding loan tranches in circumstances where the reference rate used in a issuing entity swap agreement or the Funding 2 swap agreement was no longer aligned with the notes or the loan tranches.

There can be no assurance that any such amendments will be made, or if made, that they will (i) fully mitigate the interest rate risks or result in an effective replacement methodology for determining the reference rate on the notes or (ii) will be made prior to any date on which any of the risks described in this risk factor may become relevant.

In respect of a Benchmark Transition Event on the USD-LIBOR Issue 2019-1 Notes pursuant to Condition 11.8, the benchmark replacement will depend on the availability of various alternative benchmarks, the first of which is term SOFR, the second of which is compounded SOFR, the third of which is the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body, the fourth of which is the ISDA Fallback Rate and the fifth of which is the alternate rate of interest that has been selected by the Designated Transaction Representative. These alternative benchmarks are calculated using components different from those used in the calculation of LIBOR and may fluctuate differently than, and not be representative of, LIBOR. Further, if a compounded SOFR replacement is chosen because term SOFR cannot be determined by the Designated Transaction Representative, if a redetermination of the Benchmark Replacement at a later date would result in the selection of term SOFR as the Benchmark Replacement then it will become the benchmark replacement, which could lead to further volatility in the interest rate on the USD-LIBOR Issue 2019-1 Notes. In order to compensate for these differences in the benchmark, a benchmark replacement adjustment will be included in any benchmark replacement. However, we cannot provide any assurances that any benchmark replacement adjustment will be sufficient to produce the economic equivalent of the then-current benchmark, either at the benchmark replacement date or over the life of the USD-LIBOR Issue 2019-1 Notes. As a result of each of the foregoing factors, we cannot provide any assurances that the characteristics of any benchmark replacement will be similar to the then-current benchmark that it is replacing, or that any benchmark replacement will produce the economic equivalent of the then-current benchmark that it is replacing.

**The market continues to develop in relation to SONIA as a reference rate for floating rate notes**

Investors should be aware that the market continues to develop in relation to the SONIA as a reference rate in the capital markets and its adoption as an alternative to Sterling LIBOR. In particular, market participants and relevant working groups are exploring alternative reference rates based on SONIA, including term SONIA reference rates (which seek to measure the market's forward expectation of an average SONIA rate over a designated term). The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the conditions and used in relation to floating rate notes that reference a SONIA rate issued under this base prospectus. Interest on notes which reference a SONIA rate is only capable of being determined at the end of the relevant observation period and immediately prior to the relevant interest payment date. It may be difficult for investors in notes which reference a SONIA rate to reliably estimate the amount of interest which will be payable on such notes. Further, if the floating rate notes become due and payable under conditions 9 (Events of Default) or 10 (Enforcement of Notes), the rate of interest payable shall be determined on the date the notes became due and payable and shall not be reset thereafter. Investors should consider these matters when making their investment decision with respect to any such floating rate notes.

**The Secured Overnight Financing Rate used to calculate SOFR may be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in the notes.**

The Secured Overnight Financing Rate is published by the Federal Reserve Bank of New York (the **Federal Reserve**) and is intended to be a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The Federal Reserve reports that the Secured Overnight Financing Rate includes all trades in the Broad General Collateral Rate, plus bilateral Treasury repurchase agreement transactions cleared through the delivery-versus-payment service offered by the Fixed Income Clearing Corporation (the **FICC**), a subsidiary of the Depository Trust and Clearing Corporation (**DTCC**). The Secured Overnight Financing Rate is filtered by the Federal Reserve to remove a portion of the foregoing transactions considered to be "specials".

The Federal Reserve reports that the Secured Overnight Financing Rate is calculated as a volume-weighted median of transaction-level tri-party repurchase agreement data collected from The Bank of New York Mellon as well as General Collateral Finance repurchase agreement transaction data and data on bilateral Treasury repurchase transactions cleared through the FICC's delivery-versus-payment service. The Federal Reserve notes that it obtains information from DTCC Solutions LLC, an affiliate of DTCC. The Federal Reserve notes on its publication page for the Secured Overnight Financing Rate that use of the Secured Overnight Financing Rate is subject to important limitations and disclaimers, including that the Federal Reserve may alter the methods of calculation, publication schedule, rate revision practices or availability of the Secured Overnight Financing Rate at any time without notice.

Because Secured Overnight Financing Rate is published by the Federal Reserve based on data received from other sources, the issuing entity has no control over its determination, calculation or publication. There can be no guarantee that the Secured Overnight Financing Rate will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in floating rate notes linked to SOFR. If the manner in which the Secured Overnight Financing Rate is calculated is changed, that change may result in a reduction of the amount of interest payable on the notes and the trading prices of such notes. If the rate at which interest accrues on any day declines to zero or becomes negative, no interest will be payable on such notes in respect of that day.

The Federal Reserve began to publish the Secured Overnight Financing Rate in April 2018. The Federal Reserve has also begun publishing historical indicative Secured Overnight Financing Rates going back to 2014. Investors should not rely on any historical changes or trends in the Secured Overnight Financing Rate as an indicator of future changes in the Secured Overnight Financing Rate. Also, since the Secured Overnight Financing Rate is a relatively new market index, the notes will likely have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities indexed to the Secured Overnight Financing Rate, such as the spread over the index reflected in interest rate provisions, may evolve over time, and trading prices of the notes may be lower than those of later-issued indexed debt securities as a result. Similarly, if the Secured Overnight Financing Rate does not prove to be widely used in securities like the notes, the trading price of the notes linked to SOFR may be lower than those of notes linked to indices that are more widely used. Investors in the notes may not be able to sell such notes at all or may not be able to sell such notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

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

Other credit rating agencies that have not been engaged to rate the notes by the issuing entity may issue unsolicited credit ratings on the notes at any time, in each case relying on information they receive pursuant to Rule 17g-5 under the Exchange Act, or otherwise. Any unsolicited ratings in respect of the notes may differ from the ratings expected to be assigned by Fitch, Moody's and S&P and may not be reflected in any final terms or drawdown prospectus. Issuance of an unsolicited rating which is lower than the ratings assigned by Fitch, Moody's or S&P in respect of the notes may adversely affect the regulatory characteristics, market value, and/or the liquidity of the notes. Although unsolicited ratings may be issued by any rating agency, a rating agency might be more likely to issue an unsolicited rating if it was not selected after having provided preliminary feedback to the issuing entity.

The issuing entity intends to engage at least one of Moody's, Fitch and/or S&P to rate each series of notes. There can be no assurance that, were the issuing entity to select other rating agencies to rate the notes, the ratings that such rating agencies would have ultimately assigned to such notes would be equivalent to those assigned by Moody's, Fitch and/or S&P, as applicable. Neither the issuing entity nor any other person or entity will have any duty to notify you if any other nationally recognised statistical rating organisation issues, or delivers notice of its intention to issue, unsolicited ratings on one or more classes of the notes after the relevant closing date.

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

The terms of certain transaction documents require that certain actions proposed to be taken by the mortgages trustee, the Funding 2 security trustee, the issuing entity security trustee, the note trustee, Funding 2, the issuing entity or certain other parties to the transaction documents may not proceed unless each of the rating agencies confirms that the proposed action will not have an adverse effect on its then ratings of the then outstanding notes (a **ratings confirmation**).

By acquiring the notes, you acknowledge and agree that, notwithstanding the foregoing, a credit rating is an assessment of credit risk and does not address other matters that may be of relevance to you. A ratings confirmation 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 prejudicial to, you. While each of the Funding 2 secured creditors and the issuing entity secured creditors (including the noteholders) are entitled to have regard to a ratings confirmation, the above does not impose or extend any actual or contingent liability on the rating agencies to the Funding 2 secured creditors or the issuing entity secured creditors (including the noteholders), the mortgages trustee, the Funding 2 security trustee, the issuing entity security trustee, the note trustee or any other parties to the transaction documents or create any legal relationship between the rating agencies and the Funding 2 secured creditors, the issuing entity secured creditors (including the noteholders), the mortgages trustee, the Funding 2 security trustee, the issuing entity security trustee, the note trustee or any other parties to the transaction documents 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 rating agency confirmation in the time available or at all and the rating agency should not be responsible for the consequences thereof. A ratings confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time and in the context of cumulative changes to the transaction of which the notes form part since the relevant closing date. A ratings confirmation represents only a restatement of the opinions given as at the relevant time and cannot be construed as advice for the benefit of any parties to the transaction.

In accordance with Condition 16 under "**Terms and conditions of the notes**" below if (a) a confirmation of rating or other response by a rating agency is a condition to any action or step under any transaction document (other than pursuant to Condition 11 under "**Terms and conditions of the notes**" below), (b) a written request for such confirmation or response is delivered to each rating agency by the issuing entity and either one or more rating agency (each a **non-responsive rating agency**) indicates that it does not consider such confirmation or response necessary in the circumstances and (c) at least one rating agency gives such a confirmation or response based on the same facts, then such condition shall be deemed to be modified with respect to the facts set out in the request referred to in (b) so that there will be no requirement for the confirmation or response from the non-responsive rating agency.

## 8. LEGAL AND REGULATORY RISKS RELATING TO THE UNDERLYING ASSETS

***Regulation of residential secured lending***

The UK government had a policy commitment to move second charge lending into the regulatory regime for mortgage lending, replacing the regime for consumer credit under which second charge lending previously fell. The UK government concluded there was a strong case for regulating lending secured on a borrower's home consistently, regardless of whether it is secured by a first or subsequent charge. The Mortgage Credit Directive also follows this principle and makes no distinction between requirements for first charge and second (and subsequent) charge mortgage lending. The UK government therefore concluded that it made sense to implement changes to second (and subsequent) charge lending alongside the implementation of the Mortgage Credit Directive. Mortgage regulation under FSMA began on 31 October 2004. Mortgages entered into before that date were regulated by the CCA, provided they did not exceed the financial threshold in place when they were entered into and were not otherwise exempt. Consequently, in November 2015, the UK government made legislation the effect of which was that the administration of and other activities relating to pre-October 2004 first charge mortgages which at that time were regulated by the CCA became regulated mortgage activities from 21 March 2017, although firms could have adopted the new rules from 21 March 2016 if they chose. The move of CCA regulated mortgages to the FSMA regime was implemented by the Mortgage Credit Directive Order 2015 on 21 March 2016 (the **Mortgage Credit Directive Order**). The government put in place transitional provisions for existing loans so that some of the CCA protections in place when the loans were originally taken out were not removed retrospectively.

Credit agreements which were originated before 21 March 2016 which were regulated by the CCA and that would have been regulated mortgage contracts had they been entered into on or after 21 March 2016 are defined by the Mortgage Credit Directive Order as "consumer credit back book mortgage contracts" and are now regulated mortgage contracts. The main CCA consumer protection retained in respect of consumer credit back book mortgage contracts is the continuing unenforceability of the agreement if it was rendered unenforceable by the CCA prior to 21 March 2016. Unless the agreement was irredeemably unenforceable, the lender may enforce the agreement by seeking a court order or bringing any relevant period of non-compliance with the CCA to an end in the same manner as would have applied if the agreement were still regulated by the CCA. If a consumer credit back book mortgage contract was void as a result of section 56(3) of the CCA, that

agreement or the relevant part of it will remain void. Restrictions on early settlement fees will also be retained. If interest was not chargeable under a consumer credit back book mortgage contract due to non-compliance with section 77A of the CCA (duty to serve an annual statement) or section 86B of the CCA (duty to serve a notice of sums in arrears (NOSIA)), once the consumer credit back book mortgage contract became regulated by FSMA under the Mortgage Credit Directive Order as of 21 March 2016, the sanction of interest not being chargeable under section 77A of the CCA and section 86D of the CCA ceased to apply, but only for interest payable under those loans after 21 March 2016. A consumer credit back book mortgage contract will also be subject to the unfair relationship provisions described below (see "**Unfair Relationships**"). Certain provisions of MCOB are applicable to these consumer credit back book mortgage contracts. These include the rules relating to disclosure at the start of a contract and post-sale disclosure (MCOB 7), charges (MCOB 12) and arrears, payment shortfalls and repossessions (MCOB 13). General conduct of business standards will also apply (MCOB 2). This process is subject to detailed transitional provisions that are intended to retain certain customer protections in the FCA's Consumer Credit Sourcebook (**CONC**) and the CCA that are not contained within MCOB.

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

This regulatory regime may result in adverse effects on the enforceability of certain loans and consequently the issuing entity's ability to make payment in full on the issuing entity notes when due.

**Unfair relationships**

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

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

In March 2017, the FCA published final rules and guidance with respect to payment protection insurance complaints in light of *Plevin*. The rules will not apply to borrowers with regulated mortgage contracts. The FCA rules came into force on 29 August 2017 and required that firms that sold payment protection insurance (PPI) must write to previously rejected mis-selling complainants who are eligible to complain again in light of *Plevin* in order to explain this to them by 29 November 2017. The FCA rules state that if the anticipated profit share and commission or the likely range of profit share and commission on a PPI contract was not disclosed to the borrower before the PPI contract was entered into, the firm should consider whether it can satisfy itself on reasonable grounds that an unfair relationship did not arise. A firm should make a rebuttable presumption that failure to disclose commission gave rise to an unfair relationship if the anticipated profit share plus the commission known or reasonably foreseeable at the time of sale was, in relation to a single premium payment protection contract, more than 50% of the total amount paid in relation to the PPI contract or in the case of a regular premium PPI contract, at any time in the relevant period or periods more than 50% of the total amount paid in relation to the PPI contract in respect of the relevant period or periods. The FCA cites, amongst others, an example of such presumption being rebutted by the lender not having known and not being

reasonably expected to have known or foreseen the level of commission and anticipated profit share. Where the firm concludes that the non-disclosure of commission on a PPI contract has given rise to an unfair relationship, the firm should remedy the unfairness by paying the complainant a sum equal to the total commission paid by the complainant for PPI plus an amount representing any profit share payment, minus 50% of the total amount paid by the complainant for the PPI (the **Compensation Sum**). The firm should also repay interest received by it in relation the Compensation Sum (which is the interest the complainant paid as a result of the Compensation Sum being included in the loan), where relevant and also pay simple interest on the whole amount.

An alternative dispute resolution scheme for consumer credit matters is run by the FOS and was established on April 2007. The scheme is mandatory for all authorised businesses. The FCA has a wide range of disciplinary, criminal and civil powers under FSMA to take actions against authorised firms who fail to comply with regulatory requirements, including power to withdraw authorisations, ban firms from financial services, suspend firms or individuals for 12 months and issue unlimited fines.

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

On 24 April 2017, the FCA issued finalised guidance relating to issues arising from automatic capitalisation of arrears, in particular in cases where lenders both add arrears to an account balance (and as result readjust the amount of regular payments due under the loan) and keep a separate record of the borrower's arrears and seek separate (and additional) payment of those arrears. In the finalised guidance, the FCA state that they expect FCA authorised firms to ensure this practice ceases and to carry out remediation where appropriate. The review period for remediation begins from 25 June 2010 and the FCA expects all remediation programmes to be concluded by 30 June 2018.

The FCA have proposed a framework for remediation and in broad terms the FCA expect borrowers to be compensated for any incorrectly charged fees and interest and, where fees have been paid by the customer, an affected customer may receive compensation in the form of simple interest of 8 per cent. per annum. Affected customers may also receive compensation in the form of simple interest of 8 per cent. per annum on any "overpayments", i.e. any actual payments of monthly payments in excess of those which would have been required to pay off the arrears had there been no automatic capitalisation. Firms using the remediation framework will only reconstitute mortgage accounts where at least one automatic capitalisation resulted in an additional payment greater than £10 per month. Use of the framework is not mandatory, but the FCA expect firms to determine a remediation approach to achieve fair outcomes for the affected customers.

Where any remediation is required or borrowers bring claims in connection with their loans in respect of an automatic capitalisation, such remediation and claims, and any set-off by borrowers in respect of such claims against the amount due by the borrowers under the relevant loans, may adversely affect the ultimate amount received by the issuing entity in respect of the relevant loans.

***Mortgage Repossession***

The pre-action protocol for repossession based on mortgage or home purchase plan arrears in respect of residential property in England and Wales came into force on 19 November 2008. The protocol sets out the steps that judges will expect any lender to take before starting a claim. A number of mortgage lenders, including the seller, have confirmed that they will delay the initiation of repossession action for at least six months after a borrower, who is an owner-occupier, is in arrears. The application of such a moratorium may be subject to the wishes of the relevant borrower and may not apply in cases of fraud.

These protocols may have adverse effects in markets experiencing above average levels of possession.

***Home Owner and Tenant Protection***

The Home Owner and Debtor Protection (Scotland) Act 2010 (the **2010 Act**) enacted by the Scottish Parliament contains provisions imposing additional requirements on heritable creditors (the Scottish equivalent to mortgagees) in relation to the enforcement of standard securities over residential property in Scotland. The 2010 Act amends the Conveyancing and Feudal Reform (Scotland) Act 1970, which permitted a heritable creditor to proceed to sell the secured property where the formal notice calling up the standard security had expired without challenge (or where a challenge had been made but not upheld). In terms of the 2010 Act, the heritable creditor is required to obtain a court order to exercise its power of sale, unless the borrower and any

other occupiers have surrendered the property voluntarily. In addition, the 2010 Act requires the heritable creditor in applying for a court order to demonstrate that it has taken various preliminary steps to attempt to resolve the borrower's position, as well as imposing further procedural requirements. This may restrict the ability of the seller (or, if it has taken legal title, the mortgages trustee) as heritable creditor of the Scottish mortgages to exercise its power of sale, and this may adversely affect the issuing entity's ability to make payments in full when due on the notes.

The Mortgage Repossessions (Protection of Tenants etc.) Act 2010 came into force on 1 October 2010. The Act gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. The lender has to serve notice at the property before enforcing a possession order.

The above-mentioned Acts may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the loans may result in lower recoveries and may adversely affect the ability of the issuing entity to repay the notes. Where such a period of grace is afforded it may affect the amount recovered and may result in such recovery being less than may otherwise be the case if, for example, the property sells for less than the amount of the outstanding loan.

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

The FSA has consulted on strengthening rules and guidance on, inter alia, affordability assessments, product regulation, arrears charges and responsible lending. The FSA's aim was to ensure the continued provision of mortgage credit for the majority of borrowers who can afford the financial commitment of a mortgage, while preventing a re-emergence of poor lending practices as the supply of mortgage credit in the market recovered. In October 2012, the FSA published a feedback statement and final rules that generally came into force on 26 April 2014 with transitional arrangements where, among other things, the borrower does not take on additional borrowing. These rules have, for example, imposed more stringent requirements on lenders to assess the affordability of a loan made to a borrower and to verify the income of a borrower.

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

The FCA started to track firms' progress towards implementation of the mortgage market review from the second quarter of 2013 and has undertaken reviews and studies and published related reports concerning the quality and suitability of mortgage advice provided by firms, on responsible lending and consumers' ability to make effective choices in the first charge residential market. This is in addition to regulatory reforms which were made as a result of the implementation of the Mortgage Credit Directive from 21 March 2016. It is possible that further changes may be made to the FCA's MCOB rules as a result of these reviews and other related future regulatory reforms. To the extent that any new rules do apply to any of the mortgage loans, failure to comply with these rules may entitle a borrower to claim damages for loss suffered or set-off the amount of the claim against the amount owing under the loan. Any such claim or set-off may reduce the amounts available to meet the payments due in respect of the issuing entity notes.

Any further changes to the FCA's MCOB rules or the FSMA or changes in the regulatory structure or the Financial Services Act 2012, may adversely affect the loans, the seller, the issuing entity, the servicer and their respective businesses and operations.

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

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

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

respect of the supplier and the financial service, contractual terms and conditions, and whether or not there is a right of cancellation.

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

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

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

If a significant portion of the loans in the mortgages trust are characterised as being cancellable under the DM Regulations, then there could be an adverse effect on the issuing entity's receipts in respect of the loans, affecting the issuing entity's ability to make payments on the notes.

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

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

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

The UTCCR and the CRA provide that a consumer (which would include a borrower under all or almost all of the Loans) may challenge a term in an agreement on the basis that it is "unfair" within the UTCCR or the CRA as applicable and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term) and provide that a regulator may take action to stop the use of terms which are considered to be unfair.

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

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

On 12 January 2016, the FCA and the Competition and Markets Authority (the **CMA**) entered into a memorandum of understanding in relation to consumer protection (the **MoU**) which stated that the CMA may consider fairness, but will not usually expect to do so, where the firm concerned is an authorised firm or an

authorised representative under FSMA. Further, the MoU stated that the FCA will consider fairness within the meaning of the CRA and the UTCCR of standard terms, and the CRA of negotiated terms, in financial services contracts issued by authorised firms of appointed representatives, when such firms or representatives are undertaking any regulated activity (as specified in Part II of the RAO), in the UK. In this MoU 'authorised' includes having an interim permission and a 'relevant permission' includes an interim permission. This will include contracts for

- mortgages and the selling of mortgages;
- insurance and the selling of insurance;
- bank, building society and credit union accounts;
- life assurance;
- pensions;
- investments;
- consumer credit;
- consumer hire; and
- other credit-related regulated activities.

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

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

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

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

On 19 December 2018, the FCA published finalised guidance: “Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015” (FG 18/7), outlining factors the FCA consider firms should have regard to when drafting and reviewing variation terms in consumer contracts. This follows developments in case law, including at the Court of Justice of the EU. The finalised guidance relates to all financial services consumer contracts entered into since 1 July 1995. The FCA stated that firms should consider both this guidance and other rules that apply when they draft and use variation terms in their consumer contracts. The FCA stated that the finalised guidance will apply to FCA authorised persons and their appointed representative in relation to any consumer contracts which contain variation terms.

The guidance issued by the regulators has changed over time and it is possible that it may change in the future. No assurance can be given that any such changes in guidance on the UTCCR and CRA, or reform

of the UTCCR and the CRA, will not have a material adverse effect on the seller, the servicer and the issuing entity and their respective businesses and operations. This may adversely affect the ability of the issuing entity to make payments in full on the issuing entity notes when due.

***Consumer Rights Act 2015***

The main provisions of the CRA came into force on 1 October 2015. The CRA significantly reforms and consolidates consumer law in the UK. The CRA involves the creation of a single regime out of the Unfair Contract Terms Act 1977 (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR for contracts entered into on or after 1 October 2015. The CRA has revoked the UTCCR in respect of contracts made on or after 1 October 2015 and introduced a new regime for dealing with unfair contractual terms as follows:

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

A term of a consumer contract which is not on the "grey list" may not be assessed for fairness to the extent that (i) it specifies the main subject matter of the contract; and/or (ii) the assessment is of the appropriateness of the price payable under the contract by comparison with the goods, digital content or services supplied under it, provided it is transparent and prominent.

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

The Unfair Contract Terms and Consumer Notices Regulation Guide (UNFCOG in the FCA handbook) explains the FCA's policy on how it uses its powers under the CRA and the CMA published guidance on the unfair terms provisions in the CRA on 31 July 2015 (the **CMA Guidance**). The CMA indicated in the CMA Guidance that the fairness and transparency provisions of the CRA are regarded to be "effectively the same as those of the UTCCR". The document further notes that "the extent of continuity in unfair terms legislation means that existing case law generally, and that of the Court of Justice of the European Union particularly, is for the most part as relevant to the Act as it was the UTCCRs."

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 and the issuing entity and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the loans.

***Non-Disclosure of Broker Commissions***

Certain of the loans may also have been originated through such intermediaries, including mortgage brokers and mortgage advisers. In line with market practice, the originators paid commission to such intermediaries in consideration for such activities in the form of a procuration fee. The standard loan offer documents for a number of such loans specified the fact and amount of commission, however the standard loan offer documents of a number of such other loans were either silent as to broker commissions or contained a statement that an introductory fee based on a percentage of the gross loan will be paid to the intermediary

following completion. Where only the existence but not the amount of the commission was disclosed to a borrower then, depending on the circumstances of the case, that borrower may have a claim against the relevant legal title holder of the affected loan. If such claim was successful, it is likely that a court would order payment to such borrower of the amount of commission paid in respect of the affected loan together with interest on that amount (although the court does have discretion as to the remedy that it would award the borrower in the circumstances), whereas the award is likely to be greater where there was a failure to disclose the existence of the commission to a borrower.

***United Kingdom implementation of the Unfair Commercial Practices Directive 2005 may have a material adverse effect on the loans and accordingly on the ability of the issuing entity to make payments to the holders of the notes***

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

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

The Unfair Practices Directive has been implemented in the UK through the Consumer Protection from Unfair Trading Regulations 2008 (the **CPUTR**), which came into force on 26 May 2008. The CPUTR prohibits certain practices which are deemed to be "*unfair*". Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but it is a criminal offence punishable by a fine and/or imprisonment. The possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreement may result in irrecoverable losses on amounts to which such agreements apply. The CPUTR did not originally provide consumers with a private act of redress. Instead, consumers must rely on existing private law remedies based on the law of misrepresentation and duress. However, the Consumer Protection (Amendment) Regulations 2014 (SI 870/2014) was laid before Parliament on 1 April 2014 and came into force on 1 October 2014. In certain circumstances, these amendments to the CPUTR give consumers a right to redress for misleading or aggressive commercial practices (as defined in the CPUTR), including a right to unwind agreements.

In addition, the Unfair Practices Directive is taken into account in reviewing its rules under the FSMA. For example, MCOB rules for regulated mortgage contracts from 25 June 2010 (formerly these were matters of non-binding guidance) prevent the lender from: (a) repossessing the mortgaged property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of the term, or a change in product type; and (b) automatically capitalising a payment shortfall.

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

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

Under the FSMA, the Financial Ombudsman Service (the **Ombudsman**), an independent adjudicator, is required to make decisions on, inter alia, complaints relating to the activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all the circumstances of the case, taking into account, inter alia, law and guidance, rather than making determinations strictly on the basis of compliance with law. Transitional provisions exist by which certain complaints relating to breach of the Mortgage Code occurring before the Regulation Effective Date may be dealt with by the Ombudsman. Complaints properly brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case is first adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman. As the Ombudsman is required to make decisions on the basis of, inter alia, the principles of fairness, and may order a money award to the borrower, it is not possible to predict how any future decision of the Ombudsman would affect the issuing entity's ability to make payments in full on the issuing entity notes when due.

***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 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 assignation of a standard security (which would extend to any assignation granted by the seller in favour of the mortgages trustee in respect of Scottish mortgages in the 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.

Registers of Scotland published a report on 15 February 2015 stating that for the time being, other deeds such as assignations of standard securities (including Scottish Sasine Transfers) will continue to be accepted in the General Register of Sasines indefinitely although 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 assignations of standard securities under the same provisions 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.

***Scotland Act 2016***

On 23 March 2016 the Scotland Act 2016 received Royal Assent and passed into UK law. Amongst other things, the Scotland Act 2016 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 and Wales, which may affect some Borrowers' ability to pay amounts when due on the Loans originated in Scotland, and which, in turn, may adversely affect the ability of the issuing entity to make payments under the notes.

## 9. LEGAL AND REGULATORY RISKS RELATING TO THE STRUCTURE AND THE NOTES

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

The structure of the mortgages trust and the ratings of the notes are based on English law, UK tax law and HM Revenue and Customs published practice and (in relation to the Scottish loans) Scots law in effect as at the date of this base prospectus. The transactions described in this base prospectus (including the issuance of the notes) and the ratings which are to be assigned to the notes are based on the relevant law and administrative practice in effect as at the date hereof, and having regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to the impact of any possible change to the law (including any change in regulation which may occur without a change in primary legislation), administrative practice or tax treatment after the date of this base prospectus nor can any assurance be given as to whether any such change would adversely affect the ability of the issuing entity to make payments under the notes. In addition, it should be noted that regulatory requirements (including any applicable retention, due diligence or disclosure obligations) may be recast or amended and there can be no assurance that any such changes will not adversely affect the compliance position of a transaction described in this base prospectus or of any party under any applicable law or regulation.

***Regulatory initiatives and reforms may have an adverse impact on the regulatory treatment of the notes***

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory position for

certain investors in securitisation exposures and/or the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the notes are responsible for analysing their own regulatory position and none of the issuing entity, the arranger, any dealer, any manager or the seller makes any representation to any prospective investor or purchaser of the notes regarding the regulatory treatment of their investment in the notes on the relevant closing date or at any time in the future.

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

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

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

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

The changes approved, and the further changes being considered, by the Basel Committee and those in the process of implementation by European authorities may have an impact on incentives to hold the notes for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the notes. It should also be noted that changes to regulatory capital requirements are coming for insurance and reinsurance undertakings through national initiatives, such as the Solvency II framework in Europe.

It should be noted that the European authorities have adopted and finalised two new regulations related to securitisation (being Regulation (EU) 2017/2401 and Regulation (EU) 2017/2402 (the **Securitisation Regulation**)) which applied in general from 1 January 2019. Amongst other things, the regulations include provisions intended to implement the revised securitisation framework developed by BCBS (with adjustments) and provisions intended to harmonise and replace the risk retention and due diligence requirements (including the corresponding guidance provided through technical standards) applicable to certain EU regulated investors. There are material differences between the new requirements and the previous requirements including with respect to the certain matters to be verified under the due diligence requirements, as well as with respect to the application approach (i.e. direct application versus indirect application) and the originator entities eligible to retain the required interest. Further differences may arise under the corresponding guidance which applies under the new risk retention requirements, which guidance is made through new technical standards. In general, the new regulations (including the retention and due diligence requirements) apply to securitisations the securities of which are issued on or after the application date of 1 January 2019, including securitisations established prior to the date where further securities are issued on or after 1 January 2019. Accordingly, the new requirements will apply to an issuance of notes on or after the application date.

Investors should be aware of the 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 as a result of the Securitisation Regulation. Amongst other things, such requirements restrict a relevant investor from investing in asset-backed securities unless (i) that investor is able to demonstrate that it has undertaken certain due diligence in respect of various matters including its note position, the underlying assets and (in the case of certain types of investors) the relevant sponsor or originator and (ii) the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the investor that it will retain, on an on-going basis, a net economic interest of not less than 5% in respect of certain specified credit risk tranches or asset exposures. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a penal capital charge on the notes acquired by the relevant investor. Aspects of the requirements and what is or will be required to demonstrate compliance to national regulators remain unclear.

The risk retention and due diligence requirements described above apply, in respect of the notes. With respect to the commitment of the seller to retain a material net economic interest in the securitisation and with respect to the information to be made available by the issuing entity or another relevant party (or by the seller in its capacity as the servicer or the cash manager on the issuing entity's behalf), please see the statements set out under "**Certain Regulatory Requirements—Securitisation Regulation requirements**" below. Relevant investors are required to independently assess and determine the sufficiency of the information described above for the purposes of complying with any relevant requirements and none of the issuing entity, the arranger, any dealer, any manager or the seller makes any representation that the information described above is sufficient in all circumstances for such purposes.

All investors whose investment activities are subject to investment laws and regulations, regulatory capital requirements, or review by regulatory authorities (including the introduction or proposal of risk retention rules) should consult with their own legal, accounting and other advisors in determining whether, and to what extent, the notes are subject to investment or other restrictions, unfavourable accounting treatment, capital charges or reserve requirements.

In addition, the Securitisation Regulation (and in particular, Article 7 of the Securitisation Regulation) imposes certain enhanced disclosure requirements in respect of all securitisation transactions. As of the date of this base prospectus, the final ESMA disclosure templates to be completed in accordance with Article 7 of the Securitisation Regulation were not available. Therefore in accordance with the transitional provisions, compliance with Article 7 of the Securitisation Regulation shall be satisfied using the CRA III templates (until the final approval of the ESMA templates is available) and is subject to a joint statement published on 30 November 2018 by ESMA and the other European supervisory authorities sought to provide some comfort that competent authorities should use their supervisory powers in relation to the interim requirements for reporting under Articles 7(1)(a) and (e) in a proportionate and risk-based manner. However, it is not possible to predict the manner, if any, in which competent authorities will take account of the joint statement when exercising powers under the EU Securitisation Regulation. The date of publication of the final ESMA disclosure templates, and the process for their implementation, including the availability of any transitional period or grandfathering for securitisation transactions that closed prior to such publication date is unclear, and it may, amongst other things, adversely affect the ability of the issuing entity (as the designated entity responsible for compliance with Article 7 of the Securitisation Regulation) and the seller, and thus the transactions contemplated by this Base Prospectus, to comply with the Securitisation Regulation.

Prospective investors should, make themselves aware of the changes and requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the notes. The matters described above and any other changes to the regulation or regulatory treatment of the notes for some or all investors may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the notes in the secondary market.

***Simple, Transparent and Standardised Securitisations (STS)***

The new regime under, the Securitisation Regulation sets out the new criteria and procedures applicable to EU securitisations seeking the designation as "simple, transparent and standardised" (**STS**) securitisations, and includes provisions that harmonise and replace the risk retention and due diligence requirements applicable to certain EU-regulated investors. If the Securitisation Regulation regime applies with respect to the issuance of a series of notes, then certain EU-regulated investors are restricted from investing in such notes unless that investor is able to demonstrate that it has undertaken certain due diligence assessments and verified various matters (see "Regulatory initiatives may have an adverse impact on the regulatory treatment of the notes" above).

The seller, in its capacity as originator for the purposes of the Securitisation Regulation, may procure an STS notification (an **STS notification**) to be submitted to ESMA in accordance with Article 27 of the Securitisation Regulation, and to the FCA, that the requirements of Articles 19 to 22 of the Securitisation Regulation (the **STS requirements**) have been satisfied with respect to the issuance of a series of notes. The originator is aware of is obligations in respect of, and the process for, a submission of an STS notification. In the event that the originator makes an STS notification with respect to a series of notes, no assurance can be given that such series of notes meeting the STS requirements applicable at the time of such STS notification will remain compliant because the STS requirements may change over time. In addition, (i) no assurance can be given on how competent authorities will interpret and apply the STS requirements, (ii) any international or national regulatory guidance may be subject to change following the initial STS notification, and (iii) related regulations such as the Capital Requirements Regulation and the LCR Regulation are subject to change and, therefore, what is or will be required to demonstrate compliance with the STS requirements to national regulators remains unclear. Notes issued under the Programme are not yet under the subject of an STS notification (as defined in the Securitisation Regulation) and thus do not appear on the list of STS Securitisations. Whilst the consequences of such lack of STS status are unclear, it may, amongst other things, adversely affect the liquidity and/or value of the notes.

In addition, following any withdrawal of the UK from the European Union, the Securitisation Regulation and other related regulations are expected to be adopted into UK law (and subject to the publication of national regulatory guidance), and, therefore, any series of notes which satisfied the STS requirements as adopted by the EU at the time the initial STS notification was published by ESMA may no longer satisfy such requirements under EU law and/or UK law, as applicable. The STS status of any series of notes is not static and prospective investors should verify the current status of such notes on ESMA's website. Investors need to make their own independent assessment of the impact on the capital treatment of any series of notes which satisfied the STS requirements under EU law on issuance but which no longer satisfy such requirements following any withdrawal of the UK from the European Union.

Failure by an investor to comply with any due diligence requirements applicable to it will 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.

With respect to an STS notification, the seller may or may not obtain an assessment of compliance of the relevant notes with the STS requirements, as well as with relevant provisions of Article 243 and Article 270 of the Capital Requirements Regulation and/or Article 7 and Article 13 of the LCR Regulation (an **STS assessment**), from a third party verification agent authorised under Article 28 of the Securitisation Regulation (an **authorised verification agent**). If an authorised verification agent is appointed to prepare an STS assessment with respect to any notes issued under the programme, the name of such agent will be disclosed in the relevant STS notification (and relevant final terms) and the corresponding STS assessment will be publicly available. It is important to note that the involvement of an authorised verification agent is not mandatory and the responsibility for compliance with the Securitisation Regulation remains with the relevant institutional investors, originators, sponsors, funding entities and issuers, as applicable in each case. An STS assessment will not absolve such entities from making their own assessments with respect to the Securitisation Regulation, the relevant provisions of Article 243 and Article 270 of the Capital Requirements Regulation and/or Article 7 and Article 13 of the LCR Regulation, and an STS assessment cannot be relied on to determine compliance with the foregoing regulations in the absence of such verifications by the relevant entities. Further, an STS assessment is not an opinion on the creditworthiness of the relevant notes or on the level of risk associated with an investment in the relevant notes. It is also not an indication of the suitability of the relevant notes for any investor and/or a recommendation to buy, sell or hold notes. Institutional investors that are subject to the due diligence requirements of the Securitisation Regulation need to make their own independent assessment and may not solely rely on any STS assessment, the STS notification or other disclosed information.

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

Legislation and regulations adopted by the United States federal government following the financial crisis continue to create uncertainty in the credit and other financial markets. These actions include, but are not limited to, the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the **Dodd-Frank Act**), which imposed a new regulatory framework over the U.S. financial services industry and the consumer credit markets in general, and the adoption of its related regulations. In addition, there is also uncertainty regarding the nature and timing of additional regulations that are required under the Dodd-Frank Act but have yet to be promulgated. Given the broad scope and sweeping nature of these changes, significant unresolved questions regarding the proper application of the regulations that have been adopted and the fact that final implementing rules and regulations have not yet in certain cases been enacted or come into effect, the potential impact of these actions on the issuing entity, any of the issuing entity notes or any owners of interests in the issuing entity notes is unknown, and no assurance can be made that the impact of such changes would not have a material adverse effect on the prospects of the issuing entity or the value or marketability of the issuing entity notes. In particular, if existing transactions are not exempted from any such new rules or regulations, the costs of compliance with such rules and regulations could have a material adverse effect on the issuing entity and the noteholders.

Pursuant to the Dodd-Frank Act, regulators in the United States have promulgated or are expected to promulgate a range of new regulatory requirements that may affect the pricing, terms, funding and compliance costs associated with swap transactions and the availability of such swap transactions that may be entered into by the issuing entity from time to time. The Dodd-Frank Act also significantly expands the coverage and scope of regulations that limit affiliate transactions within a banking organisation, including coverage of the credit exposure on derivatives transactions, repurchase and reverse repurchase agreements and securities borrowing and lending transactions. Some or all of the issuing entity's swap agreements may be affected by (i) requirements for central clearing with a derivatives clearinghouse organisation, (ii) initial or variation margin requirements of clearing organisations or initial or variation margin requirements with respect to uncleared swaps and (iii) swap reporting and recordkeeping obligations, and other matters. These new requirements may significantly increase the cost to the issuing entity of entering into swap transactions, have unforeseen legal consequences on the issuing entity or have other material adverse effects on the issuing entity or the noteholders.

Furthermore, regulations requiring the posting of variation margin on uncleared swaps entered into by entities such as the issuing entity went into effect in the United States on 1 March 2017. The application of US regulations to a swap transaction or a proposed swap transaction could have a material adverse effect on the issuing entity's ability to hedge its interest and currency rate exposure, or on the cost of such hedging.

The final regulations implementing Section 619 of the Dodd-Frank Act (commonly referred to as the **Volcker Rule**) generally prohibit "banking entities" (broadly defined to include U.S. banks, bank holding companies and foreign banking organizations, together with their respective subsidiaries and other affiliates) from (i) engaging in proprietary trading, (ii) acquiring or retaining an ownership interest in, or sponsoring, a "covered fund", and (iii) entering into certain relationships with such funds, subject to certain exceptions and exclusions. See "**The notes**" on the cover of this base prospectus for information on the issuing entity's status under the Volcker Rule. On 30 May 2018, the Federal Reserve and other federal regulators requested comment on proposed modifications to the Volcker Rule, including modifications to the scope of restrictions on proprietary trading and investments in covered funds. It cannot be predicted at this time what, if any, modifications to the Volcker Rule may be adopted or what the impact of such changes will be. Any prospective investor in any issuing entity notes, including a U.S. or foreign bank or a subsidiary or other affiliate thereof, should consult its own legal advisors regarding the effect of the Volcker Rule.

**U.S. Credit Risk Retention**

In the United States, on 21 October 2014, the FDIC, the Federal Housing Finance Agency (the **FHFA**) and the Office of the Comptroller of the Currency (the **OCC**) adopted a final rule implementing the U.S. Credit Risk Retention Requirements. The following day, the Board of Governors of the Federal Reserve System, the SEC and the Department of Housing and Urban Development (collectively with the FDIC, FHFA and OCC, the **Joint Regulators**) adopted the U.S. Credit Risk Retention Requirements. As required by the Dodd-Frank Act, the U.S. Credit Risk Retention Requirements generally require "securitizers" to retain not less than 5 per cent. of the credit risk of the mortgage loans securitized and generally prohibit securitizers from directly or indirectly eliminating or reducing its credit exposure by hedging or otherwise transferring the credit risk that the securitizer is required to retain. The U.S. Credit Risk Retention Requirements became effective for residential mortgage-backed securities on 24 December 2015. As described under "**Certain Regulatory Requirements— U.S. credit risk retention**", the seller, in its capacity as originator, will comply with this requirement by maintaining a seller share in the master trust calculated in accordance with such regulations that will equal not less than 5 per cent. of the aggregate outstanding principal balance of all notes issued by the issuing entity, with certain

exceptions. If the seller share does not equal at least 5 per cent. of the aggregate outstanding principal balance of all notes issued by the issuing entity, with certain exceptions, by the first issuance of notes following the date of this base prospectus, does not continue to equal at least 5 per cent. of the aggregate outstanding principal balance of all notes issued by the issuing entity, with certain exceptions, as tested on a monthly basis on each calculation date, or if the seller reduces or limits its financial exposure to the seller share in certain circumstances, the U.S. Credit Risk Retention Requirements will not be satisfied. If the seller fails to retain credit risk in accordance with the U.S. Credit Risk Retention Requirements, the value and liquidity of the notes may be adversely impacted. In addition, in the event that the seller share does not equal at least 5 per cent. of the aggregate outstanding principal balance of all notes issued by the issuing entity, with certain exceptions, and such deficiency persists for two consecutive calculation dates, a non-asset trigger event will occur. See "**Certain Regulatory Requirements— U.S. credit risk retention**" in this base prospectus for information on how the seller complies with the U.S. Credit Risk Retention Requirements.

Prospective investors should make themselves aware of the changes and requirements described under the headings above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the notes. The matters described above and any other changes to the regulation or regulatory treatment of the notes for some or all investors may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the notes in the secondary market.

***Risks Associated with the Investment Company Act***

The issuing entity has not registered with the SEC as an investment company under the Investment Company Act.

If the SEC or a court of competent jurisdiction were to find that the issuing entity is in violation of the Investment Company Act having failed to register as an investment company thereunder, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation; (ii) investors in the notes could sue the issuing entity and recover any damages caused by the violation; and (iii) any contract to which the issuing entity is party that is made in, or whose performance involves a violation of the Investment Company Act would be unenforceable by any party to that contract unless a court were to find that under the circumstances enforcement would produce a more equitable result that non-enforcement and would not be inconsistent with the purposes of the Investment Company Act. Should the issuing entity be subjected to any or all of the foregoing it could be materially and adversely affected.

***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 mortgages trustee and/or the servicer and their respective businesses and operations. This may adversely affect the issuing entity's ability to make payments in full when due on the notes.

Lloyds Bank Group is also subject to a number of EU and UK proposals and measures targeted at preventing financial crime (including anti-money laundering and terrorist financing). This includes the EU's Fourth Anti-Money Laundering Directive (Directive (EU) 2015/849), which came into force in June 2017 and aims to enhance processes to counter money laundering and terrorist financing. Lloyds Bank Group will also be subject to the recast Fifth Anti-Money Laundering Directive which was published in the Official Journal of the EU on 19 June 2018. Provisions of the Fifth Anti-Money Laundering Directive will be required to be implemented by member states of the EU by 10 January 2020. Although this date is after Brexit, it is expected that the UK will implement the provisions of the Fifth Anti-Money Laundering Directive. Lloyds Bank Group is committed to operating a business that prevents, deters and detects money laundering and terrorist financing, and will introduce any changes required in line with the new directive and industry guidance. However, if there are breaches of these measures or existing law and regulation relating to financial crime, Lloyds Bank Group could face significant administrative, regulatory and criminal sanctions as well as reputational damage which may have a material adverse effect on Lloyds Banking Group entities undertaking roles under the programme and could impact their businesses and products including businesses and products directly relevant to the programme's operations, financial condition and prospects.

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

The Banking Act 2009 (the **Banking Act**) includes provision for a special resolution regime (**SRR**) pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of

certain UK incorporated entities, including authorised deposit-taking institutions and investment firms, and powers to take certain resolution actions in respect of EEA and third country institutions. Relevant transaction entities for these purposes may include the seller, the servicer, the issuing entity cash manager, the cash manager, the issuing entity account bank, the account bank, the issuing entity subordinated loan provider, the issuing entity start-up loan provider, the Funding 2 Z loan provider, the issuing entity swap provider, the Funding 2 swap provider and the Funding 1 swap provider. The tools available under the Banking Act may be used in respect of relevant institutions and, in certain circumstances, their UK established banking group companies (such as Lloyds Bank Group) and such tools include share and property transfer powers (including powers for partial property transfers), bail-in powers, certain ancillary powers (including powers to modify contractual arrangements in certain circumstances) and special insolvency procedures which may be commenced by the UK authorities. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made and, in certain circumstances, the UK authorities may exercise broad pre-resolution powers in respect of relevant entities with a view to removing impediments to the exercise of the stabilisation tools.

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

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

As noted above, the stabilisation tools may be used in respect of certain banking group companies provided certain conditions are met. The UK authorities have provided an exclusion for certain securitisation companies, which exclusion is expected to extend to the issuing entity, Funding 1 and Funding 2, although aspects of the relevant provisions are not entirely clear.

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

Lastly, on 15 May 2014, the European Parliament and Council adopted a directive establishing an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **Banking Recovery and Resolution Directive** or **BRRD**). The final text of the BRRD was published in the Official Journal of the European Union on 12 June 2014 and entered into force on 2 July 2014, with Member States required to adopt necessary implementing measures under national law by no later than 31 December 2014. In the UK, the Banking Reform Act, which made provision for certain aspects of the “bail-in” power and further legislation, was enacted during 2014 in order to give full effect to the majority of the provisions of BRRD from 1 January 2015.

The stated aim of the BRRD is to provide authorities designated by Member States to apply the resolution tools and exercise the resolution powers set forth in the BRRD (the **resolution authorities**) with

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

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

***European Market Infrastructure Regulation***

The derivatives markets are subject to extensive regulation in a number of jurisdictions, including in Europe pursuant to Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (**EMIR**) as amended and in the United States under the Dodd-Frank Act. EMIR entered into force on 16 August 2012 and established certain requirements for OTC derivatives contracts, including a mandatory clearing obligation (the **Clearing Obligation**), margin posting (the **Collateral Obligation**) and other risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty, and reporting and record-keeping requirements.

Under EMIR (as amended by Regulation (EU) No 2019/834 (**EMIR Refit 2.1**)), (i) financial counterparties (**FCs**) (which, following changes made by EMIR Refit 2.1, includes a sub-category of small financial counterparties) and (ii) non-financial counterparties whose positions, together with the positions of all other non-financial counterparties in its "group" (as defined in EMIR), in OTC derivatives (excluding hedging positions) exceed a specified clearing threshold (**NFC+s, and together with FCs, the In-scope Counterparties**) must clear via an authorized or recognised central counterparty (CCP) OTC derivatives contracts that are entered into on or after the effective date for the Clearing Obligation for that counterparty pair and class of derivatives (the **Clearing Start Date**). Unless an exemption applies, FCs and NFC+s must clear any such OTC derivative contracts entered into between each other and with certain third country equivalent entities (i.e. those that would have been subject to the Clearing Obligation if they were established in the European Union). The process for implementing the Clearing Obligation is under way and a timeframe for compliance has been established for the first class of transactions (being certain interest rate derivative contracts in USD, EUR, GBP and JPY), with the Clearing Start Date for such contracts with NFC+s being 21 December 2018. Timeframes for mandatory clearing of certain other classes of OTC derivatives transactions have also been established. On the basis that Funding 1, Funding 2 and the issuing entity are all currently non-financial counterparties whose positions, together with the positions of all other non-financial counterparties in their respective "groups", in OTC derivatives (after the exclusion of hedging positions) do not exceed any of the specified clearing thresholds (each, an **NFC-**), OTC derivatives contracts that are entered into by Funding 1, Funding 2 or the issuing entity would not in any event be subject to any mandatory clearing or frontloading requirements. If any of Funding 1, Funding 2 or the issuing entity's counterparty status as an NFC- changes then certain OTC derivatives contracts that are entered into by Funding 1, Funding 2 or the issuing entity (as applicable) may become subject to the Clearing Obligation.

Under EMIR, OTC derivatives contracts entered into by NFC+ and FC entities (and/or third country equivalent entities) that are not cleared by a CCP may be subject to certain margining requirements, unless certain exemptions apply. The regulatory technical standards relating to the collateralization obligations in respect of OTC derivatives contracts which are not cleared are now in force and the obligation for In-scope Counterparties to margin uncleared OTC derivatives contracts was phased in from the first quarter of 2017 with variation margin obligations applying to all transactions entered into by In-scope Counterparties from 1 March 2017. However, on the basis that Funding 1, Funding 2 and the issuing entity are all NFC-s, OTC derivatives contracts that are entered into by Funding 1, Funding 2 or the issuing entity would not be subject to any

margining requirements. If any of Funding 1, Funding 2 or the issuing entity's counterparty status as an NFC- changes then certain OTC derivatives contracts that are entered into by Funding 1, Funding 2 or the issuing entity (as applicable) may become subject to margining requirements.

Further, OTC derivatives contracts that are not cleared by a CCP are also subject to certain other risk mitigation techniques, including arrangements for timely confirmation of OTC derivatives contracts, portfolio reconciliation, dispute resolution and arrangements for monitoring the value of outstanding OTC derivatives contracts. These requirements are already in effect. In order to comply with certain of these risk mitigation requirements each of Funding 1, Funding 2 and the issuing entity include appropriate provisions in each Swap Agreement. In addition, under EMIR, counterparties must report all their OTC and exchange traded derivatives contracts to an authorized or recognized trade repository or to ESMA.

EMIR may, *inter alia*, lead to more administrative burdens and higher costs for Funding 1, Funding 2 and/or the issuing entity which may in turn reduce the amounts available to make payments with respect to the notes. Further, if any party fails to comply with the applicable rules under EMIR it may be liable for a fine. If such a fine is imposed on the issuing entity, Funding 1 and/or Funding 2, this may also reduce the amounts available to make payments with respect to the notes.

Notwithstanding the qualification on application described above, the position of any of the swaps under each of the Clearing Obligation and Collateral Obligation is not entirely clear and may be affected by further measures still to be made. It should also be noted that the Securitisation Regulation (which applied in general from 1 January 2019), among other things, makes provisions for the development of technical standards in connection with the EMIR regime specifying (i) an exemption from clearing obligations and (ii) a partial exemption from the collateral exchange obligations for non-cleared OTC derivatives, in each case for STS securitisation swaps (subject to the satisfaction of the relevant conditions). The final draft technical standards have been prepared by the European Supervisory Authorities and submitted to the European Commission in December 2018 and these are now subject to the EU political negotiation process. As a result, the time of entry into force and the date of application of the new technical standards is unknown at this point.

The seller, in its capacity as originator under the Securitisation Regulation, may procure an STS notification to be submitted to ESMA, and to the FCA, that the STS requirements have been satisfied with respect to the issuance of a series of notes. However, until the final new technical standards referred to above are in force, no assurance can be given that the issuer swaps and/or Funding 2 swaps will meet the applicable exemption criteria provided therein, to the extent applicable to the issuance of a series of notes. Notwithstanding the STS designation (to the extent applicable to a series of notes) and the ability, as a result, to rely on the exemptions from clearing and collateral exchange obligations under the EMIR regime, the expectation is that the issuing entity and/or Funding 2 should not be required to comply with the EMIR collateral exchange obligations and clearing requirements for the reasons outlined above (being their NFC- status) in any event. The STS designation (to the extent applicable to a series of notes) and the related forthcoming exemptions from collateral exchange obligations and clearing requirements are only likely to become relevant should the status under the EMIR of the issuing entity and/or Funding 2 change from NFC- to NFC+ or FC and, if applicable, should the issuer swaps and/or Funding 2 swaps be regarded as a type that is subject to EMIR clearing requirements.

Furthermore, certain modifications may be made to the transaction documents by the security trustee without the consent of the Funding 1 secured creditors or the Funding 2 secured creditors, as applicable, as described above under "**—The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**". In each case, such amendments may be made irrespective of whether such modifications are materially prejudicial to the interests of any noteholder or any other secured creditor and provided such modifications do not relate to a basic terms modification.

**Insolvency considerations**

***Rule (2) English law security and insolvency considerations***

The issuing entity has entered into the issuing entity deed of charge pursuant to which it granted the issuing entity security in respect of certain of its obligations, including its obligations under the notes (as to which, see "**Security for the issuing entity's obligations**"). Similarly, Funding 2 entered into the Funding 2 deed of charge pursuant to which Funding 2 granted security in respect of certain of its obligations, including its obligations under the master intercompany loan agreement. In certain circumstances, including the occurrence of certain insolvency events in respect of the issuing entity and/or Funding 2, the ability to realise the issuing entity security and/or the Funding 2 security, respectively, may be delayed and/or the value of the relevant security impaired. While the transaction structure is designed to minimise the likelihood of the issuing entity or

Funding 2 becoming insolvent, there can be no assurance that the issuing entity and/or Funding 2 will not become insolvent and/or the subject of insolvency proceedings and/or that the noteholders would not be adversely affected by the application of insolvency laws (including English insolvency laws).

In addition, it should be noted that, to the extent that the assets of the issuing entity are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of section 176A of the Insolvency Act 1986, certain floating charge realisations which would otherwise be available to satisfy the claims of secured creditors under the issuing entity deed of charge may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the issuing entity in the transaction documents are intended to ensure it has no significant creditors other than the secured creditors under the issuing entity deed of charge, it will be a matter of fact as to whether the issuing entity 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 issuing entity security.

***Rule (3) US insolvency considerations and proceedings***

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

The UK Supreme Court has held that a flip-clause as described above is enforceable under English law. Contrary to this, however, the US Bankruptcy Court has held that such a subordination provision is unenforceable under US bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a US bankruptcy of the counterparty. A different U.S. Bankruptcy Court and a U.S. District Court recently reached contrary conclusions in relation to a different transaction structure. Those decisions remain subject to appeal, and the implications of this conflicting judgment remain unresolved.

If a creditor of the issuing entity (such as a swap counterparty) becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the US), and it is owed a payment by the issuing entity, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of the contractual subordination provisions in the English law governed transaction documents such as a provision of the priority of payments which refers to the ranking of the swap counterparties' payment rights in respect of subordinated termination payments. In particular, based on the decision of the US Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under US bankruptcy laws. Such laws may be relevant in certain circumstances with respect to a range of entities which may act as a swap counterparty, including US established entities and certain non-US established entities with assets or operations in the US (although the scope of any such proceedings may be limited if the relevant non-US entity is a bank with a licensed branch in a US state). In general, if a subordination provision included in the transaction documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the noteholders, the market value of the notes and/or the ability of the issuing entity to satisfy its obligations under the notes.

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

**Liquidation expenses**

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

pursuant to provisions set out in the Insolvency Rules (England and Wales) 2016 (as amended). In general, the reversal of the Leyland Daf case applies in respect of all liquidations commenced on or after 6 April 2008.

As a result of the changes described above, which bring the position in a liquidation into line with the position in an administration, upon the enforcement of the floating charge security granted by the issuing entity and/or by Funding 2, floating charge realisations which would otherwise be available to satisfy the claims of the issuing entity secured creditors under the issuing entity deed of charge and/or the Funding 2 secured creditors under the Funding 2 deed of charge may be reduced by at least a significant proportion of any liquidation or administration expenses. There can be no assurance that the issuing entity secured creditors and/or the Funding 2 secured creditors will not be adversely affected by such a reduction in floating charge realisations.

**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 issuing entity, Funding 1, Funding 2 and/or the mortgages trustee 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 issuing entity, Funding 1, Funding 2 and/or the mortgages trustee 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 issuing entity, Funding 1, Funding 2 and/or the mortgages trustee 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 issuing entity, Funding 1, Funding 2 and/or the mortgages trustee this could adversely affect the interests of the noteholders.

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

The Senior Managers and Certification Regime (the **SM&CR**) came into force for deposit-takers on 7 March 2016 and is intended to govern the individual accountability and conduct of senior persons within UK banks, building societies, credit unions, PRA designated investment firms and branches of foreign banks operating in the UK. The rules expanded to apply to insurance firms on 10 December 2018 and will be expanded to solo-regulated firms on 9 December 2019. The FCA and the PRA have now published the majority of the final rules and guidance on the SM&CR as applicable to Lloyds Bank Group. Among other things, the SM&CR introduced: (i) requirements on financial institutions to allocate and map senior management responsibilities and reporting lines across all areas of the organisation’s activities; (ii) a new senior persons regime governing the conduct of bank staff approved by the PRA and FCA to perform senior management functions (including certain non executive directors); (iii) new rules requiring financial institutions to certify the ongoing suitability of a wide range of staff performing certain functions; (iv) the extension (from March 2017) of conduct rules (enforceable by PRA and/or FCA disciplinary action, including financial penalties and public censure) previously only applicable to Senior Managers and certified staff to all bank staff other than those undertaking purely ancillary functions; and (v) the introduction of a criminal offence for reckless misconduct by senior bank staff. Rules regarding regulatory references for Senior Managers and staff within the SM&CR also came into force from 7 March 2017.

The PRA and FCA continue to publish guidance on the SM&CR, most recently Policy Statement 12/17 on strengthening individual accountability in banking and insurance: amendments and optimizations. The SM&CR will continue to have a substantial impact on banks and building societies in the UK generally, including Lloyds Banking Group entities undertaking roles under the programme, which could impact their businesses and products including businesses and products directly relevant to the programme's operations, financial condition and prospects. Lloyds Bank Group could be exposed to additional risk or loss if it is unable to comply

with additional requirements arising from the SM&CR or if doing so on an on-going basis imposes significant demands on the attention of management.

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

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

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

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

In the event that any withholding or deduction for or on account of any tax is imposed on payments in respect of the notes, neither the issuing entity nor any other person will be obliged to gross up or otherwise compensate noteholders for such withholding or deduction. The issuing entity may, in certain circumstances, redeem the notes where a withholding tax is applicable to payments on the notes (as described in Condition 5.5) of the notes).

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

Under current law, amounts due from Funding 2 under the master intercompany loan to the issuing entity are not subject to withholding or deduction for or on account of United Kingdom tax. However, there can be no assurance that the law in this area will not change during the life of the notes. In the event that any withholding or deduction for or on account of any tax is imposed on payments to the issuing entity under the master intercompany loan, Funding 2 will not be required to gross up or otherwise compensate the issuing entity for such withholding or deduction. However, in such circumstances, the issuing entity has a right, subject to and in accordance with the terms of the master intercompany loan, to call for repayment of the loans and redemption of the notes.

**Securitisation Company Tax Regime**

Each of the issuing entity and Funding 2 has been advised that it should fall within the permanent regime for the taxation of securitisation companies (as set out in the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296) (as amended) (the **TSC Regulations**)), and as such should be taxed only on the amount of its "retained profit" (as that term is defined in the TSC Regulations), for so long as it satisfies the conditions of the TSC Regulations.

However, if the issuing entity and/or Funding 2 do not in fact satisfy the conditions of the TSC Regulations (or subsequently cease to satisfy those conditions), then the relevant entity may be subject to tax liabilities not contemplated in the cash flows for the transaction described in this base prospectus. Any such tax liabilities may reduce amounts available to the issuing entity to meet its obligations under the notes and may result in investors receiving less interest and/or principal than expected.

## 10. RISKS RELATING TO CHARACTERISTICS OF THE NOTES

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

Your beneficial ownership of the notes (other than registered uncleared notes) will only be recorded in book-entry form with DTC, Euroclear, Clearstream, Luxembourg or with any alternative clearing system agreed by the issuing entity. The global notes will not be exchanged for definitive notes except in the limited set of circumstances described under **"The notes and the global notes – Definitive notes"**. The lack of notes in physical form could, among other things:

(A) result in payment delays on such notes because the issuing entity will be sending distributions on the notes to DTC, Euroclear, Clearstream, Luxembourg or any alternative clearing system agreed by the issuing entity instead of directly to you;

(B) make it difficult for you to pledge such notes if notes in physical form are required by the party demanding the pledge; and

(C) hinder your ability to resell such notes because some investors may be unwilling to buy notes that are not in physical form.

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

The minimum denominations on the notes may adversely affect payments on the notes if issued in definitive form. Each US dollar denominated note will be issued in minimum denominations of $250,000 and in integral multiples of $1,000 in excess thereof, each euro denominated note will be issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof and each sterling-denominated note will be issued in minimum denominations of £100,000 and in integral multiples of £1,000 in excess thereof, provided that notes issued with a maturity of less than one year will be issued in minimum denominations of £100,000 (or its equivalent in any other currency as at the date of issue of such notes). No note will be issued in a denomination of less than €100,000 (or its equivalent in any other currency as at the date of issue of such notes). However, if definitive notes are required to be issued in respect of the notes represented by global notes, they will only be printed and issued in denominations of $250,000, £100,000, or €100,000 (or the equivalent in any other currency as at the date of the issue of the notes), as the case may be. Accordingly, it is possible that the notes may be traded in amounts in excess of the minimum authorised denomination that are not integral multiples of such denomination. In such a case, if definitive notes are required to be issued, a noteholder who holds a principal amount which (after deducting integral multiples of such minimum authorised denomination) is less than the minimum authorised denomination at the relevant time may not receive a definitive note in respect of such holding and may need to purchase a principal amount of notes such that its holding amounts to the minimum authorised denomination (or another relevant denomination amount).

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

**Book-Entry Interests**

Unless and until definitive notes are issued in exchange for book-entry interests (other than in the case of registered uncleared notes), holders and beneficial owners of book-entry interests will not be considered the legal owners or holders of notes under the relevant note trust deed. After payment to the principal paying agent, the issuing entity will not have responsibility or liability for the payment of interest, principal or other amounts to DTC, Euroclear or Clearstream, Luxembourg or to holders or beneficial owners of book-entry interests.

DTC, Euroclear or Clearstream, Luxembourg or its nominee or to the extent notes are deposited with a common safekeeper, a nominee of the common safekeeper will be the registered holder and sole legal noteholder of the Reg S global notes and Rule 144a global notes under the relevant note trust deed while any notes are represented by Reg S global notes or Rule 144a global notes (as the case may be). Accordingly, each person owning a book-entry interest must rely on the relevant procedures of DTC, 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 relevant note trust deed.

Holders of beneficial interests in the global notes denominated in a currency other than U.S. dollars held directly with DTC or through its participants must give advance notice to DTC or the relevant participant in accordance with DTC's procedures that they wish payments on such global notes to be made to them in the relevant currency outside DTC. If such instructions are not given in accordance with DTC's procedures, payments on such global notes in the relevant currency will be exchanged for U.S. dollars by the exchange rate agent prior to their receipt by DTC and the affected holders will receive U.S. dollars on the relevant distribution date.

Except as noted in the previous paragraph, payments of principal and interest on, and other amounts due in respect of, the global notes will be made by the relevant principal paying agent through DTC, Euroclear and/or Clearstream, Luxembourg, as specified in the applicable final terms or drawdown prospectus. Upon receipt of any payment from the principal paying agent, DTC, Euroclear and/or Clearstream, Luxembourg, respective ownership of book-entry interests as shown on their records. The issuing entity expects that payments by participants or indirect participants to owners of interests in book-entry interests held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in "streetname", and will be the responsibility of such participants or indirect participants. None of the issuing entity, the issuing entity security trustee, the note trustee, the principal paying agent, the exchange rate agent, the registrar, the arranger or the dealer will have any responsibility or liability for any aspect of the records relating to, or

payments made on account of, the book-entry interests or for maintaining, supervising or reviewing any records relating to such book-entry interests.

Unlike legal owners or holders of the notes, holders of the book-entry interests held through DTC will not have the right under the relevant note trust deed to act upon solicitations by or on behalf of the issuing entity or consents or requests by or on behalf of the issuing entity for waivers or other actions from noteholders. Instead, a holder of book-entry interests held through DTC will be permitted to act only to the extent it has received appropriate proxies to do so from DTC and, if applicable, its 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 held through DTC to vote on any requested actions on a timely basis. Similarly, upon the occurrence of a note event of default under the notes of a series or an insolvency event, holders of book-entry interests held through DTC will be restricted to acting through DTC unless and until definitive notes are issued in accordance with the terms and conditions of the notes and the relevant final terms or drawdown prospectus. There can be no assurance that the procedures to be implemented by DTC under such circumstances will be adequate to ensure the timely exercise of remedies under the relevant note trust deed.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of book-entry interests among participants of DTC and participants of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the issuing entity, the issuing entity security trustee, the relevant note trustee, the dealer or the arranger or any of their agents will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

Because transactions in the global notes held by DTC or its nominee will be effected only through DTC, direct and indirect participants in DTC's book-entry system and certain banks, the ability of a holder of a beneficial interest in such a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such interest, may be limited due to the lack of physical security representing such interest.

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

**Eurosystem Eligibility**

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

- standardised data on the pool of underlying assets (**ECB Eligibility Data**) to be submitted by the relevant parties.
- the mortgages trustee must be incorporated in the EEA; and
- a counterparty cannot use the notes as collateral in the Eurosystem monetary policy operations if it (or any party with which it has “close links”), provides liquidity support in the form of a cash reserve or liquidity reserve. This includes closes links to an account bank where the reserve fund or the liquidity reserve exceeds a certain level compared to the principal amount outstanding of the notes.

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

## Transaction Overview

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

### Transaction Parties

| Party | Name | Address | Document under which appointed / Further Information |
|---|---|---|---|
| **Arranger** | Lloyds Bank Corporate Markets plc | 10 Gresham Street London EC2V 7AE | N/A |
| **Dealer** | Lloyds Bank Corporate Markets plc and such other dealers as may be appointed from time to time | 10 Gresham Street London EC2V 7AE | N/A |
| **Issuing entity** | Permanent Master Issuer PLC (Legal Entity Identifier: 213800MVYG7MLQM2LF25) | 35 Great St. Helen's, London EC3A 6AP | N/A. Please see "**The issuing entity**" for more information. |
| **Note trustee** | The Bank of New York Mellon | 40th Floor, One Canada Square, London E14 5AL | The note trustee was appointed pursuant to the note trust deed. Please see "**The note trustee, the issuing entity security trustee and the Funding 2 security trustee**" for more information. |
| **Mortgages trustee** | Permanent Mortgages Trustee Limited | 35 Great St. Helen's, London EC3A 6AP | N/A. Please see "**The mortgages trustee**" for more information. |
| **Funding 1** | Permanent Funding (No. 1) Limited | 35 Great St. Helen's, London EC3A 6AP | N/A. Please see "**Funding 1**" for more information. |
| **Funding 2** | Permanent Funding (No. 2) Limited | 35 Great St. Helen's, London EC3A 6AP | N/A. Please see "**Funding 2**" for more information. |
| **PECOH** | Permanent PECOH Limited | 35 Great St. Helen's, London EC3A 6AP | N/A. Please see "**PECOH**" for more information. |
| **PECOH Holdings** | Permanent PECOH Holdings Limited | 35 Great St. Helen's, London EC3A 6AP | N/A. Please see "**PECOH Holdings**" for more information. |
| **Holdings** | Permanent Holdings Limited | 35 Great St. Helen's, London EC3A 6AP | N/A. Please see "**Holdings**" for more information. |
| **Seller** | Initially Halifax plc, and since the first closing date following the reorganisation date, Bank of Scotland plc | The Mound, Edinburgh, EH1 1YZ | N/A. Please see "**Sale of the loans and their related security**" for more information. |

| Party | Name | Address | Document under which appointed / Further Information |
|---|---|---|---|
| **Servicer** | Initially Halifax plc, and since the first closing date following the reorganisation date, Bank of Scotland plc | The Mound, Edinburgh, EH1 1YZ | The servicer was appointed pursuant to the servicing agreement. Please see "**The servicer**" for more information. |
| **Funding 1 security trustee and Funding 2 security trustee** | The Bank of New York Mellon | 40th Floor, One Canada Square, London E14 5AL | The Funding 1 security trustee and the Funding 2 security trustee were appointed pursuant to the Funding 1 deed of charge and Funding 2 deed of charge respectively. Please see "**The note trustee, the issuing entity security trustee and the Funding 2 security trustee**" for more information. |
| **Issuing entity security trustee** | The Bank of New York Mellon | 40th Floor, One Canada Square, London E14 5AL | The issuing entity security trustee was appointed pursuant to the issuing entity deed of charge. Please see "**The note trustee, the issuing entity security trustee and the Funding 2 security trustee**" for more information. |
| **Cash manager** | Initially Halifax plc, and since the first closing date following the reorganisation date, Bank of Scotland plc | The Mound, Edinburgh, EH1 1YZ | The cash manager was appointed pursuant to the cash management agreement. Please see "**Cash management for the mortgages trustee, Funding 1 and Funding 2**" for more information. |
| **Issuing entity cash manager** | Initially Halifax plc, and since the first closing date following the reorganisation date, Bank of Scotland plc | The Mound, Edinburgh, EH1 1YZ | The issuing entity cash manager was appointed pursuant to the issuing entity cash management agreement. Please see "**Cash management for the issuing entity**" for more information. |
| **Corporate services provider** | Intertrust Management Limited | 35 Great St. Helen's, London EC3A 6AP | The corporate services provider was appointed pursuant to the corporate services agreement and the post-enforcement call option holder corporate services agreement. |

| Party | Name | Address | Document under which appointed / Further Information |
|---|---|---|---|
| **Issuing entity corporate services provider** | Intertrust Management Limited | 35 Great St. Helen's, London EC3A 6AP | The issuing entity corporate services provider was appointed pursuant to the issuing entity corporate services agreement. |
| **Mortgages trustee corporate services provider** | Intertrust Management Limited | 35 Great St. Helen's, London EC3A 6AP | The mortgages trustee corporate services provider was appointed pursuant to the mortgages trustee corporate services agreement. |
| **Account bank** | Bank of Scotland plc | The Mound, Edinburgh, EH1 1YZ | The account bank was appointed pursuant to the bank account agreement. |
| **Issuing entity account bank** | Bank of Scotland plc | The Mound, Edinburgh, EH1 1YZ | The issuing entity account bank was appointed pursuant to the issuing entity bank account agreement. |
| **Issuing entity subordinated loan provider** | Bank of Scotland plc | The Mound, Edinburgh, EH1 1YZ | The issuing entity subordinated loan provider advances issuing entity subordinated loans to the issuing entity under issuing entity subordinated loan agreements. Please see "**Credit structure - Issuing entity subordinated loan agreements**" for more information. |
| **Issuing entity start-up loan provider** | Bank of Scotland plc | The Mound, Edinburgh, EH1 1YZ | The issuing entity start-up loan provider may advance issuing entity start-up loans to the issuing entity under issuing entity start-up loan agreements. Please see "**Credit structure - Issuing entity start-up loan agreements**" for more information. |

| Party | Name | Address | Document under which appointed / Further Information |
|---|---|---|---|
| **Funding 2 Z loan provider** | Bank of Scotland plc | The Mound, Edinburgh, EH1 1YZ | The Funding 2 Z loan provider may advance Funding 2 Z loans to Funding 2 pursuant to the Funding 2 Z loan agreement. Please see "**The Funding 2 Z loan agreement**" for more information. |
| **Funding 1 swap provider** | Initially Halifax plc, and since the first closing date following the reorganisation date, Bank of Scotland plc | The Mound, Edinburgh, EH1 1YZ | The Funding 1 swap provider was appointed pursuant to the Funding 1 swap agreement. |
| **Funding 2 swap provider** | Bank of Scotland plc | The Mound, Edinburgh, EH1 1YZ | The Funding 2 swap provider was appointed pursuant to the Funding 2 swap agreement. Please see "**The swap agreements – The Funding 2 swaps**" for more information. |
| **Issuing entity swap provider** | This will be disclosed in the applicable final terms or drawdown prospectus. | N/A | Please see "**The swap agreements – The issuing entity currency swaps**" and "**The swap agreements – The issuing entity interest rate swaps**" for more information. |
| **Principal paying agent** | Citibank, N.A. | Citigroup Centre, Canada Square, Canary Wharf London E14 5LB | The principal paying agent was appointed pursuant to the issuing entity paying agent and agent bank agreement. |
| **Agent bank** | Citibank, N.A. | Citigroup Centre, Canada Square, Canary Wharf London E14 5LB | The agent bank was appointed pursuant to the issuing entity paying agent and agent bank agreement. |
| **Registrar** | Citibank, N.A. | Citigroup Centre, Canada Square, Canary Wharf London E14 5LB | The registrar was appointed pursuant to the issuing entity paying agent and agent bank agreement. |
| **Transfer agent** | Citibank, N.A. | Citigroup Centre, Canada Square, Canary Wharf London E14 5LB | The transfer agent was appointed pursuant to the issuing entity paying agent and agent bank agreement. |
| **US paying agent** | Citibank, N.A. | 14th Floor, 388 Greenwich Street, | The US paying agent was appointed pursuant to the |

| Party | Name | Address | Document under which appointed / Further Information |
|---|---|---|---|
| | | New York,<br>New York 10013 | issuing entity paying agent and agent bank agreement. |
| **Listing Authority** | The UK Listing Authority | N/A | N/A |
| **Stock Exchange** | London Stock Exchange's Regulated Market | N/A | N/A |
| **Clearing Systems** | Euroclear, Clearstream, Luxembourg and DTC | N/A | N/A |
| **Rating Agencies** | Standard & Poor's Rating Services, a division of Standard & Poor's Credit Market Services Europe Limited, Moody's Investors Service Limited and Fitch Ratings Ltd. | N/A | N/A |
| **Eligible GIC custodian** | The Bank of New York Mellon | 40th Floor, One Canada Square, London E14 5AL | The eligible GIC custodian was appointed pursuant to the custody agreement. |

## Overview of portfolio and servicing

*Please refer to the sections entitled "**Sale of the loans and their related security**", "**The servicer - Servicing of loans**" and "**The servicing agreement**" for further detail in respect of the characteristics of the portfolio and the sale and the servicing arrangements in respect of the portfolio. Note: Final terms or drawdown prospectus for each series will contain further pool stratification information.*

**Sale of portfolio**

The seller sold an initial portfolio (consisting of loans and the related security and all monies derived therefrom from time to time) to the mortgages trustee on the initial closing date and since the initial closing date has on each sale date sold further loans together with their related security to the mortgages trustee, in each case subject to the terms of the mortgage sale agreement. The seller may sell new loans and their related security to the mortgages trustee in order to increase or maintain the size of the trust property.

Each of the English loans and their related security is governed by English law and each of the Scottish loans and their related security is governed by Scots law.

Please refer to "**Sale of the loans and their related security**" for more details.

**Features of loans**

The following is a summary of certain features of the loans. Investors should refer to, and carefully consider, further details in respect of the loans set out in the relevant final terms or drawdown prospectus.

| | |
|---|---|
| Type of borrower: | individuals |
| Type of mortgage: | first charge by way of legal mortgage or (in Scotland) standard security save in relation to any RTB loan secured by an English mortgage where (if there is one year or less to run of the statutory repayment period) that statutory charge may take priority |
| Type of loan: | repayment loan, interest-only loan, or a combination of these options |
| Self-certified loans: | no |
| Non-verified income loans: | yes |
| Buy-to-let loans: | no |
| Flexible loans: | yes |
| Offset loans: | no |
| Capped loans: | no |
| RTB loans: | yes |

A non-verified income loan is a type of loan where the lender has elected not to verify income due to the lower risk that the loan represents based on the overall credit quality of the loan and applicant. A self-certified loan is a type of loan where the lender markets the fact that it will not verify income and charges a premium for the greater risk incurred.

It should be noted that new types of loans may be sold to the mortgages trustee (in which case the representations and warranties in the mortgage sale agreement will be modified as required to accommodate such new types of loans). The prior consent of the noteholders to the requisite amendments will not be obtained.

**Consideration**

Consideration payable to the seller in respect of the sale of loans and their related security into the portfolio on each sale date shall be equal to: (i) the proceeds of any new term advance under a new Funding 1 intercompany loan agreement and/or new loan tranche advanced to Funding 2 under the master intercompany loan agreement and/or intercompany loans made by new issuing entities to Funding 1 or the issuing entity to Funding 2 and/or any Funding 1 Z loan or, as applicable, Funding 2 Z loan made under, as applicable, a Funding 1 Z loan agreement or a Funding 2 Z loan agreement, in each case made for such purpose; and (ii) deferred consideration.

**Representations and warranties**

The seller will make the relevant representations and warranties in relation to the loans and their related security on the sale date that the relevant loan (including each new loan or product switch (with certain variations)) together with its related security is sold to the mortgages trustee.

In addition to representations and warranties in respect of the legal nature of the loans and their related security (e.g. the valid, binding and enforceable nature of the relevant loan and the related security), the representations and warranties will include (but not be limited to):

- the whole of the outstanding principal balance on each loan and any arrears of interest and all accrued interest is secured by a mortgage;
- each loan in the portfolio is either (a) a variable rate loan, tracker rate loan or fixed rate loan; or (b) a new loan type which each of the rating agencies has confirmed in writing may be included in the portfolio;
- no loan has or will have an outstanding principal balance of more than £500,000;
- at least two monthly payments have been made in respect of each loan;
- the total amount of arrears of interest or principal, together with any fees, commissions and premiums payable at the same time as such interest payment or principal repayment, on any loan is not on the relevant sale date in respect of any loan, nor has been during the 12 months immediately preceding the relevant sale date, more than the amount of the monthly payment then due; and
- the final maturity date of each loan is no later than (a) June 2040 or (b) such later date specified in the most recent final terms or drawdown prospectus.

For further details, please see "**Sale of the loans and their related security – Representations and warranties**".

**Eligibility criteria**

Any new loans and the related security sold to the mortgages trustee on a sale date must comply with, among other things, the following criteria:

- compliance with certain representations and warranties (further to which see "**Sale of the loans and their related security – Representations and warranties**" below);
- origination in accordance with the seller's lending criteria for Halifax branded mortgage loans applicable at the time of their origination

(the seller's current lending criteria are described further in "**The loans – Underwriting**" below);

- limits on loans in arrears;
- limits on the aggregate outstanding principal balance of loans sold;
- limits on changes in the weighted average foreclosure frequency (**WAFF**);
- limits on changes in the weighted average loss severity (**WALS**);
- a minimum yield; and
- the Fitch portfolio tests.

See a description of these conditions in "**Sale of the loans and their related security — Sale of loans and their related security to the mortgages trustee on the sale dates**".

**Repurchase of the loans and related security**

The seller will repurchase the relevant loans and their related security in the following circumstances:

- upon material breach of the representations and warranties made by the seller in relation to the loan (subject to a 20 London business days grace period or such other period as may be agreed);
- (save in the case of any loan which is then in arrears) if the seller accepts an application from, or makes an offer (which is accepted) to, a borrower for a further advance or a home cash reserve advance;
- (save in the case of any loan which is then in arrears) if the seller accepts an application from, or makes an offer (which is accepted) to, a borrower for a product switch and on the immediately preceding distribution date, the seller is in breach of the conditions precedent to the sale of new loans (as if such conditions related to the loan which would result from the implementation of such product switch); and
- if (a) prior to the date on which all notes issued prior to 1 June 2016 are redeemed in full, the seller accepts an application from, or makes an offer (which is accepted) to a borrower for a product switch, the effect of which is to extend the final maturity date beyond June 2040 or (b) on and following the date on which all notes issued prior to 1 June 2016 are redeemed in full, the seller accepts an application from, or makes an offer (which is accepted) to a borrower for a product switch, the effect of which is to extend the final maturity date beyond the date determined in accordance with the relevant representation and warranty in the mortgage sale agreement.

The seller may (but will not be obliged to) from time to time request the mortgages trustee to sell to it one or more loans comprised in the trust property and their related security if:

- such loans are in arrears as a result of amounts equal to three or more monthly payments in respect of such loan having become due and remaining unpaid by the relevant borrower; or
- such loans are deedstore loans; or
- such loans are credit impaired loans;
- such loans are second home loans; or

- such loans are non-compliant loans,

and the mortgages trustee shall, unless otherwise instructed by Funding 1 or Funding 2, agree to that repurchase.

See "**Sale of the loans and their related security – Repurchase of loans under a mortgage account" below**.

**Consideration for repurchase**

Consideration payable by the seller in respect of the repurchase of the loans shall be a price equal to the outstanding principal balance of those loans and their related security, together with all arrears of interest and accrued interest relating thereto and (save in case of the repurchase of any loan and its related security which is subject to a further advance, a home cash reserve advance or a product switch, in which case consideration payable by the seller shall be a price equal to the outstanding principal balance of those loans and their related security together with accrued interest relating thereto only) as at the date of such repurchase.

**Perfection events**

Transfer of the legal title to the relevant loans to the mortgages trustee will be completed on the occurrence of certain events, which include insolvency of the seller, downgrade of the seller to below the agreed ratings (as to which see "*Rating Triggers Table*" below) and various other events as set out further under "**Sale of the loans and their related security – Legal assignment of the loans to the mortgages trustee**" below.

Prior to the completion of the transfer of legal title to the relevant loans, the mortgages trustee will hold only the equitable title to those loans (or, in the case of the relevant Scottish loans, the beneficial interest in those loans pursuant to the Scottish declarations of trust) and will therefore be subject to certain risks as set out in "**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on the notes**".

**Servicing of the portfolio**

The servicer has been appointed by the mortgages trustee and the beneficiaries to service the portfolio on a day-to-day basis. The appointment of the servicer may be terminated by the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and/or the Funding 2 security trustee upon the occurrence of any of the following events (each, a **servicer termination event**):

- an insolvency event occurs in relation to the servicer;
- material non-performance of its obligations (subject to a 20 London business days grace period); or
- default in the payment of any amount due (subject to a five London business days grace period).

The servicer may also resign upon giving 12 months' notice provided a replacement servicer has been appointed.

**Delegation**

The servicer may delegate some of its servicing functions to a third party provided that the servicer remains responsible for the performance of any of its servicing function so delegated. Please see "**The servicing agreement - Right of delegation by the servicer**" for further details.

## Overview of the terms and conditions of the notes

*Please refer to section entitled "**Terms and conditions of the notes**" for further detail in respect of the terms of the notes.*

**Ranking**

The notes of each series are direct, secured and unconditional obligations of the issuing entity which will at all times rank *pari passu* and *pro rata* with each other series of notes of the same class (or sub-class) without preference or priority amongst themselves.

Each series will rank *pari passu* with each other series of notes of the same class with respect to the cashflows available to that series secured by first fixed security both prior to and following enforcement. The class A notes of each series will rank without preference or priority among themselves and with the class A notes of each other series, but in priority to the class B notes, the class M notes, the class C notes and the class D notes of any series. The class B notes of each series will rank without preference or priority among themselves and with the class B notes of each other series, but in priority to the class M notes, the class C notes and the class D notes of any series. The class M notes of each series will rank without any preference or priority among themselves and with the class M notes of each other series, but in priority to the class C notes and the class D notes of any series. The class C notes of each series will rank without any preference or priority among themselves and with the class C notes of each other series, but in priority to the class D notes of any series. The class D notes of each series will rank without preference or priority among themselves and with the class D notes of each other series.

**Relationship between a particular series of notes and the corresponding loan tranche**

Prior to service of a note acceleration notice, the issuing entity will, in accordance with the relevant issuing entity priority of payments, pay interest on and repay principal of each series of notes from the proceeds of interest payments and principal repayments made by Funding 2 in respect to the corresponding loan tranches under the master intercompany loan agreement. The issuing entity will only receive a principal repayment in respect of such loan tranche if certain repayment tests are satisfied (as to which, see "**Cashflows – Distribution of Funding 2 available principal receipts**"). Following service of a note acceleration notice, the issuing entity will apply amounts received by it from Funding 2 under the master intercompany loan agreement to repay all series and classes of outstanding notes in accordance with the issuing entity post-enforcement priority of payments.

**Issuing entity security**

As security for the payment of all monies payable in respect of the notes of a series, the issuing entity has, pursuant to the issuing entity deed of charge, created security in favour of the issuing entity security trustee for itself and on trust for, *inter alios*, the noteholders of each series over, among other things, the following:

- an assignment by way of first fixed security or, to the extent not assignable, charge by way of first fixed charge (which is likely to take effect as a floating charge) of all of the issuing entity's rights in respect of the transaction documents to which it is a party from time to time (without prejudice to, in respect of any issuing entity swap agreements, and after giving effect to, any contractual netting provision confined in such agreements);
- a first fixed charge (which is likely to take effect as a floating charge) over all of issuing entity's rights in respect of any amount standing from time to time to the credit of the issuing entity transaction account and any other issuing entity bank account, all interest paid or payable in relation to those amounts and all debts represented by those amounts;
- a first fixed charge (which is likely to take effect as a floating charge) over all of the issuing entity's rights in all authorised investments made or purchased by or on behalf of the issuing entity using monies standing to the credit of the issuing entity accounts and all interest, monies and proceeds paid or payable in relation to those authorised investments;

- a first fixed charge (which is likely to take effect as a floating charge) over all of its rights in respect of the benefit of all authorisations (statutory or otherwise) held in connection with its use of any of the property charged by the issuing entity pursuant to the issuing entity deed of charge and any compensation which may be payable to it in respect of those authorisations; and

- a first floating charge over all of the issuing entity's property, assets (including, without limitation, its uncalled capital) and undertaking not otherwise effectively charged or assigned by way of fixed charge or assignment detailed above (but extending over all of the issuing entity's property, assets and undertaking situated in Scotland or the rights to which are governed by Scots law, all of which are charged by the floating charge).

**Funding 2 security**

To secure its obligations to the issuing entity and Funding 2 secured creditors, Funding 2 has entered into the Funding 2 deed of charge with, *inter alios*, the Funding 2 security trustee to grant the following security interests:

- an assignment by way of first fixed security or, to the extent not assignable, charge by way of a first fixed charge (which is likely to take effect as a floating charge) of the Funding 2 share of the trust property;

- an assignment by way of first fixed security or, to the extent not assignable, charge by way of a first fixed charge (which is likely to take effect as a floating charge) of all of its rights in the transaction documents to which Funding 2 is a party from time to time;

- a first fixed charge (which is likely to take effect as a floating charge) over all of Funding 2's rights in respect of all amounts standing from time to time to the credit of Funding 2's bank accounts, all interest paid or payable in relation to those amounts, all debts represented by those amounts and any security provided for such Funding 2 bank accounts including the benefit of any Funding 2 collateral security agreement;

- a first fixed charge (which is likely to take effect as a floating charge) over all of Funding 2's rights in respect of all authorised investments made or purchased from time to time by or on behalf of Funding 2 (whether owned by it or held by any nominee on its behalf) using monies standing to the credit of Funding 2's bank accounts and all interest, monies and proceeds paid or payable in relation to those authorised investments;

- a first fixed charge (which is likely to take effect as a floating charge) over all of its rights in respect of the benefit of all authorisations (statutory or otherwise) held in connection with its use of any other property charged by Funding 2 pursuant to the Funding 2 deed of charge and any compensation which may be payable to it in respect of those authorisations; and

- a first floating charge over all of the property, assets and undertaking of Funding 2 not otherwise secured by any fixed security interest detailed above (but extending over all of Funding 2's property, assets and undertaking situated in Scotland or the rights to which are governed by Scots law all of which are charged by way of floating charge).

**Acceleration**

All notes will become immediately due and payable and the issuing entity security trustee will be entitled to enforce the issuing entity security on the service on the issuing entity by the note trustee of a note acceleration notice. The note trustee becomes entitled to serve a note acceleration notice at any time after the occurrence of a note event of default in respect of a class of notes and it shall do so, subject in each case to being indemnified and/or secured to its satisfaction, (i) on the written instructions of the noteholders of the applicable class of notes (holding in aggregate at least one quarter in principal amount outstanding of such

class of notes) or (ii) if directed to do so by an extraordinary resolution of the holders of the relevant class of notes provided that, at such time, all notes ranking in priority to such class of notes have been repaid in full.

**Interest provisions**

Please refer to the final terms or drawdown prospectus for the relevant series of notes for the applicable interest provisions.

**Interest deferral**

The issuing entity is not permitted to defer payments of interest in respect of the most senior class of notes of any series then outstanding. The failure to pay interest on such senior classes of notes will be a note event of default. The issuing entity may defer payments of interest on subordinated classes of notes (not being the most senior class of notes then outstanding), and failure to pay interest on such subordinated classes of notes will not be a note event of default until the final maturity date.

**Gross-up**

None of the issuing entity, any agent or any other person will be obliged to gross-up payments to the noteholders if there is any withholding or deduction for or on account of taxes in respect of any payments on the notes.

**Redemption**

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

- each series will be subject to mandatory early redemption in part in accordance with the terms and conditions of the notes for that series, as fully set out in Condition 5;
- optional redemption exercisable by the issuing entity in whole on the date specified as the call option date (if any) or step-up date (if any) for such series and class of notes in the applicable final terms or drawdown prospectus and on any interest payment date for such series and class of notes following that date, as fully set out in Condition 5;
- optional redemption exercisable by the issuing entity in whole on such interest payment date on which the aggregate principal amount outstanding of such series and class of notes and all other classes of notes of the same series is less than 10 per cent. of the aggregate principal amount outstanding of such series of notes as at the closing date on which such series of notes were issued, as fully set out in Condition 5;
- optional redemption exercisable by the issuing entity in whole for tax reasons, as fully set out in Condition 5; and
- each series and class of the maturity purchase notes shall, subject to certain conditions, be transferred on the relevant transfer date in exchange for payment of the relevant maturity purchase price by the maturity purchaser to the holders of such series and class of maturity purchase notes on the relevant transfer date, as fully set out in Condition 5.

Any note redeemed pursuant to the above redemption provisions (other than a zero coupon note) will be redeemed at an amount equal to the principal amount outstanding of the relevant note to be redeemed together with accrued (and unpaid) interest on the principal amount outstanding of the relevant note up to (but excluding) the date of redemption. Zero coupon notes shall be redeemed in an amount equal to the amortised face amount as calculated pursuant to the formula set out in Condition 5.6.

**Early amortisation or extension risk**

Early amortisation or extension may be caused by either an asset trigger event or a non-asset trigger event (see further below "**Triggers Tables – Non-Rating Triggers Table" and "The mortgages trust - Cash management of trust property – distribution of principal receipts to Funding 2**").

Following the occurrence of a non-asset trigger event, the notes will be subject to prepayment risk (that is, they may be repaid earlier than expected) and extension risk (that is, they may be repaid more slowly than expected). This is because following a non-asset trigger event, mortgages trust available principal receipts will

be applied (i) first, to Funding 1 and Funding 2 according to their respective shares in the trust property until their shares have been reduced to zero, and (ii) second, to the seller.

Following the occurrence of an asset trigger event, certain series and classes of notes will be subject to prepayment risk and other series and classes of notes will be subject to extension risk. This is because following the occurrence of an asset trigger event, mortgages trust available principal receipts will be applied (in proportion to the respective amounts due), to Funding 1, Funding 2 and the seller according to their respective shares in the trust property, until the Funding 1 share of the trust property and the Funding 2 share of the trust property are zero. When both the Funding 1 share of the trust property and the Funding 2 share of the trust property are zero, the remaining mortgages trust available principal receipts (if any) will be allocated to the seller.

**Note event of default**

As fully set out in Condition 9, a note event of default broadly includes (where relevant, subject to the applicable grace period):

- non-payment of principal on any note of the relevant series and/or non-payment of interest on any note of the relevant series, in each case when such payment ought to have been paid in accordance with the terms and conditions of the notes, and in each case in relation only to the most senior class of notes then outstanding;
- breach of contractual obligations by the issuing entity under the transaction documents that are material in the context of the most senior class of notes then outstanding;
- certain insolvency related events (unless in certain cases it is approved by the most senior class of notes then outstanding); or
- a master intercompany loan acceleration notice is served whilst the most senior class of notes is outstanding.

**Limited recourse**

Notes that are not subject to a post-enforcement call option are (to the extent stated in the applicable final terms or drawdown prospectus) limited recourse obligations of the issuing entity. Where, following the realisation and application of the issuing entity security, amounts under the notes are not paid in full, any such unpaid amounts shall be deemed to be discharged in full and any relevant payment rights shall be deemed to cease as described in more detail in Condition 10.

**Post-enforcement call option**

Noteholders of notes which specify the post-enforcement call option to apply to such notes in the applicable final terms or drawdown prospectus are required, at the request of the post-enforcement call option holder, for a nominal consideration, to transfer or procure the transfer of all of the notes to the post-enforcement call option holder pursuant to the option granted to it by the note trustee (as agent for the noteholders) under the terms of the issuing entity post-enforcement call option agreement and Condition 10.2 (Post Enforcement Call Option). The post-enforcement call option may only be exercised following enforcement and realisation of the issuing entity security to the maximum extent possible (as certified by the issuing entity security trustee) and application of the proceeds of enforcement. The post-enforcement call option holder and Bank of Scotland have provided comfort to the issuing entity that the post-enforcement call option holder will exercise the post-enforcement call option and the notes will thereafter be submitted to the issuing entity for cancellation. See "**PECOH**".

**Enforcement**

Following a note event of default, the issuing entity security trustee may institute such proceedings as it thinks fit to accelerate the notes and enforce the issuing entity security and shall be bound to do so if directed by the note trustee (which direction may be at the discretion of the note trustee or as directed by resolutions of the noteholders or if so requested in writing by the appropriate majority of noteholders), and having first been indemnified and/or secured to its satisfaction, pursuant to the issuing entity deed of charge.

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| **Non petition** | The noteholders shall not be entitled to take any steps (otherwise than in accordance with the issuing entity deed of charge and the note trust deed) for any amounts owing to them, unless the note trustee or the issuing entity security trustee (as applicable) has become bound to institute such proceedings but has failed to do so within 30 days of becoming so bound and the failure is continuing, provided that no noteholder will be entitled to commence proceedings for the winding up or administration of the issuing entity unless there are no outstanding notes of a class with higher priority, or if notes of a class with higher priority are outstanding, there is consent of noteholders of not less than one quarter of the aggregate principal amount of the notes outstanding (as defined in the note trust deed) of the class or classes of notes with higher priority or pursuant to an extraordinary resolution of the holders of such class of notes. |
| **Governing law** | The notes will be governed by English law. |

## Overview of rights of noteholders

*Please refer to sections 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 issuing entity secured creditors.*

**Convening a Meeting**

Meetings of the noteholders to consider matters relating to the notes of one or more series will be convened by the issuing entity or the note trustee at any time and the note trustee when it is requested to do so by noteholders holding no less than one-tenth in principal amount of the notes of any class for the time being outstanding. If the issuing entity makes a default for a period of seven days in convening such a meeting, the same may be convened by the note trustee or the requisitionists. Noteholders can also participate in a noteholders' meeting convened by the issuing entity or the note trustee to consider any matter affecting their interests.

However, unless the issuing entity has an obligation to take such action under the relevant transaction documents, so long as no note event of default has occurred and is continuing, the noteholders are not entitled to instruct or direct the issuing entity to take any actions, either directly or through the note trustee, without the consent of the issuing entity and, if applicable, certain other transaction parties.

**Enforcement**

At any time after the notes become due and payable, the issuing entity security trustee may take such action as it thinks fit to enforce payment of the relevant series of notes and shall be bound to do if it has been so directed by the note trustee (which direction may be at the discretion of the note trustee or as directed by resolutions of the noteholders or so requested in writing by the appropriate majority of noteholders), providing the issuing entity security trustee has been indemnified and/or secured to its satisfaction.

Noteholders may institute proceedings against the issuing entity to enforce their rights under or in respect of the notes, or the issuing entity deed of charge only if (i) the note trustee or the issuing entity security trustee, as applicable, has become bound to institute proceedings and has failed to do so within 30 days of becoming so bound; and (ii) such failure is continuing, provided that no noteholder will be entitled to commence proceedings for the winding up or administration of the issuing entity unless there are no outstanding notes of a class with higher priority, or if notes of a class with higher priority are outstanding, there is consent of noteholders of not less than one quarter of the aggregate principal amount of the notes outstanding (as defined in the note trust deed) of the class or classes of notes with higher priority, or pursuant to an extraordinary resolution of the holders of such class of notes.

**Noteholders meeting provisions**

**Notice Periods**

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| *Initial Meeting:* | 21 clear days (and no more than 365 clear days) for the initial meeting |
| *Adjourned Meeting:* | No less than 13 clear days and no more than 42 clear days for the adjourned meeting |

**Quorum for extraordinary resolution**

*Initial Meeting:* One or more persons holding or representing not less than one-twentieth of the principal amount of the notes of the relevant series and class (other than an extraordinary resolution, which requires two or more persons present holding or representing not less than 50 per cent. in principal amount outstanding of the notes of the relevant series and class), and other than a basic terms modification, which requires two or more persons present holding or representing not less than three quarters of the principal amount outstanding of the notes of the relevant series and class for the time being outstanding.

*Adjourned Meeting:* One or more persons being or representing noteholders whatever the aggregate principal amount outstanding of the notes of such series and class so held or represented (other than a basic terms modification, which requires two or more persons present holding or representing not less than one quarter of the principal amount outstanding of the notes of the relevant series and class for the time being outstanding).

**Required Majority**

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| *Resolution:* | Simple majority |
| *Extraordinary Resolution:* | 75% of votes cast for matters requiring an extraordinary resolution |
| *Written Resolution*: | A resolution signed by or on behalf of all the noteholders of the relevant series and class or of the relevant class of more than one series of notes |

**Location**

Every such meeting shall be held at such time and place as the note trustee may elect or approve, provided that the place shall be a location in the United Kingdom (or, if applicable, the European Union).

**Matters requiring extraordinary resolution**

Broadly speaking, the following matters require an extraordinary resolution:

- basic terms modification (in respect of each series of notes) (please see Condition 11 for more details on a basic terms modification);
- sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the transaction documents or the conditions of the notes;
- power to sanction any compromise or arrangement proposed to be made between the issuing entity, the note trustee, any appointee of the note trustee and the noteholders or any of them;
- acceleration following a note event of default; and
- removal of the Funding 2 security trustee or issuing entity security trustee.

Please refer to Condition 11 for further details.

**Right of modification without noteholder consent**

Subject to satisfying the conditions set out in condition 11.8 (*Additional Right of Modification*), the note trustee shall be obliged, without any consent of any noteholders or any other secured creditors, to concur with the issuing entity in making any modification (other than a basic terms modification) to any transaction document to which it is a party or in relation to which the issuing entity security trustee holds security that the issuing entity considers necessary:

- for the purposes of changing the screen rate or the base rate on the applicable notes issued after the base rate modification reference date from the screen rate or the base rate that then applies to such notes to an alternative base rate (and such other amendments as are necessary or advisable in the commercially reasonable judgment of the issuing entity or the cash manager on its behalf to facilitate such change) to the extent there has been or there is reasonably expected to be a material disruption or cessation to the screen rate or the relevant base rate that applies to the notes at such time;
- changing the base rate that then applies in respect of any issuing entity swap

agreement or the Funding 2 swap agreement solely as a consequence of, and solely for the purpose of aligning such base rate with, the base rate of the notes following a base rate modification; and

- for the purpose of complying with any changes in the requirements of (i) Article 6 of the Securitisation Regulation, including as a result of the adoption of Regulatory Technical Standards in relation thereto or (ii) any other provision of the Securitisation Regulation, including Articles 19, 20, 21 or 22 of the Securitisation Regulation, including as a result of the adoption of Regulatory Technical Standards in relation thereto, or any equivalent securitisation legislation or regulations or official guidance applicable to the issuing entity or Bank of Scotland.

The note trustee is only obliged to concur with the master issuer in making any of the modifications permitted by condition 11.8 (*Additional Right of Modification*) if, *inter alia*:

- the master issuer has provided at least 30 calendar days' notice to the noteholders of each series which would be affected by the proposed modification (together the **affected note series**) of the proposed modification in accordance with condition 14 (*Notice to Noteholders*) and by publication on Bloomberg on the "Company News" screen relating to the notes, in each case specifying the date and time by which noteholders must respond; and

- in the case of a base rate modification or a Swap Rate Modification, noteholders representing at least 10 per cent. of the aggregate principal amount outstanding of the most senior class of notes then outstanding across the affected note series have not contacted the issuing entity via the principal paying agent in accordance with the notice and the then current practice of any applicable clearing system through which such notes may be held by the time specified in such notice 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 then outstanding across the affected note series have notified the issuing entity via the principal paying agent in accordance with the notice and the then current practice of any applicable clearing system through which such notes may be held by the time specified in such notice 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 the affected note series then outstanding is passed in favour of such modification in accordance with condition 11.4 (*Meetings of Noteholders; Modification and Waiver*).

**Relationship between classes of noteholders**

No extraordinary resolution to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the transaction documents or the terms and conditions of the notes shall take effect unless it has been sanctioned by an extraordinary resolution of all classes of notes, or the note trustee is of the opinion that it would not be materially prejudicial to the respective interests of such classes.

The issuing entity security trustee will exercise its rights under the issuing entity deed of charge only in accordance with the directions of the note trustee, which will in turn act at its discretion or as directed by the noteholders. If there is a conflict between the interests of one class of noteholders of one series and the same class of noteholders of another series, then a resolution directing the note trustee to take any action must be passed at separate meetings of the holders of each series of the relevant class of notes. Where the interests of one class of the noteholders conflicts with the interests of another class or classes of the noteholders, then:

- the note trustee is to have regard only to the interests of the class A noteholders in the event of a conflict between the interests of the class A noteholders on the one hand and the class B noteholders and/or the class M noteholders and/or the class C noteholders and/or the class D noteholders

on the other hand;

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

A basic terms modification requires an extraordinary resolution to be passed at a meeting where there is a quorum of one or more persons holding or representing not less than 75% of the aggregate principal amount outstanding of the notes of the relevant series and class or of the class of notes of more than one series of notes.

**Seller as noteholder**

The seller will not have any voting rights that would ordinarily be exercisable by any other noteholder in respect of any retained portion of the notes.

**Relationship between noteholders and other issuing entity secured creditors**

The note trustee will only take into account the interests of the noteholders in the exercise of its discretion, and not the interests of any other issuing entity secured creditor.

**Provision of information to the noteholders**

Information in respect of the underlying portfolio (in the form of a report made available at http://www.lloydsbankinggroup.com/Investors/debt-investors/securitisation/ (the website and the contents thereof do not form part of this base prospectus)) will be provided to investors on a monthly and quarterly basis. See also "Listing and general information – Investor reports and information" in respect of reporting for the purposes of Article 7 of the Securitisation Regulation.

**Communication with noteholders**

Any notice to be given by the issuing entity or the issuing entity security trustee to noteholders shall be given in the following manner:

- so long as the notes are held in the clearing systems, by delivering to the relevant clearing system for communication by it to noteholders;
- via a regulatory information service (such as the London Stock Exchange's Regulatory News Service); or
- sent by first class mail (or its equivalent) or (if posted to a non-UK address) by airmail at the respective addresses on the register, and published in The Financial Times and for so long as amounts are outstanding on the Rule 144A notes, in a daily newspaper of general circulation in New York (which is expected to be The New York Times).

## Overview of credit structure and cashflow

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

**Mortgages trust**

On 14 June 2002 and on several subsequent dates (in connection with previous transactions by Funding 1 issuing entities) Halifax, as the seller, sold loans and their related security (which is the security for the repayment of the relevant loan, including the relevant mortgage) to the mortgages trustee pursuant to a mortgage sale agreement. On the reorganisation date, the business and all property and liabilities of Halifax were transferred to Bank of Scotland following its registration as a public company under the Companies Act 1985, as amended, and change of name from The Governor and Company of the Bank of Scotland. These changes were effected pursuant to the HBOS Group Reorganisation Act 2006. From time to time on and following the reorganisation date Bank of Scotland, as the seller may, subject to satisfaction of the conditions to sale set out in "**Sale of the loans and their related security – Sale of loans and their related security to the mortgages trustee on the sale dates**" below, sell further loans and their related security originated by either Halifax or on and following the reorganisation date by Bank of Scotland under the Halifax brand to the mortgages trustee. The **loans** are residential mortgage loans secured over residential properties located in England, Wales and Scotland.

The mortgages trust was formed under English law with the mortgages trustee as trustee for the benefit of the seller and Funding 1 as beneficiaries. The mortgages trust was formed for the previous financings of the Funding 1 issuing entities, for the financings of the issuing entity described in this base prospectus and for the future financings of any new Funding 1 issuing entities or new Funding 2 issuing entities. On the programme date, the seller assigned a portion of its beneficial interest in the mortgages trust to Funding 2 for a purchase price of £100. New Funding beneficiaries may become beneficiaries of the mortgages trust from time to time, subject to confirmation having been received from each of the rating agencies that its then rating of the notes will not be reduced, withdrawn or qualified as a result thereof (see "**Risk factors – Holdings may establish another company which may become an additional beneficiary under the mortgages trust**"). The mortgages trustee will hold the loans and other property (the **trust property**) on trust for the benefit of the seller, Funding 1 and Funding 2 pursuant to a mortgages trust deed. The trust property includes the portfolio, which at any time consists of the loans and their related security held by the mortgages trustee together with any accrued interest on the loans and other amounts derived from the loans and their related security. The trust property will also include any money in the mortgages trustee GIC account. The **mortgages trustee GIC account** is the bank account in which the mortgages trustee holds any cash that is part of the trust property until it is distributed to the beneficiaries.

Each of the seller, Funding 1 and Funding 2 has a joint and undivided interest in the trust property, but their entitlement to the proceeds from the trust property is in proportion to their respective shares of the trust property, as further described under "**The mortgages trust**" below. Funding 1's beneficial interest in the trust property is referred to as the **Funding 1 share** of the trust property, Funding 2's beneficial interest in the trust property is referred to as the **Funding 2 share** of the trust property and the seller's beneficial interest in the trust property is referred to as the **seller share** of the trust property. The Funding 1 share, the Funding 2 share and the seller share of the trust property will be recalculated in accordance with the mortgages trust deed on each calculation date and will fluctuate over time. The accompanying final terms or drawdown prospectus will set out the approximate amounts of the Funding 1 share of the trust property, the Funding 2 share of the trust property and the seller share of the trust property as at the relevant closing date.

Any new loans sold to the mortgages trustee will increase the total size of the trust property, and will increase the Funding 2 share of the trust property to the extent only that Funding 2 has paid consideration to the seller for an increase in Funding 2's share of the trust property. To the extent that Funding 1 has paid consideration to the seller for an increase in the Funding 1 share of the trust property, the Funding 1 share of the trust property will increase by a corresponding amount. To the extent that neither Funding 2 nor Funding 1 has paid consideration to the seller for the sale of new loans, the seller share of the trust property will increase by a corresponding amount.

The seller may increase the size of the trust property from time to time in relation to an issuance of notes by the issuing entity or the advance of an issuing entity subordinated loan to the issuing entity, the proceeds of which will be advanced by the issuing entity to Funding 2 under the master intercompany loan agreement and applied by Funding 2 to fund the sale of the new loans and their related security to the mortgages trustee, or to comply with the seller's obligations under the mortgage sale agreement as described under "**Sale of the loans and their related security – Sale of loans and their related security to the mortgages trustee on the sale dates**" below.

Please refer to "**The mortgages trust – General legal structure**" and "**The mortgages trust – Fluctuation of shares in the trust property**" for more details.

**Minimum seller share**

The minimum seller share is designed to provide Funding 1 and Funding 2 with a level of protection against certain transaction risks (including set-off risks, enforceability and priority risks relating to further advances, etc.) by ensuring that these are collateralised by the seller share of the trust property. The size of the minimum seller share will fluctuate over time.

Please refer to "**The mortgages trust – Minimum seller share**" for more details.

**Allocation of losses**

Losses in respect of the portfolio are allocated *pro rata* to the seller, Funding 1 and Funding 2 according to their shares in the trust property.

Please refer to "**The mortgages trust – Losses**" for more details.

**Available funds of the mortgages trustee**

The cash manager will apply mortgages trust available revenue receipts and mortgages trust available principal receipts on each distribution date in accordance with the order of priority set out in the mortgages trust deed, as summarised below.

Mortgages trustee available revenue receipts will, broadly, include the following:

– revenue receipts on the loans (but excluding principal receipts); and

– interest payable to the mortgages trustee on the mortgages trustee GIC account; less

– any third party amounts.

Mortgages trustee available principal receipts will, broadly, include all principal receipts received during the previous calculation period.

On each calculation date, the cash manager will calculate and allocate the Funding 1 share, the Funding 2 share and the seller share in respect of the mortgages trust available revenue receipts and the mortgages trust available principal receipts for the then current calculation period and will then apply the mortgages trust available revenue receipts and the mortgages trust available principal receipts on the following distribution date in accordance with the order of priority set out in the mortgages trust deed and summarised below.

The mortgages trustee allocates principal receipts on the loans between the seller, Funding 1 and Funding 2 in amounts depending on whether Funding 1 or Funding 2, as the case may be, is required to pay amounts on a Funding 1 intercompany loan or the master intercompany loan, as the case may be, on the next Funding 1 interest payment date or Funding 2 interest payment date, as the case may be, or

whether Funding 1 or Funding 2, as the case may be, is accumulating cash to repay a bullet term advance or a scheduled amortisation instalment under a scheduled amortisation term advance (made under a Funding 1 intercompany loan agreement) or a bullet loan tranche or a scheduled amortisation instalment under a scheduled amortisation loan tranche (made under the master intercompany loan agreement), as the case may be.

**Summary of order of priority of distribution of mortgages trust available revenue receipts and mortgages trust available principal receipts**

Below is a summary of the order of priority of distribution of mortgages trust available revenue receipts and mortgages trust available principal receipts, as set out in full in the mortgages trust deed. Please refer to "**The mortgages trust - Mortgages trust calculation of revenue receipts**", "**The mortgages trust - Mortgages trust calculation of principal receipts**" and "**The mortgages trust - Cash management of trust property – distribution of principal receipts to Funding 2**" for further details.

| **Priority of payment with respect to mortgages trust available revenue receipts** | **Priority of payment with respect to mortgages trust available principal receipts** |
|---|---|
| 1. payment of the fees of the mortgages trustee and to third parties from the mortgages trustee in respect of the mortgages trust (subject to certain conditions). | <u>Pre-trigger events:</u><br>1. allocation and payment to Funding 1 and Funding 2 of an amount equal to the lesser of (i) its relevant share of the mortgages trust available principal receipts and (ii) its relevant cash accumulation requirement. |
| 2. payment of the fees of the servicer, the account bank and the mortgages trustee corporate services provider. | 2. allocation and payment to Funding 1 and Funding 2 up to its relevant cash accumulation requirement, to the extent not already paid under 1. above. |
| 3. allocation and payment of the Funding 1 share and Funding 2 share of mortgages trust available revenue receipts. | 3. allocation and payment to Funding 1 and Funding 2 of an amount equal to the lesser of (i) its relevant share of the remaining mortgages trust available principal receipts and (ii) its relevant repayment requirement. |
| 4. allocation and payment to the mortgages trustee, Funding 1 and/or Funding 2 of an amount equal to any loss amount suffered or incurred by it or them. | 4. allocation and payment to Funding 1 and Funding 2 up to its relevant repayment requirement, to the extent not already paid under 3 above. |
| 5. allocation and payment to the seller of the remainder. | 5. allocation and payment to the seller until the seller share is equal to the minimum seller share.<br><br>Please refer to "**The mortgages trust – Allocation and distribution of principal receipts prior to the occurrence of a trigger event**" for more details, including certain rules applicable to the above order of priority.<br><br><u>Post non-asset trigger event:</u><br><br>All mortgages trust available principal receipts will be allocated and distributed in the following order:<br><br>1. *first*, Funding 1 and Funding 2, in no order of priority between them and *pro rata* according to the Funding 1 share percentage of the trust property and the Funding 2 share percentage of the trust property (in each case, as calculated on the relevant share calculation date) respectively until the Funding 1 share of the trust property and the Funding 2 share of the trust property (in each case, as calculated on the relevant share calculation date) has been reduced to zero; and<br><br>2. *then*, the remainder, if any, of such receipts to the seller.<br><br><u>Post asset trigger event:</u><br><br>All mortgages trust available principal receipts will be allocated, without priority among them but in proportion to the respective amounts due, to Funding 1, Funding 2 and the seller according to the Funding 1 share percentage of the trust property, the Funding 2 share percentage of the trust property and the seller share percentage of the trust property (in each case, as |

| Priority of payment with respect to mortgages trust available revenue receipts | Priority of payment with respect to mortgages trust available principal receipts |
|---|---|
| | calculated on the relevant share calculation date) respectively until the Funding 1 share of the trust property and the Funding 2 share of the trust property are zero (and, for the avoidance of doubt, such payments may reduce the seller share of the trust property to an amount less than the minimum seller share). When both the Funding 1 share of the trust property and the Funding 2 share of the trust property are zero, the remaining mortgages trust available principal receipts (if any) will be allocated to the seller. |

**Loan tranches**

The issuing entity will make loan tranches available to Funding 2 pursuant to the master intercompany loan agreement. These loan tranches will be funded from (i) the proceeds of each series and class of notes (the **rated loan tranches**), (ii) each advance by the issuing entity subordinated loan provider (or a new issuing entity subordinated loan provider) of an issuing entity subordinated loan to the issuing entity whether or not in connection with an issuance of notes (the **subordinated loan tranches**) and (iii) each advance by the issuing entity start-up loan provider or a new issuing entity start-up loan provider to the issuing entity of an issuing entity start-up loan in connection with an issuance of notes (the **start-up loan tranches**) (see "**Overview of the notes" – Relationship between the notes, issuing entity subordinated loans and issuing entity start-up loans and the master intercompany loan**" below). The types of loan tranches (namely, bullet loan tranches, scheduled amortisation loan tranches, pass-through loan tranches, subordinated loan tranches and start-up loan tranches) are described under "**The master intercompany loan agreement - Repayment of principal on the rated loan tranches**". As an alternative to an issuing entity start-up loan, the Funding 2 start-up loan provider may make Funding 2 start-up loans available to Funding 2 pursuant to Funding 2 start-up loan agreements.

Each rated loan tranche will correspond to a particular series and class of notes. The rated loan tranches may comprise AAA loan tranches, AA loan tranches, A loan tranches, BBB loan tranches and BB loan tranches reflecting the designated credit rating assigned to each rated loan tranche (see "**The master intercompany loan agreement – Ratings designations of the rated loan tranches**" below). The rated loan tranche related to a series and class of notes will be specified for such series and class of notes in the applicable final terms or drawdown prospectus. Each subordinated loan tranche will correspond to an issuing entity subordinated loan advanced to the issuing entity by the issuing entity subordinated loan provider or, as the case may be, a new issuing entity subordinated loan provider on the relevant advance date. Each start-up loan tranche will correspond to an issuing entity start-up loan advanced to the issuing entity by the issuing entity start-up loan provider or, as the case may be, a new issuing entity start-up loan provider on the relevant closing date.

Subject to the provisions of the relevant Funding 2 priority of payments (see "**Cashflows**" below), Funding 2 will repay the master intercompany loan from payments received from the mortgages trustee. Prior to the occurrence of a trigger event or service of a note acceleration notice or a master intercompany loan acceleration notice, Funding 2 is generally required to repay principal on the rated loan tranches based on their respective loan tranche ratings. This means that the AAA loan tranches are repaid before the AA loan tranches, which in turn are repaid before the A loan tranches, which in turn are repaid before the BBB loan tranches and which in turn are repaid before the BB loan tranches. Prior to the occurrence of a trigger event or the service of a note acceleration notice or a master intercompany loan acceleration notice, there are a number of exceptions to this priority of payments. For further information on such exceptions, see "**Cashflows**" below. In certain circumstances, principal payments on the BB loan tranches, the

BBB loan tranches, the A rated loan tranches and the AA loan tranches will be deferred. In certain circumstances, payment on the scheduled amortisation loan tranches will be deferred. Please refer to "**Cashflows – Distribution of Funding 2 available principal receipts**" for details. See also "**Risk factors – The yield to maturity of your notes may be adversely affected by prepayments or redemptions on the loans**" and "**Risk factors – The issuing entity's ability to redeem the notes is affected by the rate of prepayment on the loan tranches**".

The issuing entity will make payments of interest on and principal in respect of the notes, the issuing entity subordinated loans and the issuing entity start-up loans from payments of interest and principal made by Funding 2 to it under the master intercompany loan agreement.

Please refer to "**The master intercompany loan agreement**" for further details, including the uses to which Funding 2 will put the proceeds of rated loan tranches, subordinated loan tranches and issuing entity start-up loan tranches received from time to time.

**Available funds of Funding 2:**

Funding 2 expects to have Funding 2 available revenue receipts and Funding 2 available principal receipts for the purposes of making interest and principal payments under the loan tranches and other obligations pursuant to the other transaction documents.

Funding 2 available revenue receipts: On any Funding 2 interest payment date these will, broadly, consist of the following:

- all mortgages trust available revenue receipts distributed or to be distributed to Funding 2 during the then current interest period;
- any amounts paid or to be paid by the seller to Funding 2 during the then current interest period in consideration of the seller acquiring a further interest in the trust property;
- any other net income of Funding 2, including all amounts of interest received on the Funding 2 GIC account, the Funding 2 collateralised GIC account, the Funding 2 eligible bank GIC account, the Funding 2 transaction account and/or authorised investments and amounts received by Funding 2 under the Funding 2 swap agreement (excluding certain amounts, as set out in full under "Cashflows – Definition of Funding 2 available revenue receipts"), in each case either received or to be received during the then current interest period;
- the amounts then standing to the credit of the Funding 2 general reserve ledger, except that such amounts shall not be used to pay amounts under items (S) and (T) of the Funding 2 pre-enforcement revenue priority of payments and subject to relevant limits or conditions;
- any amounts which have been made available from amounts standing to the credit of the Funding 2 yield reserve fund pursuant to paragraph (E) of the Funding 2 yield reserve priority of payments;
- if a liquidity reserve fund rating event has occurred and is continuing, and there are no amounts standing to the credit of the Funding 2 general reserve ledger, the amounts then standing to the credit of the Funding 2 liquidity reserve ledger and available to be drawn, to the extent necessary to pay the items in paragraphs (A) to (D), (F), (H), (J) and (L) in the Funding 2 pre-enforcement revenue priority of payments;
- if a liquidity reserve fund rating event has occurred but is no longer continuing due to an increase in the seller's rating since the preceding Funding 2 interest payment date, and Funding 2 elects to terminate the Funding 2 liquidity reserve fund, all amounts standing to the credit of the liquidity reserve ledger;
- any amounts standing to the credit of the Funding 2 liquidity reserve ledger

in excess of the Funding 2 liquidity reserve fund required amount as a result of a reduction in the Funding 2 liquidity reserve fund required amount; and

- any amount standing to the credit of the Funding 2 transaction account to the extent equal to the principal amount advanced to Funding 2 by either the issuing entity by way of start-up loan tranche or by the Funding 2 start-up loan provider by way of a Funding 2 start-up loan and not required by Funding 2 to meet its costs and expenses, as certified by the cash manager on behalf of Funding 2 to the Funding 2 security trustee.

Funding 2 available principal receipts: On any Funding 2 interest payment date these will, broadly, consist of the following:

- all mortgages trust available principal receipts received by Funding 2 during the then current interest period;
- all other Funding 2 principal receipts standing to the credit of the Funding 2 cash accumulation ledger which are to be applied on the next Funding 2 interest payment date to repay a bullet loan tranche and/or, subject to Rule (1) set out under "**The mortgages trust - Distribution of Funding 2 available principal receipts**", a scheduled amortisation instalment in respect of a scheduled amortisation loan tranche, or to make a payment under items (A) or (B) of the Funding 2 pre-enforcement principal priority of payments and, if such Funding 2 interest payment date occurs on or after a trigger event, the remainder of such receipts standing to the credit of the Funding 2 cash accumulation ledger;
- the amount, if any, to be credited to the Funding 2 principal deficiency ledger pursuant to the Funding 2 pre-enforcement revenue priority of payments on the relevant Funding 2 interest payment date;
- in so far as available for and needed to make a Funding 2 reserve principal payment (see "**Credit structure– Funding 2 general reserve fund**"), the amount that would then be standing to the credit of the Funding 2 general reserve ledger, less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in items (A) to (M) (inclusive) of the Funding 2 pre-enforcement revenue priority of payments, plus any amounts which will be credited to the Funding 2 general reserve ledger under item (A) of the relevant Funding 2 pre-enforcement principal priority of payments on the next Funding 2 interest payment date (i.e. occurring at the end of such period of four business days);
- in so far as available for and needed to make a Funding 2 reserve principal payment (see "**Credit structure— Funding 2 liquidity reserve fund**"), the amount that would then be standing to the credit of the Funding 2 liquidity reserve ledger, but less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in items (A) to (D) (inclusive) and (F), (H), (J) and (L) of the Funding 2 pre-enforcement revenue priority of payments plus any amounts which will be credited to the liquidity reserve ledger under item (B) of the relevant Funding 2 pre-enforcement principal priority of payments on the next Funding 2 interest payment date (i.e. occurring at the end of such period of four business days); and
- any other amount standing to the credit of the Funding 2 principal ledger (without double-counting the amounts described above);

less

- amounts to be applied on the relevant Funding 2 interest payment date to pay items (A) to (D) (inclusive) and (F), (H), (J) and (L) of the Funding 2 pre-enforcement revenue priority of payments.

**Summary of Funding 2 priority of payments**

Below is a summary of the Funding 2 priority of payments. It should be noted that this is a summary of some of the main cashflows, and does not include every possible cashflow or variation. For more information on cashflows (including those applicable following a trigger event or acceleration of all notes) please refer to "**Cashflows – Distribution of Funding 2 available revenue receipts before master intercompany loan acceleration**", "**Cashflows – Distribution of Funding 2 available principal receipts**" and "**Cashflows – Distribution of Funding 2 principal receipts and Funding 2 revenue receipts following master intercompany loan acceleration**".

| **Funding 2 pre-enforcement revenue priority of payments (prior to service of a master intercompany loan acceleration notice)** | **Funding 2 pre-enforcement principal priority of payments (before a trigger event and before master intercompany loan acceleration or acceleration of all notes)** | **Funding 2 post-enforcement priority of payments** |
|---|---|---|
| 1. amounts due to the Funding 2 security trustee, payment of amounts due to the issuing entity by way of senior fee in respect of the issuing entity's obligations specified in items (A) to (C) of the issuing entity pre-enforcement revenue priority of payments or items (A) to (C) of the issuing entity post-enforcement priority of payments, as the case may be, and any third party creditors (including tax liabilities) of Funding 2 (other than those referred to later)<br>2. amounts due to the account bank, the eligible GIC custodian, the agent account bank, the cash manager and the corporate services provider<br>3. amounts due to the Funding 2 swap provider (including any termination payments but excluding any Funding 2 swap excluded termination amount)<br>4. payment of interest due on AAA loan tranches (other than interest due on Funding 2 yield reserve loan tranches), and payment of the Funding 2 yield reserve loan primary interest amount due on the Funding 2 yield reserve AAA loan tranches<br>5. towards a credit to the AAA principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger<br>6. towards payment of interest due on the AA loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches) and the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve AA loan tranches | 1. to the extent only that monies have been drawn from the Funding 2 general reserve fund to make Funding 2 reserve principal payments, towards a credit to the Funding 2 general reserve ledger to the extent the amount standing to the credit thereof is less than the Funding 2 reserve required amount<br>2. if a liquidity reserve fund rating event has occurred and is continuing, (i) to the extent only that monies have been drawn from the Funding 2 liquidity reserve fund in order to make Funding 2 reserve principal payments or (ii) to the extent that the Funding 2 liquidity reserve fund has not been fully funded and Funding 2 available revenue receipts on such Funding 2 interest payment date are insufficient to do so, towards a credit to the Funding 2 liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the Funding 2 liquidity reserve fund required amount<br>3. in order of their final repayment dates, beginning with the earliest such date to repay the principal amounts due (if any) on the AAA loan tranches, in each case subject to Rules )١( and )٢( (set out under "**Cashflows – Distribution of Funding 2 available principal receipts**"<br>4. to repay the principal amounts due (if any) on the AA loan tranches, in each case subject to Rules )١( and )٢( (set out under "**Cashflows – Distribution of Funding 2 available principal receipts**"<br>5. to repay the principal amounts due (if any) on the A loan | 1. amounts due to the Funding 2 security trustee and any receiver appointed by it, and amounts due to the issuing entity in respect of its obligations under items (A) and (B) of the issuing entity post-enforcement priority of payments<br>2. towards payment of amounts (if any) due by Funding 2 to the account bank, the eligible GIC custodian, the agent account bank, the cash manager and the corporate services provider<br>3. towards payment of amounts (if any) due to the Funding 2 swap provider (including any termination payments but excluding any Funding 2 swap excluded termination amount)<br>4. towards payment of interest, principal and fees due and payable on the AAA loan tranches (other than interest due and payable on the Funding 2 yield reserve AAA loan tranches) and towards payment of the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve AAA loan tranches<br>5. towards payments of interest, principal and fees due and payable on the AA loan tranches (other than interest due and payable on the Funding 2 yield reserve AA loan tranches) and the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve AA loan tranches<br>6. towards payments of interest, principal and fees due and payable on the A loan tranches |

| **Funding 2 pre-enforcement revenue priority of payments (prior to service of a master intercompany loan acceleration notice)** | **Funding 2 pre-enforcement principal priority of payments (before a trigger event and before master intercompany loan acceleration or acceleration of all notes)** | **Funding 2 post-enforcement priority of payments** |
|---|---|---|
| 7. towards a credit to the AA principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger<br><br>8. towards payment of interest due on the A loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches) and the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve A loan tranches<br><br>9. towards a credit to the A principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger<br><br>10. towards payment of interest due on the BBB loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches) and the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve BBB loan tranches<br><br>11. towards a credit to the BBB principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger<br><br>12. towards payment of interest due on the BB loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches) and the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve BB loan tranches<br><br>13. towards a credit to the BB principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger<br><br>14. by way of payment of the | tranches, in each case subject to Rules )١ (and )٢ (set out under "**Cashflows – Distribution of Funding 2 available principal receipts**"<br><br>6. to repay the principal amounts due (if any) on the BBB loan tranches, in each case subject to Rules )١ (and )٢ (set out under "**Cashflows – Distribution of Funding 2 available principal receipts**"<br><br>7. to repay the principal amounts due (if any) on the BB loan tranches, in each case subject to Rules )١ (and )٢ (set out under "**Cashflows – Distribution of Funding 2 available principal receipts**"<br><br>8. towards a credit to the Funding 2 cash accumulation ledger until the balance is equal to Funding 2's cash accumulation liability<br><br>9. to repay the principal amounts due (if any) on the subordinated loan tranches, in each case subject to Rule (1) set out under "**Cashflows – Distribution of Funding 2 available principal receipts**"<br><br>10. provided that: (a) there is no debit balance on the Funding 2 Z loan principal deficiency sub-ledger, after application of the Funding 2 available revenue receipts on that Funding 2 interest payment date and (b) the repayment restrictions under Rule (2) set out under "**Cashflows – Distribution of Funding 2 available principal receipts**" are not in effect in respect of a rated loan tranche, then in no order of priority among them, to repay the principal amounts due (if any) on such Funding 2 interest payment date in respect of the Funding 2 Z loans in an amount required (if any) to | (other than interest due and payable on the Funding 2 yield reserve A loan tranches) and the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve A loan tranches<br><br>7. towards payments of interest, principal and fees due and payable on the BBB loan tranches (other than interest due and payable on the Funding 2 yield reserve BBB loan tranches) and the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve BBB loan tranches<br><br>8. towards payments of interest, principal and fees due and payable on the BB loan tranches (other than interest due and payable on the Funding 2 yield reserve BB loan tranches) and the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve BB loan tranches<br><br>9. towards payments of interest, principal and fees due and payable on the subordinated loan tranches<br><br>10. by way of payment of the senior fee, towards payment of any amounts due to the issuing entity in respect of its obligations (if any) to make a termination payment to an issuing entity swap provider (but excluding any issuing entity swap excluded termination amount)<br><br>11. towards payment of interest, principal and fees due and payable on the Funding 2 Z loans (if any) and any other amounts due to the Funding 2 Z loan provider under the Funding 2 Z loan agreement |

| **Funding 2 pre-enforcement revenue priority of payments (prior to service of a master intercompany loan acceleration notice)** | **Funding 2 pre-enforcement principal priority of payments (before a trigger event and before master intercompany loan acceleration or acceleration of all notes)** | **Funding 2 post-enforcement priority of payments** |
|---|---|---|
| senior fee, towards payment of any amounts due to the issuing entity in respect of its obligations (if any) to make a termination payment to an issuing entity swap provider (but excluding any issuing entity swap excluded termination amount)<br><br>15. towards a credit to the Funding 2 general reserve ledger to the extent the amount standing to the credit thereof is less than the Funding 2 reserve required amount (taking into account any net replenishment)<br><br>16. if a liquidity reserve fund rating event has occurred and is continuing, towards a credit to the Funding 2 liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the Funding 2 liquidity reserve fund required amount (taking into account any net replenishment)<br><br>17. towards payment of interest due on the subordinated loan tranches<br><br>18. towards a credit to the subordinated loan principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger<br><br>19. towards a credit to the Funding 2 Z loan principal deficiency sub-ledger in an amount to eliminate any debit on that ledger<br><br>20. towards payment of interest, capitalised interest and fees due and payable on the Funding 2 Z loans<br><br>21. (without double counting) to pay (i) any Funding 2 swap excluded termination amount after the occurrence of a Funding 2 swap provider default or a Funding 2 swap provider downgrade | reduce the principal amount outstanding under the Funding 2 Z loans to the Funding 2 Z loan required amount, in each case subject to Rule (1) set out under "**Cashflows – Distribution of Funding 2 available principal receipts**"<br><br>11. following the repayment in full of all amounts of interest and principal outstanding under the loan tranches (other than the start-up loan tranches), in no order of priority among them, to repay the principal amounts due (if any) on such Funding 2 interest payment date in respect of the Funding 2 Z loans<br><br>12. the remainder to be credited to the Funding 2 principal ledger | 12. to pay by way of payment of the senior fee amounts due to the issuing entity in respect of its obligations (if any) to pay any issuing entity swap excluded termination amount, to pay by way of payment of the senior fee any other amounts due to the issuing entity under the master intercompany loan agreement, and to pay any termination amount due to and payable to the Funding 2 swap provider by Funding 2 under the Funding 2 swap agreement as a result of a Funding 2 swap provider default or a Funding 2 swap provider downgrade termination event<br><br>13. towards payments of amounts due to the Funding 2 start-up loan provider under any Funding 2 start-up loan made by the Funding 2 start-up loan provider to fund the Funding 2 yield reserve fund<br><br>14. towards payment of: amounts due towards payment of interest, principal and fees due and payable on the start-up loan tranches and amounts due to the Funding 2 start-up loan provider under each Funding 2 start-up loan agreement<br><br>15. towards payment of an amount equal to £5,000 to be retained by Funding 2 as profit in each accounting period<br><br>16. towards payment of any deferred consideration due to the seller pursuant to the terms of the mortgage sale agreement |

| Funding 2 pre-enforcement revenue priority of payments (prior to service of a master intercompany loan acceleration notice) | Funding 2 pre-enforcement principal priority of payments (before a trigger event and before master intercompany loan acceleration or acceleration of all notes) | Funding 2 post-enforcement priority of payments |
|---|---|---|
| termination event, (ii) (by way of payment of the senior fee) any issuing entity swap excluded termination amount and (iii) (by way of payment of the senior fee) any other amounts due to the issuing entity under the master intercompany loan agreement<br>22. towards payment to Funding 2 of an amount equal to the sum of £5,000 per annum<br>23. towards payments of amounts due to the Funding 2 start-up loan provider under any Funding 2 start-up loan made to fund the Funding 2 yield reserve fund<br>24. towards payments of amounts due on the issuing entity start-up loan tranches and payment of amounts due to the Funding 2 start-up loan provider under each Funding 2 start-up loan agreement<br>25. towards payment to the seller of any deferred consideration due to the seller pursuant to the terms of the mortgage sale agreement<br>26. the balance (if any) to Funding 2 | | |

**Available funds of the issuing entity**

On any interest payment date, the issuing entity expects to have issuing entity revenue receipts and issuing entity principal receipts for the purposes of making interest and principal payments under the notes and the other transaction documents.

Issuing entity revenue receipts: These will, broadly, include the following:

- interest to be paid by Funding 2 in respect of the loan tranches under the master intercompany loan agreement;
- principal repaid by Funding 2 in respect of the issuing entity start-up loan tranches under the master intercompany loan agreement;
- fees to be paid to the issuing entity by Funding 2 under the terms of the master intercompany loan agreement;
- interest payable on the issuing entity bank accounts and any authorised investments;

- other net income of the issuing entity including amounts received or to be received under the issuing entity swap agreements (excluding certain amounts, as set out in full under "**Cashflows – Definition of issuing entity revenue receipts**"); and

- any additional amount the issuing entity receives from any taxing authority on account of amounts paid to that taxing authority for and on account of tax by an issuing entity swap provider under an issuing entity swap agreement.

Issuing entity principal receipts: These will (prior to service of a note acceleration notice), broadly speaking, include all principal amounts to be repaid by Funding 2 to the issuing entity under the master intercompany loan during the relevant interest period (excluding amounts with respect to the start-up loan tranches).

**Summary of issuing entity priority of payments**

Below is a summary of the issuing entity priority of payments. It should be noted that this is a summary of some of the main cashflows, and does not include every possible cashflow. For more information on cashflows please refer to "**Cashflows – Distribution of issuing entity revenue receipts before note acceleration**", "**Cashflows – Distribution of issuing entity principal receipts before note acceleration**" and "**Cashflows – Distribution of issuing entity principal receipts and issuing entity revenue receipts following note acceleration and master intercompany loan acceleration**" for more information.

| **Issuing entity pre-enforcement revenue priority of payments** | **Issuing entity pre-enforcement principal priority of payments** | **Issuing entity post-enforcement priority of payments** |
|---|---|---|
| 1. amounts due to issuing entity security trustee, the note trustee, the agent bank, the paying agents, the registrar and the transfer agent<br>2. third party creditors (including tax liabilities) (other than those referred to later)<br>3. amounts due to the issuing entity cash manager, the issuing entity account bank and the issuing entity corporate services provider<br>4. utilising amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each AAA loan tranche, payment of (i) any amounts due to the issuing entity swap providers (if any) in respect of the related series and class of class A notes (including any termination payment but excluding any issuing entity swap excluded termination amount), and (ii) (also utilising amounts (excluding principal) received from the issuing entity swap providers in respect of the related series and class of | 1. utilising principal amounts received by the issuing entity from Funding 2 in respect of each AAA loan tranche, payment of (i) amounts (in respect of principal) due to the issuing entity swap providers in respect of the related series and class of class A notes, and (ii) (also utilising principal amounts received from the issuing entity swap providers in respect of the related series and class of notes), principal due and payable (if any) on the related series and class of class A notes<br>2. utilising principal amounts received by the issuing entity from Funding 2 in respect of each AA loan tranche, payment of (i) amounts (in respect of principal) due to the issuing entity swap providers in respect of the related series and class of class B notes, and (ii) (also utilising principal amounts received from the issuing entity swap providers in respect of the related series and class of notes), principal due and payable (if any) on the related series and class of | 1. amounts due to issuing entity security trustee, any receiver, the note trustee, the agent bank, the paying agents, the registrar and the transfer agent<br>2. amounts due to the issuing entity cash manager, the issuing entity account bank and the issuing entity corporate services provider<br>3. pay amounts due to the issuing entity swap providers for each series of class A notes (excluding any termination payment)<br>4. pay interest due or overdue on, and to repay principal of, the applicable series of class A notes and to pay any swap termination payment due to the issuing entity swap provider for each series of class A notes (but excluding any issuing entity swap excluded termination amount)<br>5. pay amounts due to the issuing entity swap providers for each series of class B notes (excluding any termination payment) |

| Issuing entity pre-enforcement revenue priority of payments | Issuing entity pre-enforcement principal priority of payments | Issuing entity post-enforcement priority of payments |
|---|---|---|
| notes), interest due and payable (if any) on the related series and class of class A notes<br><br>5. utilising amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each AA loan tranche, payment of (i) any amounts due to the issuing entity swap providers (if any) in respect of the related series and class of class B notes (including any termination payment but excluding any issuing entity swap excluded termination amount), and (ii) (also utilising amounts (excluding principal) received from the issuing entity swap providers in respect of the related series and class of notes), interest due and payable (if any) on the related series and class of class B notes<br><br>6. utilising amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each A loan tranche, payment of (i) any amounts due to the issuing entity swap providers (if any) in respect of the related series and class of class M notes (including any termination payment but excluding any issuing entity swap excluded termination amount), and (ii) (also utilising amounts (excluding principal) received from the issuing entity swap providers in respect of the related series and class of notes), interest due and payable (if any) on the related series and class of class M notes<br><br>7. utilising amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each BBB loan tranche, payment of (i) any amount due to the issuing entity swap providers (if any) in respect of the related series and class of class C notes (including any termination | class B notes<br><br>3. utilising principal amounts received by the issuing entity from Funding 2 in respect of each A loan tranche, payment of (i) amounts (in respect of principal) due to the issuing entity swap providers in respect of the related series and class of class M notes, and (ii) (also utilising principal amounts received from the issuing entity swap providers in respect of the related series and class of notes), principal due and payable (if any) on the related series and class of class M notes<br><br>4. utilising principal amounts received by the issuing entity from Funding 2 in respect of each BBB loan tranche, payment of (i) amounts (in respect of principal) due to the issuing entity swap providers in respect of the related series and class of class C notes, and (ii) (also utilising principal amounts received from the issuing entity swap providers in respect of the related series and class of notes), principal due and payable (if any) on the related series and class of class C notes<br><br>5. utilising principal amounts received by the issuing entity from Funding 2 in respect of each BB loan tranche, payment of (i) amounts (in respect of principal) due to the issuing entity swap providers in respect of the related series and class of class D notes, and (ii) (also utilising principal amounts received from the issuing entity swap providers in respect of the related series and class of notes), principal due and payable (if any) on the related series and class of class D notes<br><br>6. utilising principal amounts received by the issuing entity from Funding 2 in respect of each subordinated loan | 6. pay interest due or overdue on, and to repay principal of, the applicable series of class B notes and to pay any swap termination payment due to the issuing entity swap provider for each series of class B notes (but excluding any issuing entity swap excluded termination amount)<br><br>7. pay amounts due to the issuing entity swap providers for each series of class M notes (excluding any termination payment)<br><br>8. pay interest due or overdue on, and to repay principal of, the applicable series of class M notes and to pay any swap termination payment due to the issuing entity swap provider for each series of class M notes (but excluding any issuing entity swap excluded termination amount)<br><br>9. pay amounts due to the issuing entity swap providers for each series of class C notes (excluding any termination payment)<br><br>10. pay interest due or overdue on, and to repay principal of, the applicable series of class C notes and to pay any swap termination payment due to the issuing entity swap provider for each series of class C notes (but excluding any issuing entity swap excluded termination amount)<br><br>11. pay amounts due to the issuing entity swap providers for each series of class D notes (excluding any termination payment)<br><br>12. pay interest due or overdue on, and to repay principal of, the applicable series of class D notes and to pay any swap termination payment due to the issuing entity swap provider for each series of class D notes (but excluding any issuing entity swap excluded |

| Issuing entity pre-enforcement revenue priority of payments | Issuing entity pre-enforcement principal priority of payments | Issuing entity post-enforcement priority of payments |
|---|---|---|
| payment but excluding any issuing entity swap excluded termination amount), and (ii) (also utilising amounts (excluding principal) received from the issuing entity swap providers in respect of the related series and class of notes), interest due and payable (if any) on the related series and class of class C notes<br><br>8. utilising amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each BB loan tranche, payment of (i) any amount due to the issuing entity swap providers (if any) in respect of the related series and class of class D notes (including any termination payment but excluding any issuing entity swap excluded termination amount), and (ii) (also utilising amounts (excluding principal) received from the issuing entity swap providers in respect of the related series and class of notes), interest due and payable (if any) on the related series and class of class D notes<br><br>9. utilising amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each subordinated loan tranche, to pay interest due and payable (if any) on the related issuing entity subordinated loan<br><br>10. to pay any issuing entity swap excluded termination payment due to an issuing entity swap provider<br><br>11. utilising amounts received by the issuing entity from Funding 2 in respect of each start-up loan tranche, to pay all amounts due and payable (if any) on the related issuing entity start-up loan<br><br>12. the balance (if any) to the issuing entity | tranche to pay amounts due and payable in respect of principal (if any) on the related issuing entity subordinated loan | termination amount)<br><br>13. pay interest due or overdue on, and to repay principal of, the issuing entity subordinated loans<br><br>14. pay any issuing entity swap excluded termination amount due to the issuing entity swap providers<br><br>15. pay interest due or overdue on, and to repay principal of, the issuing entity start-up loans<br><br>16. the balance (if any) to the issuing entity |

**General credit structure**

The general credit structure of the transaction includes, broadly speaking, the following elements:

*(a) Credit Support:*

- A Funding 2 general reserve fund has been established to help meet shortfalls in principal due on the original bullet loan tranches and original scheduled amortisation loan tranches in the circumstances described under "**Credit structure – Funding 2 general reserve fund**". The Funding 2 general reserve fund will be funded and replenished from Funding 2 available revenue receipts, Funding 2 available principal receipts, Funding 2 start-up loans and issuing entity start-up loans. The Funding 2 general reserve fund may also be used to help meet any deficit in Funding 2 available revenue receipts available for payment of interest and fees due under the master intercompany loan agreement (other than with respect to the subordinated loan tranches or the start-up loan tranches) and to help meet any deficit on the Funding 2 principal deficiency ledger (other than with respect to the subordinated loan principal deficiency sub-ledger and the Funding 2 Z loan principal deficiency sub-ledger (if any));

- Junior classes of notes will be subordinated to more senior classes of notes, thereby ensuring that available funds are applied to the most senior class of notes in priority to more junior classes of notes. For further details, please refer to "**Credit structure – Priority of payments among the class A notes, the class B notes, the class M notes, the class C notes, the class D notes and the issuing entity subordinated loans**";

- Funding 2 Z loans will be subordinated to the rated loan tranches thereby ensuring that available funds are applied to the rated loan tranches in priority to the Funding 2 Z loans. For further details, please refer to "**Risk factors – Subordination of the Funding 2 Z loans to the loan tranches may not protect noteholders from all risks of loss**" and "**The Funding 2 Z loan agreement**";

- Excess spread;

- The Funding 2 yield reserve fund has been established to make, *inter alia*, payments on each Funding 2 interest payment date of Funding 2 excess margin interest amounts due on the Funding 2 yield reserve loan tranches. The Funding 2 yield reserve fund will be funded from Funding 2 start-up loans and from issuing entity start-up loans. For further details, please refer to "**Credit structure – Funding 2 yield reserve fund**";

- The Funding 2 liquidity reserve fund may be used as part of Funding 2 available revenue receipts available to fund payment of certain senior expenses and interest due on rated loan tranches under the master intercompany loan agreement, and will also be available to make Funding 2 reserve principal payments;

*(b) Liquidity Support:*

- Funding 2 will be obliged to establish a liquidity reserve fund if the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated below A- by S&P, A3 by Moody's or A by Fitch or the short-term unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated below F1 by Fitch (unless the relevant rating agency confirms that its then current ratings of the notes will not be adversely affected as a consequence of the rating downgrade of the seller). Prior to enforcement of Funding 2 security or service of a master intercompany loan acceleration notice on Funding 2, the Funding 2

liquidity reserve fund may be used as part of Funding 2 available revenue receipts available to fund payment of certain senior expenses and interest due on rated loan tranches under the master intercompany loan agreement. Prior to the service of a master intercompany loan acceleration notice on Funding 2 and taking into account any allocation of principal to meet any deficiency in Funding 2's available revenue receipts, the Funding 2 liquidity reserve fund will also be available to make Funding 2 reserve principal payments. The Funding 2 liquidity reserve fund, if required to be funded, will be funded initially from Funding 2 available principal receipts or (if insufficient funds are available therefrom) from Funding 2 available revenue receipts in accordance with the Funding 2 pre-enforcement principal priority of payments or Funding 2 pre-enforcement revenue priority of Payments, as applicable. Please refer to "**Credit structure – Funding 2 liquidity reserve fund**" for more details;

- The Funding 2 principal deficiency ledger will be established, with a separate ledger corresponding to each of the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches, the subordinated loan tranches and the Funding 2 Z loans to record the notional principal losses corresponding to each such sub-ledger in reverse sequential order. Funding 2 available revenue receipts will be applied in accordance with the Funding 2 pre-enforcement revenue priority of payments to make up the relevant sub-ledger of the Funding 2 principal deficiency ledger in sequential order. Please refer to "**Credit structure – Funding 2 principal deficiency ledger**" for more details;

*(c) Hedging:*

- Funding 2 has entered into interest rate swaps with the Funding 2 swap provider to hedge against the variations in the mortgages trustee variable base rate payable on the variable rate loans, the rates of interest payable on the tracker rate loans and the fixed rates of interest payable on the fixed rate loans (in each case, as adjusted by a spread) compared to (i) the LIBOR rate or (ii) the weighted average of the compounded daily SONIA rates (as applicable) for sterling deposits (excluding spreads) payable in respect of any outstanding loan tranches under the master intercompany loan agreement and any outstanding Funding 2 Z loan with an interest rate based on LIBOR or compounded daily SONIA respectively. Please refer to "**The swap agreements – The Funding 2 swaps**" for more details;

- For each class of notes of a series other than a class of notes of a series that is denominated in Sterling and accrues interest at a floating rate that matches the LIBOR-based rate or the compounded daily SONIA-based rate (as applicable) applicable to the outstanding loan tranche that corresponds to such series and class of notes, the issuing entity has entered into an issuing entity swap with an issuing entity swap provider to protect the issuing entity against certain interest rate and/or currency fluctuations in respect of amounts payable to the issuing entity by Funding 2 under rated loan tranches under the master intercompany loan agreement that correspond to the classes of notes of the relevant series and amounts payable by the issuing entity under such corresponding classes of notes of the relevant series. Please refer to "**The swap agreements – The issuing entity currency swaps**" and "**The swap agreements – The issuing entity interest rate swaps**" for more details;

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(d) *Ancillary Support:*

- The mortgages trustee GIC account, the Funding 2 GIC account and the Funding 2 collateralised GIC account each earn interest at a specified rate. For more details, please refer to "**Credit structure – Mortgages trustee GIC account/Funding 2 GIC account/Funding 2 eligible bank GIC account/Funding 2 collateralised GIC account**";

- Funding 2 available revenue receipts are expected to exceed interest and the senior fee payable to the issuing entity;

- Funding 2 start-up loans may be provided to Funding 2 from time to time to fund the Funding 2 general reserve fund and/or Funding 2 yield reserve fund (if applicable) and/or the Funding 2 liquidity reserve fund (if applicable) and to meet the costs in connection with the issuance of notes and/or for meeting the costs and expenses incurred by Funding 2 and the mortgages trustee in connection with the payment of any purchase price by Funding 2 for any sale of loans and their related security to the mortgages trustee and/or the acquisition by Funding 2 of part of the Funding 1 share of the trust property and/or seller share of the trust property; and

- Issuing entity start-up loans may be provided to the issuing entity, to be on-lent to Funding 2 by way of start-up loan tranches in connection with each issuance of notes to fund the Funding 2 general reserve fund and/or Funding 2 liquidity reserve fund (if any) and/or a Funding 2 yield reserve fund (if applicable) and to meet the costs and expenses in connection with the issuance of notes.

**Funding 2 conditions precedent to drawdown**

Funding 2 will not be able to make any drawings under the master intercompany loan agreement unless:

- the related series and class of notes (or issuing entity subordinated loan or issuing entity start-up loan, as relevant) have been issued by the issuing entity (or the issuing entity subordinated loan provider or issuing entity start-up loan provider, as relevant) on the relevant closing date (or relevant advance date, as relevant) and the proceeds thereof have been received by or on behalf of the issuing entity;

- no master intercompany loan event of default or event of default has occurred and is continuing unremedied (if capable of remedy) or unwaived or would result from the making of such loan tranche; and

- there will be no debit balance on the Funding 2 principal deficiency ledger after the application of the Funding 2 available revenue receipts on the next Funding 2 interest payment date.

**Issuing entity conditions precedent to issuance**

The issuing entity may issue notes in one or more series and classes from time to time, subject to satisfying certain conditions precedent, including:

(i) the issuing entity obtaining written confirmation from each rating agency that the then current ratings of the outstanding Funding 1 notes and the outstanding notes will not be reduced, withdrawn or qualified because of the new issue;

(ii) the issuing entity providing written confirmation to the Funding 2 security trustee and the issuing entity security trustee that no master intercompany event of default has occurred which has not been remedied or waived and no master intercompany event of default will occur as a result of the issue of the new notes;

(iii) the issuing entity providing written confirmation that no note event of default has occurred and is continuing which has not been waived or would result from the new issue of notes; and

(iv) the issuing entity providing written certification to the Funding 2 security

trustee and the issuing entity security trustee:

(a) that no principal deficiency is recorded on the Funding 2 principal deficiency ledger in relation to the loan tranches outstanding at that time; or

(b) where a principal deficiency is recorded on the Funding 2 principal deficiency ledger at that time, that there will be sufficient Funding 2 available revenue receipts on the forthcoming Funding 2 interest payment date, when applied in accordance with the Funding 2 pre-enforcement revenue priority of payments, to eliminate such principal deficiency.

**Bank accounts and cash management**

Collections of interest and principal in respect of the loans in the portfolio are received by the seller in its collection account and swept into the mortgages trustee GIC account no later than the next London business day after they are deposited in the collection account. Payments of interest and principal on repayment loans are payable monthly in arrear. Payments of interest on interest-only loans are payable in the month that they are due. For further details, please see "**The servicer - Servicing of loans**".

**Summary of key swap terms**

There are two swaps governed by the Funding 2 swap agreement:

(a) The Funding 2 LIBOR swap, which has the following key commercial terms:

- Swap notional amount: sized in relation to the aggregate principal amount outstanding of all loan tranches under the master intercompany loan agreement and the aggregate principal amount outstanding of all Funding 2 Z loans with an interest rate based on LIBOR (subject to certain adjustments as more particularly described in "**The swap agreements – The Funding 2 swaps**");
- Funding 2 payment: the amount (if any) by which the sum of each of the calculation period Funding 2 amounts calculated during the preceding interest period exceed the sum of each of the calculation period swap provider amounts calculated during the preceding interest period;
- Funding 2 swap provider payment: the amount (if any) by which the sum of each of the calculation period swap provider amounts calculated during the preceding interest period exceed the sum of each of the calculation period Funding 2 amounts calculated during the preceding interest period; and
- Frequency of payment: each Funding 2 interest payment date.

(b) the Funding 2 SONIA swap, which has the following key commercial terms:

- Swap notional amount: sized in relation to the aggregate principal amount outstanding of all loan tranches under the master intercompany loan agreement and the aggregate principal amount outstanding of all Funding 2 Z loans with an interest rate based on compounded daily SONIA (subject to certain adjustments as more particularly described in "**The swap agreements – The Funding 2 swaps**");
- Funding 2 payment: the amount (if any) by which the sum of each of the calculation period Funding 2 amounts calculated during the preceding interest period exceed the sum of each of the calculation period swap provider amounts calculated during the preceding interest period;
- Funding 2 swap provider payment: the amount (if any) by which the sum of each of the calculation period swap provider amounts calculated during the preceding interest period exceed the sum of each of the calculation period Funding 2 amounts calculated during the preceding interest

period; and

- Frequency of payment: each Funding 2 interest payment date.

The issuing entity swaps have the following key commercial terms:

- Swap notional amount: the principal amount outstanding under the series and class of notes to which the relevant issuing entity swap relates;
- Issuing entity initial payment: the principal amount of the series and class of notes to which the relevant issuing entity swap relates as of the issue date;
- Issuing entity swap provider initial payment: the sterling equivalent of the principal amount of the series and class of notes to which the relevant issuing entity swap relates as of the issue date;
- Issuing entity ongoing payments: sterling interest amounts received on the rated loan tranche corresponding to the series and class of notes to which the relevant issuing entity swap relates;
- Issuing entity swap provider ongoing payments: amounts in the specified currency that are equal to the amounts of interest to be paid on the series and class of notes to which the relevant issuing entity swap relates;
- Issuing entity repayment amount: the sterling equivalent of the principal amount of the series and class of notes to which the relevant issuing entity swap relates being redeemed on a given day;
- Issuing entity swap provider repayment amount: amounts in the specified currency that are equal to the principal amount of the series and class of notes to which the relevant issuing entity swap relates being redeemed on a given day; and
- Frequency of payment: In relation to the issuing entity swap provider, as per the series and class of notes to which the relevant issuing entity swap relates and, in relation to the issuing entity, quarterly.

For further details, please see "**The swap agreements**".

**Triggers Tables**

**Rating Triggers Table**

| Transaction Party | Required Ratings/Triggers | Possible effects of Trigger being breached include the following |
|---|---|---|
| **Seller** | Long term unsecured, unsubordinated and unguaranteed debt obligations cease to be rated Baa2 or higher from Moody's and BBB or higher from S&P and BBB or higher from Fitch | • The seller shall deliver to the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee, the Funding 2 security trustee and the rating agencies a draft letter of notice to each of the borrowers of the sale and purchase effected by the mortgage sale agreement |
| | Long-term unsecured, unsubordinated, unguaranteed debt obligations cease to be rated at least Baa3 by Moody's, BBB- by S&P and BBB- by Fitch | • The minimum seller share will be recalculated to such amount as the rating agencies may require in order that there is no adverse effect on the then current ratings of the notes<br>• The seller shall, within 20 London business days of it becoming aware of such a rating being assigned, give notice of the sale and purchase effected by the mortgage sale agreement to each borrower<br>• loan assignments or assignations (as appropriate) to be perfected |
| | Long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated below A- by S&P, A3 by Moody's or A by Fitch or the short-term unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated below F1 by Fitch (unless the relevant rating agency confirms that the then current rating of the notes will not be adversely affected as a consequence of a ratings downgrade of the seller) | • Establishment of the Funding 2 liquidity reserve fund |
| **Funding 2 swap provider, or any credit support provider of the Funding 2 swap provider** | Loss of/failure to have:<br>**S&P:** Funding 2 swap provider or any applicable guarantor fails to have any S&P initial required rating (as set out in the S&P Minimum Counterparty Rating table below) where S&P framework Strong, Adequate or Moderate applies. The relevant S&P required ratings depend on which S&P framework is elected by the Funding 2 swap provider from time to time (the **S&P framework**) and the rating of the notes corresponding to the relevant Funding 2 swap. There are four S&P frameworks; | • Funding 2 swap provider must post collateral or, depending on which rating agency's relevant rating has not been maintained, transfer its rights and obligations to a replacement third party with the required rating, procure a third party with the required rating to become a co-obligor or guarantee its rights and obligations, or take such other action as is required to maintain, or restore, the rating of the notes by the relevant rating agency<br>• Termination of the Funding 2 swap if |

| Transaction Party | Required Ratings/Triggers | Possible effects of Trigger being breached include the following |
|---|---|---|
| | Strong, Adequate, Moderate and Weak. On the date of the Funding 2 swap agreement, the provisions relating to S&P framework Strong are elected;<br><br>**Moodys:** long-term, unsecured and unsubordinated debt or counterparty obligations rating of A3 by Moody's; or<br><br>**Fitch:** Short-term issuer default rating of F1 (or its equivalent) by Fitch or long-term issuer default rating of A (or its equivalent) by Fitch | the above requirements are not satisfied in accordance with the Funding 2 swap agreement |
| | Loss of/failure to have:<br><br>**S&P:** Funding 2 swap provider or any applicable guarantor fails to have any S&P subsequent required rating (or, if S&P framework Weak applies, the S&P required rating) (as set out in the S&P Minimum Counterparty Rating table below);<br><br>**Moodys:** Long-term, unsecured and unsubordinated debt or counterparty obligations rating of Baa1 by Moody's; or<br><br>**Fitch:** Short-term issuer default rating of F2 (or its equivalent) by Fitch or long-term issuer default rating of BBB+ (or its equivalent) by Fitch | • Funding 2 swap provider must post collateral (unless S&P framework Weak applies) and transfer its rights and obligations to a replacement third party with the required rating, procure a third party with the required rating to become a co-obligor or guarantee its rights and obligations, or take such other action as is required to maintain, or restore, the rating of the notes by the relevant rating agency<br>• Termination of the Funding 2 swap if the above requirements are not satisfied in accordance with the Funding 2 swap agreement |
| | Loss of:<br><br>**Fitch:** Short-term issuer default rating of F3 (or its equivalent) by Fitch or long-term issuer default rating of BBB- (or its equivalent) by Fitch | • Funding 2 swap provider must transfer its rights and obligations to a replacement third party with the required rating, procure a third party with the required rating to become a co-obligor or guarantee its rights and obligations, or take such other action as is required to maintain, or restore, the rating of the notes by Fitch (and in the interim, post collateral)<br>• Termination of the Funding 2 swap if the above requirements are not satisfied in accordance with the Funding 2 swap agreement |
| **Issuing entity swap provider, or any credit support provider of the issuing entity swap provider, in respect of the 2015-1 series 1 class A3 issuing entity swaps** | Loss of/failure to have:<br><br>**S&P:** Issuing entity swap provider or any applicable guarantor fails to have any S&P initial required rating (as set out in the S&P Minimum Counterparty Rating table below) where S&P framework Strong or Adequate applies. The relevant S&P required ratings depend on which S&P framework is elected by the issuing entity swap | • Relevant issuing entity swap provider must post collateral and may/or must, depending on which rating agency's relevant rating has not been maintained (and with the exception of the Moody's relevant rating), transfer its rights and obligations to a replacement third party with the required rating, procure a third party with the required rating to become a co- |

| Transaction Party | Required Ratings/Triggers | Possible effects of Trigger being breached include the following |
|---|---|---|
| | provider from time to time. There are two S&P frameworks: Strong and Adequate. On the date of the 2018-1 series 1 class A1 issuing swap, the provisions relating to S&P framework Strong are elected;<br><br>**Moodys:** Either (1) long-term, unsecured and unsubordinated debt of A3 by Moody's or (2) its counterparty risk assessment of A3 by Moody's; or<br><br>**Fitch:** Short-term issuer default rating of F1 by Fitch (or its equivalent) or long-term issuer default rating of A (or its equivalent) by Fitch. | obligor or guarantee its rights and obligations, or take such other action as is required to maintain, or restore, the rating of the relevant notes by the relevant rating agency.<br>• Termination of the relevant issuing entity swap if the above requirements are not satisfied in accordance with the relevant issuing entity swap agreement. |
| | Loss of:<br><br>**S&P:** Issuing entity swap provider or any applicable guarantor fails to have any S&P subsequent required rating (as set out in the S&P Minimum Counterparty Rating table below) where S&P framework Strong applies (or if the issuing entity swap provider has elected the S&P framework Adequate, where the S&P framework Adequate applies);<br><br>**Moodys:** Either (1) long-term, unsecured and unsubordinated debt rating of Baa1 by Moody's or (2) its counterparty risk assessment of Baa1 by Moody's; or<br><br>**Fitch:** Short-term issuer default rating of F2 (or its equivalent) by Fitch or long-term issuer default rating of BBB+ (or its equivalent) by Fitch. | • Relevant issuing entity swap provider must transfer its rights and obligations to a replacement third party with the required rating, procure a third party with the required rating to become a co-obligor or guarantee its rights and obligations, or (with the exception of where the Moody's relevant rating has not been maintained) take such other action as is required to maintain, or restore, the rating of the relevant notes by the relevant rating agency, or (in the event that the Fitch relevant rating has not been maintained) post collateral.<br>• Termination of the relevant issuing entity swap if the above requirements are not satisfied in accordance with the relevant issuing entity swap agreement. |
| | Loss of:<br><br>**Fitch:** Short-term issuer default rating of F3 (or its equivalent) by Fitch or long-term issuer default rating of BBB- (or its equivalent) by Fitch. | • Relevant issuing entity swap provider must transfer its rights and obligations to a replacement third party with the required rating, procure a third party with the required rating to become a co-obligor or guarantee its rights and obligations, or take such other action as is required to maintain, or restore, the rating of the relevant notes by Fitch (and in the interim, post collateral).<br>• Termination of the relevant issuing entity swap if the above requirements are not satisfied in accordance with the relevant issuing entity swap agreement.<br>• |

| Transaction Party | Required Ratings/Triggers | Possible effects of Trigger being breached include the following |
|---|---|---|
| **Issuing entity swap provider, or any credit support provider of the issuing entity swap provider, in respect of the 2018-1 series 1 class A1 issuing entity swaps** | Loss of/failure to have:<br><br>**S&P:** Issuing entity swap provider or any applicable guarantor fails to have any S&P initial required rating (as set out in the S&P Minimum Counterparty Rating table below) where S&P framework Strong applies;<br><br>**Moodys:** Either (1) long-term, unsecured and unsubordinated debt of A3 by Moody's or (2) its counterparty risk assessment of A3 by Moody's; or<br><br>**Fitch:** Short-term issuer default rating of F1 by Fitch (or its equivalent) or long-term issuer default rating of A (or its equivalent) by Fitch. | • Relevant issuing entity swap provider must post collateral and may/or must, depending on which rating agency's relevant rating has not been maintained (and with the exception of the Moody's relevant rating), transfer its rights and obligations to a replacement third party with the required rating, procure a third party with the required rating to become a co-obligor or guarantee its rights and obligations, or take such other action as is required to maintain, or restore, the rating of the relevant notes by the relevant rating agency.<br><br>• Termination of the relevant issuing entity swap if the above requirements are not satisfied in accordance with the relevant issuing entity swap agreement. |
| | Loss of:<br><br>**S&P:** Issuing entity swap provider or any applicable guarantor fails to have any S&P subsequent required rating (as set out in the S&P Minimum Counterparty Rating table below) where S&P framework Strong applies;<br><br>**Moody's:** Either (1) long-term, unsecured and unsubordinated debt rating of Baa1 by Moody's or (2) its counterparty risk assessment of Baa1 by Moody's; or<br><br>**Fitch:** Short-term issuer default rating of F2 (or its equivalent) by Fitch or long-term issuer default rating of BBB+ (or its equivalent) by Fitch. | • Relevant issuing entity swap provider must transfer its rights and obligations to a replacement third party with the required rating, procure a third party with the required rating to become a co-obligor or guarantee its rights and obligations, or (with the exception of where the Moody's relevant rating has not been maintained) take such other action as is required to maintain, or restore, the rating of the relevant notes by the relevant rating agency, or (in the event that the Fitch relevant rating has not been maintained) post collateral.<br><br>• Termination of the relevant issuing entity swap if the above requirements are not satisfied in accordance with the relevant issuing entity swap agreement. |
| | Loss of:<br><br>**Fitch:** Short-term issuer default rating of F3 (or its equivalent) by Fitch or long-term issuer default rating of BBB- (or its equivalent) by Fitch. | • Relevant issuing entity swap provider must transfer its rights and obligations to a replacement third party with the required rating, procure a third party with the required rating to become a co-obligor or guarantee its rights and obligations, or take such other action as is required to maintain, or restore, the rating of the relevant notes by Fitch (and in the interim, post collateral). |

| Transaction Party | Required Ratings/Triggers | Possible effects of Trigger being breached include the following |
|---|---|---|
| | | • Termination of the relevant issuing entity swap if the above requirements are not satisfied in accordance with the relevant issuing entity swap agreement. |
| | | • |
| **Servicer** | Short-term, unsecured, unsubordinated and unguaranteed debt is rated less than A-1 by S&P and P-1 by Moody's and F1 by Fitch. | • The servicer shall use reasonable endeavours to ensure that the title deeds are identified as distinct from the title deeds of other properties and mortgages and standard securities which do not form part of the portfolio. |
| **Account bank** | As holder of the Funding 1 Bank Accounts or the Funding 2 Bank Accounts:<br>(a) the unsecured, unsubordinated and unguaranteed debt obligations fall below A-1 short term or A long term (or, if not at least A-1 short term, A+ long term) by S&P; or<br>(b) the short-term, unsecured, unsubordinated and unguaranteed debt obligations fall below P-1 by Moody's; or<br>(c) the short-term, unsecured, unsubordinated and unguaranteed debt obligations fall below F1 by Fitch or the long-term, unsecured, unsubordinated and unguaranteed debt obligations fall below A by Fitch. | • Subject to the following bullet point, Funding 2 bank accounts maintained with the account bank will be required to be closed and a replacement account bank to be sought unless within any relevant remedy period (1) the relevant rating agency confirms that its then current rating of the notes would not be reduced, withdrawn or qualified as a result of such ratings trigger breach or (2) the account bank obtains (at its own costs) a guarantee of its obligations from a financial institution with the required minimum ratings or such other ratings as would not cause the then current rating of the notes to be reduced, withdrawn or qualified.<br>• Notwithstanding the foregoing, Bank of Scotland, as Funding 2 account bank with respect to the Funding 2 collateralised GIC account, may continue to act as Funding 2 account bank in respect of such account and may continue to receive deposits of Funding 2 deposit non-reserved amounts into the Funding 2 collateralised GIC account provided that the conditions described under "**Cash management for the mortgages trustee, Funding 1 and Funding 2—Cash management services with respect to the Funding 2 collateralised GIC account**" are met. |
| | As holder of the mortgages trustee GIC account:<br>(a) the long-term, unsecured, unsubordinated and unguaranteed debt obligations | • The mortgages trustee GIC account maintained with the account bank will be required to be closed and a replacement account bank to be sought unless within any relevant |

| Transaction Party | Required Ratings/Triggers | Possible effects of Trigger being breached include the following |
|---|---|---|
| | fall below BBB- by Fitch; or<br><br>(b) the account bank ceases to have (i) unsecured, unsubordinated and unguaranteed debt obligation ratings of at least A-1 short-term and A long-term by S&P; (ii) short-term and long-term "Issuer Default Ratings" of at least F1 and A (respectively) by Fitch, and (iii) short-term, unsecured, unsubordinated and unguaranteed debt obligation ratings of at least P-1 by Moody's. | remedy period (1) the relevant rating agency confirms that its then current rating of the notes would not be reduced, withdrawn or qualified as a result of such ratings trigger breach or (2) the account bank obtains (at its own costs) a guarantee of its obligations from a financial institution with the required minimum ratings or such other ratings as would not cause the then current rating of the notes to be reduced, withdrawn or qualified; or, with respect to paragraph (b) only, within 60 calendar days of such occurrence, an account is opened with a stand-by account bank whose (x) unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1 short-term and A long-term by S&P, (y) short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's and (z) short-term and long-term "Issuer Default Ratings" are at least F1 and A (respectively) by Fitch, provided at least the rating in paragraph (a) continues to be held by the account bank. |
| | As holder of the Funding 2 collateralised GIC account:<br><br>(a) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Funding 2 account bank fall below F2 by Fitch or the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the Funding 2 account bank fall below BBB- by Fitch; or<br><br>(b) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Funding 2 account bank fall below P-2 by Moody's; or<br><br>(c) the unsecured, unsubordinated and unguaranteed debt obligations of the Funding 2 account bank fall below A-2 short term or BBB- long term by S&P. | • The cash manager or Funding 2 shall, within 5 London Business Days, transfer amounts standing to the credit of the Funding 2 collateralised GIC account to the Funding 2 GIC account. |

| Transaction Party | Required Ratings/Triggers | Possible effects of Trigger being breached include the following |
|---|---|---|
| **Eligible GIC Custodian** | (a) the custodian's long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated below BBB from S&P; or<br>(b) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the custodian fall below F-2 by Fitch or the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the custodian fall below BBB+ by Fitch; or<br>(c) such other ratings as may be agreed with the relevant rating agency. | • The security provider shall, with the prior written approval of the secured party, revoke its appointment of the custodian by not less than 3 calendar days' notice to the custodian; provided that such revocation shall not take effect until a successor has been duly appointed in accordance with the custody agreement. |
| **Issuing entity account bank** | (a) the unsecured, unsubordinated and unguaranteed debt obligations fall below A-1 short term or A long term (or, if not at least A-1 short term, A+ long term) by S&P; or<br>(b) the short-term, unsecured, unsubordinated and unguaranteed debt obligations fall below P-1 by Moody's; or<br>(c) the short-term, unsecured, unsubordinated and unguaranteed debt obligations fall below F1 by Fitch or the long-term, unsecured, unsubordinated and unguaranteed debt obligations fall below A by Fitch. | • Issuing entity bank accounts maintained with the issuing entity account bank will be required to be closed and a replacement account bank to be sought unless within any relevant remedy period (1) the relevant rating agency confirms that its then current rating of the notes would not be reduced, withdrawn or qualified as a result of such ratings trigger breach or (2) the issuing entity account bank obtains (at its own costs) a guarantee of its obligations from a financial institution with the required minimum ratings or such other ratings as would not cause the then current rating of the notes to be reduced, withdrawn or qualified. |

**S&P Minimum Counterparty Rating**

For so long as the notes corresponding to the relevant issuer swap and Funding 2 swap (as applicable) are rated by S&P, the **S&P required ratings** set out below apply, as though each reference therein to S&P relevant notes were a reference to the notes corresponding to the relevant issuer swap or Funding 2 swap. The relevant S&P required ratings depend on which S&P framework is elected by the issuer swap provider or the Funding 2 swap provider from time to time (the **S&P framework**) and the rating of the notes corresponding to the relevant issuer swap or Funding 2 swap. There are four S&P frameworks; Strong, Adequate, Moderate and Weak.

Following the loss of any S&P required rating, during the relevant period, the issuer swap provider or Funding 2 swap provider may, in addition to each of the remedies set out below, elect to change the S&P framework in order to cure the breach of the ratings trigger (i.e. where the issuer swap provider or Funding 2 swap provider has the required ratings under another S&P framework but does not have the required ratings under the S&P framework currently in effect).

**S&P required ratings:** The S&P required ratings are set out in the tables below.

| Current rating of the relevant notes | S&P framework Strong | | S&P framework Adequate | | S&P framework Moderate | | S&P framework Weak |
|---|---|---|---|---|---|---|---|
| | S&P initial required rating | S&P subsequent required rating | S&P initial required rating | S&P subsequent required rating | S&P initial required rating | S&P subsequent required rating | S&P required rating |
| AAA | A- | BBB+ | A- | A- | A | A | A+ |
| AA+ | A- | BBB+ | A- | A- | A- | A- | A+ |
| AA | A- | BBB | BBB+ | BBB+ | A- | A- | A |
| AA- | A- | BBB | BBB+ | BBB+ | BBB+ | BBB+ | A- |
| A+ | A- | BBB- | BBB | BBB | BBB+ | BBB+ | A- |
| A | A- | BBB- | BBB | BBB | BBB | BBB | BBB+ |
| A- | A- | BBB- | BBB | BBB- | BBB | BBB | BBB+ |
| BBB+ | A- | BBB- | BBB | BBB- | BBB | BBB- | BBB |
| BBB | A- | BBB- | BBB | BBB- | BBB | BBB- | BBB |
| BBB- | A- | BBB- | BBB | BBB- | BBB | BBB- | BBB- |
| BB+ and below | A- | At least as high as 3 notches below the Relevant Notes rating | BBB | At least as high as 2 notches below the Relevant Notes rating | BBB | At least as high as 1 notch below the Relevant Notes rating | At least as high as the Relevant Notes rating |

The issuer swap provider, Funding 2 swap provider or any relevant guarantor will have the relevant S&P required rating if its issuer credit rating or its resolution counterparty rating assigned by S&P is at least as high as the applicable S&P required rating corresponding to the then current rating of the relevant notes and the applicable S&P framework as specified in the above table.

## Non-Rating Triggers Table

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

### Non-asset trigger events

Non-asset trigger events relate primarily (but not exclusively) to events associated with the seller/servicer. Please see "**The mortgages trust – Allocation and distribution of principal receipts on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event**" for more details.

| Nature of Trigger | Description of Trigger | Consequence of Trigger |
|---|---|---|
| Insolvency event | An insolvency event in relation to the seller on or before the relevant calculation date | Mortgages trust available principal receipts will be applied (i) first, to Funding 1 and Funding 2 according to their respective shares in the trust property until their shares have been reduced to zero, and (ii) second, to the seller |
| Substitution of servicer | The seller's role as servicer under the servicing agreement is terminated and a new servicer is not appointed within 30 days | Mortgages trust available principal receipts will be applied (i) first, to Funding 1 and Funding 2 according to their respective shares in the trust property until their shares have been reduced to zero, and (ii) second, to the seller |
| Breach of minimum seller share | As at the calculation date immediately preceding the relevant calculation date, the seller share of the trust property was less than the minimum seller share | Mortgages trust available principal receipts will be applied (i) first, to Funding 1 and Funding 2 according to their respective shares in the trust property until their shares have been reduced to zero, and (ii) second, to the seller |
| Breach of required loan balance amount | On any calculation date, the aggregate outstanding principal balance of loans comprising the trust property was less than the required loan balance amount specified in the most recent final terms or drawdown prospectus or is less than the amount as may be required to be maintained as a result of any new Funding 1 issuers providing new term advances to Funding 1 and/or the issuing entity advancing new loan tranches to Funding 2 which Funding 1 and/or Funding 2, as the case may be uses to pay to the seller and/or Funding 1 or Funding 2, as the case may be, for an increase in its share of the trust property and/or to pay the seller for the sale of new loans for the mortgages trustee | Mortgages trust available principal receipts will be applied (i) first, to Funding 1 and Funding 2 according to their respective shares in the trust property until their shares have been reduced to zero, and (ii) second, to the seller |

## Asset trigger events

Asset trigger events relate to the performance of the underlying portfolio and will be activated if certain events occur. Please see "**The mortgages trust – Allocation and distribution of principal receipts on or after the occurrence of an asset trigger event**" for more details.

| Nature of Trigger | Description of Trigger | Consequence of Trigger |
|---|---|---|
| Principal deficiencies | Principal losses on the loans in the portfolio reach a level causing an amount to be debited to the principal deficiency sub-ledger in relation to the term AAA advances of any Funding 1 issuing entity or to the AAA principal deficiency sub-ledger of Funding 2, unless such debit is made when: (a) (i) in the case of principal deficiency sub-ledger in relation to the term AAA advances of a Funding 1 issuing entity, the aggregate principal amount outstanding of each of the term AA advances, the term A advances and the term BBB advances of the Funding 1 issuing entity is equal to zero or (ii) in the case of the AAA principal deficiency sub-ledger of Funding 2, the aggregate principal amount outstanding of each of the AA loan tranches, the A loan tranches, the BBB loan tranches and the BB loan tranches is equal to zero; and (b) (i) in the case of principal deficiency sub-ledger in relation to the term AAA advances of a Funding 1 issuing entity, the sum of (x) the amount standing to the credit of the Funding 1 general reserve ledger, (y) the Funding 1 liquidity reserve ledger (if any) and (z) the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, is greater than the amount necessary to eliminate the debit balance on the principal deficiency ledger in relation to the term AAA advances of the Funding 1 issuing entity and pay amounts ranking in priority to such item under the Funding 1 Pre-enforcement revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made or (ii) in the case of the AAA principal deficiency sub-ledger of Funding 2, the sum of (x) the amount standing to the credit of the Funding 2 general reserve ledger, (y) the Funding 2 liquidity reserve ledger (if any) and (z) the Funding 2 revenue ledger together with amounts determined and due to be credited to the Funding 2 revenue ledger prior to the immediately following Funding 2 interest payment date after such debit is made, is greater than the amount necessary to pay the items in paragraphs (A) to (E) of the Funding 2 pre-enforcement revenue priority of payments on the immediately following Funding 2 interest payment date after such | Mortgages trust available principal receipts will be applied (in proportion to the respective amounts due), to Funding 1, Funding 2 and the seller according to their respective shares in the trust property, until the Funding 1 share of the trust property and the Funding 2 share of the trust property are zero. When both the Funding 1 share of the trust property and the Funding 2 share of the trust property are zero, the remaining mortgages trust available principal receipts (if any) will be allocated to the seller |

| Nature of Trigger | Description of Trigger | Consequence of Trigger |
| --- | --- | --- |
| | debit is made | |

## Certain Regulatory Requirements

The following outlines certain matters that may be relevant to some investors. It does not purport to be a comprehensive list of regulatory matters that pertain to investors. All investors are responsible for analysing their own regulatory position.

Please refer to "**Risk factors – Legal and regulatory risks relating to the structure and the notes**" for further information.

### Securitisation Regulation requirements

#### *Retention statement*

The seller in its capacity as the originator, will:

(i) retain, on an on-going basis, a material net economic interest of not less than 5 per cent. in the nominal value of the securitised exposures as required by the text of Article 6 of the Securitisation Regulation (which does not take into account any relevant national measures), by retaining a seller share of no less than 5 per cent in the mortgages trust in accordance with Article 6(3)(b) of the Securitisation Regulations;

(ii) at all relevant times comply with the requirements of Article 7(1)(e)(iii) of the Securitisation Regulation by confirming in the investor reports the risk retention of the seller as contemplated by Article 6(1) of the Securitisation Regulation;

(iii) not change the manner in which it retains such material net economic interest, except to the extent permitted by the Securitisation Regulation; and

(iv) not hedge, sell or otherwise enter into any credit risk mitigation, short position or any other credit risk hedge with respect to its retained material net economic interest, except to the extent permitted by the Securitisation Regulation.

Any change to the manner in which such interest is held will be notified to noteholders in accordance with the conditions and requirements of the Securitisation Regulation.

For the purposes of Article 7(2) of the Securitisation Regulation, the issuing entity has been designated as the entity responsible for compliance with the requirements of Article 7 and will either fulfill such requirements itself or shall procure that such requirements are complied with on its behalf. See "**Listing and general information—Investor reports and information**".

As to the information made available to prospective investors by the issuing entity, reference is made to the information set out herein and forming part of this base prospectus and to the monthly and quarterly reports. In such monthly reports, relevant information with regard to the mortgage loans will be disclosed publicly together with an overview of the retention and/or any changes in the method of retention of the material net economic interest by the seller. See "**Listing and general information**".

In this base prospectus, any reference to the Securitisation Regulation is to be construed as a reference to such provision as the same may have been implemented, transposed, enacted or retained under the laws of the United Kingdom.

#### *Investors to assess compliance*

Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in this base prospectus generally for the purposes of complying with Article 5 of the Securitisation Regulation, and any corresponding national measures which may be relevant, and none of the issuing entity, the arranger, the dealers, the managers, the seller or any of the other transaction parties makes any representation that the information described above or elsewhere in this base prospectus, any drawdown prospectus and any final terms (as applicable) is sufficient in all circumstances for such purposes.

Please refer to the risk factors "**Risk factors — Regulatory initiatives may have an adverse impact on the regulatory treatment of the notes**" and "**Risk factors — Simple, Transparent and Standardised Securitisations (STS)"** for further information on the implications of the Securitisation Regulation and risk retention requirements for investors.

***Information regarding the policies and procedures of the seller***

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

- criteria for the granting of offers of mortgages that consider a variety of factors, such as a potential borrower's credit history, employment history and status and repayment ability, as well as the value of the property to be mortgaged, as to which please see "**The loans—Underwriting**"; and
- systems to administer and monitor the loans, including the management of loans in arrears, as to which please see the section "**The servicing agreement**".

***STS status***

The seller, as originator, confirms that it will, if set out in the relevant final terms or drawdown prospectus (as applicable) make an STS notification (as defined in the Securitisation Regulation) to ESMA that the relevant notes are an STS Securitisation pursuant to Article 18 of the Securitisation Regulation. Such STS compliant securitisations appear on the list of STS Securitisations established and maintained by ESMA in accordance with Article 27(5) of the Securitisation Regulation (each, an **STS securitisation**). The STS notification and accompanying explanation from the seller of such transaction's compliance with Articles 20 to 22 of the Securitisation Regulation (compliance with such articles being required to qualify as an STS securitisation) will be available for inspection at the website set out in the section entitled "**Listing and general information**".

The seller confirms that prior to the issuance of a series of notes which is to be an STS securitisation, a representative sample of the loans included in the portfolio will be the subject of external verification by an appropriate and independent third party. This verification will extend to both compliance with certain lending criteria and verification of certain data set out herein.

**U.S. credit risk retention**

The U.S. Credit Risk Retention Requirements require the "sponsor" of a securitisation transaction to acquire and retain (or to ensure that a majority-owned affiliate of the sponsor acquires and retains) five percent of the credit risk of the assets collateralising the asset-backed securities. Under the U.S. Credit Risk Retention Requirements, a "sponsor" means a person who organises and initiates a securitisation transaction by selling or transferring assets, either directly or indirectly, including through an affiliate, to the issuing entity. For purposes of the programme, the seller is the "sponsor" under the U.S. Credit Risk Retention Requirements.

The seller is required under the U.S. Credit Risk Retention Requirements to acquire and retain (or to ensure that a majority-owned affiliate of the sponsor acquires and retains) an economic interest in the credit risk of the interests created by the issuing entity on the closing date of each issuance of notes and on a monthly basis on each calculation date (each, a **Retention Calculation Date**). The seller initially intends to satisfy the U.S. Credit Risk Retention Requirements by maintaining a seller share in the master trust in an amount at least equal to 5 per cent. of the aggregate outstanding principal balance of all notes issued by the issuing entity, other than any notes that are at all times held by the seller or one or more of its wholly-owned affiliates, calculated in all cases in accordance with U.S. Credit Risk Retention Requirements. For purposes of the calculation described in the preceding sentence, a wholly-owned affiliate of the seller will include any person, other than the issuing entity, that directly or indirectly, wholly controls (i.e. owns 100% of the equity in such person), is wholly controlled by, or is wholly under common control with, the seller.

The seller share will be calculated as a percentage of the aggregate outstanding principal balance of all notes issued by the issuing entity, other than any notes that are at all times held by the seller or one or more of its wholly-owned affiliates, as of each Retention Calculation Date. If on any Retention Calculation Date the seller share is less than 5 per cent of such amount and if such percentage is not increased to at least 5 per cent. of such amount within 30 calendar days, the U.S. Credit Risk Retention Requirements will not be satisfied. In the event that any such deficiency persists for two consecutive calculation dates, a non-asset trigger event will occur. However, the U.S. Credit Risk Retention Requirements will not be violated following the decrease of the seller share below 5 per cent. of the aggregate outstanding principal balance of all notes issued by the issuing entity (other than any notes that are at all times held by the seller or one or more of its wholly-owned affiliates), if an early amortization period commences for all outstanding notes and

the seller was in compliance with the risk retention requirements as of the commencement of early amortization, and no additional notes are issued thereafter.

In addition to holding the seller share as described above, the seller will not purchase or sell a security or other financial instrument, enter into any derivative, agreement or position that reduces or limits its financial exposure to the seller share that it will maintain to satisfy the U.S. Credit Risk Retention Requirements to the extent such activities would be prohibited hedging activities in accordance with U.S. Credit Risk Retention Requirements. See "**The Mortgages Trust—Minimum seller share**" for a description of the material terms of the seller share, how the seller share is calculated from time to time and the seller's obligation to maintain the minimum seller share.

In the future, the seller may elect to comply with the U.S. Credit Risk Retention Requirements through any other means permitted thereunder. In making such election, the seller will comply with the provisions of the U.S. Credit Risk Retention Requirements, including applicable disclosure requirements.

Subject to any applicable restrictions on transfer, the seller may, at any time and from time to time, sell or otherwise transfer all or any portion of any notes it holds, and may sell or otherwise transfer any portion of its interest in the seller share in excess of the portion it is required to retain to comply with the U.S. Credit Risk Retention Requirements.

In the monthly reports, relevant information with regard to the U.S. Credit Risk Retention Requirements and/or any changes in the method of retention by the seller will be disclosed in accordance with applicable disclosure requirements. See "**Listing and general information**".

None of the initial purchasers, the arranger or the dealers have independently verified any of the statements under this "U.S. credit risk retention" section or are responsible for making any representation concerning the seller share. In addition, none of the initial purchasers, the arranger or the dealers have any responsibilty to monitor or enforce compliance with the U.S. Credit Risk Retention Requirements or other credit risk requirements for asset-backed securities or other rules and regulations relating to credit risk retention or will be charged with knowledge of such rules or be liable to any noteholder or any other person for violation of such rules now or hereinafter in effect.

**Rule 15Ga-2 under the Exchange Act**

Rule 15Ga-2, which became effective on 15 June 2015, requires any issuer or underwriter of asset-backed securities (for this purpose, securitisations of residential and commercial mortgage loans as well as other asset classes) rated by a nationally recognized statistical rating organisation to furnish a form (a Form ABS-15G) via the SEC's EDGAR database describing the findings and conclusions of any third-party due diligence report obtained by the issuing entity or underwriter, at least five business days prior to the first sale of the asset-backed securities. The filing requirements apply to both publicly registered offerings and unregistered securitisations of assets offered within the United States such as those relying on Rule 144A. A third party due diligence report is any report containing findings and conclusions relating to due diligences services, which are defined as a review of pool assets for the purposes of issuing findings on: (1) the accuracy of the asset data; (2) determining whether the assets conform to stated underwriting standards; (3) asset value(s); (4) legal compliance by the originator; and (5) any other factor material to the likelihood that the issuing entity will pay interest and principal as required. These due diligence services are routinely provided by third-party due diligence vendors in asset-backed securities structured transactions and affect their credit ratings.

A Form ABS-15G containing diligence findings and conclusions with respect to a third party due diligence report prepared for the purpose of the transaction contemplated by this base prospectus will be prepared and furnished by the issuing entity no later than five business days prior to the pricing date and will be publically available on EDGAR pursuant to Rule 15Ga-2 and will be publicly available in advance of any issuance. Any Form ABS-15G is not and will not be, by this reference or otherwise, incorporated into this base prospectus or the relevant final terms and should not be relied upon by any prospective investor as a basis for making a decision to invest in any notes. Prospective investors should rely exclusively on this base prospectus and the relevant final terms in making their investment decisions.

## Fees

The table below sets out the principal on-going transaction fees to be paid by the issuing entity, Funding 2 and the mortgages trustee to transaction parties. Each of these fees is subject to change at any time without your notification or approval, including upon the appointment of any successor service provider or any other successor transaction party pursuant to the applicable transaction document.

| Type of Fee | Amount of Fee | Priority in Cashflow | Frequency |
|---|---|---|---|
| Servicing fee | 0.05 per cent. each year of the aggregate amount of the trust property (inclusive of VAT) | Ahead of all revenue amounts payable to Funding 2 by the mortgages trustee | Each distribution date |
| Mortgages trustee fee | £1,000 each year (inclusive of VAT) | Ahead of all revenue amounts payable to Funding 2 by the mortgages trustee | Annually on the distribution date following the anniversary of the establishment of the mortgages trust |
| Cash management fee | 0.025 per cent. each year of the aggregate principal amount outstanding of (a) the Funding 1 intercompany loans and (b) the rated loan tranches and the subordinated loan tranches under the master intercompany loan, respectively paid by Funding 1 and Funding 2 (inclusive of VAT) | Ahead of all interest payments by Funding 1 and by Funding 2 | Each Funding 2 interest payment date |
| Issuing entity cash management fee | 0.025 per cent. each year of the aggregate principal amount outstanding of the notes and the issuing entity subordinated loans (inclusive of VAT) | Ahead of all outstanding notes | Each quarterly interest payment date |
| Corporate expenses of mortgages trustee | Estimated £7,500 each year (inclusive of VAT) | Ahead of all revenue amounts payable to Funding 2 by the mortgages trustee | Each distribution date |
| Corporate expenses of Funding 2 | An amount per annum as agreed in accordance with a fee letter dated on or about 17 October 2006 (inclusive of VAT) | Ahead of all outstanding loan tranches | Each Funding 2 interest payment date |
| Corporate expenses of issuing entity | An amount per annum as agreed in accordance with a fee letter dated on or about 17 October 2006 (inclusive of VAT) | Ahead of all outstanding Notes | Each quarterly interest payment date |
| Fee payable to Funding 2 security trustee, issuing entity security trustee and note trustee (including | £5,000 each year as funding 2 security trustee (inclusive of VAT) | Ahead of all outstanding loan tranches and all outstanding notes | Each funding 2 interest payment date and each quarterly interest payment date (as applicable) |

| Type of Fee | Amount of Fee | Priority in Cashflow | Frequency |
|---|---|---|---|
| paying agents) | £5,000 each year per issue of notes as issuing entity security trustee (inclusive of VAT) | | |

## Overview of the notes

### Denominations of the notes

The notes (in either global or definitive form) will be issued in such denominations as specified in the applicable final terms or drawdown prospectus, save that the minimum denomination of each note will be such as may be allowed or required from time to time by the relevant central bank or regulatory authority (or equivalent body) or any laws or regulations applicable to the relevant currency and save that each US dollar denominated note will be issued in minimum denominations of $250,000 and in integral multiples of $1,000 in excess thereof, each euro denominated note will be issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof and each sterling-denominated note will be issued in minimum denominations of £100,000 and in integral multiples of £1,000 in excess thereof, provided that notes issued with a maturity of less than one year will be issued in minimum denominations of £100,000 (or its equivalent in any other currency as at the date of issue of such notes). No note will be issued in a denomination of less than €100,000 (or its equivalent in any other currency as at the date of issue of such notes).

### Maturities

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

### Currencies

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

### Issue price

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

### Selling restrictions

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

### Relationship between the notes, issuing entity subordinated loans and issuing entity start-up loans and the master intercompany loan

The master intercompany loan agreement will comprise multiple rated loan tranches, subordinated loan tranches and start-up loan tranches. The gross proceeds of each issue of a series and class of notes will fund a single rated loan tranche under the master intercompany loan agreement. The repayment terms of each rated loan tranche (for example, dates for payment of principal and the type of amortisation or redemption) will reflect the terms of the related series and class of notes. Subject to any swap agreements as described under "**The swap agreements**" below and the applicable Funding 2 priority of payments and issuing entity priority of payments, the issuing entity will repay each series and class of notes from payments received by it from Funding 2 under the corresponding rated loan tranche and, in each case where the relevant series and class of notes is denominated in a currency other than sterling or otherwise benefits from an issuing entity swap agreement, after making the appropriate currency exchange or such other applicable exchange under the corresponding issuing entity swap agreement.

The repayment terms of each subordinated loan tranche (for example, dates for payment of principal and interest) will reflect the terms of the related issuing entity subordinated loan. Subject to the applicable Funding 2 priority of payments and issuing entity priority of payments, the issuing entity will repay each issuing entity subordinated loan from payments received by it from Funding 2 under the corresponding subordinated loan tranche.

The repayment terms of each start-up loan tranche (for example, dates for payment of principal and interest) will reflect the terms of the related issuing entity start-up loan. Subject to the applicable Funding 2 priority of payments and issuing entity priority of payments, the issuing entity will repay each issuing entity start-up loan from payments received by it from Funding 2 under the corresponding start-up loan tranche.

The ability of Funding 2 to make payments on the master intercompany loan will depend to a large extent on Funding 2 receiving its share of collections on the trust property, which will in turn depend principally on the collections the mortgages trustee receives on the loans and the related security and the allocation of monies among the seller, Funding 1 and Funding 2 under the mortgages trust. For more information on the master intercompany loan, see "**The master intercompany loan agreement**" below.

**Fixed rate notes**

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

**Floating rate notes**

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

**Zero coupon notes**

A series and class of zero coupon notes may be offered and sold at a discount to their nominal amount as specified in the applicable final terms or drawdown prospectus (**zero coupon notes**).

**Bullet redemption notes**

A series and class of bullet redemption notes will be redeemable in full on the bullet redemption date specified in the applicable final terms or drawdown prospectus. Funding 2 will seek to accumulate funds relating to principal payments on each bullet loan tranche over a period of time in order to repay such funds as a lump sum payment to the issuing entity so that the issuing entity can redeem the corresponding bullet redemption notes in full on the relevant bullet redemption date. A cash accumulation period in respect of a bullet loan tranche is generally the period of time estimated to be the number of months prior to the relevant Funding 2 interest payment date necessary for Funding 2 to accumulate enough principal receipts derived from its share of the trust property to repay that bullet loan tranche to the issuing entity in full on the relevant scheduled repayment date. The cash accumulation period will be determined according to a formula described under "**The mortgages trust – Cash management of trust property – distribution of principal receipts to Funding 2**" below. During a cash accumulation period with respect to any bullet loan tranche, Funding 2 will continue to make principal repayments on any other loan tranches that are then due and scheduled to be paid, subject to having sufficient funds therefor after meeting its obligations with a higher priority. To the extent that there are insufficient funds to redeem a series and class of bullet redemption notes on the relevant bullet redemption date, then the issuing entity will be required to pay the shortfall, to the extent it receives funds therefor, on subsequent interest payment dates in respect of such notes. No assurance can be given that Funding 2 will accumulate sufficient funds during the cash accumulation period relating to any bullet loan tranche to enable it to repay such loan tranche on its scheduled repayment date to the issuing entity so that the issuing entity is able to repay principal of the related bullet redemption notes on their bullet redemption date.

Following the earlier to occur of a pass-through trigger event and the step-up date (if any) in relation to a series and class of bullet redemption notes, such notes will be deemed to be pass-through notes and the issuing entity will repay such notes to the extent that funds are available for such purpose and subject to the conditions regarding repayment on subsequent interest payment dates.

**Scheduled redemption notes**

A series and class of scheduled redemption notes will be redeemable on scheduled redemption dates in two or more scheduled amortisation instalments, the dates and amounts of which will be specified in the applicable final terms or drawdown prospectus. Prior to each scheduled repayment date with respect to the corresponding rated loan tranches, Funding 2 will seek to accumulate sufficient funds so that it may repay the issuing entity each scheduled amortisation instalment on its scheduled redemption date so that the issuing entity is able to repay principal of the related series and class of scheduled redemption notes on their scheduled redemption date. A cash accumulation period in respect of a scheduled amortisation instalment is the period of time estimated to be the number of months prior to the relevant Funding 2 interest payment date necessary for Funding 2 to accumulate enough principal receipts derived from its share of the trust

property to repay that scheduled amortisation instalment to the issuing entity on its scheduled repayment date. The cash accumulation period will be determined according to a formula described under "**The mortgages trust – Cash management of trust property – distribution of principal receipts to Funding 2**" below. During a cash accumulation period with respect to any scheduled amortisation loan tranche, Funding 2 will continue to make principal repayments on any other loan tranches that are then due and scheduled to be paid, subject to having sufficient funds therefor after meeting its obligations with a higher priority. To the extent there are insufficient funds on a scheduled repayment date for Funding 2 to repay the issuing entity the relevant scheduled amortisation instalment, then the issuing entity will be required to pay the shortfall in respect of the related series and class of scheduled redemption notes, to the extent it receives funds therefor, on subsequent interest payment dates in respect of such notes. No assurance can be given that Funding 2 will accumulate sufficient funds during the cash accumulation period relating to any scheduled amortisation instalment to enable it to repay the relevant scheduled amortisation instalment on its scheduled repayment date to the issuing entity so that the issuing entity is able to repay principal of the related series of scheduled redemption notes on their scheduled redemption date.

Following the earlier to occur of a pass-through trigger event and the step-up date (if any) in relation to a series and class of scheduled redemption notes, such notes will be deemed to be pass-through notes and the issuing entity will repay such notes to the extent that funds are available for such purpose and subject to the conditions regarding repayment on subsequent interest payment dates.

**Remarketing arrangements**

Noteholders holding certain notes may have the benefit of remarketing arrangements under which a remarketing agent and a conditional note purchaser (the **remarketing agent** and the **conditional note purchaser** respectively) enter into agreements under which the remarketing agent agrees to seek purchasers of the relevant notes on specified dates throughout the term of such notes (each such date a **mandatory transfer date**) and the conditional note purchaser agrees to purchase any such notes on the related mandatory transfer date if purchasers for such notes have not been found, provided that certain events have not then occurred.

The mandatory transfer dates for any affected class or series of notes will be specified in the relevant final terms or drawdown prospectus but are likely to be on every anniversary of issue of the relevant notes.

The circumstances in which a conditional note purchaser is not obliged to purchase any affected notes on a mandatory transfer date in circumstances where purchasers for such notes have not been found will likewise be specified in the final terms or drawdown prospectus relating to the particular notes but will include the occurrence of an event of default and may also include the occurrence of certain triggers related to the ratings of the notes (such events **conditional note purchaser obligation termination events**).

If prior to any mandatory transfer date purchasers for any notes of the relevant class or series have not been found, unless a conditional note purchaser obligation termination event has occurred, the remarketing agent will serve a notice on the conditional note purchaser to purchase the notes which remain unremarketed on the transfer date for a price per note specified in such notice.

The rate of interest under the relevant notes will be re-set on each mandatory transfer date, either at a rate determined by the remarketing agent or, if any notes are to be acquired by the conditional note purchaser, at a specified rate subject to a maximum re-set margin as specified in such final terms or drawdown prospectus.

If the conditional note purchaser has purchased all of the notes as of any mandatory transfer date, the remarketing agent shall cease to be under any obligation to find purchasers of such notes on any mandatory transfer date following such purchase.

The issuing entity may also have the benefit of a 2a-7 swap provider arrangement under which a swap provider (the **2a-7 swap provider**) will be required to make a principal payment under the relevant issuing entity swap agreement to the issuing entity to enable the issuing entity to redeem a series and class of notes in full on their bullet repayment date notwithstanding that the 2a-7 swap provider has not received the corresponding principal payment required to be made by the issuing entity under the relevant issuing entity swap agreement.

The appointment of the remarketing agent may be terminated by the issuing entity if the remarketing agent becomes insolvent, no longer has the requisite authority or ability to act in accordance with the terms

of the relevant documentation documenting the arrangements or a material breach of warranty or covenant by the remarketing agent occurs and is outstanding under the relevant documentation.

The remarketing agent will have the right to terminate its remarketing obligations under the relevant documentation if a note event of default occurs and is continuing, there occurs an event beyond the control of the remarketing agent or the issuing entity such that the remarketing agent is unable to perform its obligations under the relevant documentation or which in the reasonable opinion of the remarketing agent represents a material market change affecting the notes to be re-marketed, the issuing entity is in material breach of any representations and warranties given by it in the conditional purchase agreement as at the closing date of the relevant notes, the requirements of Rule 2a-7 of the United States Investment Company Act of 1940, as amended (the **Investment Company Act**) for purchase of the relevant notes by money market funds have changed since the closing date for the relevant notes or if the conditional note purchaser purchases all relevant notes pursuant to its obligations under the relevant documentation.

No remarketing agent or conditional note purchaser shall have any recourse to the issuing entity in respect of such arrangements.

No assurance can be given that any remarketing agent or any conditional note purchaser will comply with and perform their respective obligations under the remarketing documentation. Each remarketing agent will be required to make the representations required of dealers as described in "**Subscription and sale"**.

**Description of the Maturity Purchase Notes**

The issuing entity may issue maturity purchase notes (the **maturity purchase notes**) which are subject to the purchase arrangements referred to in Condition 5.8, the conditional note purchase deed entered into by the issuing entity with the maturity purchaser specified in the applicable final terms or drawdown prospectus (the **maturity purchaser**) (the **conditional note purchase deed**) and the issuing entity trust deed.

The maturity purchase notes will be bullet redemption notes and the maturity purchase notes will be redeemable in full on and from the bullet redemption date specified in the applicable final terms or drawdown prospectus (the **expected maturity date**).

If the issuing entity fails to redeem the maturity purchase notes in full on the expected maturity date (or within 3 business days thereof) then, under the purchase arrangements referred to in Condition 5.8 and the conditional note purchase deed, the maturity purchaser agrees to purchase on the transfer date (defined below), at the maturity purchase price all, but not some only, of the outstanding maturity purchase notes in respect of which a valid transfer instruction (defined below), tender instruction (defined below) or acceptance instruction (defined below), as the case may be, has been delivered to the relevant clearing system or registrar (as relevant), provided that no note event of default has occurred which is continuing on the transfer date (the **maturity purchase commitment**).

The **maturity purchase price** will be the principal amount outstanding of the maturity purchase notes on the expected maturity date (plus any interest accrued from and including the expected maturity date to but excluding the transfer date at the rate of interest applicable on such notes on the basis that such rate of interest shall not be subject to any downward adjustment (including any reduction to the margin scheduled to apply on any step-up date) on or following the expected maturity date until (and including) the transfer date) after taking into account any principal repayments made by the issuing entity on or after the expected maturity date to (and including) the transfer date minus the principal deficiency losses.

The **principal deficiency losses** will be the outstanding balance on the principal deficiency ledger attributable to the maturity purchase notes as calculated by the issuing entity cash manager on the date specified in the applicable final terms or drawdown prospectus as the loss calculation date (the **loss calculation date**).

The **transfer date** will be the later of (i) the date specified in the applicable final terms or drawdown prospectus as the scheduled transfer date (the **scheduled transfer date**) and (ii) the deferred transfer date (defined below).

Upon payment of the maturity purchase price all rights in respect of such maturity purchase notes will be transferred to or for the account of the maturity purchaser or as designated by the maturity purchaser.

On the business day following the loss calculation date in relation to the maturity purchase notes the issuing entity will (i) give notice (which notices shall be irrevocable) to the holder(s) of any maturity purchase notes held in Euroclear or Clearstream, Luxembourg via Euroclear and Clearstream, Luxembourg of the

principal deficiency losses and of the maturity purchaser's intention to purchase the maturity purchase notes on the transfer date for cash at a price equal to the maturity purchase price (the **EC/CS notice to purchase**), (ii) instruct the agent appointed to coordinate the purchase of any maturity purchase notes by the maturity purchaser held in DTC (the **DTC tender agent**) to give notice (which notices shall be irrevocable) to the holder(s) of any maturity purchase notes held in DTC via DTC of the principal deficiency losses and of the maturity purchaser's intention to purchase the maturity purchase notes on the transfer date for cash at a price equal to the maturity purchase price (the **DTC notice to purchase**), (iii) instruct the registrar to give notice (which notices shall be irrevocable) to the holder(s) of any maturity purchase notes that are registered uncleared notes of the principal deficiency losses and of the maturity purchaser's intention to purchase the maturity purchase notes on the transfer date for cash at a price equal to the maturity purchase price (the **registered uncleared notice to purchase**) and (iv) make a corresponding announcement via the London Stock Exchange and Bloomberg.

A holder of maturity purchase notes has the right (but not the obligation) to elect to have its maturity purchase notes purchased by the maturity purchaser on the transfer date. A holder of maturity purchase notes may exercise its right to have its maturity purchase notes purchased by the maturity purchaser on the transfer date (i) in the case of maturity purchase notes held in Euroclear and Clearstream, Luxembourg, by giving an electronic transfer and blocking instruction (which notice shall be irrevocable) in accordance with the usual procedures of Euroclear or Clearstream, Luxembourg (as applicable) (a **transfer instruction**) no later than 4:00 p.m. (London time) on the business day that is 5 business days prior to (but excluding) the transfer date (or such earlier deadline set by any relevant intermediary or clearing system), (ii) in the case of maturity purchase notes held in DTC, by instructing the DTC tender agent to deliver instructions to DTC in accordance with the usual procedures of DTC acknowledging acceptance of the maturity purchaser's offer to buy the maturity purchase notes (a **tender instruction**) (which shall be irrevocable) no later than 4:00 p.m. (New York time) on the business day that is 5 business days prior to (but excluding) the transfer date (or such earlier deadline set by any relevant intermediary or clearing system) and (iii) in the case of maturity purchase notes that are registered uncleared notes, by delivering instructions to the registrar acknowledging acceptance of the maturity purchaser's offer to buy the maturity purchase notes (an **acceptance instruction**) (which shall be irrevocable) no later than 4:00 p.m. (London time) on the business day that is 5 business days prior to (but excluding) the transfer date.

If maturity purchase notes in definitive form are issued in accordance with the issuing entity trust deed or if the relevant clearing system ceases to offer the relevant mechanisms to enable the purchase and settlement of the maturity purchase notes as contemplated in the conditional note purchase deed, then the parties to the conditional note purchase deed will make reasonable efforts to enter into alternative arrangements to give effect to the arrangements contemplated by the conditional note purchase deed and the maturity purchaser will purchase the relevant maturity purchase notes on the later of (i) the relevant scheduled transfer date and (ii) the date (the **deferred transfer date**) which is the earlier of (A) the date that is 5 business days after the date on which the parties to the conditional note purchase deed agree a procedure by which the purchase can occur and (B) 60 days after the scheduled transfer date.

The maturity purchase commitment relating to the maturity purchase notes shall terminate upon the earlier of (i) the redemption in full of all of the maturity purchase notes (ii) the purchase by the maturity purchaser of the maturity purchase notes and (iii) in the case of the insolvency of the maturity purchaser, the payment of a liquidated damages amount in respect of all of the maturity purchase notes. The maturity purchase commitment relating to the maturity purchase notes will not terminate upon the occurrence of a non-asset trigger event.

If, on or prior to the transfer date, insolvency proceedings have been commenced against the maturity purchaser, then the maturity purchaser will procure the payment to the holders of the maturity purchase notes of the amount (in the currency in which the relevant maturity purchase notes are denominated) as liquidated damages, equal to the amount that a third party would be required to be paid as an upfront amount (in the currency in which the relevant maturity purchase notes are denominated) in order to assume the maturity purchaser's obligations in respect of the full amount of the maturity purchase notes outstanding (the **liquidated damages amount**). Such amount will be determined as the arithmetic average of the price quoted to assume such obligations by three independent dealers selected by the maturity purchaser in accordance with the provisions of the conditional note purchase deed.

Regardless of whether the maturity purchaser purchases any or all of the maturity purchase notes on the transfer date, the maturity purchase notes will remain outstanding until such time as they are redeemed in full or until their final maturity date. Therefore, if the maturity purchaser fails to purchase the maturity purchase notes, the relevant noteholders will remain noteholders with all related rights and their priority,

standing and relationship with the issuing entity (as set out in this base prospectus and the relevant final terms or drawdown prospectus) will not be affected.

Please consider carefully the section entitled “Risk factors” in this base prospectus. In addition certain additional risks relating specifically to repayment of maturity purchase notes are described under “Risk factors – Additional risks related to the maturity purchase notes” above.

**Pass-through notes**

A series and class of pass-through notes will be redeemable in full on the final maturity date specified in the applicable final terms or drawdown prospectus. On each Funding 2 interest payment date, Funding 2 may (subject to the repayment tests) make repayments of principal in respect of pass-through loan tranches to the issuing entity so that the issuing entity may, on the applicable interest payment date, repay all or part of the pass-through notes prior to their final maturity dates.

Following the earlier to occur of a pass-through trigger event and the step-up date (if any) in relation to a series and class of notes, the issuing entity will repay such notes to the extent that funds are available and subject to the conditions for repayment on subsequent interest payment dates.

**Money market notes**

From time to time, the issuing entity may issue a series and class of notes designated as money market notes in the applicable final terms or drawdown prospectus. It is expected that money market notes will be “Eligible Securities” within the meaning of Rule 2a-7 under the Investment Company Act.

However, any determination as to qualification and compliance with Rule 2a-7 is solely the responsibility of each prospective money market note purchaser and its investment adviser, and no representation as to such compliance is made by any of the issuing entity, Funding 2, the mortgages trustee, Bank of Scotland, the arranger, the managers, the dealers, the note trustee, the issuing entity security trustee, the Funding 2 security trustee, the Funding 2 Z loan provider, the corporate services provider, the Funding 2 swap provider, the issuing entity swap providers, any swap guarantors (as applicable), the paying agents, the account bank, the issuing entity account bank, any money market note purchaser, any remarketing agent, any conditional purchaser, any 2a-7 swap provider or any other party to the transaction documents, and no assurance can be given in this regard.

Money market notes will generally be bullet redemption notes or scheduled redemption notes, the final maturity date of which will be less than 397 calendar days from the trade date relating to such notes, being the date on which investors contract to purchase them.

The issuing entity may also repay certain series and classes of money market notes prior to their final maturity dates using amounts received from a third party that has agreed to purchase those notes pursuant to the terms of a money market note purchase agreement. If such arrangements apply to any money market notes, the applicable final terms or drawdown prospectus will, in addition to providing information regarding a series and class of money market notes, identify any money market note purchaser in respect of such money market notes and the terms of the applicable money market note purchase agreement.

Money market notes designated as remarketable notes in the applicable final terms or drawdown prospectus will be issued subject to the mandatory transfer arrangements referred to in Condition 5.8 under "**Terms and conditions of the notes**" below, the remarketing agreement entered into between the issuing entity and the remarketing agent (the **remarketing agreement**) and the issuing entity trust deed (the **mandatory transfer**). Under the terms of the mandatory transfer, the issuing entity will procure the purchase of the remarketable notes on the interest payment dates specified in the applicable final terms or drawdown prospectus as the mandatory transfer dates (subject to adjustment for non-business days and subject to the mandatory transfer termination event (as defined below) not having occurred). Upon payment of the principal amount outstanding on such remarketable notes on the relevant mandatory transfer date (following the application of note principal payments on that date) (the **mandatory transfer price**), all rights in respect of such remarketable notes will be transferred to or for the account of the remarketing agent (as defined below) or as designated by the remarketing agent.

Under the terms of the relevant remarketing agreement, the issuing entity will appoint the remarketing agent specified in the applicable final terms or drawdown prospectus to act as its agent to use reasonable efforts to identify third party purchasers for the relevant remarketable notes on each mandatory transfer date prior to the occurrence of a mandatory transfer termination event. If the remarketing agent is

unable to identify third party purchasers for all such remarketable notes then outstanding, then the remarketing agent on behalf of the issuing entity will give notice to the conditional purchaser specified in the applicable final terms or drawdown prospectus (the **conditional purchaser**) under an agreement (the **conditional purchase agreement**) to purchase all such remarketable notes. The obligation of the conditional purchaser to purchase such remarketable notes may be subject to limitations on the conditional purchaser's ability to fund its obligations (see "**Risk factors – Risks related to money market notes**" above) and to certain termination events under the conditional purchase agreement, which will be specified in the accompanying final terms or drawdown prospectus. If a remarketing termination event (as defined below), other than a note event of default, occurs on or before the relevant mandatory transfer date, the conditional purchaser will be obliged to purchase all the relevant remarketable notes on such mandatory transfer date. Any amounts paid to the remarketing agent by any third party or the conditional purchaser for the remarketable notes as part of the mandatory transfer will be held by the remarketing agent as fiduciary for the relevant purchaser.

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

To facilitate the transfer of interests in the remarketable notes as part of the mandatory transfer, the remarketing agent may appoint a tender agent (the **tender agent**) specified in the accompanying final terms or drawdown prospectus for the purpose of arranging delivery and payment by and to holders of the remarketable notes on the relevant mandatory transfer date. No further action will be required by such noteholders for the transfer of the remarketable notes to or for the account of the remarketing agent.

The issuing entity may terminate the remarketing agreement in certain circumstances as specified in the accompanying final terms or drawdown prospectus, which may include where the remarketing agent becomes insolvent, no longer has the requisite authority or ability to act in accordance with the terms of the remarketing agreement or a material breach of warranty or covenant remains outstanding under the remarketing agreement.

The remarketing agent will have the right to terminate the remarketing agreement and will have no further obligations thereunder in certain circumstances as specified in the accompanying final terms or drawdown prospectus, which may include where a note event of default has occurred and is continuing, there has been an event beyond the control of the remarketing agent or the issuing entity as a result of which the remarketing agent is unable to perform its obligations under the remarketing agreement or which in the reasonable opinion of the remarketing agent represents a material market change affecting the relevant remarketing note, the issuing entity is in material breach of any representations and warranties given by it in the conditional purchase agreement as at the closing date of the relevant remarketable notes, the requirements of Rule 2a-7 under the Investment Company Act in respect of the eligibility of such remarketable notes have changed since the closing date of such notes or a mandatory transfer termination event occurs. The occurrence of any of these events or a termination by the issuing entity pursuant to the previous paragraph where an alternative remarketing agent has not yet been appointed upon delivery of a notice from the remarketing agent to the issuing entity and the principal paying agent giving notice of termination is a **remarketing termination event**. Upon the occurrence of a remarketing termination, the conditional purchaser will be obliged to purchase all of the relevant remarketable notes on the mandatory transfer date following such remarketing termination event (unless there has been a mandatory transfer termination event or a note event of default that is continuing).

A **mandatory transfer termination event** will occur if the conditional purchaser has purchased all the relevant remarketable notes. If a mandatory transfer termination event occurs, the issuing entity will not be obliged to procure any subsequent purchasers of such remarketable notes and the remarketing agent will not be obliged to further remarket such notes.

The issuing entity may also have the benefit of a 2a-7 swap provider arrangement under which the 2a-7 swap provider will be required to make a principal payment under the relevant issuing entity swap agreement to the issuing entity to enable the issuing entity to redeem a series and class of notes in full on their bullet repayment date notwithstanding that it has not received the corresponding principal payment required to be made by the issuing entity under the relevant issuing entity swap agreement. The obligation of the 2a-7 swap provider to make such a payment to the issuing entity may be subject to certain termination

events under the relevant issuing entity swap agreement. A failure by the issuing entity to make the full principal repayment on the bullet repayment date of the loan tranche corresponding to the relevant series and class of notes for which the relevant issuing entity swap was entered into will not constitute an event of default or a termination event under the relevant issuing entity swap agreement. If such arrangements apply to any money market notes, the applicable final terms or drawdown prospectus will, in addition to providing information regarding a series and class of money market notes, identify any 2a-7 swap provider in respect of such money market notes and the terms of the applicable issuing entity swap agreement.

Certain risks relating to repayment of remarketable notes and money market notes by means of a money market note purchaser or 2a-7 swap provider are described under "**Risk factors – Risks related to money market notes**" above.

**Redemption and repayment**

If not redeemed earlier, each series and class of notes will be redeemed by the issuing entity on the final maturity date specified for such series and class of notes in the applicable final terms or drawdown prospectus.

For more information on the redemption of the notes, see "**The mortgages trust – Cash management of trust property – distribution of principal receipts to Funding 2**" and "**Cashflows**" below. See also "**– Payment and ranking of the notes**" above.

**Optional redemption or repurchase of the notes**

The issuing entity may redeem all, but not a portion, of a series and class of notes at their redemption amount, together with any accrued interest in respect thereof by giving notice in accordance with the terms and conditions of the notes, subject to the notes not having been accelerated and the availability of sufficient funds, as described in detail in Condition 5 under "**Terms and conditions of the notes**" below in the following circumstances, subject to certain conditions set out in the referenced sections:

- if at any time it would become unlawful for the issuing entity to make, fund or to allow to remain outstanding the rated loan tranche made by it under the master intercompany loan agreement which was funded by such notes and the issuing entity requires Funding 2 to prepay such rated loan tranche (see Condition 5.5 under "**Terms and conditions of the notes**" below); or

- on any interest payment date in the event of particular tax changes affecting the issuing entity, the notes or the corresponding loan tranche under the master intercompany loan agreement (see Condition 5.5 under "**Terms and conditions of the notes**" below); or

- on any interest payment date after the issuing entity or Funding 2, as the case may be, elects into the permanent regime for the taxation of securitisation companies established pursuant to the Finance Act 2005 and the regulations made thereunder (in each case as amended from time to time) (the **securitisation tax regime**) it subsequently ceases or will cease to fall within such regime (see Condition 5.5 under "**Terms and conditions of the notes**" below).

In addition, provided a note acceleration notice has not been served, the issuing entity may redeem a series and class of notes outstanding in accordance with the terms and conditions of such notes:

- on the call option date (if any) relating to such series and class of notes (as specified in the applicable final terms or drawdown prospectus) and on any interest payment date thereafter (see Condition 5.4 under "**Terms and conditions of the notes**" below);

- on the step-up date specified in the final terms or drawdown prospectus relating to such series and class of notes (as specified in the applicable final terms or drawdown prospectus) and on any interest payment date thereafter (see Condition 5.4 under "**Terms and conditions of the notes**" below); or

- on any interest payment date on which the aggregate principal amount of such series and class of notes and all other series and classes of notes of the same issuance is less than 10 per cent. of the aggregate principal amount outstanding of such series of notes as at the relevant closing date (see Condition 5.4 under "**Terms and conditions of the notes**" below).

If the issuing entity exercises an option to redeem a series and class of notes in any of the circumstances described above and in accordance with Condition 5 under "**Terms and conditions of the notes**" below, then those series and classes of notes so redeemed will be repaid before other series and classes of notes which are not so redeemed, irrespective of the ranking or final maturity date of those notes.

**Operative documents relating to the notes**

The issuing entity will issue each series of notes under the issuing entity trust deed. The notes will also be subject to the issuing entity paying agent and agent bank agreement. The security for the notes is provided for under the issuing entity deed of charge entered into on or about the programme date between the issuing entity, the issuing entity security trustee and the issuing entity's other secured creditors (excluding the noteholders). Operative legal provisions relating to the notes will be included in the issuing entity trust deed, the issuing entity paying agent and agent bank agreement, the issuing entity deed of charge, the issuing entity cash management agreement and the notes themselves, each of which will be governed by English law.

## Use of proceeds

The use of proceeds from an issuance of notes will be described in the accompanying final terms or drawdown prospectus.

## The issuing entity

The issuing entity was incorporated in England and Wales on 1 September 2006 (registered number 05922774) and is a public limited company under the Companies Act 1985. The registered office of the issuing entity is at 35 Great St. Helen's, London EC3A 6AP, United Kingdom.

The authorised share capital of the issuing entity comprises 50,000 ordinary shares of £1 each. The issued share capital of the issuing entity comprises 50,000 ordinary shares of £1 each, 49,998 of which are partly paid to £0.25 each and 2 of which are fully paid and all of which are beneficially owned by Holdings (see "**Holdings**" below). Under the issuing entity corporate services agreement, Holdings has agreed to comply with all requests of the issuing entity security trustee in relation to the appointment and/or removal by Holdings of any of the directors of the issuing entity.

The issuing entity is organised as a special purpose company. The issuing entity has no subsidiaries. The seller does not own directly or indirectly any of the share capital of Holdings or the issuing entity.

The issuing entity was established as a special purpose vehicle for the purposes of issuing asset backed securities (the notes) and making the advances to Funding 2 under the master intercompany loan agreement. The activities of the issuing entity are limited to passively owing or holding the loan tranches, issuing the notes and borrowing the issuing entity subordinated loans and issuing entity start-up loans and other activities reasonably incidental thereto. The principal objects of the issuing entity are set out in its memorandum of association and include:

- lending money and giving credit, with or without security;
- borrowing or raising money and obtaining credit or finance;
- securing payment or repayment of money, credit or finance by any security over the issuing entity's property; and
- acquiring or entering into financial instruments, including derivative instruments.

Under the Companies Act 2006, the issuing entity's governing documents, including the principal objects of the issuing entity, may be altered by a special resolution of the shareholders.

The activities of the issuing entity will be further restricted by the terms and conditions of the notes and will be limited to the issue of the notes, the advancing of loan tranches under the master intercompany loan agreement to Funding 2, the exercise of related rights and powers and other activities referred to in this base prospectus or incidental to those activities.

Since its incorporation, the issuing entity has not engaged in any material activities other than those incidental to its incorporation as a public company under the Companies Act 1985 and to the issue of the notes and to the authorisation of the other transaction documents referred to in this base prospectus to which it is or will be a party.

The accounting reference date (i.e. the last day of the fiscal year) of the issuing entity is the last day of December. Statutory accounts to 31 December 2018 have been prepared and delivered to the Registrar of Companies on behalf of the issuing entity.

### Directors and secretary

The following table sets out the directors of the issuing entity and their respective business addresses and occupations. Each director (with the exception of Daniel Jaffe) has served in office since the incorporation of the issuing entity.

| Name | Business address | Principal activities/ business occupation | Term of office |
|---|---|---|---|
| Intertrust Directors 1 Limited | 35 Great St. Helen's London EC3A 6AP United Kingdom | Provision of directors to special purpose companies | Indefinite, subject to resignation or disqualification under the Companies Act of 2006 (as amended) |
| Intertrust Directors 2 Limited | 35 Great St. Helen's London EC3A 6AP United Kingdom | Provision of directors to special purpose companies | Indefinite, subject to resignation or disqualification under the Companies Act of 2006 (as amended) |
| Daniel Jaffe | 35 Great St Helens London EC3A 6AP United Kingdom | Director | Indefinite, subject to resignation or disqualification under the Companies Act of 2006 (as amended) |

The sponsor has caused Intertrust Directors 1 Limited and Intertrust Directors 2 Limited, companies specialising in acting as directors of special purpose companies, and Daniel Jaffe to be directors of the issuing entity. The company secretary of the issuing entity is Intertrust Corporate Services Limited, 35 Great St. Helen's, London EC3A 6AP, United Kingdom.

The directors of each of Intertrust Directors 1 Limited, Intertrust Directors 2 Limited and Intertrust Corporate Services Limited are Helena Whitaker, Susan Abrahams, Andrea Williams, Michelle O'Flaherty and Clive Short. Their principal activities include the provision of directors and corporate management services to structured finance transactions as directors on the boards of Intertrust Directors 1 Limited and Intertrust Directors 2 Limited. The business address of each of the directors of Intertrust Directors 1 Limited and Intertrust Directors 2 Limited is 35 Great St. Helen's, London EC3A 6AP, United Kingdom.

In accordance with the issuing entity corporate services agreement, the issuing entity corporate services provider will provide to the issuing entity directors, a registered and administrative office, the service of a company secretary and the arrangement of meetings of directors and shareholders and procure book-keeping services and preparation of accounts by Bank of Scotland. No other remuneration is paid by the issuing entity to or in respect of any director or officer of the issuing entity for acting as such. There will at all times be at least one independent director of the issuing entity.

The issuing entity has no employees.

**Capitalisation statement**

The following table shows the capitalisation of the issuing entity as at the date hereof:

| | £ |
|---|---|
| **Authorised share capital** ..... | |
| Ordinary shares of £1 each | 50,000.00 |
| **Issued share capital** | |
| 2 ordinary shares of £1 each fully paid ..... | 2.00 |
| 49,998 ordinary shares each one quarter paid..... | 12,499.50 |
| | 12,501.50 |

## Bank of Scotland plc

Bank of Scotland plc ("Bank of Scotland") was incorporated under the laws of Scotland with limited liability on 17 September 2007 (registration number SC327000). Bank of Scotland's registered office is at The Mound, Edinburgh EH1 1YZ, Scotland. Bank of Scotland is authorised by the PRA and regulated by the FCA and the PRA. Bank of Scotland (together with its subsidiary and associated undertakings, "Bank of Scotland Group") is a directly owned and controlled subsidiary of HBOS plc, which in turn is a directly owned and controlled subsidiary of Lloyds Bank plc.

### Overview

Bank of Scotland Group provides a wide range of banking and financial services in the UK and in certain locations overseas.

### Business and activities

As at 30 June 2019, Bank of Scotland Group's activities were organised into two financial reporting segments: Retail and Commercial Banking.

Retail offers a broad range of financial service products to personal and business banking customers, including current accounts, savings, mortgages, credit cards, unsecured loans and motor finance. Commercial Banking, through its segmented client coverage model, provides clients with a range of products and services such as lending, transaction banking, working capital management, risk management and debt capital markets services.

Additional information on Bank of Scotland 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 Base Prospectus.

## Funding 2

Permanent Funding (No. 2) Limited was incorporated in England and Wales on 17 May 2002 (registered number 4441772) as a public limited company under the Companies Act 1985 and re-registered as a private limited company on 17 August 2006. The authorised share capital of Funding 2 comprises 50,000 ordinary shares of £1 each. The issued share capital of Funding 2 comprises two ordinary shares of £1, which are beneficially owned by Holdings (see "**Holdings**" below).

Funding 2 was organised as a special purpose company to act as a depositor for the securitisation of residential mortgages originated by Halifax. Funding 2 has no subsidiaries. The seller does not own directly or indirectly any of the share capital of Holdings or Funding 2.

The principal objects of Funding 2 are set out in its memorandum of association and are, among other things, to:

- carry on business as a general commercial company;
- borrow or raise money by any method and to obtain any form of credit or finance in any way the directors think fit (whether secured or unsecured);
- carry on business as a money lender, financier and investor;
- acquire and enter into financial instruments, including derivative instruments; and
- undertake and carry on all kinds of loan, financial and other operations.

Since its incorporation, Funding 2 has not engaged in any material activities, other than those incidental to the authorisation of the transaction documents referred to in this base prospectus to which it is or will be a party and other matters which are incidental to those activities. Funding 2 has no employees.

Funding 2 will have no continuing duties with respect to the notes but will receive payments in respect of the Funding 2 share of the trust property and distribute such receipts as payments under the master intercompany loan in accordance with the priorities of payments set out under "**Cashflows**".

The accounting reference date of Funding 2 is the last day of December.

The registered office of Funding 2 is 35 Great St. Helen's, London EC3A 6AP, United Kingdom. The telephone number of Funding 2's registered office is +44 (0)20 7398 6300.

The following table sets out the directors of Funding 2 and their respective business addresses and occupations.

| Name | Business address | Business occupation |
|---|---|---|
| Intertrust Directors 1 Limited ..... | 35 Great St. Helen's<br>London EC3A 6AP<br>United Kingdom | Director of special purpose companies |
| Intertrust Directors 2 Limited ..... | 35 Great St. Helen's<br>London EC3A 6AP<br>United Kingdom | Director of special purpose companies |
| Daniel Jaffe..... | 35 Great St. Helen's<br>London EC3A 6AP<br>United Kingdom | Director |

The directors of Intertrust Directors 1 Limited and Intertrust Directors 2 Limited are set out in the section "**The issuing entity**" above.

The company secretary of Funding 2 is Intertrust Corporate Services Limited, 35 Great St. Helen's, London EC3A 6AP, United Kingdom.

The directors (including the directors of Intertrust Directors 1 Limited and Intertrust Directors 2 Limited) and secretary (including the directors of Intertrust Corporate Services Limited) of Funding 2 have no potential conflicts of interest between any duties to Funding 2 and their private interests and/or other duties.

In accordance with the corporate services agreement, the corporate services provider will provide to Funding 2 directors, a registered and administrative office, the service of a company secretary and the arrangement of meetings of directors and shareholders and procure book-keeping services and preparation of accounts by Bank of Scotland. No other remuneration is paid by Funding 2 to or in respect of any director or officer of Funding 2 for acting as such. There will at all times be at least one independent director of Funding 2.

## The mortgages trustee

### General

Permanent Mortgages Trustee Limited, a company incorporated in Jersey, the **retired mortgages trustee**, acted as trustee of the mortgages trust from its incorporation to 22 December 2015 when it retired and Permanent Mortgages Trustee Limited, a company incorporated in England and Wales, the **new mortgages trustee**, was appointed as trustee of the mortgages trust. The retirement of the retired mortgages trustee and the appointment of the new mortgages trustee was effected by a supplemental mortgages trust deed dated 22 December 2015.

### Permanent Mortgages Trustee Limited

The mortgages trustee was incorporated in England and Wales on 7 December 2015 (registered number 9905599) as a private company with limited liability under the laws of England and Wales, as amended, for a period of unlimited duration. The authorised share capital of the mortgages trustee is one ordinary share of £1. One ordinary share has been issued and fully paid and is held in trust for charitable purposes by Intertrust Corporate Services Limited pursuant to a share trust deed dated 9 December 2015.

Any profits received by the mortgages trustee, after payment of the costs and expenses of the mortgages trustee, will, ultimately, be paid for the benefit of charities and charitable purposes selected at the discretion of Intertrust Corporate Services Limited. The payments on the notes will not be affected by this arrangement.

The registered office of the mortgages trustee is at 35 Great St. Helen's, London EC3A 6AP. Its telephone number is +44 (0)20 7398 6300. The mortgages trustee was organised as a special purpose company to act as trustee of the mortgages trust, and it has acted as such in connection with each securitisation by the previous Funding 1 issuing entities. The mortgages trustee has no subsidiaries. The seller does not own directly or indirectly any of the share capital of the mortgages trustee.

The principal activities of the mortgages trustee are, among other things, to:

- invest and deal in mortgage loans secured on residential or other properties within England, Wales and Scotland;
- invest in, buy, sell and otherwise acquire and dispose of mortgage loans, advances, other similar investments and all forms of security;
- carry on business as a money lender, financier and investor;
- undertake and carry on all kinds of loan, financial and other operations; and
- act as trustee in respect of carrying on any of these activities.

The mortgages trustee has not engaged, since its incorporation, in any material activities other than those incidental to its incorporation, the settlement of the trust property on the mortgages trustee, acting as trustee of the mortgages trust since 22 December 2015, the authorisation of the transaction documents referred to in this base prospectus to which it is or will be a party, filing notifications under applicable data protection laws and other matters which are incidental or ancillary to the foregoing.

The mortgages trustee has no employees.

The accounting reference date of the mortgages trustee is the last day of December.

In accordance with the mortgages trustee corporate services agreement, the mortgages trustee corporate services provider will (amongst other things) provide to the mortgages trustee directors, a registered and administrative office, the service of a company secretary and the arrangement of meetings of directors and shareholders. Bank of Scotland will prepare the accounts of the mortgages trustee. No other remuneration is paid by the mortgages trustee to or in respect of any director or officer of the mortgages trustee for acting as such.

## Holdings

Holdings was incorporated in England and Wales on 9 August 2001 (registered number 4267664) as a private limited company under the Companies Act 1985. The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP, United Kingdom. The telephone number of Holdings' registered office is +44 (0)20 7398 6300.

Holdings has an authorised share capital of £100 divided into 100 ordinary shares of £1 each, of which two shares have been issued, one share at par value and one share at a premium, and are beneficially owned by Intertrust Corporate Services Limited on a discretionary trust for the benefit of the named beneficiary and for other charitable purposes. Any profits received by Holdings from its shareholdings, after payment of the corporate administration costs and expenses of Holdings, will ultimately be paid for the benefit of such named beneficiary and for other charitable purposes selected at the discretion of the share trustee. The payments on the notes will not be affected by this arrangement.

Holdings is organised as a special purpose company. The seller does not own directly or indirectly any of the share capital of Holdings.

The principal objects of Holdings are set out in its memorandum of association and are, among other things, to acquire and hold, by way of investments or otherwise, and deal in or exploit, in such manner as may from time to time be considered expedient, all or any part of any securities or other interests of or in any company (including the previous Funding 1 issuing entities, the issuing entity, Funding 1 and Funding 2).

Holdings has acquired all of the issued share capital of the issuing entity, the previous Funding 1 issuing entities, Funding 1 and Funding 2. Holdings has not engaged in any other activities since its incorporation other than changing its name from Alnery No. 2224 Limited on 21 March 2002 and 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.

The accounting reference date of Holdings is the last day of December.

## PECOH

The post-enforcement call option holder (or **PECOH**) was incorporated in England and Wales on 9 August 2001 (registered number 4267666) as a private limited company under the Companies Act 1985. The registered office of PECOH is 35 Great St. Helen's, London EC3A 6AP, United Kingdom.

The authorised share capital of PECOH comprises 100 ordinary shares of £1 each. The issued share capital of PECOH comprises one ordinary share of £1, which is beneficially owned by PECOH Holdings (see "**PECOH Holdings**" below).

PECOH is organised as a special purpose company. PECOH has no subsidiaries. The seller does not own directly or indirectly any of the share capital of PECOH Holdings or PECOH.

The principal objects of PECOH are as set out in its memorandum of association and are, among others, to hold bonds, notes, obligations and securities issued or guaranteed by any company and any options or rights in respect of them. PECOH has not engaged since its incorporation in any material activities other than changing its name from Alnery No. 2223 Limited on 21 March 2002, those activities relating to the issue of the Funding 1 notes by the previous Funding 1 issuing entities and those incidental to the authorising of the transaction documents referred to in this base prospectus to which it is or will be a party and other matters which are incidental to those activities. PECOH has no employees.

The accounting reference date of PECOH is the last day of December.

Pursuant to the terms of an option granted to PECOH under the issuing entity post-enforcement call option agreement, following the enforcement, realisation and payment of the proceeds of the security granted by the issuing entity pursuant to the issuing entity deed of charge, PECOH can require the transfer to it of all of the relevant notes outstanding for a nominal amount. The terms of the option apply to all notes which specify the post-enforcement call option as applying to such notes in the relevant final terms or drawdown prospectus.

As the post-enforcement call option granted pursuant to the issuing entity post-enforcement call option agreement can be exercised by PECOH only after the issuing entity security trustee has enforced and realised the security granted by the issuing entity under the issuing entity deed of charge and has determined that there are no further assets available to pay amounts due and owing to the noteholders, the exercise of the post-enforcement call option and delivery by the noteholders of the notes to PECOH will not extinguish any other rights or claims other than the rights to payment of interest and repayment of principal under the notes that such noteholders may have against the issuing entity. The post-enforcement call option holder and Bank of Scotland have provided comfort to the issuing entity that the post-enforcement call option holder will exercise the post-enforcement call option and the notes will thereafter be submitted to the issuing entity for cancellation.

## PECOH Holdings

PECOH Holdings was incorporated in England and Wales on 1 June 2005 (registered number 5468381) as a private limited company under the Companies Act 1985. The registered office of PECOH Holdings is 35 Great St. Helen's, London EC3A 6AP, United Kingdom.

PECOH Holdings has an authorised share capital of £100, divided into 100 ordinary shares of £1 each. The issued share capital of PECOH Holdings comprises one ordinary share of £1, which is beneficially owned by Intertrust Investments Limited on a discretionary trust for the benefit of the named beneficiary and for other charitable purposes. Any profits received by PECOH Holdings, after payment of the costs and expenses of PECOH Holdings, will ultimately be paid for the benefit of that charity and for other charitable purposes selected at the discretion of the corporate services provider. The payments on the notes will not be affected by this arrangement.

PECOH Holdings is organised as a special purpose company. The seller does not own directly or indirectly any of the share capital of PECOH Holdings.

The principal objects of PECOH Holdings are set out in its memorandum of association and are, among other things, to acquire, hold and deal in securities of any company, including the post-enforcement call option holder.

PECOH Holdings has acquired all of the issued share capital of PECOH. PECOH 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. PECOH Holdings has no employees.

The accounting reference date of PECOH Holdings is the last day of December.

## The Funding 2 swap provider

The Funding 2 swap provider was previously Halifax and since the reorganisation date has been Bank of Scotland. See "**Bank of Scotland plc**" above.

## Funding 1 issuing entities

In connection with the acquisition of Funding 1's share of the trust property, nine other issuing entities (referred to in this base prospectus as the **Funding 1 issuing entities**) have issued notes which were ultimately supported by receivables under the loans comprising the mortgages trust. All of the Funding 1 issuing entities have been dissolved as at the date of this base prospectus and the notes issued by all such entities have been redeemed. Funding 1 stands in substantially the same relationship with the mortgages trustee and any existing or new Funding 1 issuing entities as Funding 2 does in respect of the mortgages trustee and the issuing entity.

Each of the Funding 1 issuing entities were wholly owned subsidiaries of Holdings and were public limited companies incorporated in England and Wales. Each Funding 1 issuing entity was a special purpose company whose purpose was to issue the previous Funding 1 notes that represent their respective asset-backed obligations and to have lent an amount equal to the proceeds of their respective previous Funding 1 notes to Funding 1 under their respective intercompany loans with Funding 1. Each Funding 1 issuing entity did not engage in any activities that are unrelated to these purposes.

As discussed under "**The mortgages trust**" below, each of Funding 1 and Funding 2 has a beneficial interest in the mortgages trust which is proportionate in size to the aggregate outstanding balance from time to time of the notes issued by the Funding 1 issuing entities and the issuing entity respectively. Funding 1's obligation to pay receipts under its beneficial interest in the mortgages trust to the Funding 1 issuing entities arose under the intercompany loans entered into between Funding 1 and each of the Funding 1 issuing entities. Similarly, Funding 2 will be obliged to pay receipts under its beneficial interest in the mortgages trust to the issuing entity under the terms of the master intercompany loan agreement.

Each of the Funding 1 issuing entities issued series and classes of Funding 1 notes, beginning in June 2002. Each final terms set forth the aggregate amount of Funding 1 notes outstanding of the Funding 1 issuing entities as at the date indicated in the final terms.

Each Funding 1 issuing entity, and consequently the Funding 1 notes of each such Funding 1 issuing entity, had an indirect *pro rata* interest in the assets of the mortgages trust in relation to the Funding 1 notes issued by each other Funding 1 issuing entity and the notes issued by the issuing entity. In addition, the Funding 1 notes of each Funding 1 issuing entity ranked *pari passu* with the Funding 1 notes of each other Funding 1 issuing entity. Each of Funding 1 and Funding 2 has a *pro rata* beneficial interest in the trust property of the mortgages trust. Receipts of principal and interest on the loans after payment of expenses of the mortgages trust are allocated each month between Funding 1, Funding 2 and the seller on a *pro rata* basis as described under "**The mortgages trust**" below. Any losses experienced on loans are also allocated *pro rata* between Funding 1, Funding 2 and the seller. Consequently, the amount of collections of principal and interest that was available to be paid by Funding 1 to the Funding 1 issuing entities each month under their intercompany loans, taking account of losses on the loans and expenses of the mortgages trust, was in *pro rata* proportion to the amount of collections available to Funding 2 to pay to the issuing entity during the same period.

The sponsor does not currently intend that new Funding 1 issuing entities will be created in the future or that new series of Funding 1 notes will be issued by any existing Funding 1 issuing entity. However, the position may change in the future. The issuing entity may, subject to satisfaction of certain conditions, issue new series of notes from time to time (see "**Overview of the notes – Issuance**" above). The consent of the noteholders of existing series of notes is not required, and will not be obtained, prior to issuance of new series and classes of notes by the issuing entity. Similarly, the consent of the noteholders of Funding 1 notes (to the extent that any new Funding 1 Notes have been issued) is not required and will not be obtained prior to issuance of new series and classes of notes by the issuing entity.

## Funding 1

Funding 1 was incorporated in England and Wales on 9 August 2001 (registered number 4267660) as a private limited company under the Companies Act 1985. The authorised share capital of Funding 1 comprises 100 ordinary shares of £1 each. The issued share capital of Funding 1 comprises one ordinary share of £1, which is beneficially owned by Holdings.

Like Funding 2, Funding 1 was organised as a special purpose company to act as a depositor for the securitisation of residential mortgages originated by Halifax. Funding 1 has acted as such for each securitisation by the previous Funding 1 issuing entities. Funding 1 has no subsidiaries. The seller does not own directly or indirectly any of the share capital of Holdings or Funding 1.

The accounting reference date of Funding 1 is the last day of December.

The registered office of Funding 1 is 35 Great St. Helen's, London EC3A 6AP. The telephone number of Funding 1's registered office is +44 (0)20 7398 6300.

**The note trustee, the issuing entity security trustee and the Funding 2 security trustee**

The note trustee, the issuing entity security trustee and the Funding 2 security trustee is The Bank of New York Mellon. The Bank of New York Mellon, a wholly owned subsidiary of The Bank of New York Mellon Corporation, is incorporated, with limited liability by Charter, under the Laws of the State of New York by special act of the New York State Legislature, Chapter 616 of the Laws of 1871, with its Head Office situate at 225 Liberty Street, New York, NY 10286, USA and having a branch registered in England & Wales with FC No 005522 and BR No 000818 with its principal office in the United Kingdom situated at One Canada Square, London E14 5AL.

The Bank of New York Mellon's corporate trust business services $12 trillion in outstanding debt from 55 locations around the world. It services all major debt categories, including corporate and municipal debt, mortgage-backed and asset-backed securities, collateralized debt obligations, derivative securities and international debt offerings. The Bank of New York Mellon's corporate trust and agency services are delivered through The Bank of New York Mellon and The Bank of New York Mellon Trust Company, N.A.

The Bank of New York Mellon Corporation is a global financial services company focused on helping clients manage and service their financial assets, operating in 35 countries and serving more than 100 markets. The company is a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing superior asset management and wealth management, asset servicing, issuer services, clearing services and treasury services through a worldwide client-focused team. It has more than $26 trillion in assets under custody and administration and more than $1.4 trillion in assets under management. Additional information is available at bnymellon.com. The website and the contents thereof do not form part of this base prospectus.

The Bank of New York Mellon has served and currently is serving as indenture trustee and trustee for numerous securitisation transactions and programmes involving pools of mortgage loans.

Pursuant to the issuing entity trust deed, the note trustee is required to take certain actions as described in "**Description of the issuing entity trust deed**" and "**Terms and conditions of the notes**" below. Pursuant to the issuing entity trust deed and the issuing entity deed of charge, the issuing entity security trustee is required to take certain actions as described in "**Security for the issuing entity's obligations – Appointment, powers, responsibilities and liabilities of the issuing entity security trustee**" and "**Terms and conditions of the notes**" below.

The limitations on liability of the note trustee are described in "**Terms and conditions of the notes**" below. The limitations on the liability of the issuing entity security trustee are described in "**Security for the issuing entity's obligations – Appointment, powers, responsibilities and liabilities of the issuing entity security trustee**" and "**Security for the issuing entity's obligations – Additional provisions of the issuing entity deed of charge**" below.

The indemnifications available to the note trustee and the issuing entity security trustee are described in Condition 12 under "**Terms and conditions of the notes**" below.

Provisions for the removal of the issuing entity security trustee are described in "**Security for the issuing entity's obligations – Retirement and removal**" below.

The Funding 2 deed of charge sets out the terms under which the Funding 2 security trustee is appointed and the indemnification of the Funding 2 security trustee. Pursuant to the Funding 2 deed of charge, the Funding 2 security trustee is required to take certain actions as described under "**Security for Funding 2's obligations**" below. Provisions for the removal of the Funding 2 security trustee are described in "**Security for Funding 2's obligations – Retirement and removal**" below.

The Bank of New York Mellon also acted as the Funding 1 note trustees, the Funding 1 issuing entities security trustees and the Funding 1 security trustee on similar terms and conditions to those described above.

## Maturity Purchaser

As at the date of this base prospectus, Lloyds Bank plc is the maturity purchaser (**maturity purchaser**) for the issue of any notes previously issued by the issuing entity which are maturity purchase notes. A different maturity purchaser for the issue of notes after the date of this base prospectus may be identified in the applicable drawdown prospectus (and Lloyds Bank plc is under no obligation to act as maturity purchaser in relation to any future issuance of notes or any existing notes that are not maturity purchase notes).

**Affiliations and certain relationships and related transactions of transaction parties**

Bank of Scotland is the sponsor of the programme. In addition, Bank of Scotland, Lloyds Bank plc (which indirectly owns Bank of Scotland) and their affiliates have several other roles in the programme. Bank of Scotland is the seller of loans originated by Halifax and it, and is the servicer of all of the loans. Bank of Scotland also provides the services of cash manager and issuing entity cash manager, acts as account bank for the issuing entity accounts, Funding 2 accounts, and mortgages trustee GIC account and acts as a swap provider for the Funding 2 swap and the Funding 1 swap and as Funding 2 Z loan provider. Bank of Scotland may also provide issuing entity subordinated loans and issuing entity start-up loans. Lloyds Bank Corporate Markets plc is an arranger under the programme. Except as described in this paragraph, there are no other affiliations or relationships or related transactions involving the transaction parties under the programme.

## The loans

### The portfolio

The final terms or drawdown prospectus issued in connection with the issuance of a series and class of notes will contain tables summarising information in relation to the portfolio which will include any loans expected to be sold to the mortgages trustee on the relevant closing date. The tables will contain information in relation to various criteria as at the applicable cut-off date. Tables will indicate, among other things, composition by type of property, seasoning, period to maturity, geographical distribution, LTV ratios, outstanding balance and repayment terms, as well as other information that may be described from time to time. The portfolio as at the cut-off date, for which statistics are presented in the applicable final terms or drawdown prospectus, and the portfolio as at the relevant closing date may differ due to, among other things, amortisation of loans in the portfolio.

The applicable final terms or drawdown prospectus relating to the issuance of a series and class of notes also will contain tables summarising certain characteristics of the United Kingdom mortgage market. Tables will provide historical information on, among other things, repossession rates, house price to earnings ratios, as well as other information that may be described from time to time.

### Introduction

The following is a description of some of the characteristics of the loans currently or previously originated by the seller including details of loan types, the underwriting process and lending criteria. The issuing entity believes the loans in the portfolio at any time will have characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the notes.

On the initial closing date, the seller sold the initial loans and, on subsequent dates, the seller has sold further loans, in each case together with their related security to the mortgages trustee pursuant to the mortgage sale agreement. On relevant closing dates, Funding 2 will pay the seller consideration for loans (together with their related security) sold to the mortgages trustee on such dates pursuant to the terms of the mortgage sale agreement. The loans making up the trust property after such addition, together with their related security, accrued interest and other amounts derived from the loans, will make up the trust property.

The seller selects the loans for transfer into the portfolio, and any loans to be substituted into the portfolio, 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 representations and warranties that the seller makes in the mortgage sale agreement in relation to the loans (see "**Sale of the loans and their related security – Representations and warranties**" below), for instance, the representation and warranty relating to a maximum outstanding principal balance of £500,000. Once the criteria have been determined, the system identifies all loans owned by the seller that are consistent with the criteria. From this subset, loans are selected at random until the target balance for new loans has been reached or the subset has been exhausted. After a pool of new loans is selected in this way, the constituent loans are monitored so that they continue to comply with the relevant criteria on the date of transfer.

Unless otherwise indicated, the description that follows relates to types of loans that have been or could be sold to the mortgages trustee, either as part of the portfolio as at a closing date or as a new loan sold to the mortgages trustee at a later date.

The loans in the expected portfolio will be originated by the seller between the dates set out in the relevant final terms or drawdown prospectus. No loan in the portfolio will be delinquent or non-performing at the time it is sold to the mortgages trustee.

The seller may sell new loans and their related security to the mortgages trustee from time to time. The seller reserves the right to amend its lending criteria and to sell to the mortgages trustee new loans which are based upon mortgage terms different from those upon which loans forming the portfolio as at any date are based. Those new loans may include loans which are currently being offered to borrowers which may or may not have some of the characteristics described here, but may also include loans with other characteristics that are not currently being offered to borrowers or that have not yet been developed. All new loans will be required to comply with the representations and warranties set out in the mortgage sale agreement from time to time. All the material representations and warranties in the mortgage sale agreement are described in this base prospectus. See "**Sale of the loans and their related security – Representations and warranties**" below.

**Characteristics of the loans**

*Repayment terms*

The loans in the portfolio are one of the following:

- a **repayment loan** where the borrower makes monthly payments of both interest and principal so that, when the loan matures, the full amount of the principal of the loan will have been repaid;
- an **interest-only loan** where the borrower makes monthly payments of interest but not of principal so that, when the loan matures, the entire principal amount of the loan is still outstanding and is payable in one lump sum; or
- 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 (other than products formerly offered by the seller which are known as Retirement Home Plan loans), because the principal is repaid in a lump sum at the maturity of the loan, the borrower is and has always been required to have some repayment mechanism (such as an investment plan) which is intended to provide sufficient funds to repay the principal at the end of the term. However, the seller has not in all cases verified that an investment plan is in place and does not take security over these repayment mechanisms.

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

*Payment methods*

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

*Types of loans and interest rate setting*

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

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

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

In addition, the seller has in the past offered:

- "**capped rate loans**", where the borrower pays interest equal to the seller's variable base rate (or, as the case may be, the tracker rate), but where the interest rate cannot exceed a predetermined level or cap; and
- **discounted variable rate loans**, which allow the borrower to pay interest at a specified discount to one of the variable base rates.

Capped rate loans are not included in the portfolio. If they are included in the future, such inclusion will be disclosed in the applicable final terms or drawdown prospectus. Although discounted variable rate loans are not currently offered by the seller, some may be included in the portfolio.

In respect of the tracker rate loans where the tracker rate feature lasts for a specified period of time, after the expiration of that period interest on the tracker rate loan will be charged at the variable base rate that applies to the mortgage account unless the seller agrees to continue the tracker rate loan or to allow the borrower to switch to a different product. On tracker rate loans originated after November 2002, Halifax introduced a contractual provision allowing it to, *inter alia*, vary the tracker rate margin at any time where such variation would be to the borrower's advantage. Halifax may also vary the margin payable on such loans to the borrower's disadvantage, but only if the tracker base rate (as calculated by reference to the Bank of England base rate) is below 3 per cent. per annum. The changes that the seller may make to the tracker rate margin may be more or less than the amount by which the Bank of England base rate has fallen and would effectively enable the seller to introduce a minimum interest rate. All relevant borrowers are given advance notification of any such variation. A borrower with a tracker rate loan which is subject to a repayment charge may, within three months of a variation which is disadvantageous, repay that loan without having to pay an early repayment charge. If the seller makes a change in the tracker rate margin to the borrower's disadvantage while the base rate is below 3 per cent. and it subsequently increases to 3 per cent. or above, the changed margin will continue to apply (unless the tracker rate margin is changed again). The features that apply to a particular loan are specified in the mortgage conditions (as varied from time to time) and mortgage offer.

The FSA in December 2008 were reported as stating that, in their view, the ability to change a tracker rate margin could be unfair and that, in particular, they believe that the right of the seller to change the tracker rate margin in the circumstances referred to above was unfair.

The seller confirmed in December 2008 that it would pass on the benefit of any future Bank of England base rate reduction to all existing customers (meaning that it would not change the tracker rate margin in the circumstances referred to above).

From 1 March 2001 until 31 January 2002, all new mortgage loans sold under the Halifax brand were subject to a second variable base rate (**HVR 2**) instead of the then existing variable base rate (**HVR 1**) at the end of the predetermined product period. Existing Halifax borrowers were in some circumstances able to transfer to HVR 2, subject to the terms and conditions of their existing loan and to the borrower entering a deed of variation to vary the terms of the existing loan.

From 1 February 2002 until 3 January 2011, all Halifax mortgage products sold under the Halifax brand revert to HVR 1 at the end of the predetermined product period. From 4 January 2011, all new mortgage loans and products sold under the Halifax brand are subject to a new variable base rate, the Halifax Homeowner Variable Rate (**HHVR**) at the end of the predetermined product period. HVR 1 and HVR 2 continue to apply to existing mortgages that are linked to these respective variable base rates.

The mortgages trust includes flexible loans, which are priced by reference to another variable interest rate, the Halifax flexible variable rate.

The applicable final terms or drawdown prospectus will specify the current rates for HVR 1, HVR 2, HHVR, the Halifax flexible variable rate or any other applicable rate.

In addition, from 1 March 2001, all new Halifax branded mortgages have featured interest calculated on a daily basis rather than on an annual basis. Any payment by the borrower will reduce the borrower's balance on which interest will be calculated the following day. Prior to this date, most but not all Halifax branded mortgage products had carried interest calculated on an annual basis. Borrowers with existing loans on which interest is calculated on an annual basis are in some circumstances able to change and have their interest calculated on a daily basis.

The seller may change the interest rate, by giving the borrowers notice, on any part of the loan, unless otherwise agreed in the mortgage offer and subject to certain restrictions set forth in the mortgage offer. The seller may change the interest rate by altering the base rate or, if permitted in the mortgage offer,

altering the tracker rate margin (as described above) or charging an added rate. An added rate of not more than 2 per cent. may be charged on the loan if the borrower has let the property, without the seller's consent, changed the use of the property or it has become more difficult for the seller to exercise its powers over the property (an **added rate loan**). The seller may also change the borrower's monthly payments, the repayment period and the accounting period by giving the borrower's notice. In the case of special rate loans, the seller may cancel the special rate under certain circumstances specified in the mortgage offer.

Except in limited circumstances as set out in "**The servicing agreement – Undertakings by the servicer**" below, the servicer is responsible for setting the mortgages trustee variable base rate on the loans in the portfolio as well as on any new loans that are sold to the mortgages trustee. The mortgage conditions applicable to all of the variable rate loans provide that the variable base rate may only be varied in accordance with reasons that are specified in the mortgage conditions. These reasons include:

- to reflect changes in the cost of funds used by the seller in its mortgage lending business; or
- to reflect any regulatory requirements or guidance or any change in the law or decision or recommendation by a court or an ombudsman.

In respect of the variable rate loans with these mortgage conditions, the servicer may also change the mortgages trustee variable base rate for any other valid reason. In maintaining, determining or setting the mortgages trustee variable base rate, the servicer will apply the factors set out here and, except in limited circumstances as set out in "**The servicing agreement – Undertakings by the servicer**" below, has undertaken to maintain, determine or set the mortgages trustee variable base rate at a rate which is not higher than the variable base rate applicable to Halifax branded loans from time to time.

If applicable, the servicer will also be responsible for setting any variable margins in respect of new tracker rate loans that are sold to the mortgages trustee in the future. However, in maintaining, determining or setting these variable margins, except in the limited circumstances as set out in "**The servicing agreement – Undertakings by the servicer**" below, the servicer has undertaken to maintain, determine or set the variable margins at a level which is not higher than the variable margins set in accordance with the seller's policy from time to time.

Certain of the seller's variable rate loans are subject to a variable cap on the rate which can be charged. The cap applies where the borrower is locked into the mortgage by an early repayment charge, is paying the appropriate variable base rate on some or all of the mortgage balance and the mortgage is subject to mortgage conditions which contain the relevant cap provisions (essentially those mortgage conditions in effect for new mortgages between 2001 and 2007). The cap was originally 2 per cent. above the Bank of England base rate and is currently 3.75 per cent. above the Bank of England base rate. The seller may vary the cap, if prior to doing so, it gives 30 days' notice to relevant borrowers and allows those borrowers three months to repay their mortgage if they so require without incurring any early repayment charge.

In relation to the cap, under the Voluntary Variation of Permission dated 21 February 2011, the seller is obliged to consider, at least every three months, reducing the cap where it would be appropriate to do so. The Voluntary Variation of Permission is an agreed variation of the seller's FCA permission which, *inter alia*, requires the making of goodwill payments to certain customers in relation to the application of an interest rate cap variation clause in certain of the seller's mortgage contracts.

*Early repayment charges*

The borrower may be required to pay an early repayment charge if certain events occur during the predetermined product period and the mortgage offer states that the borrower is liable for early repayment charges. The seller also offered some products in the past with early repayment charge periods that extended beyond the product period. Although these types of products are not currently offered to new borrowers, some may be included in the portfolio. These events include a full or partial unscheduled repayment of principal or an agreement between the seller and the borrower to switch to a different mortgage product. If all or part of the principal owed by the borrower, other than the scheduled monthly payments, is repaid before the end of the product period, the borrower will be liable to pay to the seller all or part of the early repayment charge based on the amount of principal borrowed at the outset of the mortgage (if a mortgage is redeemed in part, then a proportionate part of the early repayment charge set out in the loan offer is payable). If the borrower has more than one product attached to the mortgage, the borrower may choose under which product the principal should be allocated.

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

If the seller changes the borrower's interest rate, for a reason not specified in the mortgage conditions, to the borrower's disadvantage and the loan is subject to an early repayment charge, the borrower may repay the mortgage debt in full within three months of receiving notice of the change without being charged the early repayment charge.

The mortgages trustee has agreed to pay back to the seller any early repayment charges received on the loan, so any sums received will be for the seller's account and not for the account of the mortgages trustee.

Some of the loans offered by the seller include a **cashback**, under which the borrower is offered a sum of money usually paid on completion of the loan. The incentive may take the form of a fixed amount, a percentage of the loan amount or a combination of the two. Where any loan is subject to a cashback, if there is an unscheduled principal repayment or a product switch (as described in "**Product switches**" below), in either case before a date specified in the agreement, then an early repayment charge may be repayable by the borrower.

Some mortgage products do not include any provisions for the payment of an early repayment charge by the borrower.

*Overpayments and underpayments*

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

If borrowers with daily calculations of interest pay more than the scheduled monthly payment, the balance on their mortgage account will be reduced. The seller will charge interest on the reduced balance, which reduces the amount of interest the borrower must pay.

Borrowers may underpay to the extent of previous overpayments.

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

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

This section does not apply to flexible loans (see "– *Flexible loans*" below).

*Payment holidays*

The seller offers **payment holidays**, which are defined in accordance with the servicer's servicing policies and procedures, during which a borrower may suspend mortgage payments. This option may be exercised, upon the seller's agreement, for one or two months at any one time up to a maximum of six months during the life of the mortgage. The payment holiday option does not include any insurance premiums.

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

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

Payments deferred under the payment holiday are rolled up and added to the mortgage and must be repaid over the remaining life of the mortgage, unless the seller and the borrower agree to amend the mortgage term. The seller will provide the borrower with a new scheduled monthly payment based on the

new amount owed. The total debt must not exceed 75 per cent. of the value of the property at the time of application and must comply with the seller's normal lending limits. The borrower may make overpayments (subject to terms and conditions) to pay off their debt sooner.

This section does not apply to flexible loans (see "– *Flexible loans*" below).

*Further advances*

If a borrower wishes to borrow a further amount secured by the same mortgage, the borrower will need to make a further advance application and the seller will use the lending criteria applicable to further advances at that time in determining whether to approve the application. All further advances will be funded solely by the seller. Where the aggregate of the initial advance and any further advance is greater than a certain percentage of the indexed value of the property, the seller will reassess the property's value, by instructing a valuer, who may physically inspect the property. A new loan-to-value, or LTV, ratio will be calculated by dividing the aggregate of the outstanding amount and the further advance by the reassessed valuation or the indexed valuation if no reassessment is required. The seller reserves the right to re-underwrite the loans. The aggregate of the outstanding amount of the loan and the further advance may be greater than the original amount of the loan. No loans will be sold to the mortgages trustee where the LTV ratio at the time of origination or further advance is in excess of 97 per cent.

In certain instances the further advance may be granted subject to the completion of improvements, alterations or repairs to the property. The seller reserves the right to confirm the completion of the work, either through an inspection of the improvement bills or a physical inspection of the property.

In addition, the seller has, in the past. offered a further advance product called the home cash reserve, which is a facility linked to a borrower's mortgage whereby a borrower may draw additional funds from time to time. A borrower had to have had a Halifax branded mortgage for a minimum of three months to qualify for the home cash reserve. Where originated by the seller before 31 October 2004, the total amount of the facility must have been a minimum of £25,005. Borrowers must draw down amounts of at least £1,000 at a time unless the draw down is performed online, in which case the minimum amount is £250. Funds drawn down under the home cash reserve are added to the loan. No redraw facility is available under the home cash reserve. Although this product is not currently offered by the seller, some loans with a home cash reserve may be included in the portfolio.

None of the loans in an expected portfolio obliges the seller to make further advances save for retentions and home cash reserve withdrawals. However, some loans in an expected portfolio may have further advances made on them prior to their being sold to the mortgages trustee and new loans added to the portfolio in the future may have had further advances made on them prior to that time.

This section does not apply to flexible loans (see "– *Flexible loans*" below).

*Debt Restructuring, Forgiveness, and Forbearance*

Debt restructuring, forgiveness and forbearance are defined in accordance with the servicer's servicing policies and procedures.

*Flexible loans*

Certain loans originated by the seller after 31 October 2004 included in the portfolio are subject to a range of options available for selection by the borrower, giving the borrower greater flexibility in the timing and amount of payments made under the loan as well as access to pre-approved further advances under the loan (**flexible loans**). These flexible loans may be discounted variable rate loans, added rate loans or tracker rate loans and offer the optional features described below, subject to certain conditions and financial limits. Each borrower of a flexible loan is subject to an agreement which sets out a reserve limit and the terms and conditions of the pre-approved further advances available to the borrower. The availability of the flexible loan options is generally limited to the available reserve, which in broad terms at any time is the difference between the reserve limit and the amount of the outstanding debt at that time.

Flexible loans include the following flexible options, which may be exercised in any combination, all subject to certain conditions and financial limits. In general, the flexible options impose fewer conditions and restrictions than those referred to under "– *Overpayments and underpayments*", "– *Payment holidays*" and "– *Further advances*" above and those sections do not apply to flexible loans.

*Overpayments*. Borrowers may increase their regular monthly payments above the normal monthly payment then applicable at any time.

*Underpayments*. Borrowers may reduce their monthly payments below the amount of the applicable normal monthly payment. The amount underpaid cannot exceed six normal monthly payments in any twelve month period or have the effect of the borrower not paying the normal monthly payment for six consecutive months. The seller will make an assessment to ensure that the addition of the total unpaid payments, including interest, does not result in the loan exceeding the maximum LTV ratio of its lending criteria.

*Payment holidays*. Borrowers may stop monthly payments for up to six months in any twelve month period.

*Lump-sum payments*. Borrowers may repay all or part of the loan at any time.

*Drawdown*. Borrowers may borrow further amounts, subject to a minimum amount of £250 (unless the available reserve is less than £250 in which case the borrower may borrow such lesser amount).

The terms and conditions of the flexible loans provide that:

- the flexible options will be available after the first monthly payment has been made;
- the borrower must inform the seller that it wishes to exercise the underpayment, payment holidays or overpayment options one month before the borrower wishes to exercise the relevant flexible option;
- amounts repaid under the flexible options agreement may be redrawn at any time using any available options;
- the borrower may not exceed the available reserve;
- the amount underpaid by the borrower by exercising the underpayment and/or the payment holidays options may not exceed six normal monthly payments in any twelve month period; and
- the flexible options are subject to satisfactory credit searches being carried out against the borrower.

In addition to the above restrictions, the seller has the right to reduce the available reserve to zero where: (a) an event requiring the immediate repayment of the debt (as set out in the applicable terms and conditions) occurs; (b) the borrower's financial circumstances change adversely; (c) the value of the security granted by the borrower for the debt is reduced such that part of the debt is unsecured; (d) the seller obtains adverse information about the borrower from a credit reference agency or from any fraud prevention register or from its dealings with the borrower and the seller reasonably considers that the available reserve should be reduced or withdrawn to protect its interests under the flexible options agreement; or (e) a borrower dies and the seller reasonably considers that the financial resources available to the borrower's personal representatives or (as the case may be) the surviving joint-borrower are not sufficient to support further borrowing up to the existing available reserve. If the available reserve is reduced to zero, the payment holidays, underpayment and/or drawdown options will cease to be available.

The maximum total borrowing under a flexible loan is limited up to a maximum 90 per cent. of the original property value (or of a later revaluation in the event a borrower subsequently transferred to a flexible product), subject to a lower limit if a borrower's maximum loan affordability is lower than this amount. Although flexible loans are not currently offered by the seller, some flexible loans may be included in the portfolio. The applicable final terms or drawdown prospectus will specify the percentage of English loans and Scottish loans in an expected portfolio which are flexible loans.

*Other characteristics*

The loans in the trust property do not include: (A) at the time of origination any loans that were marketed and underwritten on the premise that the loan applicant or, where applicable, intermediaries were made aware that the information provided by the loan applicant might not be verified by the seller for purposes of Article 20(10) of the Securitisation Regulation or (B) at the time of selection for inclusion in the portfolio any exposures in default within the meaning of Article 178(1) of Regulation (EU) No 575/2013 for purposes of Article 20(11) of the Securitisation Regulation.

The loans in the trust property have been transferred into the trust after selection for inclusion in the portfolio without undue delay for purposes of Article 20(11) of the Securitisation Regulation.

**Product switches**

From time to time borrowers may request or the servicer may send an offer of a variation in the financial terms and conditions applicable to the borrower's loan. However, as described in "**Risk factors – Failure by the seller or any broker to hold authorisation under the FSMA may have an adverse effect on enforceability of mortgage contracts**", no variation or product switch will be made in relation to a loan where it would result in Funding 1, Funding 2 or the mortgages trustee 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 Funding 1, Funding 2 or the mortgages trustee would be required to be authorised under the FSMA to do so. In limited circumstances, if a loan is subject to a product switch as a result of a variation, then the seller will be required to repurchase the loan or loans under the relevant mortgage account and their related security from the mortgages trustee, unless the relevant loan is in arrears (in which case no repurchase will be required). Those limited circumstances are that as at the relevant date, any of the conditions precedent to the sale of new loans to the mortgages trustee as described in "**Sale of the loans and their related security – Sale of loans and their related security to the mortgages trustee on the sale dates**" below has not been satisfied. From the date when those conditions precedent have been satisfied, then a loan that has been subject to a product switch will not be so repurchased by the seller. See further "**Risk factors – In certain circumstances, loans subject to product switches will be repurchased by the seller from the mortgages trustee, which will affect the prepayment rate of the loans, and this may affect the yield to maturity of the notes**" above and "**Sale of the loans and their related security**" below.

**Origination channels**

The seller currently derives its mortgage-lending business under the Halifax brand through its branch network throughout the United Kingdom, through intermediaries, through internet applications and from telephone sales. The applicable final terms or drawdown prospectus will specify the percentage of loans in the expected portfolio originated directly by Halifax or by Bank of Scotland under the Halifax brand, and originated through intermediaries or other channels.

**Right-to-buy scheme**

Mortgages in the portfolio may be extended to borrowers in connection with the purchase by those borrowers of properties from local authorities or certain other landlords (each, a **landlord**) under the "right-to buy" schemes governed by the Housing Act 1985 (as amended) or (as applicable) the Housing (Scotland) Act 1987 (as amended). Properties sold under these schemes are sold by the landlords at a discount to market value calculated in accordance with the Housing Act 1985 (as amended) or (as applicable) the Housing (Scotland) Act 1987 (as amended). A purchaser under these schemes must, if he sells the property within three years (or in cases where the right to buy was exercised in relation to properties in England and Wales after 18 January 2005, five years) (the **RTB disposal period**), repay a proportion of the discount he received or, in England and Wales only, the resale price (the **resale share**) to the landlord. The landlord obtains a statutory charge (or, in Scotland, a standard security) over the property in respect of the contingent liability of the purchaser under the relevant scheme to repay the resale share. In England and Wales, the statutory charge ranks senior to other charges, including that of any mortgage lender, unless (i) the mortgage lender has extended the mortgage loan to the purchaser for the purpose of enabling him to exercise the right to buy or for "approved purposes" under the scheme (including refinancing loans made for the purpose of enabling the exercise of the right to buy and repair works to the property) and is an approved lending institution for the purposes of the Housing Act 1985 or (ii) the relevant local authority issues a deed of postponement postponing its statutory charge to that of a mortgage lender. In the case of loans made for approved purposes, the statutory charge is only postponed if the relevant landlord agrees to the postponement but the relevant legislation obliges the landlord to agree to the postponement. However, in practice the lender will need to provide evidence to the relevant landlord as to whether the loan was made for approved purposes. A mortgage lender selling the property as a mortgagee in possession in such circumstances will also be obliged to grant such right of first refusal to the landlord or other social landlord. In Scotland, where the landlord secures the contingent liability to repay the resale share, the standard security will, notwithstanding the usual statutory ranking provisions, have priority immediately after any standard security granted in security of a loan either to purchase or improve the relevant property plus interest and expenses and, if the landlord consents, a standard security over the relevant property securing any other loan. The applicable final terms or drawdown prospectus will specify the percentage of mortgages in an expected portfolio that are subject to right-to-buy schemes.

The seller is an approved lending institution under the Housing Act 1985. The seller will, in the mortgage sale agreement, warrant that all mortgages or standard securities originated by it were made to the person exercising the right to buy for that purpose or, in England and Wales, another approved purpose or in Scotland, improving the relevant property (save where a deed of postponement has been entered into by the relevant landlord) and have (or the seller has the evidence necessary to ensure that the mortgages will have) priority over any statutory charge or standard security in favour of the relevant landlord, save in cases where the loan is made at a time where there is no more than one year remaining of the RTB disposal period (in which case, the seller's view is that if it has to enforce, it is likely that the RTB disposal period will have expired by the time it sells the relevant property so the statutory charge or standard security will have ceased to subsist) or where adequate insurance is in place.

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

Amendments to the Housing Act 1985 introduced by the Housing Act 2004 give the relevant landlord a right of first refusal should the relevant property be disposed of within the first ten years following the exercise of the right to buy (when the right to buy is exercised after 18 January 2005). The consideration payable by the relevant landlord is the value of the property determined, in the absence of agreement between the landlord and the owner, by the district valuer. This right of first refusal may add to the time it takes to dispose of a property where the seller enforces its security, and the district valuer may determine that the value of the property is lower than that the seller believes is available in the market. The right-to-buy scheme in Scotland came to an end for all council and housing association tenants in Scotland on 1 August 2016 (with a closing deadline for applications of 31 July 2016).

**Underwriting**

Traditionally, the seller's decision whether to underwrite or not underwrite a loan has been made by underwriters in the branch network and then one of the seller's business centres, who liaise with the intermediaries and sales staff in the branch network. Each underwriter must undertake a training programme conducted by the seller to gain the authority to approve loans. The seller has established various levels of authority for its underwriters who approve loan applications. The levels are differentiated by, among other things, degree of risk and the loan amount being requested in the relevant application. An underwriter wishing to move to the next level of authority must undertake further training.

During 2001, the seller introduced an automated system whereby the majority of mortgages are underwritten at the point of sale and do not make use of the traditional system of full evaluation by an underwriter. Those mortgages 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.

Mortgages 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 this area and use their knowledge to make decisions on such loan applications based on the lending mandates they hold and the risk to the seller.

All mortgage 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 staff.

*Lending criteria*

Each loan in the portfolio was originated according to the seller's lending criteria applicable at the time the loan was offered, which included some or all of the criteria set out in this section. New loans may only be included in the portfolio if they are originated in accordance with the lending criteria applicable at the time the loan is offered and if the conditions set out in "**Sale of the loans and their related security – Sale of loans and their related security to the mortgages trustee on the sale dates**" below have been satisfied. However, the seller retains the right to revise its lending criteria from time to time, so the criteria applicable to new loans may not be the same as those currently used. Some of the factors currently used in making a lending decision are as follows.

(1) Type of property

Properties may be either freehold or the Scottish equivalent or leasehold. In the case of leasehold properties, the seller currently requires the lease to have a minimum unexpired term of 70 years at the point of sale, although this may be reduced under certain circumstances. Previously the requirement was for a minimum unexpired term of 30 years at expiry of the mortgage term and this may have been reduced 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 (as referred to under "**The servicing agreement – Undertakings by the servicer**" below) and which has been approved by the seller.

(2) Term of loan

There is no minimum term on home purchase loans and the current maximum term available is 40 years for all loans. A borrower may request to increase the term of the loan and the seller may, at its discretion, agree to such request subject to the following:

- the consent of any subsequent lender;
- in the case of all leasehold properties, there being a minimum unexpired term of 70 years at the point of sale (or 10 years in certain circumstances); and
- the approval of the valuer, where the valuer has previously recommended a term which is shorter than the proposed new term.

The term of a loan may be extended up to a maximum of 40 years from the point of the original advance, subject to the borrower's age (see " - *Age of applicant*" below).

(3) Age of applicant

All borrowers must be aged 18 or over and the maximum age limit at the end of the mortgage term is 80. If the term of the mortgage extends into the borrower's retirement, or the borrower is already retired, the seller will consider the borrower's ability to support the loan in retirement.

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

For the loans in the portfolio, the seller has lent up to 97 per cent. of the improved valuation of the property (the original valuation plus the increase in value deriving from any improvements).

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

(5) Status of applicant(s)

The maximum aggregate loan amount under a mortgage account is determined by the application of an affordability model. This model delivers an individualised result that reflects the applicant's net income, existing credit commitments and burden of family expenditure. The model also calculates the full debt servicing cost at a stressed rate of interest before comparing this cost to the net disposable income that the applicant has available. The seller maintains rules on the amount of variable income (overtime, bonus, commission) that it will allow into the model and as a general rule will allow no more than 60 per cent. of these items. Benefit payments are allowed (including tax credits) as these quite often compensate for the taxation and National Insurance deductions that would normally cause lower levels of income to fall below minimum wage levels. This model returns "answers" of zero up to amounts that would equate to over 4.75 times income. Regardless, the seller maintains a policy rule that it will not lend more than an amount equal to 4.75 times income. Any decision to override this policy and lend more than an amount equal to 4.75 times income will be made by an underwriter after fully assessing the risk to the seller.

In cases where a single borrower is attempting to have the seller take a secondary income into account, the seller will consider the sustainability of the borrower's work hours, the similarity of the jobs and/or skills, the commuting time and distance between the jobs, the length of employment at both positions and whether the salary is consistent with the type of employment. The seller will determine, after assessing

the above factors, if it is appropriate to use both incomes. If so, both incomes will be used as part of the normal income calculation.

When there are two applicants, the seller adds joint incomes together for the purpose of calculating the applicants' total income. The seller may at its discretion consider the income of one additional applicant as well, but only a maximum rate of one times that income.

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 loan(s). Accordingly, these parameters may vary for some loans. The seller may take the following into account when exercising discretion: credit score result, existing customer relationship, percentage of LTV, stability of employment and career progression, availability of living allowances and/or mortgage subsidy from the employer, employer's standing, regularity of overtime, bonus or commission (up to a maximum of 60 per cent. of the income), credit commitments, quality of security (such as type of property, repairs, location or saleability) and the increase in income needed to support the loan.

(6) Credit history

(a) Credit search

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

(b) Bank statements

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

(7) Scorecard

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

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

(8) Income verification

Prior to April 2014, dependent on the scorecard outcome and any policy rules applicable at the time of application, the seller could elect not to verify the borrower's income. Typically, the seller would not request income verification for loans that it believed represented a lower credit risk. The borrower, at the time of application, could not be certain whether or not income verification would be required and the seller reserved the right to request income verification at all times, regardless of the scorecard outcome and policy rules.

Since April 2014, income verification has been required for all borrowers.

(9) Credit impaired loans

Lending criteria regarding adverse credit data have varied since 1996 with different thresholds for what will be accepted as an allowable application. Once submitted the application would have been subjected to further risk assessment calculations using an interaction of adverse policy rules and credit scoring to determine the final risk and whether or not it would have been accepted.

Over the period in question, customers with bankruptcies and individual voluntary arrangements have not been allowed to proceed and customers with no more than two satisfied county court judgments up to £500 (£750 for existing customers) more than 2 years prior to their application were allowed to submit their application for risk assessment and underwriting.

The assessment of a borrower's creditworthiness is conducted in accordance with the lending criteria and, where appropriate, shall meet the requirements set out in Article 8 of the Consumer Credit Directive or paragraphs 1 to 4, point (a) of paragraph 5, and paragraph 6 of Article 18 of the Mortgage Credit Directive or, where applicable, equivalent requirements in third countries.

*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. New loans, further advances, retention drawings, home cash reserve drawings and flexible drawings that are originated under lending criteria that are different from the criteria set out here may be sold to the mortgages trustee.

Any material changes from the seller's prior underwriting policies and lending criteria shall be disclosed without undue delay to the extent required under Article 20(10) of the Securitisation Regulation.

Neither the issuing entity nor the seller will revalue (a) any of the mortgaged properties in the portfolio or (b) any new mortgages which are to be sold into the mortgages trust from time to time, for the purposes of any issuance under the programme.

**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 the insurance independently. In either case, the borrower must take reasonable steps to ensure that nothing happens which may harm the ability to make a claim under the insurance, render the insurance invalid and ensure that the insurance premiums are kept up to date.

On newly originated loans, the solicitors, licensed conveyancers or, in Scotland, qualified conveyancers should advise the customer in writing of the need to ensure that adequate insurance cover is in place and must take steps to confirm this is the case in accordance with (in the case of English loans) the requirements of the CML Lenders' Handbook for England & Wales (or, for mortgages taken before this handbook was adopted in 1999, the Seller's Mortgage Practice Notes) and (in the case of Scottish loans) the CML's Lender's Handbook for Scotland (or for mortgages taken before this handbook was adopted in 2000, the Seller's Mortgage Practice Notes).

If the borrower does not insure the property, or insures the property but not in accordance with the mortgage conditions, the seller may, upon becoming aware of the same, insure the property itself, in which case the seller may determine who the insurer will be, what will be covered by the policy, the amount of the sum insured and any excess. The borrower will be responsible for the payment of insurance premiums and the cost may be added to the borrower's loan and interest charged. The seller retains the right to settle all insurance claims on reasonable terms without the borrower's consent. The seller's current policy is that in most cases where it becomes aware that a property is not insured, it will not arrange insurance cover except where the property is in possession (see section headed "*Properties in possession cover*" below).

*Halifax policies*

If the buildings insurance is purchased by the borrower through the seller, the seller will arrange the insurance through Lloyds Bank Insurance Services Limited (**LBISL**). LBISL does not underwrite the insurance itself, rather it acts as an administrator. The insurance is underwritten by Lloyds Bank General Insurance Limited (**LBGIL**). The premiums paid by the borrower will be calculated on a number of factors including, for example, the location of the borrower's residence, the type, age and use of the borrower's property and the borrower's past claims history. The borrower will pay premiums direct to LBISL. The policy will be automatically renewed each year. The seller will arrange for cover to be provided from the date the

purchase contracts for a property are exchanged or concluded; if the borrower already owns the property, cover will start on the date that the borrower's mortgage is completed.

In the event of a claim, the buildings are insured up to the full cost of rebuilding the property in the same form as before the damage occurred, including the costs of complying with local authority and other statutory requirements, professional fees and related costs. Standard policy conditions apply. Amounts paid under the insurance policy are generally utilised to fund the reinstatement of the property or, on very rare occasions, are otherwise paid to the seller to reduce the amount of the loan(s). In the latter circumstance, all insurance cover will be removed.

In the servicing agreement, the seller, acting in its capacity as the servicer, has also agreed to deal with claims under the Halifax policies in accordance with its normal procedures.

*Borrower-arranged buildings insurance*

A borrower may elect not to take up a Halifax policy or a borrower who originally had a Halifax policy may elect to insure the property with an independent insurer. The seller requires that any borrower-arranged insurance policy be drawn in the joint names of the seller and all of the applicants and be maintained in their joint names for the duration of the mortgage. If this is not possible, for example because the property is leasehold and the lease provides for the landlord to insure, the borrower must arrange for the seller's interest to be noted on the landlord's policy. The seller also requires that the sum insured be for an amount not less than the full reinstatement value of the property and be reviewed annually, that the borrower inform the seller of any damage to the property that occurs and that the borrower make a claim under the insurance for any damages covered by it unless the borrower makes good the damage.

*Properties in possession cover*

When a mortgaged property is taken into possession by the seller, the seller will arrange appropriate buildings insurance cover through a policy underwritten by LBGIL. The seller may claim under such policy for any damage occurring to the mortgaged property while in the seller's possession.

The seller, acting in its capacity as servicer, will make claims in accordance with the seller's policy and, to the extent that any proceeds are received by the servicer under such policy in respect of loans in the portfolio, the servicer has agreed to pay these into the mortgages trustee's accounts.

In the mortgage sale agreement, the seller has agreed to make and enforce claims under the relevant policies and to hold the proceeds of claims on trust for the mortgages trustee or as the mortgages trustee may direct.

*Title insurance*

Unless otherwise specified in the applicable final terms or drawdown prospectus, there will be no loans in the portfolio for which the underlying mortgages have the benefit of a title insurance policy. Inclusion of loans in the portfolio having the benefit of a title insurance policy will be subject to (among other things) the approval of the Funding 2 security trustee and the Funding 1 security trustee and confirmation from each rating agency that inclusion of these loans will not cause the downgrade or withdrawal of the rating of any note or any Funding 1 note. Relevant representations and warranties will be given in relation to any title insurance policy each time that Funding 1 and/or Funding 2 pays the consideration for the sale of new loans to the mortgages trustee.

*Mortgage indemnity guarantee (MIG) policies and high LTV fees*

The seller requires borrowers to pay high LTV fees for loans made to borrowers that are over a certain specified percentage of the property's value. The seller currently does not use secondary cover, but may collect high LTV fees from the relevant borrower itself, with the risk remaining on the seller's balance sheet. The high LTV fees are charged to the borrower based on the difference between the actual LTV ratio and a 75 per cent. LTV ratio. The seller may on occasions, as an incentive, pay the high LTV fees on the borrower's behalf.

Prior to 1 January 2001, the seller required cover under mortgage indemnity guarantee, or MIG, policies for mortgages where the LTV ratio exceeded 75 per cent. and since 1 January 2001, the seller has not required cover under MIG policies for any loans. All cover provided by MIG policies written prior to 1 January 2001 has now lapsed and the loans in the portfolio no longer benefit from this cover.

**Governing law**

Each of the English loans is governed by English law and each of the Scottish loans is governed by Scots law.

## The servicer

### The servicer

Under the servicing agreement, Halifax was appointed as, and since the reorganisation date Bank of Scotland has been, the **servicer** of the loans. The day-to-day servicing of the loans is performed by the servicer in accordance with the servicing agreement through the servicer's retail branches, telephone and customer service centres. The servicer's registered office is The Mound, Edinburgh, EH1 1YZ, United Kingdom.

Basic information on the organisation and history of the servicer is set out in this base prospectus under "**Bank of Scotland plc**" above. Halifax has been engaged in the servicing of residential mortgage loans originated by it since its founding in 1853. Bank of Scotland assumed the servicing function on the reorganisation date. This section describes the servicer's procedures in relation to loans generally. A description of the servicer's obligation under the servicing agreement follows in the next section.

### Servicing of loans

Servicing responsibilities and procedures include responding to customer enquiries, monitoring compliance with and servicing the loan features and facilities applicable to the loans and management of loans in arrears. See "**The servicing agreement**" below.

Pursuant to the terms and conditions of the loans, borrowers must pay the monthly amount required under the terms and conditions of the loans on or before each monthly instalment due date, within the month they are due. Interest accrues in accordance with the terms and conditions of each loan and is collected from borrowers monthly.

In the case of variable rate loans, the servicer sets the mortgages trustee variable base rate and the margin applicable to any tracker rate loan on behalf of the mortgages trustee and the beneficiaries, except in the limited circumstances as set out in the servicing agreement. In the case of some loans that are not payable at the mortgages trustee variable base rate, for example loans at a fixed rate, the borrower will continue to pay interest at the relevant fixed rate until the relevant period ends in accordance with the borrower's offer conditions. After that period ends, and unless the servicer sends an offer of and the borrower accepts another option with an incentive, interest will be payable at the mortgages trustee variable base rate. In addition, some other types of loans are payable or may change so as to become payable by reference to other rates not under the control of the servicer, such as rates set by the Bank of England, which rates may also include a fixed or variable rate margin set by the servicer on behalf of the mortgages trustee and the beneficiaries.

The servicer will take all steps necessary under the mortgage terms to notify borrowers of any change in the interest rates applicable to the loans, whether due to a change in the mortgages trustee variable 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 payable in the month that they are due. The servicer is responsible for ensuring that all payments are made by the relevant borrower into the collection account and transferred into the mortgages trustee 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. All amounts which are paid to the collection account will be held on trust by the seller for the seller and the mortgages trustee until they are transferred to the mortgages trustee 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 mortgages trustee 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 each case, the servicer is permitted to reclaim from the mortgages trustee GIC account the corresponding amounts previously credited. In these circumstances, the usual arrears procedures described in "**– Arrears and default procedures**" below will be taken.

### Changes

From time to time, the seller reviews and updates its policies and procedures in relation to the servicing of the loans. Some of these changes are market-driven, for example in connection with the

introduction of UK mortgage regulation under the FSMA on 31 October 2004. See "**Risk factors – Failure by seller or any broker to hold authorisation under the FSMA may have an adverse effect on enforceability of mortgage contracts"** above and **"Risk factors – Changes to mortgage regulation and to the regulatory structure in the United Kingdom may adversely affect payments on your notes**" above.

Other changes are driven by the seller reviewing its procedures and amending them to reflect current trading conditions.

**Arrears and default procedures**

Delinquency and default of debtors, losses, charge offs, recoveries and other asset performance remedies are defined in accordance with the servicer's servicing policies and procedures. A 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.

The servicer regularly provides the mortgages trustee and the beneficiaries with written details of loans that are in arrears. In general, the servicer attempts to collect all payments due under or in connection with the loans, having regard to the circumstances of the borrower in each case. The servicer adheres to the Ministry of Justice's Pre-Action Protocol for Possession Claims (in England and Wales) and 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/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. Where no contact has been made or no agreement has been reached, this could result in telephone contact via a dialer 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 considered appropriate, the servicer may vary the terms of the loan, in order to assist the borrower in financial difficulties with the primary aim being to rehabilitate the borrower and recover the situation. Such variations include:

- extensions to the term of the loan; and
- transferring the 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:

- arrangements to make each monthly payment as it falls due plus an additional amount to pay the arrears over a period of time;
- arrangements to make each monthly payment as it falls due;
- arrangements to pay only a portion of each monthly payment as it falls due; and
- 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, again, to rehabilitate the borrower and recover the situation.

For residential loans, legal proceedings do not usually commence until the arrears become four months to six months overdue, depending upon the level of risk of loss that the loan represents and the level of customer interactions through the collections process. However, the servicer's employees have discretion to commence earlier having due regard to the case history, reasonable attempts to find a solution, risk and type of lending. For very low risk loans, legal action may be delayed where appropriate to allow more time for recovery.

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:

- secure, maintain or protect the property and put it into a suitable condition for sale;
- create (other than in Scotland) any estate or interest on the property, including a leasehold; and
- 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 to deviate from these procedures. In particular, the servicer may deviate from these procedures where a borrower suffers from a mental or physical infirmity, is deceased or where the borrower is otherwise prevented from making payment due to causes beyond the borrower's control. This is the case for both sole and joint borrowers.

It should also be noted that the 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.

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 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 property and redemption of the mortgage there are remaining funds, those funds will be distributed by the acting solicitor to the next entitled parties.

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

The applicable final terms or drawdown prospectus will contain a table summarising loans in arrears and repossession experience for loans previously serviced by Halifax and since the reorganisation date by Bank of Scotland in respect of Halifax branded loans, including the loans that are contained in the portfolio (including loans which had previously formed part of the portfolio) and any loans to be sold to the mortgages trustee on the relevant closing date, as at the cut-off date. Halifax previously serviced and since the reorganisation date Bank of Scotland has serviced all of the loans originated under the Halifax brand.

## The servicing agreement

The following section contains a summary of the material terms of the servicing agreement. The summary does not purport to be complete and is subject to the provisions of the servicing agreement.

### Introduction

On the initial closing date, Halifax was appointed by the mortgages trustee, Funding 1 and the seller under the servicing agreement to be their agent to service the loans and their related security and the Funding 1 security trustee consented to the appointment. On the programme date, Funding 2 became a party to the servicing agreement and appointed Halifax to be its agent to service the loans and their related security and the Funding 2 security trustee consented to the appointment. Bank of Scotland has been the servicer since the reorganisation date and must comply with any proper directions and instructions that the mortgages trustee, Funding 1, Funding 2, the seller, the Funding 1 security trustee or the Funding 2 security trustee may from time to time give to it in accordance with the provisions of the servicing agreement. The servicer is required to administer the loans in the following manner:

- in accordance with the servicing agreement; and
- as if the loans and mortgages had not been sold to the mortgages trustee but remained with the seller, and in accordance with the seller's procedures and administration and enforcement policies as they apply to those loans from time to time.

The servicer's actions in servicing the loans in accordance with its procedures are binding on the mortgages trustee. 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 loans and for the acts or omissions of any delegate or sub-contractor.

### Powers

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

- to exercise the rights, powers and discretions of the mortgages trustee, the seller, Funding 1 and Funding 2 in relation to the loans and their related security and to perform their duties in relation to the loans and their related security; and
- to do or cause to be done any and all other things which it reasonably considers necessary or convenient or incidental to the administration of the loans and their related security or the exercise of such rights, powers and discretions.

### Undertakings by the servicer

The servicer has undertaken, among other things, the following:

1. To maintain approvals, authorisations, permissions, consents, and licences required in order to perform its obligations under the servicing agreement.

2. To determine and set the mortgages trustee variable base rate and any variable margin applicable in relation to any tracker rate loan in relation to the loans comprising the trust property, except in the limited circumstances described in this paragraph 2, when the mortgages trustee will be entitled to do so. It will not at any time, without the prior consent of the mortgages trustee, Funding 1 and Funding 2, set or maintain:

(i) the mortgages trustee variable base rate at a rate which is higher than (although it may be lower than or equal to) the then prevailing seller’s variable base rate which applies to loans beneficially owned by the seller outside the portfolio;

(ii) a margin in respect of any tracker rate loan which, where the offer conditions for that loan provide that the margin shall be the same as the margin applicable to all other loans having the same offer conditions in relation to interest rate setting, is higher or lower than the margin then applying to those loans beneficially owned by the seller outside the portfolio; and

(iii) a margin in respect of any other tracker rate loan which is higher than the margin which would then be set in accordance with the seller's policy from time to time in relation to that loan.

In particular, the servicer shall, on each calculation date following a debit to the Funding 1 general reserve fund ledger and/or the Funding 2 general reserve fund ledger and continuing until the debit balance is eliminated, determine having regard to:

(A) the revenue which Funding 1 and Funding 2 would respectively expect to receive during the next succeeding Funding 1 interest period and the next succeeding interest period respectively;

(B) the mortgages trustee variable base rate, any variable margins applicable in relation to any tracker rate loans and the variable mortgage rates in respect of the loans which the servicer proposes to set under the servicing agreement; and

(C) the other resources available to Funding 1 and Funding 2 including (in the case of Funding 2) the Funding 2 general reserve fund, the Funding 2 yield reserve fund (if any, and such amount only to be used in the calculation of a funding 2 interest rate shortfall in respect of the Funding 2 yield reserve loan tranches) and the Funding 2 swap agreement,

whether:

(1) Funding 1 would receive an amount of revenue during the relevant Funding 1 interest period which, when aggregated with the funds otherwise available to Funding 1, is less than the amount which is the aggregate of (1) the amount of interest which will be payable by Funding 1 in order to fund (whether by payment to a swap counterparty by a Funding 1 issuing entity or otherwise) the amount of interest payable in respect of the AAA term advances under the Funding 1 intercompany loans on the Funding 1 interest payment date falling at the end of that Funding 1 interest period and (2) all other amounts payable by Funding 1 at or before the end of that Funding 1 interest period which rank equally with or in priority to interest due on the AAA term advances under Funding 1 intercompany loans; and

(2) Funding 2 would receive an amount of revenue during the relevant interest period which, when aggregated with the funds otherwise available to Funding 2, is less than the amount which is the aggregate of (1) the amount of interest which will be payable by Funding 2 in respect of the AAA loan tranches on the Funding 2 interest payment date falling at the end of that interest period and (2) all other amounts payable by Funding 2 at the end of that interest period, which rank equally with or in priority to interest due in respect of the AAA loan tranches.

If the servicer determines that there would be a shortfall in the foregoing amounts, it will give written notice to the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and the Funding 2 security trustee, within one London business day of such determination, of the amount of the shortfall for each of Funding 1 and Funding 2 and the mortgages trustee variable base rate and/or any variable margins applicable in relation to any tracker rate loans which would, in the servicer's opinion, need to be set in order for no shortfalls to arise, having regard to the date(s) on which the change to the mortgages trustee variable base rate and any variable margins would take effect and at all times acting in accordance with (i) the standards of a reasonable, prudent mortgage lender as regards the competing interests of borrowers with mortgages trustee variable base rate loans and borrowers with tracker rate loans and (ii) any limitations under the loan agreements and prevailing regulations. If the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and/or the Funding 2 security trustee notify the servicer that, having regard to the obligations of Funding 1 and/or Funding 2, the mortgages trustee variable base rate and/or any variable margins should be increased, the servicer will take all steps which are necessary to increase the mortgages trustee variable base rate and/or any variable margins, including publishing any notice which is required in accordance with the mortgage terms.

The mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and/or the Funding 2 security trustee may terminate the authority of the servicer to determine and set the mortgages trustee variable base rate and any variable margins on the occurrence of a **servicer termination event** as defined under "**Removal or resignation of the servicer**" below, in which case the mortgages trustee will set the mortgages trustee variable base rate and any variable margins itself in accordance with this paragraph 2 above.

1. To notify borrowers when required of any change in interest rates.

2. To keep records and accounts on behalf of the mortgages trustee in relation to the loans and their related security.

3. To keep the customer files and title deeds in safe custody and maintain records necessary to enforce each mortgage.

4. To provide the mortgages trustee, Funding 1, Funding 2 (and their respective auditors), the Funding 1 security trustee and the Funding 2 security trustee and any other person nominated by Funding 1 and/or Funding 2 with access to the title deeds and other records relating to the administration of the loans and mortgages.

5. To make available (on behalf of the issuing entity) to beneficial owners of the notes, who have provided the beneficial ownership certification as described in the servicing agreement, on a monthly basis a report containing information about the loans in the mortgages trust.

6. To take all reasonable steps, in accordance with the usual procedures undertaken by a reasonable, prudent mortgage lender, to recover all sums due to the mortgages trustee, including instituting proceedings and enforcing any relevant loan or mortgage.

7. To enforce any 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 mortgages trustee.

The requirement for any action to be taken according to the standards of a **reasonable, prudent mortgage lender** is as defined in the Glossary. For the avoidance of doubt, any action taken by the servicer to set variable base rates and any variable margins applicable in relation to any tracker rate loans which are lower than that of the competitors of the seller will be deemed to be in accordance with the standards of a reasonable, prudent mortgage lender.

**Compensation of the servicer**

The servicer receives a fee for servicing the loans. The mortgages trustee will pay to the servicer a servicing fee of 0.05 per cent. per annum (inclusive of VAT) on the aggregate amount of the trust property as at the immediately preceding calculation date. The rate is subject to adjustment if the applicable rate of VAT changes. The fee is payable in arrear on each distribution date only to the extent that the mortgages trustee has sufficient funds to pay it. Any unpaid balance will be carried forward until the next distribution date and, if not paid earlier, will be payable on the later of (i) the latest occurring final repayment date of the Funding 1 intercompany loans or on their earlier repayment in full by Funding 1 and (ii) the latest occurring final repayment date of any loan tranche advanced under the master intercompany loan agreement or on the earlier repayment in full by Funding 2 of all loan tranches under the master intercompany loan agreement.

**Removal or resignation of the servicer**

The mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and/or the Funding 2 security 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 (each a **servicer termination event**) occurs:

- the servicer defaults in the payment of any amount due and fails to remedy that default for a period of five London business days after the earlier of becoming aware of the default and receipt of written notice from the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and/or the Funding 2 security trustee requiring the default to be remedied;

- the servicer fails to comply with any of its other covenants or obligations under the servicing agreement which (i) in the opinion of the Funding 1 security trustee is materially prejudicial to Funding 1, the Funding 1 issuing entities and any Funding 1 noteholders and/or (ii) in the opinion of the Funding 2 security trustee is materially prejudicial to Funding 2, the issuing entity, any new Funding 2 issuing entities, any noteholders and the holders of any notes issued by any new Funding 2 issuing entity and (in each case) does not remedy that failure within 20 London business days after becoming aware of the failure;

- an insolvency event occurs in relation to the servicer; or

- Funding 1 and Funding 2 are of the opinion, after due consideration and acting reasonably, that the appointment of the servicer should be terminated.

Under the terms of the servicing agreement, following a servicer termination event the Funding 1 security trustee and the Funding 2 security trustee shall use their reasonable endeavours to appoint a substitute servicer approved by the mortgages trustee, Funding 1 and Funding 2 that has experience of administering mortgages of and standard securities over residential property in the UK, is willing to enter into an agreement substantially on the same terms as the relevant provisions of the servicing agreement and whose appointment does not adversely affect the then current ratings (if any) of the notes unless otherwise agreed by an extraordinary resolution of the holders of the relevant series and class of notes.

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 mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee, the Funding 2 security trustee and the seller. The substitute servicer is required to have experience of administering mortgages in the United Kingdom and to enter into a servicing agreement with the mortgages trustee, Funding 1, Funding 2, the seller, the Funding 1 security trustee and the Funding 2 security trustee substantially on the same terms as the relevant provisions of the servicing agreement. It is a further condition precedent to the resignation of the servicer that the current ratings of the Funding 1 notes and the notes are not adversely affected as a result of the resignation, unless the relevant classes of Funding 1 noteholders and the 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 loans to, or at the direction of, the mortgages trustee. The servicing agreement will terminate when neither Funding 1 nor Funding 2 has any interest in the trust property.

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 seller, Funding 1 and Funding 2 as beneficiaries of the mortgages trust. The servicing fee payable to a substitute servicer will be agreed with that substitute servicer prior to its appointment.

**Right of delegation by the servicer**

The servicer may sub-contract or delegate the performance of its duties under the servicing agreement, provided that it meets particular conditions, including that:

- Funding 1, Funding 2, the Funding 1 security trustee and the Funding 2 security trustee consent to the proposed sub-contracting or delegation;
- notification has been given to each of the rating agencies;
- where the arrangements involve the custody or control of any customer files and/or title deeds 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 mortgages trustee (as trustee for the beneficiaries);
- where the arrangements involve the receipt by the sub-contractor or delegate of monies belonging to the beneficiaries which are paid into the mortgages trustee GIC account, the sub-contractor or delegate will execute a declaration that any such monies are held on trust for the beneficiaries and will be paid forthwith into the mortgages trustee GIC account in accordance with the terms of the mortgages trust deed;
- the sub-contractor or delegate has executed a written waiver of any security interest arising in connection with the delegated services; and
- the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and the Funding 2 security trustee have no liability for any costs, charges or expenses in relation to the proposed sub-contracting or delegation.

The consent of Funding 1, Funding 2, the Funding 1 security trustee and the Funding 2 security trustee referred to here (among other conditions) will not be required in respect of any delegation to a wholly-owned subsidiary of Bank of Scotland or Lloyds 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 those duties to the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and the Funding 2 security trustee.

**Liability of the servicer**

The servicer will indemnify the mortgages trustee and the beneficiaries against all losses, liabilities, claims, expenses or damages incurred as a result of 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. If the servicer does breach the terms of the servicing agreement and thereby causes loss to the beneficiaries, then the seller share of the trust property will be reduced by an amount equal to the loss.

**Servicer compliance**

Pursuant to the servicing agreement, the servicer (on behalf of the issuing entity) will provide to beneficial owners of the notes and potential owners of the notes on a monthly basis a report containing information about the loans in the mortgages trust if they have furnished the servicer with the beneficial ownership certification described in the servicing agreement. These reports will be made available at http://www.lloydsbankinggroup.com/Investors/debt-investors/securitisation/permanent/. The website and the contents thereof do not form part of this base prospectus.

**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.

## Sale of the loans and their related security

The following section contains a summary of the material terms of the mortgage sale agreement. The summary does not purport to be complete and is subject to the provisions of the mortgage sale agreement.

### Introduction

Loans and their related security have been and will continue to be sold to the mortgages trustee pursuant to the terms of the mortgage sale agreement. The mortgage sale agreement has six primary functions:

- it provides for the sale of the loans and their related security and the transfer of the beneficial interest therein;
- it sets out the circumstances under which new loans can be sold to the mortgages trustee;
- it provides for the legal assignment or assignation (as appropriate) of the loans and their related security to the mortgages trustee;
- it sets out the representations and warranties given by the seller;
- it provides for the repurchase of mortgage accounts and related security which have loans (1) which (in limited circumstances) are subject to a product switch, (2) which are subject to a further advance, (3) (at the seller's option) which cause the seller to be in breach of any of its representations and warranties in respect of the loans, (4) which are in arrears by three or more monthly payments, (5) which are second home loans, (6) which are credit impaired loans; (7) which are deedstore loans and (8) which are non-compliant loans; and
- it provides for drawings in respect of home cash reserve products, retention loans and flexible loans included in the trust property.

### Sale of loans and their related security to the mortgages trustee on the sale dates

Under the mortgage sale agreement dated the initial closing date, entered into between the seller, the mortgages trustee, the Funding 1 security trustee and Funding 1, the seller transferred by way of an equitable assignment to the mortgages trustee the initial loans, together with their related security and since the initial closing date additional loans have been transferred to the mortgages trustee. On the programme date, Funding 2 and the Funding 2 security trustee became parties to the mortgage sale agreement. The mortgage sale agreement has been amended and restated on numerous occasions since the initial closing date.

The mortgage sale agreement provides that the seller may sell new loans and their related security to the mortgages trustee, which may have the effect of increasing or maintaining the overall size of the trust property. The new loans may include loans with characteristics that are not currently being offered to borrowers or that have not yet been developed. New loans and their related security can only be sold if certain conditions, as described in this section, are met.

The mortgages trustee will hold the new loans and their related security on trust for the seller, Funding 1 and Funding 2 pursuant to the terms of the mortgages trust deed. Full legal assignment or assignation (as appropriate) of the loans will be deferred until a later date, as described under "**Legal assignment of the loans to the mortgages trustee**" below. Changes may be required to the mortgage sale agreement if new types of loans are sold to the mortgages trustee. See "**Risk factors – The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**", "**Security for Funding 2's obligations**" and "**Security for the issuing entity's obligations**".

On the date of each relevant sale, the consideration paid to the seller will consist of:

- payment by Funding 1 and/or Funding 2 to the seller by telegraphic transfer of the proceeds of any new term advance advanced for such purpose under a new Funding 1 intercompany loan agreement and/or new loan tranche advanced for such purpose to Funding 2 under the master intercompany loan agreement and/or intercompany loans made for such purpose by new issuing entities to Funding 1 or Funding 2 and/or any Funding 1 Z loan or, as

applicable, Funding 2 Z loan made for such purpose under, as applicable, a Funding 1 Z loan agreement or a Funding 2 Z loan agreement;

- a covenant by Funding 1 and Funding 2 to pay, at a later date, deferred consideration to the seller; and/or

- the promise by the mortgages trustee to hold the trust property on trust for the seller, Funding 1 and Funding 2 (in each case, as to their respective share) in accordance with the terms of the mortgages trust deed.

Funding 1, Funding 2 and the seller (as beneficiaries of the mortgages trust) will not be entitled to retain any fees received by the mortgages trustee, which (except in relation to fees payable to the mortgages trustee for the work undertaken by it as trustee of the trusts created by the mortgages trust deed), upon receipt and identification by the servicer, the mortgages trustee will return to the seller.

The sale of new loans and their related security to the mortgages trustee will in all cases be subject to conditions precedent, including the following conditions (which may be varied or waived by the mortgages trustee where it has received written confirmation from the rating agencies that such variation or waiver will not cause the ratings of the outstanding Funding 1 notes and/or of the outstanding notes to be reduced, withdrawn or qualified), being satisfied on the relevant sale date (**sale date**):

- no event of default under the transaction documents shall have occurred which is continuing as at the relevant sale date;

- both (a) the Funding 2 principal deficiency ledger (other than the subordinated loan principal deficiency sub-ledger and the Funding 2 Z loan principal deficiency sub-ledger) shall not have a debit balance as at the most recent Funding 2 interest payment date after applying all Funding 2 available revenue receipts on that Funding 2 interest payment date (for a description of the Funding 2 principal deficiency ledger, see "**Credit structure – Funding 2 principal deficiency ledger**" below) and (b) no analogous event in respect of Funding 1 has occurred;

- the mortgages trustee is not aware that the purchase of the new loans on the relevant sale date would adversely affect the then current ratings by Moody's, Standard & Poor's or Fitch of any Funding 1 notes and/or any of the notes;

- as at the relevant sale date, the aggregate outstanding principal balance of loans in the mortgages trust, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is less than five per cent. of the aggregate outstanding principal balance of the loans in the mortgages trust unless the rating agencies have confirmed that the then current ratings of the notes or of any Funding 1 notes will not be reduced, withdrawn or qualified;

- except where Funding 1 and/or Funding 2 pay amounts to the seller in consideration of new loans to be sold to the mortgages trustee on the relevant sale date, the aggregate outstanding principal balance (excluding arrears of interest) of new loans transferred in any interest period must not exceed 15 per cent. of the aggregate outstanding principal balance of loans (excluding arrears of interest) in the mortgages trust as at the beginning of that interest period;

- the sale of new loans on the relevant sale date does not result in the product of the weighted average foreclosure frequency (**WAFF**) and the weighted average loss severity (**WALS**) for the loans comprised in the portfolio after such purchase calculated on such sale date (in the same way as for the loans comprised in the portfolio as at the most recent closing date (or as agreed by the servicer and the relevant rating agencies from time to time)) exceeding the product of the WAFF and WALS for the loans comprised in the portfolio calculated on the most recent closing date (or on another date as agreed by the servicer and the relevant rating agencies from time to time), plus 0.25 per cent.;

- (A) the sale of new loans on the relevant sale date does not result in the Fitch portfolio tests after such sale (calculated by applying each Fitch portfolio test to the portfolio on such sale date), exceeding the most recently agreed Fitch portfolio test value for each such Fitch portfolio test or (B) where (A) would not be satisfied in respect of any Fitch portfolio test, the sale of the new loans on the relevant sale date does not result in the margin by which the

relevant Fitch portfolio test is exceeded following the relevant sale date being greater than the margin by which the portfolio, as calculated on the business day prior to the relevant sale date, exceeded the most recently agreed relevant Fitch portfolio test value;

- the yield of the loans in the mortgages trust together with the yield of the new loans to be sold to the mortgages trustee on the relevant sale date at least is equal to a minimum yield, taking into account the average yield on the loans which are variable rate loans, tracker rate loans and fixed rate loans and the margins in respect of each respective Funding 1 swap and Funding 2 swaps, in each case as at the relevant sale date;

- the sale of new loans on the relevant sale date does not result on the relevant sale date in the weighted average credit enhancement value as determined by the application of the LTV test to the loans in the portfolio on the relevant sale date (after the sale of such new loans) exceeding the weighted average credit enhancement value as determined by the application of the LTV test to the loans comprised in the portfolio on the most recent closing date plus 0.25 per cent.;

- the sale of new loans on the relevant sale date does not result in the loans in the portfolio (other than fixed rate loans) which, after taking into account the Funding 1 swaps and the Funding 2 swaps, will yield less than sterling-LIBOR plus 0.50 per cent. or SONIA plus 0.66 per cent. as at the relevant sale date and have more than 2 years remaining on their incentive period accounting for more than 15 per cent. of the aggregate outstanding principal balance of loans comprised in the trust property;

- the sale of the new loans on the relevant sale date does not result in the fixed rate loans which have more than 1 year remaining on their incentive period accounting for more than 50 per cent. of the aggregate outstanding principal balance of loans comprised in the trust property;

- no sale of new loans may occur if, as at the relevant sale date, (a) the step-up date in respect of any Funding 1 note issued after 1 January 2003 and still outstanding has been reached and such Funding 1 note has not been redeemed in full. For the avoidance of doubt, this prohibition on the sale of new loans to the mortgages trustee shall remain in effect only for so long as any such Funding 1 note remains outstanding and, upon its redemption, the sale of new loans to the mortgages trustee may be resumed in accordance with the terms of the mortgage sale agreement or (b) the step-up date in respect of any note issued after the programme date and still outstanding has been reached and such note has not been redeemed in full. For the avoidance of doubt, this prohibition on the sale of new loans to the mortgages trustee shall remain in effect only for so long as any such note remains outstanding and, upon its redemption, the sale of new loans to the mortgages trustee may be resumed in accordance with the terms of the mortgage sale agreement;

- as at the sale date, (a) (in the case of Funding 1) the adjusted Funding 1 general reserve fund level is equal to or greater than the Funding 1 general reserve fund threshold and (b) (in the case of Funding 2) the adjusted Funding 2 general reserve fund level is equal to or greater than the Funding 2 general reserve fund threshold;

- if the sale of loans includes the sale of new types of loan products to the mortgages trustee, the Funding 1 security trustee and the Funding 2 security trustee have received written confirmation from each of the rating agencies that such new types of loan products may be sold and assigned to the mortgages trustee and that such sale of new types of loan products would not have an adverse effect on the then current ratings of the Funding 1 notes and the notes;

- Funding 1 and/or Funding 2, as the case may be, have entered into appropriate hedging arrangements to hedge against the interest rates payable in respect of such loans and the floating rate of interest payable under the Funding 1 intercompany loans and the master intercompany loan, respectively; and

- no trigger event has occurred on or before the relevant sale date.

If a sale of new loans occurs at a time when one or more of the conditions precedent set out in the mortgage sale agreement (as described above) has not in fact been met, such sale will be valid and

enforceable. The mortgages trustee shall be entitled, but not obliged, to require the seller to repurchase any loan or loans that did not in fact comply with the relevant conditions.

On the relevant sale date, the representations and warranties in respect of new loans and their related security (described below in "**Representations and warranties**" below) will also be given by the seller.

In the mortgage sale agreement, the seller undertakes to use reasonable efforts to offer to sell to the mortgages trustee, and the mortgages trustee undertakes to use reasonable efforts to acquire from the seller and hold in accordance with the terms of the mortgages trust deed, until the earlier to occur of (i) a trigger event and (ii) the later of (a) (w) if Funding 1 does not enter into a new intercompany loan agreement, the Funding 1 interest payment date in September 2012; or (x) on each occasion that Funding 1 enters into a new intercompany loan agreement, the latest Funding 1 interest payment date specified by Funding 1 by notice in writing to the seller, Funding 2 and the mortgages trustee; and (b) (y) the latest occurring step-up date of any notes issued by the issuing entity the proceeds of which the issuing entity advances to Funding 2 in accordance with the master intercompany loan agreement; or (z) any later Funding 2 interest payment date specified by Funding 2 by notice in writing to the seller, Funding 1 and the mortgages trustee; sufficient new loans and their related security so that the aggregate outstanding principal balance of loans in the mortgages trust during the period from (and including) the relevant closing date to (but excluding) the interest payment date specified in the relevant notice or most recent final terms or drawdown prospectus is not less than the amount specified in such notice or the most recent final terms or drawdown prospectus (the **minimum trust size**). However, the seller is not obliged to sell to the mortgages trustee, and the mortgages trustee is not obliged to acquire, new loans and their related security if, in the opinion of the seller, that sale would adversely affect the business of the seller. If Funding 2 enters into a new Funding 2 intercompany loan agreement or borrows a new loan tranche under the master intercompany loan agreement or if Funding 1 enters into a new Funding 1 intercompany loan agreement, then the period during which the seller covenants to use reasonable efforts to maintain the aggregate outstanding principal balance of loans in the mortgages trust at a specified level prior to a trigger event may be extended.

**Legal assignment of the loans to the mortgages trustee**

The English loans in the portfolio were sold, and any new English loans will be sold, to the mortgages trustee by way of equitable assignment. The Scottish loans in the portfolio were sold, and any new Scottish loans will be sold, to the mortgages trustee by way of declarations of trust under which the beneficial interest in such Scottish loans has been or will be transferred to the mortgages trustee. In relation to Scottish loans, references in this document to the sale of loans are to be read as references to the making of such declarations of trust. This means that legal title to both English loans and Scottish loans and their related security will remain with the seller until legal assignments or assignations (as appropriate) are delivered by the seller to the mortgages trustee (and, in the case of Scottish loans, registered or recorded in the relevant property register) and notice of such assignments or assignations (as appropriate) is given by the seller to the borrowers. Legal assignment or assignation (as appropriate) of the loans and their related security (including, where appropriate, their registration or recording in the relevant property register) to the mortgages trustee will be deferred and will only take place in the limited circumstances described below. See "**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on the notes**" above.

Legal assignment or assignation (as appropriate) of the loans and their related security to the mortgages trustee will be completed on the 20th London business day after the earliest to occur of any of, amongst other things:

- in respect of Funding 1, the service of an intercompany loan acceleration notice in relation to any Funding 1 intercompany loan or a note acceleration notice in relation to any of the Funding 1 notes;
- in respect of Funding 2, the service of a master intercompany loan acceleration notice or a note acceleration notice in relation to any of the notes;
- the seller being required to perfect the mortgages trustee's legal title to the mortgages, by an order of a court of competent jurisdiction, or by a regulatory authority to which the seller is subject or any organisation whose members comprise, but are not necessarily limited to, mortgage lenders with whose instructions it is customary for the seller to comply;
- it being rendered necessary by law to take actions to perfect legal title to the mortgages;

- the Funding 1 security trustee or the Funding 2 security trustee certifying that the security under the Funding 1 deed of charge or the Funding 2 deed of charge (as applicable) or any material part of that security, as applicable, is in jeopardy and that the perfection of legal title to the mortgages is necessary in order materially to reduce such jeopardy;
- unless otherwise agreed by the rating agencies, the Funding 1 security trustee and the Funding 2 security trustee, the termination of the seller's role as servicer under the servicing agreement;
- the seller requesting perfection by serving notice in writing on the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and the Funding 2 security trustee;
- the date on which the seller ceases to be assigned a long-term unsecured, unsubordinated unguaranteed debt obligation rating by Moody's of at least Baa3, by Standard & Poor's of at least BBB- or by Fitch of at least BBB-;
- the occurrence of an insolvency event in relation to the seller;
- the latest of the last repayment dates under the Funding 1 intercompany loan agreements, the master intercompany loan agreement and any other new intercompany loans where such loan has not been discharged in full; or
- the seller is in breach of its obligations under the mortgage sale agreement, but only if such breach, where capable of remedy, is not remedied to the reasonable satisfaction of Funding 1 and Funding 2 (acting in accordance with the controlling beneficiary deed) within 90 calendar days; and (ii) any of Fitch, Moody's and S&P has confirmed that the then current ratings of the then rated notes will be withdrawn, downgraded or qualified as a result of such breach, PROVIDED THAT: (1) this provision shall not apply if the seller has delivered a certificate to the mortgages trustee, Funding 2, each new Funding beneficiary, the Funding 1 security trustee and the Funding 2 security trustee, that the occurrence of such event does not impact the designation as a "simple, transparent and standardised" securitisation (within the meaning of the Securitisation Regulation) in respect of any series or class of notes then outstanding which are intended to satisfy the STS Requirements; and (2) this provision shall be subject to such amendment as the seller may require so long as the seller delivers a certificate to the mortgages trustee, any funding company, the Funding 1 security trustee and any Funding 2 security trustee, that such amendment does not impact the designation as a 'simple, transparent and standardised' securitisation (within the meaning of the Securitisation Regulation) in respect of any series or class of notes then outstanding which are intended to satisfy the STS Requirements.

Pending completion of the transfer, the right of the mortgages trustee 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 mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and the Funding 2 security trustee.

To the extent not held at the relevant land registry electronically, the title deeds and customer files relating to the loans are currently held by or to the order of the seller or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the seller in connection with the creation of the loans and their related security. The seller has undertaken that all the title deeds and customer files relating to the 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 mortgages trustee.

**Representations and warranties**

Neither the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee, the Funding 2 security trustee, any previous Funding 1 issuing entity nor the issuing entity has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the loans and their related security. Instead, each is relying entirely on the representations and warranties by the seller contained in the mortgage sale agreement. The representations and warranties in relation to each loan are made on the relevant sale date that the loan (together with its related security) is sold to the mortgages trustee. The parties to the mortgage sale agreement may, with the prior written consent of the Funding 1 security trustee and the Funding 2 security trustee (which consent may (subject as provided below) be given if the rating agencies confirm in

writing that the ratings of the notes as at that time will not be withdrawn, qualified or reduced as a result), amend the representations and warranties in the mortgage sale agreement. The material representations and warranties are, amongst others, as follows:

1. each loan was originated by Halifax or the seller in the ordinary course of business pursuant to underwriting standards that were no less stringent than those that the seller at the time of origination to similar loans that are not securitised and was originated and is denominated in pounds sterling (or was originated and is denominated in euro if the euro has been adopted as the lawful currency of the United Kingdom);

2. each loan in the portfolio was made no earlier than 1 February 1996 and no later than the date specified in the most recent final terms or drawdown prospectus;

3. the final maturity date of each loan is no later than (a) June 2040 or (b) such later date specified in the most recent final terms or drawdown prospectus;

4. no loan has or will have an outstanding principal balance of more than £500,000;

5. prior to the making of each advance under a loan, the lending criteria and all preconditions to the making of any 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;

6. 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 loan or under the related security and accordingly no steps have been taken by the seller to enforce any related security;

7. 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 loan is not on the relevant sale date in respect of any loan, nor has been during the 12 months immediately preceding the relevant sale date, more than the amount of the monthly payment then due;

8. all of the borrowers are individuals and were aged 18 years or older at the date of execution of the mortgage;

9. no loan has been made to a borrower who is an employee of the seller;

10. at least two monthly payments have been made in respect of each loan;

11. the whole of the outstanding principal balance on each loan and any arrears of interest and all accrued interest is secured by a mortgage;

12. the loan is not a second home loan or a credit impaired loan;

13. no loan has an indexed LTV higher than 100%;

14. each loan has a standardised risk weight equal to or smaller than 40% on an exposure value-weighted average basis for the portfolio as at the relevant sale date, as such terms are described in Article 243 of the Capital Requirements Regulation;

15. each loan in the portfolio is either (a) a variable rate loan, tracker rate loan or fixed rate loan; or (b) a new loan type which each of the rating agencies has confirmed in writing may be included in the portfolio;

16. each mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Scotland) standard security over the relevant property, and subject only in certain appropriate cases to applications for registrations at the Land Registry or Registers of Scotland which where required have been made and are pending and (in relation to such cases) the seller is not aware of any notice or any other matter that would prevent such registration;

17. all of the properties are in England, Wales or Scotland;

18. 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;

19. the benefit of all valuation reports, any other valuation report referred to in this section (if any) and certificates of title which were provided to the seller not more than two years prior to the date of the mortgage sale agreement can be validly assigned to the mortgages trustee without obtaining the consent of the relevant valuer, solicitor, licensed conveyancer or (in Scotland) qualified conveyancer;

20. prior to the taking of each mortgage (other than a remortgage), the seller (a) instructed its solicitor, licensed conveyancer or (in Scotland) qualified 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, licensed conveyancer or qualified conveyancer as are set out in the case of English loans in the CML's Lenders' Handbook for England & Wales (or, for mortgages taken before this handbook was adopted in 1999, the seller's Mortgage Practice Notes) and, in the case of Scottish loans, the CML's Lenders' Handbook for Scotland (or, for Scottish mortgages taken before this handbook was adopted in 2000, the seller's Mortgage Practice Notes) 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, licensed conveyancer or qualified conveyancer relating to such property, the contents of which would have been acceptable to a reasonable, prudent mortgage lender at that time;

21. insurance cover for each property is available under either a policy arranged by the borrower or a Halifax policy or a seller-introduced insurance policy or a policy arranged by the relevant landlord or the properties in possession cover;

22. 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 mortgages trustee under the mortgage sale agreement free and clear of all security interests, claims and equities;

23. each loan and its related security is valid, binding and enforceable in accordance with its terms and is non-cancellable:

    (i) except in relation to any term in any loan or in its related security, in each case which is not binding by virtue of the Unfair Terms in Consumer Contracts Regulations 1994 as amended, extended or re-enacted from time to time or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999 as amended, extended or re-enacted from time to time; and

    (ii) except in relation to any flexible loan drawing, delayed cashback, home cash reserve drawing and any other further advance, in each case which is not enforceable by virtue of the CCA as amended, extended or re-enacted from time to time;

24. to the best of the seller's knowledge, none of the terms in any loan or in its related security is not binding by virtue of its being unfair within the meaning of the UTCCR. In this warranty and the previous warranty, reference to any legislation shall be construed as a reference to that legislation as amended, extended or re-enacted from time to time;

25. the seller has, since the making of each loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such loan;

26. 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;

27. neither the entry by the seller into the mortgage sale agreement nor any transfer, assignment, assignation or creation of trust contemplated by the mortgage sale agreement affects or will adversely affect any of the loans and their related security (including, without limitation, the insurance policies) and the seller may freely assign and enter into trust arrangements in respect of all its rights, title, interests and benefits therein as contemplated in the mortgage sale agreement without breaching any term or condition applying to any of them;

28. the loans do not include Equity Release Mortgage Loans as defined in the PCS Rule Book;

29. each loan was made and its related security taken or received substantially on the terms of the standard documentation without any material variation thereto and nothing has been done subsequently to add to, lessen, modify or otherwise vary the express provisions of any of the same in any material respect; and

30. the particulars of the loans are true, complete and accurate in all material respects.

If new types of loans are to be sold to the mortgages trustee, then the representations and warranties in the mortgage sale agreement will be modified as required to accommodate these new types of loans. Your prior consent to the requisite amendments will not be obtained.

**Repurchase of loans under a mortgage account**

Under the mortgage sale agreement, if a loan does not materially comply on the sale date with the representations and warranties made under the mortgage sale agreement:

- the seller is required to remedy the breach within 20 London business days of the seller becoming aware of the breach; or
- if the breach is not remedied within the 20 London business day period then, the mortgages trustee will require the seller to purchase the relevant loan and its related security from the mortgages trustee at a price equal to their outstanding principal balances, together with any arrears of interest and accrued and unpaid interest and expenses as at the date of repurchase.

The seller is also required to indemnify (but without double counting) the mortgages trustee, Funding 1 and Funding 2 for any cost, expense, loss or other claim incurred by them if a court or other competent authority or any ombudsman makes any determination in respect of that loan and its related security that:

- any term which relates to the recovery of interest under the standard documentation applicable to that loan and its related security is unfair; or
- the interest payable under any loan is to be set by reference to any variable base rate (and not a rate set by the seller's successors or assigns or those deriving title from them); or
- the variable margin above the Bank of England repo rate under any tracker rate loan must be set by the seller (rather than its successors or assigns or those deriving title from them) and such rate is lower than the rate set by the seller's successor or assigns or those deriving title from them; or
- the interest payable under any loan is to be set by reference to an interest rate other than that set or purported to be set by either the servicer or the mortgages trustee as a result of the seller having more than one variable mortgage rate.

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

**Drawings under flexible loans and retention loans**

The seller is solely responsible for funding all future drawings in respect of any flexible loans and retention loans and all future home cash reserve drawings included in the trust property. The amount of the seller share of the trust property will increase by the amount of the drawing.

**Further advances**

If, at its discretion, the seller makes or causes the servicer to send an offer of a further advance under a loan to a borrower, then the seller will be required to repurchase the relevant loan or loans under the relevant mortgage account (save for any loan in arrears, where no repurchase will be required) at a price equal to the outstanding principal balance of those loans, together with accrued and unpaid interest and expenses to the date of purchase.

**Product switches**

If the seller accepts an application from, or makes an offer (which is accepted) to, a borrower for a product switch and on the immediately preceding distribution date, the seller is in breach of the conditions precedent to the sale of new loans to the mortgages trustee listed in **"Sale of loans and their related security to the mortgages trustee on the sale dates"** above, then from (and including) that date to (but excluding) the date when those conditions precedent have been satisfied, the seller will be required to repurchase any loans and their related security that are subject to product switches (save for any loan in arrears, where no repurchase will be required). The seller will be required to repurchase the relevant loan or loans under the relevant mortgage account and their related security from the mortgages trustee at a price equal to the outstanding principal balance of those loans, together with any accrued and unpaid interest and expenses to the date of purchase.

A loan will be subject to a "**product switch**" if the borrower and the seller agree on, or the servicer sends an offer of, a variation in the financial terms and conditions applicable to the relevant borrower's loan other than:

(a) any variation agreed with a borrower to control or manage arrears on the loan;

(b) any variation imposed by statute;

(c) any variation in the maturity date of the loan unless, while any Funding 1 intercompany loan is outstanding and/or while any loan tranche under the master intercompany loan is outstanding: (i) prior to the date on which all notes issued prior to 1 June 2016 are redeemed in full, it is extended beyond June 2040, or (ii) on and following the date on which all notes issued prior to 1 June 2016 are redeemed in full, it is extended beyond the date determined in accordance with the relevant representation and warranty in the mortgage sale agreement;

(d) any variation of the rate of interest payable in respect of the loan where that rate is offered to the borrowers of more than 10 per cent. by outstanding principal amount of loans in the portfolio in any 3-month period; or

(e) any variation in the frequency with which the interest payable in respect of the loan is charged.

**Repurchase of loans in arrears, deedstore loans, credit impaired loans, second home loans and non-compliant loans**

The seller may from time to time, at its sole discretion, request the mortgages trustee to sell to it one or more loans comprised in the trust property and their related security at a price equal to their outstanding principal balances, together with arrears of interest and accrued and unpaid interest and expenses as at the date of repurchase if:

- such loans are in arrears as a result of amounts equal to three or more monthly payments in respect of such loan having become due and remaining unpaid by the relevant borrower; or
- such loans are deedstore loans; or
- such loans are credit impaired loans;
- such loans are second home loans; or
- such loans are non-compliant loans,

unless otherwise directed by Funding 1 and Funding 2, the mortgages trustee shall be obliged to agree to that repurchase.

**Reasonable, prudent mortgage lender**

Reference in the documents to the seller and/or the servicer acting to the standard of a **reasonable, prudent mortgage lender** mean the seller and/or the servicer, as applicable, acting in accordance with the standards of a reasonably prudent prime residential mortgage lender lending to borrowers in England, Wales and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital.

**Governing law**

The mortgage sale agreement and any non-contractual obligations arising out of or in connection with the mortgage sale agreement, other than certain aspects of it relating to Scottish loans and their related

security which are governed by Scots law, is governed by, and shall be construed in accordance with, English law.

## The mortgages trust

The mortgages trust was formed on the initial closing date under English law with the mortgages trustee as trustee for the benefit of the seller, Funding 1 and Funding 2, as the initial beneficiaries. In 2015, the original mortgages trustee resigned and was replaced by the current mortgages trustee. The following section contains a summary of the material terms of the mortgages trust deed. The summary does not purport to be complete and is subject to the provisions of the mortgages trust deed.

### General legal structure

This section describes the material terms of the mortgages trust, including how money is distributed from the mortgages trust to Funding 1, Funding 2 and the seller. If new Funding 2 issuing entities are established and/or new Funding beneficiaries become beneficiaries of the mortgages trust and/or new types of loans are added to the mortgages trust, then the terms of the mortgages trust may be amended. Such amendments may affect the timing of payments on the notes. Your prior consent will not be sought in relation to any such proposed amendments to the mortgages trust deed, provided (among other things) that the rating agencies confirm that the then current ratings of the notes will not be adversely affected by such amendments. There can be no assurance that the effect of any such amendments will not ultimately adversely affect your interests. See "**Risk factors – The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**", "**Security for Funding 2's obligations**" and "**Security for the issuing entity's obligations**".

Under the terms of the mortgages trust deed, the mortgages trustee has agreed to hold all of the trust property on trust absolutely for Funding 1, Funding 2 and the seller. The **trust property** is:

- the sum of £100 settled by Structured Finance Management Offshore Limited on trust on the date of the mortgages trust deed;
- the portfolio of loans and their related security sold to the mortgages trustee by the seller;
- any new loans and their related security sold to the mortgages trustee by the seller;
- any increase in the outstanding principal balance of a loan due to capitalised interest, capitalised expenses or capitalised arrears or a borrower taking payment holidays or making underpayments under a loan or a borrower making a drawing under any flexible loan, any retention loan, any delayed cashback or a home cash reserve;
- any interest and principal paid by borrowers on their loans prior to distribution under the mortgages trust deed;
- any other amounts received under the loans and related security (excluding third party amounts);
- rights under the insurance policies that are assigned to the mortgages trustee or which the mortgages trustee has the benefit of;
- amounts on deposit (and interest earned on those amounts) in the mortgages trustee GIC account; and
- any other property representing the above,

less:

- any actual losses in relation to the loans and any actual reductions occurring in respect of the loans as described in paragraph (1) in "**Funding 2 share of trust property**" below; and
- allocations of revenue receipts and principal receipts made from time to time to the beneficiaries of the mortgages trust.

Funding 2 is not entitled to particular loans and their related security separately from Funding 1 and/or the seller. Instead each of the beneficiaries has an undivided interest in all of the loans and their related security forming part of the trust property. The beneficial interest of Funding 1, Funding 2 and the seller represent *pro rata* interests in the trust property.

The accompanying final terms or drawdown prospectus will set out the approximate Funding 1 share of the trust property, Funding 2 share of the trust property and seller share of the trust property as at the relevant closing date.

**Fluctuation of shares in the trust property**

The Funding 1 share of the trust property, the Funding 2 share of the trust property and the seller share of the trust property will fluctuate depending on a number of factors, including:

- the allocation of principal receipts on the loans to Funding 1, Funding 2 and/or the seller;
- losses arising on the loans;
- if new loans and their related security are sold to the mortgages trustee;
- if Funding 1 and/or Funding 2 acquires part of the seller's or the other's share of the trust property (see further under "**Acquisition by Funding 2 of an increased interest in trust property**");
- if a borrower makes underpayments or takes payment holidays under a loan;
- if a borrower makes a drawing under a flexible loan, a retention loan, a delayed cashback or a home cash reserve; and
- if the seller acquires part of the Funding 1 share of the trust property and/or the Funding 2 share of the trust property as described in "**Acquisition by seller of an interest relating to capitalised interest**" below and "**Payment by the seller and/or Funding 1 of the amount outstanding under a loan tranche**" below.

Neither the Funding 1 share of the trust property nor the Funding 2 share of the trust property may be reduced below zero. The seller will not be entitled to receive principal receipts which would reduce the seller share of the trust property to an amount less than the minimum seller share (as defined below), unless and until both the Funding 1 share of the trust property and the Funding 2 share of the trust property have been reduced to zero or following the occurrence of an asset trigger event.

As of the programme date, and following its acquisition from the seller of a portion of the beneficial interest of the seller in the mortgages trust, the size of the Funding 2 share of the trust property was £100. Subsequently, Funding 2 used the proceeds of loan tranches advanced to it by the issuing entity (less any amount utilised to fund the Funding 2 general reserve fund) to make payment to the seller of the purchase price in respect of any new mortgage portfolio assigned to the mortgages trustee, to increase the Funding 2 share of the trust property in accordance with the terms of the mortgages trust deed and/or to refinance an existing loan tranche under the master intercompany loan agreement.

The Funding 1 share of the trust property, the Funding 2 share of the trust property and the seller share of the trust property are recalculated by the cash manager on each calculation date.

A **calculation date** is the first day (or, if not a London business day, the next succeeding London business day) of each month (each being a **normal calculation date**) or the date on which Funding 1 and/or Funding 2 acquires a further interest in the trust property (otherwise than due to capitalised interest) and/or the mortgages trustee acquires new loans from the seller or the date on which the mortgages trust is terminated. The recalculation is based on the total outstanding principal balance of the loans in the portfolio as at (1) the immediately preceding calendar month end or (2) the close of business on the business day immediately preceding the relevant calculation date, whichever occurs later (as adjusted from time to time). The period from (and including) one calculation date to (but excluding) the next calculation date is known as a **calculation period**.

The reason for the recalculation is to determine the new Funding 1 share percentage, Funding 2 share percentage and seller share percentage of the trust property. The Funding 1 share percentage, the Funding 2 share percentage and the seller share percentage of the trust property determines the entitlement of Funding 1, Funding 2 and the seller to interest (including capitalised interest) and principal receipts from the loans in the portfolio and also the allocation of losses arising on the loans. The method for determining those new percentage shares is set out in the next three sections.

Two London business days after each calculation date (the **distribution date**) the mortgages trustee distributes principal and revenue receipts to Funding 1, Funding 2 and the seller, as described below. In

relation to each distribution date, the **relevant share calculation date** means the calculation date at the start of the most recently completed calculation period.

**Funding 2 share of trust property**

On each calculation date (also referred to in this section as the **relevant calculation date**) or such time as the mortgages trust terminates, the interest of Funding 2 in the trust property is recalculated to take effect from the distribution date immediately succeeding the next following calculation date in accordance with the following formulae:

- The share of Funding 2 in the trust property (the **Funding 2 share**) will be an amount equal to:

$$A - B - C + D + E + F$$

- The percentage share of Funding 2 in the trust property (the **Funding 2 share percentage**) will be an amount equal to:

$$\frac{A - B - C + D + E + F}{G} \times 100$$

in the latter case, expressed as a percentage and rounded upwards to five decimal places, where:

A = the amount of the share of Funding 2 in the trust property calculated on the immediately preceding calculation date;

B = the amount of any principal receipts on the loans to be distributed to Funding 2 on the distribution date immediately following the relevant calculation date (as described under "**Allocation and distribution of principal receipts prior to the occurrence of a trigger event**", "**Allocation and distribution of principal receipts on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event**" and "**Allocation and distribution of principal receipts on or after the occurrence of an asset trigger event**" below);

C = the amount of losses sustained on the loans in the period from (and including) the immediately preceding calculation date to (but excluding) the relevant calculation date and the amount of any reductions occurring in respect of the loans as described in paragraph (1) below, in each case allocated to Funding 2 in the calculation period ending on (but excluding) the relevant calculation date;

D = the amount of any consideration to be paid by Funding 2 to the seller with respect to any new loans to be sold to the mortgages trustee on the relevant calculation date;

E = the amount of any consideration to be paid by Funding 2 to the seller and/or Funding 1 in relation to the acquisition by Funding 2 from the seller and/or Funding 1 on the relevant calculation date of an interest in the trust property;

F = the amount equal to any capitalised interest accruing on a loan due to borrowers taking payment holidays and which has been allocated to Funding 2 from (and including) the immediately preceding calculation date, less the amount to be paid by the seller on the relevant distribution date to acquire an interest in trust property as described in "**– Acquisition by seller of an interest relating to capitalised interest**" below; and

G = the aggregate outstanding principal balance of all the loans in the portfolio as at the relevant calculation date after making the distributions, allocations and additions referred to in "B", "C", "D", "E" and "F" and after taking account of:

- any distribution of principal receipts to Funding 1, Funding 2 and the seller;
- the amount of any losses allocated to Funding 1, Funding 2 and the seller;
- the amount of any increase in the loan balances due to capitalisation of insurance premiums due by borrowers or borrowers taking payment holidays;

- the adjustments referred to in paragraphs (1) to (4) below (or, if the seller share of the trust property is zero, the adjustments referred to in paragraph (1) only); and
- the amount of any other additions or subtractions to the trust property since the immediately preceding calculation date.

If any of the following events occurs during a calculation period, then the aggregate total outstanding principal balance of the loans in the portfolio will be reduced or deemed to be reduced for the purposes of the calculation of "G" on the calculation date at the end of that calculation period:

(1) any borrower exercises a right of set-off so that the amount of principal and/or interest owing under a loan is reduced, but no corresponding payment is received by the mortgages trustee. In this event, the total amount of the trust property will be reduced by an amount equal to the amount of that set-off; and/or

(2) a loan or its related security is (i) in breach of the representations and warranties contained in the mortgage sale agreement, (ii) the subject of a further advance or (iii) in limited circumstances, the subject of a product switch or any other obligation of the seller to repurchase, and, in each case, the seller fails to repurchase the loan or loans under the relevant mortgage account and their related security to the extent required by the terms of the mortgage sale agreement. In this event, the total amount of the trust property will be deemed to be reduced for the purposes of the calculation in "G" by an amount equal to the outstanding principal balance of the relevant loan or loans under the relevant mortgage account (together with arrears of interest and accrued and unpaid interest); and/or

(3) the seller would be required by the mortgages trustee to repurchase a loan and its related security as required by the terms of the mortgage sale agreement, but the loan is not capable of being repurchased. In this event, the total amount of the trust property will be deemed to be reduced for the purposes of the calculation in "G" by an amount equal to the outstanding principal balance of the relevant loan or loans under the relevant mortgage account (together with arrears of interest and accrued and unpaid interest); and/or

(4) the seller materially breaches any other material warranty under the mortgage sale agreement and/or (for so long as the seller is the servicer) the servicing agreement, which will also be grounds for terminating the appointment of the servicer. In this event, the aggregate outstanding principal balance of the loans in the portfolio will be deemed to be reduced by an amount equal to the resulting loss incurred by the beneficiaries.

The reductions or deemed reductions set out in paragraphs (1) to (4) above will be made on the relevant calculation date first to the seller share (including the minimum seller share) of the trust property and, thereafter (in respect of paragraph (1) only), will be made *pro rata* to the Funding 1 share of the trust property and the Funding 2 share of the trust property.

Any sums that are subsequently recovered by the mortgages trustee in connection with a reduction or deemed reduction of the trust property under paragraphs (1) to (4) above, will constitute a revenue receipt under the relevant loan. Such revenue receipt will belong to Funding 1 and Funding 2 (but only if and to the extent that the related reductions were applied against the Funding 1 share of the trust property and the Funding 2 share of the trust property respectively) and, thereafter, will belong to the seller.

**Funding 1 share of trust property**

The share of Funding 1 in the trust property (the **Funding 1 share**) and Funding 1's percentage share of the trust property (the **Funding 1 share percentage**) is calculated in a similar manner to that set out above for the Funding 2 share of the trust property and the Funding 2 share percentage.

**Seller share of trust property**

On each calculation date or such time as the mortgages trust terminates, the interest of the seller in the trust property is recalculated to take effect from the distribution date immediately succeeding the next following calculation date as follows:

- The share of the seller in the trust property (the **seller share**) will be an amount equal to the aggregate outstanding principal balance of all the loans in the portfolio as at that calculation date (adjusted as provided in "**– Funding 2 share of trust property**" above) minus the sum

of the Funding 1 share of the trust property and the Funding 2 share of the trust property (each as calculated on that calculation date).

- The percentage share of the seller in the trust property (the **seller share percentage**) is an amount equal to 100 per cent. minus the sum of the Funding 1 share percentage and the Funding 2 share percentage of the trust property (each as calculated on that calculation date).

**Minimum seller share**

The seller share of the trust property includes an amount known as the **minimum seller share**. The amount of the minimum seller share will fluctuate depending on changes to the characteristics of the loans in the portfolio. The seller will not be entitled to receive principal receipts which would reduce the seller share of the trust property to an amount less than the minimum seller share unless and until both the Funding 1 share of the trust property and the Funding 2 share of the trust property is in an amount equal to zero or an asset trigger event has occurred.

The amount of the minimum seller share will be recalculated by the seller on each calculation date and each closing date (in each case after any sale of loans to the mortgages trustee on that date) and will be an amount equal to the greater of:

(i) the greater of (a) 5 per cent. of the aggregate outstanding principal amount of all notes issued by the issuing entity, other than any notes that are at all times held by the seller or one or more of its wholly-owned affiliates (as defined in the U.S. Credit Risk Retention Requirements), calculated in accordance with the U.S. Credit Risk Retention Requirements at the relevant date of determination or as otherwise permitted under the U.S. Credit Risk Retention Requirements, and (b) an amount equal to a material net economic interest of not less than 5 per cent. in the securitisation calculated in accordance with Article 6 of the Securitisation Regulation, and

(ii) the amount determined in accordance with the following formula:

$$X + Y + Z$$

where:

X = 2.0 per cent. of the aggregate outstanding principal balance of loans in the portfolio;

Y = the product: (p * q) * r

where:

p = 8 per cent.;

q = the sum of (a) the **flexible draw capacity**, being an amount equal to the excess of (1) the maximum amount that borrowers may draw under flexible loans included in the trust property (whether or not drawn) over (2) the aggregate principal balance of flexible loans in the trust property on the relevant calculation date, (b) the **retention draw capacity**, being an amount equal to the excess of (1) the maximum amount that borrowers may draw under retention loans included in the trust property (whether or not drawn) over (2) the aggregate principal balance of retention loans in the trust property on the relevant calculation date, (c) the **home cash reserve draw capacity**, being an amount equal to the excess of (1) the maximum amount that borrowers may draw under loans with a home cash reserve included in the trust property (whether drawn or not drawn) over (2) the aggregate principal balance of loans with a home cash reserve in the trust property on the relevant calculation date and (d) the **delayed cashback draw capacity**, being an amount equal to the excess of (1) the maximum amount that borrowers may draw under loans with a delayed cashback included in the trust property (whether drawn or not drawn) over (2) the aggregate principal balance of loans with a delayed cashback in the trust property on the relevant calculation date; and

r = 3;

and

Z = the aggregate sum of reductions deemed made (if any) in accordance with paragraph (2), (3) and (4) as described in "**– Funding 2 share of trust property**" above.

The purpose of "X" is to mitigate the risks relating to certain set-off risks relating to the loans. The amount of "X" may be reduced from time to time at the request of the seller, Funding 1 or Funding 2 (acting reasonably) provided that the Funding 1 security trustee and the Funding 2 security trustee have received written confirmation from the rating agencies that there will be no adverse effect on the then current ratings of the Funding 1 notes and the notes as a result thereof. In the event that the seller ceases to be assigned a long-term unsecured, unsubordinated, unguaranteed debt obligation rating by Moody's of at least Baa3, by S&P of at least BBB- or by Fitch of at least BBB-, the amount of "X" will be recalculated by the seller to such amount as the rating agencies may require in order that there is no adverse effect on the then current ratings of the notes of the Funding 1 issuing entities and the Funding 2 security trustee has received written confirmation from each of the rating agencies that there would be no adverse effect on the then current ratings of the notes of the issuing entity.

The purpose of the calculation in "Y" is to mitigate the risk of the seller failing to fund a drawing under a flexible loan, retention loan or loan with a delayed cashback.

The purpose of the calculation in "Z" is to mitigate the risk of the seller materially breaching any material warranty under the mortgage sale agreement and/or the servicing agreement and failing to repurchase certain loans and their related security to the extent required by the terms of the mortgage sale agreement.

**Cash management of trust property – revenue receipts**

Under the cash management agreement, the cash manager is responsible for distributing revenue receipts on behalf of the mortgages trustee on each distribution date in accordance with the priority described in the following section. For further information on the role of the cash manager, see "**Cash management for the mortgages trustee, Funding 1 and Funding 2**" below.

**Mortgages trust calculation of revenue receipts**

**Mortgages trust available revenue receipts** is calculated by the cash manager on each calculation date and is an amount equal to:

- revenue receipts on the loans (but excluding principal receipts);
- plus interest payable to the mortgages trustee on the mortgages trustee GIC account;
- less amounts due to third parties (also known as **third party amounts**), including:

  (1) amounts under a direct debit which are repaid to the bank making the payment if that bank is unable to recoup that amount itself from its customer's account;

  (2) payments by borrowers of any fees and other charges which are due to the seller; or

  (3) recoveries in respect of amounts deducted from loans as described in paragraphs (1) to (4) in "**– Funding 2 share of trust property**" above,

which will belong to and be paid to Funding 1, Funding 2 and/or the seller as described therein, which amounts may be paid daily from monies on deposit in the mortgages trustee GIC account.

On each distribution date, the cash manager will apply mortgages trust available revenue receipts in the following priority:

(A) without priority among them but in proportion to the respective amounts due, to pay amounts due:

- to the mortgages trustee under the provisions of the mortgages trust deed; and
- to third parties from the mortgages trustee in respect of the mortgages trust, but only if:

  (1) payment is not due as a result of a breach by the mortgages trustee of the documents to which it is a party; and/or

(2) payment has not already been provided for elsewhere;

(B) without priority among them but in proportion to the respective amounts due, or to become due from the mortgages trustee to during the following calculation period, to:

- the servicer under the provisions of the servicing agreement;
- the account bank under the provisions of the bank account agreement; and
- the mortgages trustee corporate services provider under the provisions of the mortgages trustee corporate services agreement;

(C) to allocate and pay in no order of priority between them but in proportion to the respective amounts due:

- to Funding 1 an amount equal to the amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by the Funding 1 share percentage of the trust property as calculated on the relevant share calculation date; and
- to Funding 2 an amount equal to the amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by the Funding 2 share percentage of the trust property as calculated on the relevant share calculation date;

(D) to allocate and pay to the mortgages trustee, Funding 1 and/or Funding 2 (as applicable), an amount equal to any loss amount (as defined below) suffered or incurred by it or them (as applicable); and

(E) to allocate and pay to the seller an amount (if positive) equal to the amount of the mortgages trust available revenue receipts less the amount of such mortgages trust available revenue receipts applied and/or allocated under (A) to (D) above.

For the purposes of item (D) above, **loss amount** means the amount of any costs, expenses, losses or other claims suffered or incurred by, as applicable, the mortgages trustee, Funding 1 and/or Funding 2 in connection with any recovery of interest on the loans to which the seller, the mortgages trustee, Funding 1 or Funding 2 was not entitled or could not enforce as a result of any determination by any court or other competent authority or any ombudsman in respect of any loan and its related security that:

- any term which relates to the recovery of interest under the standard documentation applicable to that loan and its related security is unfair; or
- the interest payable under any loan is to be set by reference to any variable base rate (and not that of the seller's successors or assigns or those deriving title from them); or
- the variable margin above the Bank of England repo rate under any tracker rate loan must be set by the seller (rather than by its successors or assigns or those deriving title from them) and such rate is lower than the rate set by the seller's successors or assigns or those deriving title from them; or
- the interest payable under any loan is to be set by reference to an interest rate other than that set or purported to be set by either the servicer or the mortgages trustee as a result of the seller having more than one variable mortgage rate.

Amounts due to the mortgages trustee, the servicer, the cash manager, the account bank and the mortgages trustee corporate services provider are inclusive of VAT, if any, payable. At the date of this base prospectus, UK VAT is calculated at the rate of 20.0 per cent. of the amount or value of consideration. Payment of VAT will not reduce the amounts ultimately available to pay interest on the notes.

**Cash management of trust property – distribution of principal receipts to Funding 2**

Under the cash management agreement, the cash manager is also responsible for distributing principal receipts to Funding 2 on behalf of the mortgages trustee on each distribution date in accordance with the priority described in the next two following sections. To understand how the cash manager distributes principal receipts to Funding 2 on the loans on each distribution date you need to understand the definitions set out below.

On each calculation date, the cash manager will, in respect of Funding 2, ascertain whether the distribution date is within a cash accumulation period (as defined below) relating to a bullet loan tranche or a scheduled amortisation instalment (each a **cash accumulation advance**) and will ascertain the cash accumulation requirement (as defined below) and repayment requirement (as defined below) for Funding 2.

The cash accumulation period (as defined below) will be calculated separately for each bullet loan tranche and scheduled amortisation instalment.

The applicable loan tranche supplement and the accompanying final terms or drawdown prospectus (if applicable) will set out whether each loan tranche is a bullet loan tranche, a scheduled amortisation loan tranche, a pass-through loan tranche, a subordinated loan tranche or a start-up loan tranche and, in relation to **cash accumulation loan tranches** (which are the bullet loan tranches and the scheduled amortisation loan tranches), will set out the **scheduled repayment date** (being the Funding 2 interest payment date falling in the indicated month) and **relevant accumulation amount** (being the amount of funds to be accumulated over a cash accumulation period in order to repay a bullet loan tranche or a scheduled amortisation instalment on its scheduled repayment date whether or not actually repaid on that scheduled repayment date).

Definitions:

**anticipated cash accumulation period** means, on any calculation date, the anticipated number of months required to accumulate sufficient principal receipts to pay the relevant accumulation amount in relation to the relevant cash accumulation advance, which will be equal to:

$$\frac{J + K - L}{M^{*}(N^{*}O)}$$

calculated in months and rounded up to the nearest whole number, where:

J = the relevant accumulation amount;

K = the aggregate principal amount outstanding on that calculation date of:

- each other bullet loan tranche or scheduled amortisation loan tranche that was not fully repaid on its scheduled repayment date;
- each other bullet loan tranche or scheduled amortisation loan tranche, the scheduled repayment date of which falls on or before the scheduled repayment date of the relevant cash accumulation advance;
- each bullet term advance or scheduled amortisation term advance of Funding 1 that was not fully repaid on its scheduled repayment date; and
- each other bullet term advance or scheduled amortisation term advance of Funding 1, the scheduled repayment date of which falls on or before the scheduled repayment date of the relevant cash accumulation advance;

L = the aggregate on that calculation date of:

- the amount of any available cash already standing to the credit of the Funding 2 cash accumulation ledger at the start of that calculation date plus the aggregate amount of Funding 2's cash accumulation requirement paid to Funding 2 since the previous Funding 2 interest payment date; and
- the amount of any available cash already standing to the credit of the Funding 1 cash accumulation ledger at the start of that calculation date plus the aggregate amount of Funding 1's cash accumulation requirement paid to Funding 1 since to the previous Funding 1 interest payment date;

M = means the lower of (i) the monthly CPR on the most recent normal calculation date, (ii) the sum of each monthly CPR on the three most recent normal calculation dates divided by three, (iii) the sum of each monthly CPR on the 12 most recent normal calculation dates divided by 12 or (iv) (in the case of a loan tranche corresponding to money market notes) any alternative CPR if specified in the applicable loan tranche supplement and the corresponding final terms or drawdown prospectus;

N = 0.85; and

O = the aggregate outstanding principal balance of the loans comprising the trust property on that calculation date.

**cash accumulation period** means the period beginning on the earlier of:

- the commencement of the anticipated cash accumulation period relating to the relevant accumulation amount; and
- unless otherwise specified in the accompanying final terms or drawdown prospectus, in respect of an original bullet loan tranche, six months prior to the scheduled repayment date of that original bullet loan tranche and, in respect of an original scheduled amortisation instalment, three months prior to the scheduled repayment date of that original scheduled amortisation instalment,

and ending when Funding 2 has fully repaid that original bullet loan tranche or scheduled amortisation instalment, as applicable.

**cash accumulation requirement** means, on a calculation date:

- the outstanding principal amounts in relation to each cash accumulation advance that is within a cash accumulation period;
- plus amounts due on the immediately following Funding 2 interest payment date in items (A) and (B) of the Funding 2 pre-enforcement principal priority of payments under "**Cashflows – Distribution of Funding 2 available principal receipts**" below;
- less the amount standing to the credit of the Funding 2 cash accumulation ledger at the last Funding 2 interest payment date (which amount was not distributed on that Funding 2 interest payment date to the issuing entity or any new Funding 2 issuing entity having a cash accumulation requirement);
- less (without double counting) the amounts standing to the credit of the Funding 2 principal ledger as at the close of business on the last Funding 2 interest payment date (which amount was not distributed on that Funding 2 interest payment date to the issuing entity or any new Funding 2 issuing entity);
- less (without double-counting) the sum of each cash accumulation requirement amount paid to Funding 2 on a previous distribution date during the relevant interest period.

**Funding 2 cash accumulation ledger** means a ledger maintained by the cash manager for Funding 2, which records amounts accumulated by Funding 2 to pay relevant accumulation amounts.

**monthly CPR** means, on any normal calculation date, the total mortgages trustee principal receipts received by the mortgages trustee during the period of one month ending on that normal calculation date divided by the aggregate outstanding principal balance of the loans comprised in the trust property as at the immediately preceding normal calculation date.

**rated loan tranche repayment requirement** means the requirement pursuant to which, on a calculation date, the amount (if any) by which:

- the aggregate of all amounts that will be payable by Funding 2 on the next Funding 2 interest payment date as described in items (C) to (G) (inclusive) of the priority of payments under "**Cashflows – Distribution of Funding 2 available principal receipts**" on the basis:
  - that there would be no deferral of loan tranches pursuant to Rule (1) as set out in that section;
  - that where Rule (2) set out in that section applies, the amount so payable by Funding 2 in respect of loan tranches (other than bullet loan tranches and scheduled amortisation instalments) shall be treated as the lesser of (A) the amount due and payable in respect of those loan tranches and (B) the product of (a) the Funding 2 share percentage as at the start of the most recently ended calculation period (provided that if during the most recently ended calculation period loans and their related security are sold to the mortgages trustee or Funding 2 has acquired part of

the seller share of the trust property and/or the Funding 1 share of the trust property, then the Funding 2 share percentage will be calculated for purposes of this paragraph as the weighted average of the Funding 2 share percentages as at the first day of such calculation period and as at the date immediately after such sale or acquisition), (b) the aggregate amount of principal receipts received by the mortgages trustee during the most recently ended calculation period and (c) the outstanding principal balance of the series A rated loan tranches (in the case of Rule (2)), divided by the aggregate outstanding principal balance of the master intercompany loan (excluding subordinated loan tranches and start-up loan tranches), each as at the most recent Funding 2 interest payment date;

- that loan tranches will be treated as due and payable if they are already due and payable, or would become due and payable on or before the next Funding 2 interest payment date, as applicable, if all principal receipts were paid to Funding 2 on that calculation date; and

- excluding amounts due and payable in respect of bullet loan tranches and scheduled amortisation instalments,

exceeds the sum of:

- the amounts standing to the credit of the Funding 2 principal ledger as at the last Funding 2 interest payment date (which amount was not distributed on that Funding 2 interest payment date to the issuing entity or any new Funding 2 issuing entity); and

- the sum of each repayment requirement amount paid to Funding 2 on a previous distribution date during the relevant interest period.

**repayment requirement** means, on any calculation date, the amount (if any) equal to the sum of:

(a) the rated loan tranche repayment requirement; and

(b) the subordinated loan tranche repayment requirement.

**scheduled amortisation instalment** means that part of a scheduled amortisation loan tranche which is payable on each of the scheduled repayment dates.

**subordinated loan tranche repayment requirement** means the aggregate of all amounts that will be payable by Funding 2 on the next Funding 2 interest payment date as described in item (I) of the priority of payments under "**Cashflows – Distribution of Funding 2 available principal receipts** " on the basis that the subordinated loan tranches will equal or exceed the required subordinated loan tranche principal amount outstanding.

**trigger event** means an asset trigger event and/or a non-asset trigger event.

An **asset trigger event** will occur when principal losses on loans in the portfolio (after application of Funding 1 available principal receipts or, as the case may be, Funding 2 available principal receipts to meet deficiencies in Funding 1 available revenue receipts or in Funding 2 available revenue receipts, respectively, or to fund the Funding 1 liquidity reserve fund or the Funding 2 liquidity reserve fund, respectively) reach a level causing an amount to be debited to the principal deficiency sub-ledger in relation to the term AAA advance of any Funding 1 issuing entity or to the AAA principal deficiency sub-ledger of Funding 2, unless such debit is made when: (a) (i) in the case of principal deficiency sub-ledger in relation to the term AAA advance of a Funding 1 issuing entity, the aggregate principal amount outstanding of each of the term AA advances, the term A advances and the term BBB advances of the Funding 1 issuing entity is equal to zero or (ii) in the case of the AAA principal deficiency sub-ledger of Funding 2, the aggregate principal amount outstanding of each of the AA loan tranches, the A loan tranches, the BBB loan tranches and the BB loan tranches is equal to zero; and (b) (i) in the case of principal deficiency sub-ledger in relation to the term AAA advance of a Funding 1 issuing entity, the sum of the amount standing to the credit of Funding 1 general reserve ledger and the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, is greater than the amount necessary to eliminate the debit balance on the principal deficiency ledger in relation to the term AAA advance of the Funding 1 issuing entity and pay amounts ranking in priority to such item under the Funding 1 pre-enforcement revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made or (ii) in the case of the AAA

principal deficiency sub-ledger of Funding 2, the sum of the amount standing to the credit of Funding 2 general reserve ledger and the Funding 2 revenue ledger together with amounts determined and due to be credited to the Funding 2 revenue ledger prior to the immediately following Funding 2 interest payment date after such debit is made, is greater than the amount necessary to pay the items in paragraphs (A) to (E) of the Funding 2 pre-enforcement revenue priority of payments on the immediately following Funding 2 interest payment date after such debit is made. For more information on the Funding 2 principal deficiency ledger, see "**Credit structure – Funding 2 principal deficiency ledger**".

A **non-asset trigger event** will occur, on a calculation date, if:

(a) an insolvency event occurs in relation to the seller on or before that calculation date;

(b) the seller's role as servicer under the servicing agreement is terminated and a new servicer is not appointed within 30 days; or

(c) as at the calculation date immediately preceding the relevant calculation date, the seller share of the trust property is less than the minimum seller share; or

(d) on any calculation date, the aggregate outstanding principal balance of loans comprising the trust property is less than the required loan balance amount specified in the most recent final terms or drawdown prospectus or is less than the amount as may be required to be maintained as a result of any new Funding 1 issuing entities providing new term advances to Funding 1 and/or the issuing entity advancing new loan tranches to Funding 2 which Funding 1 and/or Funding 2, as the case may be, uses to pay to the seller and/or Funding 1 or Funding 2, as the case may be, for an increase in its share of the trust property and/or to pay the seller for the sale of new loans to the mortgages trustee.

Changes may be made to the definitions of asset trigger event and non-asset trigger event. See "**Risk factors – The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**", "**Security for Funding 2's obligations**" and "**Security for the issuing entity's obligations**".

**Cash management of trust property – distribution of principal receipts to Funding 1**

The cash manager is also responsible for distributing principal receipts to Funding 1 on behalf of the mortgages trustee on each distribution date in accordance with the priority described in the following sections after determining (among other things) Funding 1's cash accumulation and repayment requirements, which will be calculated in a similar manner to that set out above for Funding 2.

**Mortgages trust calculation of principal receipts**

**Mortgages trust available principal receipts** are calculated by the cash manager on each calculation date and will be equal to the amount that is standing to the credit of the principal ledger on that calculation date. The repayment requirement and the cash accumulation requirement of Funding 1 and Funding 2 are calculated by the cash manager on each calculation date and the relevant amounts notified to the mortgages trustee (who will be entitled to rely on such notifications).

**Allocation and distribution of principal receipts prior to the occurrence of a trigger event**

On each distribution date, where no trigger event has occurred on or before the immediately preceding calculation date, the cash manager will apply mortgages trust available principal receipts as follows:

(A) in no order or priority between them, but in proportion to the respective amounts due:

- to Funding 1 an amount equal to the lesser of:

  (1) an amount determined by multiplying the total amount of the mortgages trust available principal receipts by the Funding 1 share percentage of the trust property as calculated on the relevant share calculation date; and

  (2) an amount up to but not exceeding Funding 1's cash accumulation requirement on that distribution date;

- to Funding 2 an amount equal to the lesser of:

(3) an amount determined by multiplying the total amount of the mortgages trust available principal receipts by the Funding 2 share percentage of the trust property as calculated on the relevant share calculation date; and

(4) an amount up to but not exceeding Funding 2's cash accumulation requirement on that distribution date;

(B) in no order or priority between them, but in proportion to the respective amounts due, to Funding 1 and Funding 2, to the extent not already paid pursuant to paragraph (A) above, up to the amounts set forth in sub-paragraphs (A)(2) and (A)(4), respectively;

(C) in no order or priority between them, but in proportion to the respective amounts due:

- to Funding 1 an amount equal to the lesser of:

  (1) an amount determined by multiplying the total amount of the remaining mortgages trust available principal receipts by the Funding 1 share percentage of the trust property as calculated on the relevant share calculation date; and

  (2) an amount up to but not exceeding Funding 1 repayment requirement on that distribution date;

- to Funding 2 an amount equal to the lesser of:

  (3) an amount determined by multiplying the total amount of the remaining mortgages trust available principal receipts by the Funding 2 share percentage of the trust property as calculated on the relevant share calculation date; and

  (4) an amount up to but not exceeding Funding 2's repayment requirement on that distribution date;

(D) in no order or priority between them, but in proportion to the respective amounts due, to Funding 1 and Funding 2, to the extent not already paid pursuant to paragraph (C) above, up to the amounts set forth in sub-paragraphs (C)(2) and (C)(4), respectively;

(E) the remainder of such receipts will be allocated and paid to the seller until the seller share of the trust property (as calculated on the relevant share calculation date) is equal to the minimum seller share.

Provided that in relation to paragraphs (A) through (D) above, the following rules will apply:

(1) The amount of mortgages trust available principal receipts to be allocated and paid to:

(a) Funding 1 on a distribution date will be reduced by an amount equal to (i) the aggregate of Funding 1 available revenue receipts which are to be applied on the immediately succeeding Funding 1 interest payment date in reduction of deficiencies on the Funding 1 principal deficiency ledger less (ii) the amount by which any mortgages trust available principal receipts previously allocated to Funding 1 in the current interest period have been reduced in accordance with (1)(a)(i) above, provided that the aggregate of the mortgages trust available principal receipts previously allocated and paid to Funding 1 in the current interest period, the mortgages trust available principal receipts to be allocated and paid to Funding 1 on that distribution date (assuming for this purpose that such reduction will be made) and the Funding 1 available revenue receipts which will be applied on the immediately succeeding Funding 1 interest payment date in reduction of deficiencies on the principal deficiency ledger is at least equal to the aggregate of the Funding 1 cash accumulation requirement and the Funding 1 repayment requirement; and

(b) Funding 2 on a distribution date will be reduced by an amount equal to (i) the aggregate of Funding 2 available revenue receipts which are to be applied on the immediately succeeding Funding 2 interest payment date in reduction of deficiencies on the Funding 2 principal deficiency ledger less (ii) the amount by which any mortgages trust available principal receipts previously allocated to Funding 2 in the

current interest period have been reduced in accordance with (1)(b)(i) above, provided that the aggregate of the mortgages trust available principal receipts previously allocated and paid to Funding 2 in the current interest period, the mortgages trust available principal receipts to be allocated and paid to Funding 2 on that distribution date (assuming for this purpose that such reduction will be made) and the Funding 2 available revenue receipts which will be applied on the immediately succeeding Funding 2 interest payment date in reduction of deficiencies on the principal deficiency ledger is at least equal to the aggregate of the Funding 2 cash accumulation requirement and the Funding 2 repayment requirement.

(2) Neither Funding 1 nor Funding 2 will be entitled to receive (nor will have allocated to it to receive) in aggregate an amount of mortgages trust available principal receipts on a distribution date which is in excess of, respectively, the Funding 1 share of the trust property or the Funding 2 share of the trust property on the relevant distribution date.

(3) On any calculation date prior to the occurrence of a trigger event, the mortgages trustee will make provision for any amount that would result in the seller share of the trust property being equal to or less than the minimum seller share and the seller will not receive that amount until such time as the seller share of the trust property is greater than the minimum seller share and provided that (i) the seller will not receive nor have allocated to it any such amount if a non-asset trigger event occurs and is occurring and (ii) if an asset trigger event occurs and is occurring, the seller will have allocated to it and will be paid such amount but only to the extent permitted by the rules governing distribution of principal receipts after the occurrence of an asset trigger event.

**Allocation and distribution of principal receipts on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event**

On each distribution date where a non-asset trigger event has occurred on or before the immediately preceding calculation date and an asset trigger event has not occurred on or before that calculation date, the cash manager will apply mortgages trust available principal receipts as follows:

(A) *first*, all such receipts will be allocated and paid to Funding 1 and Funding 2 in no order of priority between them and *pro rata* according to the Funding 1 share percentage of the trust property and the Funding 2 share percentage of the trust property (in each case, as calculated on the relevant share calculation date) respectively until the Funding 1 share of the trust property and the Funding 2 share of the trust property (in each case, as calculated on the relevant share calculation date) has been reduced to zero; and

(B) *then*, the remainder, if any, of such receipts will be allocated and paid to the seller.

Following the occurrence of a non-asset trigger event, the notes will be subject to prepayment risk (that is, they may be repaid earlier than expected). See "**Risk factors – The occurrence of a non-asset trigger event may accelerate the repayment of certain notes and/or delay the repayment of other notes**" above.

**Allocation and distribution of principal receipts on or after the occurrence of an asset trigger event**

On each distribution date where an asset trigger event has occurred on or before the immediately preceding calculation date, the cash manager will allocate and pay mortgages trust available principal receipts, without priority among them but in proportion to the respective amounts due, to Funding 1, Funding 2 and the seller according to the Funding 1 share percentage of the trust property, the Funding 2 share percentage of the trust property and the seller share percentage of the trust property (in each case, as calculated on the relevant share calculation date) respectively until the Funding 1 share of the trust property and the Funding 2 share of the trust property are zero (and, for the avoidance of doubt, such payments may reduce the seller share of the trust property to an amount less than the minimum seller share). When both the Funding 1 share of the trust property and the Funding 2 share of the trust property are zero, the remaining mortgages trust available principal receipts (if any) will be allocated to the seller.

Following the occurrence of an asset trigger event, certain series and classes of notes will be subject to prepayment risk and other series and classes of notes will be subject to extension risk (that is they may be repaid later than expected). See "**Risk factors – The occurrence of an asset trigger event may accelerate the repayment of certain notes and/or delay the repayment of other notes**" above.

**Losses**

All losses arising on the loans will be applied in reducing proportionately the Funding 1 share of the trust property, the Funding 2 share of the trust property and the seller share of the trust property. The Funding 1 share of the losses, the Funding 2 share of the losses and the seller share of the losses will be determined by multiplying the amount of losses during a calculation period by the Funding 1 share percentage, the Funding 2 share percentage and the seller share percentage (each as calculated on the relevant share calculation date), respectively, and such losses which will be allocated to Funding 1 and Funding 2 until the Funding 1 share of the trust property and the Funding 2 share of the trust property are reduced to zero and the remainder will be allocated to the seller, on each calculation date, in each case prior to calculating the allocation of mortgages trust available principal receipts on that calculation date.

For a description of how losses on the loans that have been allocated to Funding 2 on any date will be allocated to the loan tranches of the master intercompany loan, see "**Credit structure – Funding 2 principal deficiency ledger**" below.

Any sums recovered from a borrower in respect of a loss which has been recorded on the losses ledger shall be held by the mortgages trustee for the benefit of the seller only.

**Disposal of trust property**

The trust property is held on trust for the benefit of Funding 1, Funding 2 and the seller. Subject to the terms of the mortgages trust deed, the mortgages trustee is not entitled to dispose of the trust property or create any security interest over the trust property.

If an event of default occurs under the master intercompany loan agreement (a **master intercompany loan event of default**) and the Funding 2 security trustee, acting on the instructions of the issuing entity security trustee who in turn is acting on the instructions of the note trustee, determines to serve a master intercompany loan acceleration notice on Funding 2, then the Funding 2 security trustee will be entitled, among other things, to sell Funding 2's share of the trust property. For further information on the security granted by Funding 2 over its assets, see "**Security for Funding 2's obligations**" below.

**Additions to trust property**

The trust property may be increased from time to time by the sale of new loans and their related security to the mortgages trustee. The mortgages trustee will hold the new loans and their related security on trust for Funding 1, Funding 2 and the seller according to the terms of the mortgages trust deed. For further information on the sale of new loans and their related security to the mortgages trustee, see "**Sale of the loans and their related security**" above.

**Acquisition by Funding 2 of an increased interest in trust property**

If Funding 2 borrows a new loan tranche (other than a start-up loan tranche) under the master intercompany loan agreement or enters into a new Funding 2 intercompany loan, then it may apply the proceeds of that loan tranche or that Funding 2 intercompany loan to make a payment to the seller and/or Funding 1 so as to give rise to an increase in the Funding 2 share of the trust property (and giving rise to a corresponding decrease in the seller share of the trust property and/or the Funding 1 share of the trust property). Funding 2 will be permitted to do this only if it meets a number of conditions (each of which may be varied or waived by the mortgages trustee where it (1) provides notification of such variation or waiver to Moody's and (2) receives written confirmation from S&P and Fitch that such variation or waiver will not cause its then current ratings of the notes then outstanding to be reduced, withdrawn or qualified), including:

- that, on the relevant calculation date, no master intercompany loan event of default and no note event of default have occurred that have not been remedied or waived;
- as at the most recent Funding 2 interest payment date, no deficiency is recorded on the Funding 2 principal deficiency ledger (other than the subordinated loan principal deficiency sub-ledger and the Funding 2 Z loan principal deficiency sub-ledger);
- the Funding 2 security trustee is not aware that the proposed increase in the Funding 2 share of the trust property (or the corresponding decrease in the seller share of the trust property and/or the Funding 1 share of the trust property) would adversely affect the then current ratings by the rating agencies of any of the outstanding notes or any Funding 1 notes;

- as at the relevant calculation date, the aggregate outstanding principal balance of loans in the trust property, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is less than five per cent. of the aggregate outstanding principal balance of all loans constituting the trust property unless the rating agencies have confirmed that the then current ratings of the notes and of any Funding 1 notes will not be reduced, withdrawn or qualified;

- the Funding 2 general reserve fund has not been debited on or before the relevant date for the purposes of curing a principal deficiency in respect of the rated loan tranches under the master intercompany loan agreement in circumstances where the Funding 2 general reserve fund has not been replenished by a corresponding amount by the relevant date;

- the product of the WAFF and WALS for the loans constituting the trust property calculated on the relevant date in the same way as for the initial portfolio (or as agreed by the servicer and the rating agencies from time to time) does not exceed the product of the WAFF and WALS for the loans constituting the trust property calculated on the most recent previous closing date, plus 0.25 per cent.;

- the Fitch portfolio tests after the relevant sale date (calculated by applying each Fitch portfolio test to the portfolio on such sale date), does not exceed the most recently agreed Fitch portfolio test value for each such Fitch portfolio test; and

- the loan-to-value ratio of loans in the portfolio, after application of the LTV test on the relevant date, does not exceed the loan-to-value ratio (based on the LTV test) of loans in the portfolio on the most recent previous closing date plus 0.25 per cent.

**Acquisition by seller of an interest relating to capitalised interest**

If a borrower takes a payment holiday under a loan (as permitted by the terms of the loan), then the outstanding principal balance of the loan will increase by the amount of interest that would have been paid on the relevant loan if not for such payment holiday (the **capitalised interest**).

The increase in the loan balance due to the capitalised interest will be allocated to the Funding 1 share of the trust property, the Funding 2 share of the trust property and the seller share of the trust property, based on their respective percentage shares in the trust property as calculated on the previous calculation date.

Prior to an insolvency event occurring in respect of the seller, on each distribution date, the seller will make a cash payment to Funding 1 and Funding 2 in an amount equal to Funding 1's share of the capitalised interest and Funding 2's share of the capitalised interest respectively in respect of those loans that are subject to payment holidays. Following such payment:

- the seller share of the trust property will increase by an amount equal to the amount paid to Funding 1 and Funding 2 in respect of Funding 1's share of the capitalised interest and Funding 2's share of the capitalised interest respectively, and the Funding 1 share of the trust property and the Funding 2 share of the trust property will decrease by a corresponding amount; and

- Funding 2 will apply the proceeds of the amount paid by the seller in accordance with the Funding 2 pre-enforcement revenue priority of payments and, after enforcement of the Funding 2 security, in accordance with the Funding 2 post-enforcement priority of payments.

If an insolvency event occurs in respect of the seller, then the seller may continue to make payments to Funding 1 and Funding 2 in an amount equal to Funding 1's share of the capitalised interest and Funding 2's share of the capitalised interest respectively in the same manner and for the same purpose described above, but it is not obliged to do so.

**Payment by the seller and/or Funding 1 of the amount outstanding under a loan tranche**

If the seller and/or Funding 1 offers to make a payment to Funding 2 of the amount outstanding under a loan tranche (other than a start-up loan tranche), then Funding 2 may accept that offer but only if:

- (except in the case of a AAA loan tranche, in which case Moody's shall be notified of such acceptance by Funding 2) the Funding 2 security trustee has received written confirmation

from each of the rating agencies that there would not be any withdrawal, qualification or downgrading of the then current ratings of the notes if Funding 2 accepted the offer;

- (except in the case of a subordinated loan tranche) Funding 2 would receive the payment on a Funding 2 interest payment date; and
- Funding 2 will apply the proceeds to repay the relevant loan tranche and the issuing entity will use the relevant repayment to redeem the corresponding series and class of notes or, as applicable, the relevant issuing entity subordinated loan.

The Funding 2 share of the trust property would decrease by an amount equal to the payment made by the seller and/or Funding 1, as the case may be, and the seller share of the trust property and/or the Funding 1 share of the trust property, as the case may be, would increase by a corresponding amount.

**Payment by the seller and/or Funding 1 of an amount outstanding under a Funding 2 Z loan**

If the seller and/or Funding 1 offers to make a payment to Funding 2 to enable Funding 2 to repay (in whole or in part) one or more Funding 2 Z loans, provided that following such repayment the aggregate principal amount outstanding of the Funding 2 Z loans shall be at least equal to the Funding 2 Z loan required amount, then Funding 2 may accept that offer but only if:

- the Funding 2 security trustee has received written confirmation from each of the rating agencies that there would not be any withdrawal, qualification or downgrading of the then current ratings of the notes if Funding 2 accepted the offer;
- Funding 2 would receive the payment on a Funding 2 interest payment date; and
- Funding 2 will apply the proceeds of the payment to repay the Funding 2 Z loans up to the amount required to reduce the aggregate principal amount outstanding under the Funding 2 Z loans to the Funding 2 Z loan required amount in each case in accordance with the paragraph entitled "**Repayment of loan tranches (other than start-up loan tranches) and Funding 2 Z loans when Funding 2 receives certain payments from the seller and/or Funding 1 or the proceeds of a new loan tranche (other than a start-up loan tranche)**" under the Funding 2 pre-enforcement principal priority of payments.

The Funding 2 share of the trust property would decrease by an amount equal to the payment made by the seller and/or Funding 1, as the case may be, and the seller share of the trust property and/or the Funding 1 share of the trust property, as the case may be, would increase by a corresponding amount.

Correspondingly, Funding 2 and/or the seller may offer to make a payment to Funding 1 to enable Funding 1 to repay (in whole or in part) one or more Funding 1 Z loans, in the same manner as is described above.

**Compensation of mortgages trustee**

The mortgages trustee will be paid a fee of £1,000 (inclusive of VAT) each year for the performance of its duties which will be paid annually on the distribution date following each anniversary of the mortgages trust deed having been entered into. The fee is subject to adjustment if the applicable rate of VAT changes.

**Termination of mortgages trust**

The mortgages trust will terminate on the later to occur of:

- the date on which all amounts due from Funding 1 and Funding 2 to their respective secured creditors have been paid in full; and
- any other date agreed in writing by Funding 1, Funding 2 and the seller.

**Retirement of mortgages trustee**

The mortgages trustee is not entitled to retire or otherwise terminate its appointment. The seller, Funding 1 and Funding 2 cannot replace the mortgages trustee.

**Governing law**

The mortgages trust deed and any non-contractual obligations arising out of or in connection with the mortgages trust deed is governed by, and shall be construed in accordance with, English law.

**The controlling beneficiary deed**

Pursuant to the terms of the controlling beneficiary deed dated the programme date, as amended from time to time (the **controlling beneficiary deed**), Funding 1, Funding 2, the Funding 1 security trustee, the Funding 2 security trustee and the seller have agreed to, among other things, arrangements amongst them in respect of certain decisions (relating to authorisations, consents, waivers, instructions or other acts) to be made from time to time in respect of the transaction documents.

If there is a conflict of interest between Funding 1 and Funding 2 as beneficiaries (each a **Funding beneficiary**) and/or the Funding 1 security trustee and the Funding 2 security trustee (each a **Funding security trustee**) in respect of directing the mortgages trustee or the exercising of any rights, powers, discretions or consents under the transaction documents then, pursuant to the terms of the controlling beneficiary deed, the Funding beneficiaries and/or the Funding security trustees agree to act in accordance with the controlling directions. The seller agrees that, where necessary, it shall provide directions to the mortgages trustee that are consistent with the controlling directions.

Controlling direction means:

- in respect of the Funding beneficiaries and/or the Funding security trustee, in all cases, the directions of the Funding beneficiary and/or the Funding security trustee representing one or more of the issuing entity(ies) (as applicable) with the highest ranking class of notes then outstanding, and if each Funding beneficiary and/or the Funding security trustee represents issuing entity(ies) (as applicable) with the same class as their highest ranking class of notes then outstanding, then the Funding beneficiary and/or the Funding security trustee representing one or more of the issuing entity(ies) (as applicable) with the greatest principal amount outstanding of the highest ranking class of notes.

For the purposes of the definition of controlling direction:

- a Funding beneficiary will be treated as "representing" an issuing entity(ies) in the circumstances where that Funding beneficiary is the debtor under the terms of an intercompany loan agreement or the master intercompany loan agreement, as the case may be, between that issuing entity and that Funding beneficiary;

- a Funding security trustee will be treated as "representing" an issuing entity(ies) in the circumstances where that Funding security trustee is the security trustee under the Funding 1 deed of charge or the Funding 2 deed of charge, as the case may be, between a Funding beneficiary, that Funding security trustee and that issuing entity(ies) which secures the obligations of that Funding beneficiary to that issuing entity(ies) under the terms of an intercompany loan agreement or the master intercompany loan agreement, as the case may be, between that issuing entity(ies) and that Funding beneficiary;

- all denominations of the principal amount outstanding of any class of notes will be calculated in sterling and where the principal amount outstanding of any such class of notes of any Funding 1 issuing entity or the issuing entity is not denominated in sterling it will be deemed to be an amount equal to the principal amount outstanding (denominated in sterling) of the corresponding term advance under the relevant intercompany loan agreement or loan tranche under the master intercompany loan agreement; and

- the highest ranking class of notes outstanding will mean:

(a) in the case of the issuing entity, the class A notes (for so long as there are class A notes outstanding), the class B notes (so long as there are no class A notes outstanding), the class M notes (so long as there are no class A notes or class B notes outstanding), the class C notes (so long as there are no class A notes, class B notes or class M notes outstanding) or the class D notes (so long as there are no class A notes, class B notes, class M notes or class C notes outstanding); and

(b) in the case of Funding 1 issuing entities, the class A notes of any Funding 1 issuing entity (for so long as there are class A notes of any Funding 1 issuing entity outstanding), the class B notes of any Funding 1 issuing entity (for so long as there are no class A notes of any Funding 1 issuing entity outstanding), the class M notes of any Funding 1 issuing entity (so long as there are no class A notes or class B notes of any Funding 1 issuing entity outstanding), the class C notes of any Funding 1 issuing entity (so long as there are no class A notes, class B notes or class M notes of any

Funding 1 issuing entity outstanding) or the class D notes of any Funding 1 issuing entity (so long as there are no class A notes, class B notes, class M notes or class C notes of any Funding 1 issuing entity outstanding).

**Governing law**

The controlling beneficiary deed and any non-contractual obligations arising out of or in connection with the controlling beneficiary deed is governed by, and shall be construed in accordance with, English law.

## The master intercompany loan agreement

The following section contains a summary of the material terms of the master intercompany loan agreement. The summary does not purport to be complete and is subject to the provisions of the master intercompany loan agreement.

Changes may be required to the master intercompany loan agreement from time to time to accommodate notes to be issued by the issuing entity and/or issuing entity subordinated loans to be advanced to the issuing entity and/or loan tranches to be made available to Funding 2 using the proceeds thereof. See "**Risk factors – The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**", "**Security for Funding 2's obligations**" and "**Security for the issuing entity's obligations**".

### The facility

Pursuant to the terms of the master intercompany loan agreement, the issuing entity will lend to Funding 2 from time to time on the relevant closing date for each series and class of notes and/or the relevant advance date with respect of an issuing entity subordinated loan and/or issuing entity start-up loan, an aggregate amount in sterling equal to the proceeds of (a) the issuance of such notes on such closing date and/or (b) the issuing entity subordinated loan advanced to it on such advance date by the issuing entity subordinated loan provider or a new issuing entity subordinated loan provider and/or (c) the issuing entity start-up loan advanced to it on such advance date by the issuing entity start-up loan provider or a new issuing entity start-up loan provider. Each such advance of funds corresponding to a particular series and class of notes will be a separate loan tranche under the master intercompany loan agreement (each, a **rated loan tranche**). Each advance of funds corresponding to an issuing entity subordinated loan will be a separate loan tranche under the master intercompany loan agreement (each, a **subordinated loan tranche**). Each advance of funds corresponding to an issuing entity start-up loan will be a separate loan tranche under the master intercompany loan agreement (each, a **start-up loan tranche**). The loan tranche supplement to the master intercompany loan agreement will contain the terms of each loan tranche.

The proceeds of each loan tranche (excluding any start-up loan tranches) may only be used by Funding 2 to:

- pay the seller part of the consideration for loans (together with their related security) sold by the seller to the mortgages trustee in connection with the issuance of notes by the issuing entity, which will result in an increase in the Funding 2 share of the trust property and a corresponding decrease in the seller share of the trust property; and/or
- acquire part of the Funding 1 share of the trust property and/or the seller share of the trust property (such payment to be made to Funding 1 and/or the seller, as the case may be, which will result in a corresponding decrease of the Funding 1 share of the trust property or the seller share of the trust property, as the case may be, and a corresponding increase in the Funding 2 share of the trust property); and/or
- (in the case of rated loan tranches only) make a payment to the issuing entity to refinance an existing loan tranche (which may be a rated loan tranche or a subordinated loan tranche) or to a new issuing entity to refinance some or all of a new intercompany loan or to make a payment to any new Funding beneficiary so that it may refinance some or all of a new intercompany loan and/or notes issued directly by it; and/or
- (in addition to other sources of funds, such as the start-up loan) fund or partly fund or replenish the Funding 2 general reserve fund and/or (if any) the Funding 2 liquidity reserve fund (in whole or in part); and/or
- (in addition to other sources of funds, such as the start-up loan) fund the Funding 2 yield reserve funds (if any).

The proceeds of each start-up loan tranche may only be used by Funding 2 to:

- to fund the Funding 2 general reserve fund and/or (if any) the Funding 2 liquidity reserve fund (in whole or in part);

- to fund the payment of the fees, costs and expenses incurred by or on behalf of Funding 2 in connection with the payment to the seller of part of the consideration for loans (together with their related security) sold to the mortgages trustee and/or the acquisition of part of the Funding 1 share of the trust property and/or seller share of the trust property on the relevant closing date and/or advance date; and/or

- to fund the payment of the fees, costs and expenses payable or incurred by or on behalf of Funding 2 under the master intercompany loan agreement which relate to the costs of issuance of the notes on the relevant closing date and/or the advance of a master issuer subordinated loan on the relevant advance date.

From time to time, the issuing entity may also make available to Funding 2 rated loan tranches with a designated credit rating lower than the BB loan tranches. Such loan tranches will be subordinated to the BB loan tranches and will be funded by the issuance of a new class of notes by the issuing entity, which issuance will be subject to the note trustee having received confirmation from each of the rating agencies that its ratings of each class of notes at that time outstanding will not be reduced, withdrawn or qualified as a result of the issuance of such new class of notes.

**Ratings designations of the rated loan tranches**

The ratings assigned to a rated loan tranche are collectively referred to as the **designated loan tranche ratings**. Ratings are not assigned by the rating agencies to the rated loan tranches. The designated loan tranche ratings of the AAA loan tranches reflect the ratings expected to be assigned to any class A notes by the rating agencies on the relevant closing date, except that money market notes will have different short-term ratings. The designated loan tranche ratings of the AA loan tranches reflect the ratings expected to be assigned to any class B notes by the rating agencies on the relevant closing date. The designated loan tranche ratings of the A loan tranches reflect the ratings expected to be assigned to any class M notes by the rating agencies on the relevant closing date. The designated loan tranche ratings of the BBB loan tranches reflect the ratings expected to be assigned to any class C notes by the rating agencies on the relevant closing date. The designated loan tranche ratings of the BB loan tranches reflect the ratings expected to be assigned to any class D notes by the rating agencies on the relevant closing date. If, after any closing date, the rating agencies change the rating assigned to a series and class of notes, this will not affect the designated loan tranche ratings of the related loan tranche under the master intercompany loan agreement.

**Issuance of loan tranches**

The issuing entity may advance loan tranches to Funding 2 and issue corresponding series and classes of notes or enter into corresponding issuing entity subordinated loans and/or issuing entity start-up loans from time to time without obtaining the consent of existing noteholders. The issuing entity will not be obliged to advance loan tranches to Funding 2 unless on the relevant closing date certain conditions have been met, including:

- the related series and class of notes have been issued or, as applicable, the related issuing entity subordinated loan or, as applicable, issuing entity start-up loan has been advanced and, in each case, the proceeds thereof have been received by or on behalf of the issuing entity;

- Funding 2 has delivered a certificate certifying that it is solvent;

- each of the applicable transaction documents has been duly executed by the relevant parties to it;

- one or more deeds of accession relating to the Funding 2 deed of charge have been executed by the parties to the Funding 2 deed of charge and any new parties to the Funding 2 deed of charge;

and

- each of the rating agencies has confirmed in writing to the issuing entity and/or issuing entity security trustee that there will not, as a result of the issuing entity issuing the corresponding series and class of notes and/or borrowing the corresponding issuing entity subordinated loan and/or issuing entity start-up loan, as the case may be, be any reduction, qualification or withdrawal of its then current ratings of any notes then outstanding.

**Representations and agreements**

Funding 2 will make several representations to the issuing entity in the master intercompany loan agreement on each closing date, including representations that Funding 2 has the requisite corporate power and authority to enter into the transaction documents to which it is a party.

In addition, Funding 2 will agree that:

- it will not create or permit to subsist any encumbrance, or other security interest over any of its assets, unless arising by operation of law or pursuant to the transaction documents;
- it will not carry on any business or engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities in which the transaction documents provide or envisage that Funding 2 will engage;
- it will not have any subsidiaries, any subsidiary undertakings, both as defined in the Companies Act 2006 as amended, or any employees or premises;
- it will not transfer, sell, lend, part with or otherwise dispose of all or any of its assets, properties or undertakings or any interest, estate, right, title or benefit therein other than as contemplated in the transaction documents;
- it will not pay any dividend or make any other distribution to its shareholders, other than in accordance with the Funding 2 deed of charge, and it will not issue any new shares;
- it will not incur any indebtedness in respect of any borrowed money other than indebtedness contemplated by the transaction documents or give any guarantee or indemnity to or for the benefit of any person in respect of any obligation of any other person or enter into any other document under which Funding 2 assumes any liability of such other person; and
- it will not enter into any amalgamation, demerger, merger or reconstruction, nor acquire any assets or business nor make any investments, other than as contemplated in the transaction documents.

**Payments of interest**

Payment of interest and fees on each loan tranche will be made only from and to the extent of distributions by the mortgages trustee of amounts constituted from mortgages trust available revenue receipts to Funding 2 in respect of the Funding 2 share of the trust property. Such payments of interest and fees will be made on Funding 2 interest payment dates in the priorities set forth in "**Cashflows**" below.

The interest rates applicable to the loan tranches from time to time will be determined (other than, in each case, in respect of the first interest period) by reference to LIBOR for three-month sterling deposits or SONIA, as applicable. The accompanying final terms or drawdown prospectus sets out details relating to the Funding 2 interest payment dates and payment of interest on the loan tranches related to each series and class of the notes issued.

In addition, prior to enforcement of the Funding 2 security, Funding 2 will agree to pay an additional fee to the issuing entity (the **senior fee**) on each Funding 2 interest payment date or otherwise when required. The senior fee on each Funding 2 interest payment date will be equal to the amount needed by the issuing entity to pay or provide for other amounts falling due, if any, to be paid to its creditors (other than amounts of interest and principal due on the notes and tax that can be met out of the issuing entity's profits). In addition, the fee shall include a sum (in an amount equal to £5,000) to be retained by the issuing entity as profit. The issuing entity shall satisfy any liability to corporation tax on such profit by utilising the profit paid to it by Funding 2 on that Funding 2 interest payment date. The fee will be paid by Funding 2 out of the Funding 2 available revenue receipts.

**Repayment of principal on the rated loan tranches**

Repayment of a rated loan tranche may be made by way of bullet repayment, scheduled amortisation instalments or on a pass-through basis. A rated loan tranche with a bullet repayment date is an advance that is scheduled to be repaid in full in one instalment on one Funding 2 interest payment date (a **bullet loan tranche**). A rated loan tranche with scheduled amortisation is an advance that is scheduled to be repaid in instalments (each a **scheduled amortisation instalment**) on more than one Funding 2 interest payment date (a **scheduled amortisation loan tranche**). A rated loan tranche with pass-through repayment is an advance that has no scheduled repayment date other than its final repayment date (a **pass-through**

**loan tranche**). Rated loan tranches with pass-through repayment will be repaid on or after the Funding 2 interest payment date specified in the relevant final terms or drawdown prospectus or, where applicable, on or after the Funding 2 interest payment date on which the rated loan tranches with the same series designation and a higher rating designation in respect of the series have been fully repaid as set out in the applicable final terms or drawdown prospectus.

Repayment of principal on the rated loan tranches will only be made from and to the extent of distributions by the mortgages trustee of amounts constituted from mortgages trust available principal receipts to Funding 2 in respect of the Funding 2 share of the trust property.

The applicable loan tranche supplement for each loan tranche and the accompanying final terms or drawdown prospectus will set forth (i) the bullet repayment dates, (ii) the scheduled repayment dates or (iii) the Funding 2 interest payment date on which a pass-through loan tranche is expected to be paid, as applicable. Each such date will be the same as the equivalent dates for the related series and class of notes.

A rated loan tranche (or part thereof) will become due on the earlier to occur of:

- the date for repayment of a rated loan tranche as specified in the applicable loan tranche supplement and applicable final terms or drawdown prospectus;
- the date upon which a master intercompany loan acceleration notice is served on Funding 2;
- the date upon which a trigger event occurs; and
- the step-up date, if any, in relation to the relevant rated loan tranche as specified in the applicable loan tranche supplement and applicable final terms or drawdown prospectus,

in each case subject to the applicable Funding 2 priority of payments.

**Repayment of principal on the subordinated loan tranches**

Funding 2 will repay each subordinated loan tranche, but only (a) on any Funding 2 interest payment date, to the extent that the aggregate outstanding principal balance of the subordinated loans exceed the required subordinated loan tranche principal amount outstanding and to the extent that it has Funding 2 available principal receipts after making higher ranking payments or (b) on any date, to the extent that it is being refinanced by another loan tranche (which may be another subordinated loan tranche). Principal due on the subordinated loan tranches is payable after principal is due on the rated loan tranches.

A subordinated loan tranche (or part thereof) will become due on the earlier to occur of:

- the date on which all notes have been redeemed in full;
- the date upon which a trigger event occurs; and
- the date upon which an intercompany loan acceleration notice is served on Funding 2,

in each case subject to the applicable Funding 2 priority of payments.

**Repayment of principal on the start-up loan tranches**

Funding 2 will repay each start-up loan tranche, but only to the extent that it has Funding 2 available revenue receipts after making higher ranking payments or amounts standing to the credit of the relevant Funding 2 yield reserve sub-ledger after making higher ranking payments. Principal due on the start-up loan tranches are payable in accordance with the Funding 2 pre-enforcement revenue priority of payments and the Funding 2 yield reserve priority of payments.

A start-up loan tranche (or part thereof) will become due on the earlier to occur of:

- the date on which all notes have been redeemed in full and all of the issuing entity subordinated loans have been repaid in full;
- the date upon which a trigger event occurs; and
- • the date upon which an intercompany loan acceleration notice is served on Funding 2,

in each case subject to the applicable Funding 2 priority of payments.

**Deferral of principal**

In each case, when a loan tranche becomes due, it shall continue to be due until it is fully repaid. If there are insufficient funds available to repay a loan tranche on a Funding 2 interest payment date upon which that loan tranche has become or remains due, then the shortfall will be repaid on subsequent Funding 2 interest payment dates from Funding 2 available principal receipts until that loan tranche is fully repaid. You should note that in certain other circumstances payments on the AA loan tranches, the A loan tranches, the BBB loan tranches and the BB loan tranches will be deferred. See "**Cashflows – Distribution of Funding 2 available principal receipts**" below.

**Limited recourse**

Funding 2 will only be obliged to pay amounts to the issuing entity in respect of any loan tranche to the extent that it has funds to do so after making payments ranking in priority to amounts due on such loan tranches (including amounts due on loan tranches of a more senior ranking).

If, prior to the latest final repayment date of a loan tranche outstanding under the master intercompany loan agreement, there is a shortfall between the amount of interest and/or principal due on that loan tranche and the amount available to Funding 2 to make that payment, then that shortfall shall not be due and payable to the issuing entity until the time (if ever) when Funding 2 has enough money available to pay the shortfall on that loan tranche (after making any other payments due that rank higher in priority to that loan tranche).

If, following the latest final repayment date of loan tranches outstanding under the master intercompany loan agreement there is a shortfall between the amount required to pay all outstanding interest and/or principal and/or other amounts outstanding under the master intercompany loan agreement, then the shortfall and all outstanding claims of the issuing entity and the Funding 2 security trustee against Funding 2 will be extinguished.

**Master intercompany loan events of default**

The master intercompany loan agreement will contain events of default (each a **master intercompany loan event of default**), which will include, among others, the following events:

- a default by Funding 2 for a period of three London business days in the payment of any amount payable under the master intercompany loan agreement (but subject to the limited recourse provisions described in this section);
- Funding 2 does not comply in any material respect with its obligations under any of the transaction documents (other than non-payment as set out in the preceding paragraph) and that non-compliance, if capable of remedy, is not remedied promptly and in any event within 20 London business days of Funding 2 becoming aware of its non-compliance or of receipt of written notice from the Funding 2 security trustee requiring Funding 2's non-compliance to be remedied; or
- an insolvency event occurs in relation to Funding 2 or it is, or becomes, unlawful for Funding 2 to perform its obligations under any of the transaction documents.

Investors should note that, as described in "**– Repayment of principal on the rated loan tranches**" and "**– Limited recourse**" above, it will not be a master intercompany loan event of default if default is made by Funding 2 in paying amounts due under the master intercompany loan agreement where Funding 2 does not have the money available to make the relevant payment or where the repayment tests are not satisfied. The ability of the issuing entity to repay each series and class of notes will depend, among other things, upon payments received by the issuing entity from Funding 2 under the corresponding loan tranches pursuant to the master intercompany loan agreement. See "**Risk factors – Funding 2 is not obliged to make payments on the loan tranches if it does not have enough money to do so, which could adversely affect payments on your notes**" above.

If a master intercompany loan event of default occurs and is continuing under the master intercompany loan agreement, then the Funding 2 security trustee will be entitled to deliver a master intercompany loan acceleration notice to Funding 2 stating that a master intercompany loan event of default has occurred. Upon the service of such a master intercompany loan acceleration notice, the Funding 2 security trustee may direct that all loan tranches outstanding under the master intercompany loan agreement become immediately due and payable and/or that all loan tranches outstanding under the master intercompany loan agreement become due and payable on demand of the Funding 2 security trustee.

**Other Funding 2 intercompany loan agreements**

Other Funding 2 issuing entities may be established by Funding 2 for the purpose of issuing notes to investors and using the proceeds thereof to make new Funding 2 intercompany loans to Funding 2. The issuance of notes by any such other Funding 2 issuing entity and the making of the related Funding 2 intercompany loan will only be permitted if certain conditions precedent are satisfied, including, among others, that the ratings of the notes issued by the issuing entity will not be reduced, withdrawn or qualified at the time of the issuance of such notes by the new Funding 2 issuing entity. See "**Risk factors – Other Funding 2 issuing entities may share in the same security granted by Funding 2 to the issuing entity, and this may ultimately cause a reduction in the payments you receive on the notes**" above.

**Governing law**

The master intercompany loan agreement and any non-contractual obligations arising out of or in connection with the master intercompany loan agreement will be governed by, and shall be construed in accordance with, English law.

## Security for Funding 2's obligations

Funding 2 provided security for its obligations under the master intercompany loan agreement and the other transaction documents to which it is or will be a party by entering into the Funding 2 deed of charge with the Funding 2 secured creditors on the programme date. A summary of the material terms of the Funding 2 deed of charge is set out below. The summary does not purport to be complete and is subject to the provisions of the Funding 2 deed of charge.

The Funding 2 deed of charge has seven primary functions:

- it sets out certain covenants of Funding 2;
- it creates security interests in favour of the Funding 2 security trustee which the Funding 2 security trustee holds on trust for itself and each of the other Funding 2 secured creditors (including secured creditors that accede to the Funding 2 deed of charge in connection with future loan tranches or other Funding 2 intercompany loans);
- it sets out the order in which the cash manager applies money received by Funding 2 prior to enforcement of the security;
- it sets out the enforcement procedures relating to a default by Funding 2 on its covenants under the transaction documents to which it is a party (including provisions relating to the appointment of a receiver);
- it sets out the order in which the Funding 2 security trustee applies money received by Funding 2 after the service of a master intercompany loan acceleration notice on Funding 2;
- it sets out the appointment of the Funding 2 security trustee, its powers and responsibilities and the limitations on those responsibilities; and
- it sets out how new creditors of Funding 2 can accede to the terms of the Funding 2 deed of charge as new Funding 2 secured creditors.

### Covenants of Funding 2

The Funding 2 deed of charge contains covenants made by Funding 2 in favour of the Funding 2 security trustee on trust for the benefit of itself and the other Funding 2 secured creditors including that it will comply with its other obligations under the transaction documents to which it is or will be a party.

### Funding 2 security

Under the Funding 2 deed of charge, Funding 2 has created the following security interests in favour of the Funding 2 security trustee for itself and as Funding 2 security trustee on behalf of the other Funding 2 secured creditors (the **Funding 2 security**) in respect of its obligations under the master intercompany loan agreement and the other transaction documents to which it is or will be a party:

- an assignment by way of first fixed security or, to the extent not assignable, charge by way of a first fixed charge (which is likely to take effect as a floating charge) of the Funding 2 share of the trust property;
- an assignment by way of first fixed security or, to the extent not assignable, charge by way of a first fixed charge (which is likely to take effect as a floating charge) of all of its rights in the transaction documents to which Funding 2 is a party from time to time;
- a first fixed charge (which is likely to take effect as a floating charge) over all of Funding 2's rights in respect of all amounts standing from time to time to the credit of the Funding 2 bank accounts, all interest paid or payable in relation to those amounts, all debts represented by those amounts and any security provided for such Funding 2 bank accounts including the benefit of any Funding 2 collateral security agreement;
- a first fixed charge (which is likely to take effect as a floating charge) over all of Funding 2's rights in respect of all authorised investments made or purchased from time to time by or on behalf of Funding 2 (whether owned by it or held by any nominee on its behalf) using monies standing to the credit of the Funding 2 accounts and all interest, monies and proceeds paid or payable in relation to those authorised investments;

- a first fixed charge (which is likely to take effect as a floating charge) over all of its rights in respect of the benefit of all authorisations (statutory or otherwise) held in connection with its use of any other property charged by Funding 2 pursuant to the Funding 2 deed of charge and any compensation which may be payable to it in respect of those authorisations; and

- a first floating charge over all of the property, assets and undertaking of Funding 2 not otherwise secured by any fixed security interest detailed above (but extending over all of Funding 2's property, assets and undertaking situated in Scotland or the rights to which are governed by Scots law all of which are charged by way of floating charge).

After the service of a master intercompany loan acceleration notice pursuant to the master intercompany loan agreement, the Funding 2 security trustee will hold all security interests over or in respect of the excess swap collateral standing to the credit of the Funding 2 swap collateral accounts on trust for the Funding 2 swap provider in accordance with the Funding 2 swap agreement. Those amounts will be applied in accordance with the Funding 2 swap agreement.

*Nature of security – fixed charge*

Whether a fixed security interest expressed to be created by the Funding 2 deed of charge will be upheld under English law as a fixed security interest rather than floating security will depend, among other things, on whether the Funding 2 security trustee has the requisite degree of control over Funding 2's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the Funding 2 security trustee in practice. However, it is likely that the Funding 2 security trustee does not exert sufficient control over the accounts of Funding 2 for the charges over those account to take effect as fixed charges. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised as a floating charge if the proceeds thereof are paid into a bank account over which the Funding 2 security trustee is not deemed to have sufficient control. Such is likely to be the case in respect of the other security expressed above to be fixed security.

Scots law does not recognise any equivalent concept of fixed charges taking effect as floating charges, as described above in relation to English law.

*Nature of security – floating charge*

Unlike the fixed charges, the **floating charge** does not attach to specific assets but instead "floats" over a class of assets which may change from time to time, allowing Funding 2 to deal with those assets and to give third parties title to those assets free from any encumbrance in the event of sale, discharge or modification, provided those dealings and transfers of title are in the ordinary course of Funding 2's business. Any of Funding 2's assets acquired after the programme date (including assets acquired as a result of the disposition of any other asset of Funding 2), which are not subject to the fixed charges mentioned in this section (including all of Funding 2's Scottish assets) will be subject to the floating charge.

The existence of the floating charge will allow the Funding 2 security trustee to appoint an administrative receiver of Funding 2 as long as the capital markets exemption is available. The main advantage of the Funding 2 security trustee being able to appoint an administrative receiver is that a person entitled to appoint an administrative receiver can prevent the appointment of an administrator of Funding 2, which allows the Funding 2 security trustee to control proceedings in the event any of Funding 2's other creditors seek such action. See "**Risk factors – Changes of law may adversely affect your interests**" above relating to the appointment of an administrative receiver.

The interest of the Funding 2 secured creditors in property and assets over which there is a floating charge only will rank behind the expenses of any liquidation or any administration and the claims of certain preferential creditors on enforcement of the Funding 2 security. This means that the expenses of any liquidation or any administration and preferential creditors will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to the issuing entity under the master intercompany loan agreement. Section 250 of the Enterprise Act abolished crown preference in relation to all insolvencies (and thus reduced the categories of preferential debts that are to be paid in priority to the debts due to the holder of a floating charge) but a new section 176A of the Insolvency Act (as inserted by section 251 of the Enterprise Act) requires a "prescribed part" (up to a maximum amount of £600,000) of the floating charge realisations available for distribution to be set aside to satisfy the claims of unsecured creditors. This means that the expenses of any liquidation or administration, the claims of preferential creditors and the beneficiaries of the prescribed part will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to the issuing entity and ultimately the noteholders. The prescribed part will not be

relevant to property subject to a valid fixed security interest or to a situation in which there are no unsecured creditors.

The floating charge created by the Funding 2 deed of charge may "crystallise" and become a fixed charge over the relevant class of assets owned by Funding 2 at the time of crystallisation. Crystallisation will occur automatically following the occurrence of specific events set out in the Funding 2 deed of charge, including, among other events, notice to Funding 2 from the Funding 2 security trustee following a master intercompany loan event of default, except in relation to Funding 2's Scottish assets where crystallisation will occur only on the appointment of an administrative receiver, on the commencement of the winding-up of Funding 2 or (in certain limited circumstances) in the context of an administration of Funding 2. A crystallised floating charge will rank ahead of the claims of unsecured creditors, which are in excess of the prescribed part, but will continue to rank behind the expenses of any liquidation or any administration and the claims of preferential creditors (as referred to in this section) and the beneficiaries of the prescribed part on enforcement of the Funding 2 security.

**Funding 2 pre-enforcement priority of payments**

The Funding 2 deed of charge sets out the priority of distribution by the cash manager, prior to the service of a master intercompany loan acceleration notice on Funding 2, of amounts standing to the credit of the Funding 2 transaction account on each Funding 2 interest payment date. This priority is described in "**Cashflows – Distribution of Funding 2 available revenue receipts before master intercompany loan acceleration**" and "**Cashflows – Distribution of Funding 2 available principal receipts**" below.

**Enforcement**

The Funding 2 deed of charge sets out the general procedures by which the Funding 2 security trustee may take steps to enforce the Funding 2 security so that the Funding 2 security trustee can protect the interests of each of the Funding 2 secured creditors.

The Funding 2 deed of charge provides that, when exercising its powers, trusts, authorities, duties and discretions, the Funding 2 security trustee must act only in accordance with the directions of the issuing entity security trustee, which (for so long as any notes remain outstanding) must act only in accordance with the directions of the note trustee. This provision may be amended in the event that Funding 2 enters into a new Funding 2 intercompany loan agreement with any new Funding 2 issuing entity or Funding 2 issues any new Funding 2 notes directly. The Funding 2 security trustee will only act if it is indemnified and/or secured to its satisfaction.

The Funding 2 security will become enforceable upon the service of a master intercompany loan acceleration notice under the master intercompany loan, provided that, if the Funding 2 security has become enforceable otherwise than by reason of a default in payment of any amount due in respect of the AAA loan tranches, the Funding 2 security trustee will not be entitled to dispose of all or part of the assets comprised in the Funding 2 security unless either:

- a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of all AAA loan tranches and all prior ranking amounts due by Funding 2 in accordance with the Funding 2 priority of payments; or
- the Funding 2 security trustee is of the sole opinion that the cashflow prospectively receivable by Funding 2 will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of Funding 2, to discharge in full in due course all amounts owing in respect of all AAA loan tranches and all prior ranking amounts due by Funding 2.

Each of the Funding 2 secured creditors (other than the Funding 2 security trustee) will agree under the Funding 2 deed of charge that they will not take steps directly against Funding 2 (other than in accordance with the transaction documents) for any amounts owing to them, unless the Funding 2 security trustee has become bound to institute such proceedings but has failed to do so within 30 days of becoming so bound and the failure is continuing.

**Funding 2 post-enforcement priority of payments**

The Funding 2 deed of charge sets out the priority of distribution by the Funding 2 security trustee, following service of a master intercompany loan acceleration notice, of amounts received or recovered (other than monies standing to the credit of the Funding 2 yield reserve fund) by the Funding 2 security trustee or a receiver appointed on its behalf. This priority is described in "**Cashflows – Distribution of Funding 2**

**principal receipts and Funding 2 revenue receipts following master intercompany loan acceleration**" below.

**New Funding 2 issuing entities**

If any other Funding 2 issuing entities are established to issue notes and accordingly to make advances to Funding 2, such Funding 2 issuing entities and other applicable creditors of Funding 2 will enter into deeds of accession or supplemental deeds in relation to the Funding 2 deed of charge which may, depending on the type of notes to be issued, require amendments, among other things, to any of the Funding 2 pre-enforcement revenue priority of payments, the Funding 2 pre-enforcement principal priority of payments and the Funding 2 post-enforcement priority of payments.

**Eligible GIC custodian as Funding 2 secured creditor**

If Bank of Scotland enters into an eligible custody agreement with an eligible GIC custodian, then the eligible GIC custodian shall be entitled to be a Funding 2 secured creditor. Each Funding 2 secured creditor has agreed that any amounts due to such eligible GIC custodian shall be paid *pro rata* and *pari passu* with amounts due to the account bank, the agent account bank, the cash manager and the corporate services provider in accordance with the Funding 2 priority of payments. Each Funding 2 secured creditor has agreed to enter into relevant documentation in order for the eligible GIC custodian to become a Funding 2 secured creditor

**Agent account bank as Funding 2 secured creditor**

If an eligible bank has acceded to the bank account agreement as agent account bank, then the agent account bank shall be entitled to be a Funding 2 secured creditor. Each Funding 2 secured creditor has agreed that any amounts due to such agent account bank shall be paid *pro rata* and *pari passu* with amounts due to the account bank, the eligible GIC custodian, the cash manager and the corporate services provider in accordance with the Funding 2 priority of payments. Each Funding 2 secured creditor has agreed to enter into relevant documentation in order for the agent account bank to become a Funding 2 secured creditor.

**Appointment, powers, responsibilities and liabilities of the Funding 2 security trustee**

The Funding 2 security trustee is appointed to act as trustee on behalf of the Funding 2 secured creditors on the terms and conditions of the Funding 2 deed of charge. It holds the benefit of the Funding 2 security created by the Funding 2 deed of charge on trust for itself, any receivers of Funding 2 and each of the other Funding 2 secured creditors in accordance with the terms and conditions of the Funding 2 deed of charge.

The Funding 2 security trustee may concur with any person in making any modifications to the transaction documents only if so directed by the issuing entity security trustee so long as there is any loan tranche outstanding under the master intercompany loan agreement and otherwise with the prior consent of all of the Funding 2 secured creditors. This provision may be amended in the event that Funding 2 enters into a new Funding 2 intercompany loan agreement with any new Funding 2 issuing entity or Funding 2 issues any new Funding 2 notes directly. The issuing entity security trustee may give such direction only (for so long as any notes remain outstanding) if so directed by the note trustee. The note trustee may give such direction, without the consent or sanction of the noteholders, provided that:

- the note trustee is of the opinion that such modification will not be materially prejudicial to the interests of the holders of any series or class of notes; or
- in the sole opinion of the note trustee such modification is necessary to correct a manifest error or an error established as such to the satisfaction of the note trustee or is of a formal, minor or technical nature.

The note trustee will be entitled to assume that such modification will not be materially prejudicial to the interests of the noteholders if each of the rating agencies has confirmed that the then current rating by it of the notes would not be adversely affected by such modification.

In addition, the Funding 2 security trustee will give its consent to any modifications to any transaction document that are requested by Funding 2 (or the cash manager on its behalf), Funding 1 (or the cash manager on its behalf) or the issuing entity (or the issuing entity cash manager on its behalf), provided that Funding 2 (or the cash manager on its behalf), Funding 1 (or the cash manager on its behalf) or the issuing

entity (or the issuing entity cash manager on its behalf) certifies to the Funding 2 security trustee (in writing) that such modifications are required in order to accommodate (among other things):

(i) notes to be issued by the issuing entity and/or loan tranches to be made available by the issuing entity to Funding 2 under the master intercompany loan agreement;

(ii) the entry by Funding 2 into new Funding 2 intercompany loan agreements and/or the issue of new notes by new Funding 2 issuing entities or by Funding 2 directly;

(iii) the sale of new types of loans or mortgages to the mortgages trustee;

(iv) the inclusion of a new Funding beneficiary as a beneficiary of the mortgages trust;

(v) the addition of other relevant secured creditors of Funding 2 to the transaction;

(vi) changes to be made to the Funding 2 reserve required amount, the Funding 2 liquidity reserve fund required amount and/or the Funding 2 Z loan required amount and/or the manner in which any Funding 2 reserve fund or the Funding 2 yield reserve fund is funded;

(vii) changes to the Funding 2 Z loan agreement and the subordination of the Funding 2 Z loans provided that payments to the Funding 2 Z loan provider will always be made after payment of amounts due by Funding 2 to the issuing entity in respect of the rated loan tranches or by the issuing entity to the noteholders in respect of the notes;

(viii) different interest payment dates for any new notes to be issued by the issuing entity (including modification of the Funding 2 interest payment dates, the interest period and/or the basis for the calculation of interest in respect of any outstanding loan tranches under the master intercompany loan agreement);

(ix) changes to be made to the definitions of asset trigger event and non-asset trigger event;

(x) the entry by Funding 2 into an account bank agreement with an agent account bank and the corresponding opening of funding 2 eligible bank GIC accounts;

(xi) the entry by Funding 2 into the Funding 2 collateral security agreement and any eligible custody agreement;

(xii) accession of a new seller to the programme, the inclusion of a new seller as a beneficiary of the mortgages trust, the entry into a new mortgage sale agreement by a new seller, the beneficiaries and the Funding 2 security trustee, the assignment of Lloyds Bank Loans and their related security to the mortgages trustee, any amendments to the lending criteria and/or any amendments to the loan representations and warranties required to include Lloyds Bank Loans in the portfolio; and/or

(xiii) any amendment to the Funding 2 transaction documents for the purposes of enabling new or existing credit enhancement (such as subordinated loans, uncommitted sterling loan facility or similar arrangement) and any other facilities in each case to support cash balances maintained in accounts with account banks whose ratings do not meet current rating agency requirements. Under such arrangements, advances may be made pursuant to the intercompany loan agreement to make a contribution to the mortgages trust thereby increasing the seller share. The repayment of such loan facility or similar arrangement will be subordinated to payments of interest and principal when due on the notes which have received a rating from a rating agency and any related master issuer swap agreement (other than payments in respect of any master issuer swap excluded termination amount) provided that such loan facility or similar arrangement may be repaid at any time through a further contribution pursuant to the terms of the relevant Funding 2 transaction documents,

and provided further that:

- in respect of the matters listed in paragraph (i) to (v), the conditions precedent to (w) notes being issued by the issuing entity and/or loan tranches being made available to Funding 2, (x) new notes being issued by new Funding 2 issuing entities or by Funding 2 directly and/or new Funding 2 loans being made available to Funding 2, (y) the sale of new types of loans to the mortgages trustee and (z) the inclusion of a new beneficiary of the mortgages trust have been satisfied;

- in respect of the matters listed in paragraphs (i) to (ix) inclusive, the Funding 2 security trustee has received written confirmation from each of the rating agencies then rating the notes that the relevant modifications will not result in a reduction, qualification or withdrawal of the then current ratings of the notes; and

- in respect of the matters set out in paragraphs (x) to (xiii) inclusive, the Funding 2 security trustee (x) has received written confirmation (i) from each of the rating agencies that the relevant modification, authorisation, waiver and/or consent will not result in a reduction, qualification or withdrawal of the current ratings of the notes and (ii) from Funding 2 that no basic terms modification shall result; (y) shall not be obliged to give its consent where, in the opinion of the Funding 2 security trustee, to do so would result in the imposition of an increase in its obligations or duties, or a decrease in its rights or protections; and (z) shall comply with the amendments described in the certification and shall not have any liability to any person for so acting.

**Funding 2 security trustee's fees and expenses**

Funding 2 shall pay to the Funding 2 security trustee a fee (inclusive of VAT, if any) payable on dates and in the amount agreed from time to time by the Funding 2 security trustee and Funding 2. Funding 2 will also pay, on written request, all costs, charges and expenses (including any amount in respect of VAT chargeable thereon) properly incurred in relation to the negotiation, preparation and execution of and the exercise of its powers and the performance of its duties under transaction documents or any action taken or contemplated by the Funding 2 security trustee for enforcing the transaction documents. The Funding 2 security trustee will be entitled to additional fees if it undertakes duties of an exceptional nature or otherwise outside the scope of the normal duties of the Funding 2 security trustee, as further set out in the Funding 2 deed of charge.

Funding 2 has agreed to indemnify the Funding 2 security trustee and each of its officers, employees and advisers from and against all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses arising out of or in connection with:

- the transaction documents; or

- the Funding 2 security trustee's engagement as Funding 2 security trustee,

which it or any of its officers, employees or advisers may suffer a result of Funding 2 failing to perform any of its obligations.

Funding 2 will not be responsible under the Funding 2 deed of charge for any liabilities, losses, damages, costs or expenses resulting from fraud, negligence, wilful default or breach by them of the terms of the Funding 2 deed of charge by the Funding 2 security trustee.

**Retirement and removal**

Subject to the appointment of a trust corporation as a successor Funding 2 security trustee, the Funding 2 security trustee may retire after giving three months' notice in writing to Funding 2. In order to be eligible to act as Funding 2 security trustee, such successor must meet the applicable eligibility requirements under the Funding 2 deed of charge, including the requirement that it satisfies the minimum capitalisation and other applicable conditions in regards to trustee eligibility set forth in the United States Investment Company Act of 1940, as amended. If within two months of having given notice of its intention to retire, Funding 2 has failed to appoint a replacement Funding 2 security trustee, the Funding 2 security trustee will be entitled to appoint its own successor trustee being a trust corporation.

The noteholders may, by extraordinary resolution of each class thereof, instruct the note trustee to instruct the issuing entity security trustee to remove the Funding 2 security trustee at any time.

In addition, the Funding 2 security trustee may, subject to conditions specified in the Funding 2 deed of charge, appoint a co-trustee to act jointly with it.

**Additional provisions of the Funding 2 deed of charge**

The Funding 2 deed of charge contains a range of provisions regulating the scope of the Funding 2 security trustee's duties and liabilities. These include the following:

- the Funding 2 security trustee is not responsible for the execution, delivery, legality, validity, adequacy, admissibility in evidence or enforceability of the Funding 2 deed of charge or any

other transaction document or the title, ownership, value, sufficiency, enforceability or existence of any of the property charged by Funding 2 (or the security relating thereto);

- the Funding 2 security trustee will not, and will not be bound to, exercise its powers under the Funding 2 deed of charge without being directed to do so by the issuing entity security trustee (and then only to the extent that it is indemnified and/or secured to its satisfaction) which direction (for so long as the notes remain outstanding) may not be given unless the issuing entity security trustee has been directed or requested to do so by the note trustee. The note trustee is not obliged to give such direction or request to the issuing entity security trustee unless it is directed or requested to do so by an extraordinary resolution of any class of the noteholders (which for this purpose means the noteholders of all series of notes constituting that class) or in writing by the holders of at least 25 per cent. of the aggregate principal amount outstanding of any class of the notes then outstanding (which for this purpose means the noteholders of all series of notes constituting that class) (and then only to the extent that it is indemnified and/or secured to its satisfaction) provided that:

(i) the note trustee shall not be obliged to act at the direction or request of the class B noteholders unless either so to do would not, in its sole opinion, be materially prejudicial to the interests of the class A noteholders or the action is sanctioned by an extraordinary resolution of the class A noteholders;

(ii) the note trustee shall not be obliged to act at the direction or request of the class M noteholders unless either so to do would not in its sole opinion, be materially prejudicial to the interests of the class A noteholders and the class B noteholders or the action is sanctioned by extraordinary resolutions of the class A noteholders and the class B noteholders;

(iii) the note trustee shall not be obliged to act at the direction or request of the class C noteholders unless either so to do would not, in its sole opinion, be materially prejudicial to the interests of the class A noteholders, the class B noteholders and the class M noteholders or the action is sanctioned by extraordinary resolutions of the class A noteholders, the class B noteholders and the class M noteholders; and

(iv) the note trustee shall not be obliged to act at the direction or request of the class D noteholders unless either so to do would not, in its sole opinion, be materially prejudicial to the interests of the class A noteholders, the class B noteholders, the class M noteholders and/or the class C noteholders or the action is sanctioned by extraordinary resolutions of the class A noteholders, the class B noteholders, the class M noteholders and the class C noteholders;

- the Funding 2 security trustee may rely (without investigation or further inquiry) on a certificate or confirmation of the agent bank, any paying agent, any of the rating agencies or any reference bank and the advice of lawyers, valuers, accountants, surveyors, bankers, brokers, auctioneers or other experts and shall not be bound in any such case to call for further evidence or be responsible for any loss, liability, costs, damages, expenses or inconvenience that may be occasioned by its failing so to do or the exercise or non-exercise by the Funding 2 security trustee of any of its powers, duties and discretions under the transaction documents;

- the Funding 2 security trustee is not bound to take steps to ascertain whether a master intercompany loan event of default under the master intercompany loan agreement has occurred and, until it shall have actual written notice to the contrary, shall be entitled to assume that no master intercompany loan event of default has occurred and that Funding 2 is observing and performing all its obligations under the Funding 2 deed of charge and the other transaction documents;

- each Funding 2 secured creditor must make its own independent appraisal of and investigations into the financial condition, creditworthiness, condition, affairs, status and nature of Funding 2 and the Funding 2 security trustee shall not at any time have any responsibility for the same and no Funding 2 secured creditor shall rely on the Funding 2 security trustee in respect thereof;

- the Funding 2 security trustee and its directors, officers, holding companies and associated companies may enter into any contract, transaction or arrangement with Funding 2 or any of

the other parties to the transaction documents as if it were not the Funding 2 security trustee and shall be entitled to exercise and enforce its rights, comply with its obligations and perform its duties under any such contract, transaction or arrangement without regard to the interests of the Funding 2 security creditors; and

- the Funding 2 security trustee shall not be liable for any decisions of the cash manager in relation to the Funding 2 eligible bank GIC account, the Funding 2 collateralised GIC account, the eligible custody agreement or the Funding 2 collateral security agreement. The Funding 2 security trustee shall accept without enquiry that the conditions required to open any of these accounts and the entry into of any related agreements including any eligible custody agreement or the Funding 2 collateral security agreement, are satisfied and it shall not otherwise monitor that any of the conditions to opening or entry are satisfied. The Funding 2 security trustee shall not be obliged to give its consent or otherwise act in relation to these accounts and agreements where, in the opinion of the Funding 2 security trustee, to do so would result in the imposition of an increase in its obligations or duties, or decrease in its rights or protections.

The Funding 2 security trustee has had no involvement in the preparation of any part of this base prospectus, other than any particular reference to the Funding 2 security trustee. The Funding 2 security trustee expressly disclaims and takes no responsibility for any other part of this base prospectus. The Funding 2 security trustee makes no statement or representation in this base prospectus, has not authorised or caused the issue of any part of it and takes no responsibility for any part of it. The Funding 2 security trustee does not guarantee the performance of the master intercompany loan or the payment of principal of or interest on the master intercompany loan.

**Governing law**

The Funding 2 deed of charge and any non-contractual obligations arising out of or in connection with the Funding 2 deed of charge is governed by English law, provided that any terms that are particular to Scots law shall be construed in accordance with the laws of Scotland.

## Security for the issuing entity's obligations

The issuing entity will provide security for its obligations under the notes and the other transaction documents to which it is or will be a party by entering into the issuing entity deed of charge with the issuing entity secured creditors (other than the noteholders).

A summary of the material terms of the issuing entity deed of charge is set out below. The summary does not purport to be complete and is subject to the provisions of the issuing entity deed of charge.

The issuing entity deed of charge has six primary functions:

- it sets out certain covenants of the issuing entity;
- it creates security interests in favour of the issuing entity security trustee which the issuing entity security trustee then holds on trust for itself and each of the other issuing entity secured creditors (including secured creditors that accede to the issuing entity deed of charge in connection with future series and classes of notes or future issuing entity subordinated loans);
- it sets out the enforcement procedures relating to a default by the issuing entity of its covenants under the transaction documents (including the appointment of a receiver);
- it sets out the order in which the issuing entity security trustee applies monies standing to the credit of the issuing entity transaction account following the service of a note acceleration notice on the issuing entity;
- it sets out the appointment of the issuing entity security trustee, its powers and responsibilities and the limitations on those responsibilities; and
- it sets out how creditors of the issuing entity can accede to the terms of the issuing entity deed of charge.

### Covenants of the issuing entity

The issuing entity deed of charge contains covenants made by the issuing entity in favour of the issuing entity security trustee on trust for the benefit of itself and the other issuing entity secured creditors, including that it will comply with its other obligations under the transaction documents to which it is or will be a party.

### Issuing entity security

Under the issuing entity deed of charge, the issuing entity will create the following security interests in favour of the issuing entity security trustee for and on behalf of the issuing entity secured creditors (the **issuing entity security**), in respect of its obligations under the notes and the other transaction documents to which it is or will be a party:

- an assignment by way of first fixed security or, to the extent not assignable, charge by way of first fixed charge (which is likely to take effect as a floating charge) of all of the issuing entity's rights in respect of the transaction documents to which it is a party from time to time (without prejudice to, in respect of any issuing entity swap agreements, and after giving effect to, any contractual netting provision confined in such agreements);
- a first fixed charge (which is likely to take effect as a floating charge) over all of the issuing entity's rights in respect of any amount standing from time to time to the credit of the issuing entity transaction account and any other issuing entity bank account, all interest paid or payable in relation to those amounts and all debts represented by those amounts;
- a first fixed charge (which is likely to take effect as a floating charge) over all of the issuing entity's rights in all authorised investments made or purchased by or on behalf of the issuing entity using monies standing to the credit of the issuing entity accounts and all interest, monies and proceeds paid or payable in relation to those authorised investments;
- a first fixed charge over all of its rights in respect of the benefit of all authorisations (statutory or otherwise) held in connection with its use of any of the property charged by the issuing

entity pursuant to the issuing entity deed of charge and any compensation which may be payable to it in respect of those authorisations; and

- a first floating charge over all of the issuing entity's property, assets (including, without limitation, its uncalled capital) and undertaking not otherwise effectively charged or assigned by way of fixed charge or assignment detailed above (but extending over all of the issuing entity's property, assets and undertaking situated in Scotland or the rights to which are governed by Scots law, all of which are charged by the floating charge).

**Nature of security – fixed charge**

Whether a fixed security interest expressed to be created by the issuing entity deed of charge will be upheld under English law as a fixed security interest rather than floating security will depend, among other things, on whether the issuing entity security trustee has the requisite degree of control over the issuing entity's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the issuing entity security trustee in practice. However, it is likely that the issuing entity security trustee does not exert sufficient control over the issuing entity transaction account for the charges over such account to take effect as a fixed charge. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised a floating charge if the proceeds thereof are paid into a bank account over which the issuing entity security trustee is not deemed to have sufficient control. Such may be the case in respect of the other security expressed above to be fixed security.

Scots law does not recognise any equivalent concept of fixed charges taking effect as floating charges, as described above in relation to English law.

**Nature of security – floating charge**

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

The existence of the floating charge will allow the issuing entity security trustee to appoint an administrative receiver of the issuing entity as long as the capital markets exemption is available. The main advantage of the issuing entity security trustee being able to appoint an administrative receiver is that a person entitled to appoint an administrative receiver can prevent the appointment of an administrator of the issuing entity, which allows the issuing entity security trustee to control proceedings in the event the issuing entity's other creditors seek such action. However, see "**Risk factors – Changes of law may adversely affect your interests**" above relating to the appointment of administrative receivers.

The interest of the issuing entity secured creditors in property and assets over which there is a floating charge will rank behind the expenses of any liquidation or administration and the claims of certain preferential creditors on enforcement of the issuing entity security. This means that the expenses of any liquidation or any administration and the claims of preferential creditors will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to the noteholders. Section 250 of the Enterprise Act abolished crown preference in relation to all insolvencies (and thus reduced the categories of preferential debts that are to be paid in priority to debts due to the holder of a floating charge) but a new section 176A of the Insolvency Act (as inserted by section 251 of the Enterprise Act) requires a "prescribed part" (up to a maximum amount of £600,000) of the floating charge realisations available for distribution to be set aside to satisfy the claims of unsecured creditors. This means that the expenses of any liquidation or administration, the claims of preferential creditors and the beneficiaries of the prescribed part will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to noteholders. The prescribed part will not be relevant to property subject to a valid fixed security interest or to a situation in which there are no unsecured creditors.

The floating charge created by the issuing entity deed of charge may "crystallise" and become a fixed charge over the relevant class of assets owned by the issuing entity at the time of crystallisation. Except in relation to the issuing entity's Scottish assets, crystallisation will occur automatically following the occurrence of specific events set out in the issuing entity deed of charge, including, among other events, service of a note acceleration notice to the issuing entity from the note trustee following an event of default

under the notes. In relation to the issuing entity's Scottish assets, crystallisation will occur only on the appointment of an administrative receiver or on the commencement of the winding-up of the issuing entity. A crystallised floating charge will rank ahead of the claims of unsecured creditors which are in excess of the prescribed part, but will rank behind the expenses of any liquidation or administration, the claims of preferential creditors (as referred to in this section) and the beneficiaries of the prescribed part on enforcement of the issuing entity security.

**Enforcement**

The issuing entity deed of charge sets out the general procedures by which the issuing entity security trustee may take steps to enforce the issuing entity security so that the issuing entity security trustee can protect the interests of each of the issuing entity secured creditors.

The issuing entity security trustee is not bound to take such steps unless it is so directed by the note trustee (for so long as any notes remain outstanding) and indemnified and/or secured to its satisfaction.

The issuing entity security will become enforceable upon the service of a note acceleration notice or, if there are no notes outstanding, following a default in payment of any other secured obligation of the issuing entity, provided that, if the issuing entity security has become enforceable otherwise than by reason of a default in payment of any amount due on the class A notes or any other most senior class of notes then outstanding, the issuing entity security trustee will not be entitled to dispose of all or part of the assets comprised in the issuing entity security unless either:

- a sufficient amount would be realised to allow a discharge in full of all amounts owing in respect of the class A notes or, if the class A notes have been fully repaid, the class B notes or, if the class B notes have been fully repaid, the class M notes or, if the class M notes have been fully repaid, the class C notes or, if the class C notes have been fully repaid, the class D notes and all prior ranking amounts due by the issuing entity; or

- the issuing entity security trustee is of the sole opinion that the cashflow prospectively receivable by the issuing entity will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the issuing entity, to discharge in full in due course all amounts owing in respect of the class A notes or, if the class A notes have been fully repaid, the class B notes or, if the class B notes have been fully repaid, the class M notes or, if the class M notes have been fully repaid, the class C notes or, if the class C notes have been fully repaid, the class D notes and all prior ranking amounts due by the issuing entity.

Each of the issuing entity secured creditors (other than the note trustee acting on behalf of the noteholders and the issuing entity security trustee) will agree under the issuing entity deed of charge that they will not take steps directly against the issuing entity (other than in accordance with the transaction documents) for any amounts owing to them, unless the issuing entity security trustee has become bound to institute such proceedings but has failed to do so within 30 days of becoming so bound and the failure is continuing.

**Issuing entity post-enforcement priority of payments**

The issuing entity deed of charge sets out the priority of distribution by the issuing entity security trustee, following service of a note acceleration notice on the issuing entity but prior to service of a master intercompany loan acceleration notice on Funding 2 and following service of both a note acceleration notice on the issuing entity and a master intercompany loan acceleration notice on Funding 2, of amounts received or recovered by the issuing entity security trustee or a receiver appointed on its behalf. There are two separate payment orders of priority depending on whether the Funding 2 security trustee has served a master intercompany loan acceleration notice. These orders of priority are described in "**Cashflows**" below.

**New issuing entity secured creditors**

New issuing entity secured creditors may from time to time enter into deeds of accession in relation to the issuing entity deed of charge upon or immediately prior to the issue of a new series or class of notes.

**Appointment, powers, responsibilities and liabilities of the issuing entity security trustee**

The issuing entity security trustee is appointed to act as trustee on behalf of the issuing entity secured creditors on the terms and conditions of the issuing entity deed of charge. It holds the benefit of the security created by the issuing entity deed of charge on trust for itself, any receiver of the issuing entity and

each of the other issuing entity secured creditors in accordance with the terms and conditions of the issuing entity deed of charge.

The issuing entity security trustee may concur, or direct the Funding 2 security trustee to concur with any person in making any modifications to the transaction documents only (for so long as any notes remain outstanding) if so directed by the note trustee and (as provided for in the issuing entity deed of charge) with the prior consent of any other relevant issuing entity secured creditors. The note trustee may give such direction, without the consent or sanction of the noteholders provided that:

- the note trustee is of the opinion that such modification will not be materially prejudicial to the interests of the holders of any series or class of notes; or
- in the sole opinion of the note trustee such modification is necessary to correct a manifest error or an error established as such to the satisfaction of the note trustee or is of a formal, minor or technical nature or is to comply with the mandatory provisions of law.

The note trustee will be entitled to assume that such modification will not be materially prejudicial to the interests of the noteholders if each of the rating agencies has confirmed that the then current rating by it of the notes would not be adversely affected by such modification.

In addition, the issuing entity security trustee will give its consent to any modifications to any transaction document that are requested by Funding 2 (or the cash manager on its behalf) Funding 1 (or the cash manager on its behalf) or the issuing entity (or the issuing entity cash manager on its behalf), provided that Funding 2 (or the cash manager on its behalf) Funding 1 (or the cash manager on its behalf) or the issuing entity (or the issuing entity cash manager on its behalf) certifies to the issuing entity security trustee in writing that such modifications are required in order to accommodate (among other things):

(i) notes to be issued by the issuing entity and/or loan tranches to be made available by the issuing entity to Funding 2 under the master intercompany loan agreement;

(ii) the entry by Funding 2 into new Funding 2 intercompany loan agreements and/or the issue of new notes by new Funding 2 issuing entities or Funding 2 directly;

(iii) the sale of new types of loans or mortgages to the mortgages trustee;

(iv) the inclusion of a new Funding beneficiary as a beneficiary of the mortgages trust;

(v) the addition of other relevant secured creditors to the transaction documents;

(vi) changes to be made to the Funding 2 reserve required amount, the Funding 2 liquidity reserve fund required amount, the Funding 2 Z loan required amount and/or the manner in which any Funding 2 reserve fund or the Funding 2 yield reserve fund is funded;

(vii) changes to the Funding 2 Z loan agreement and the subordination of the Funding 2 Z loans provided that payments to the Funding 2 Z loan provider will always be made after payment of amounts due by Funding 2 to the issuing entity in respect of the rated loan tranches or by the issuing entity to the noteholders in respect of the notes;

(viii) different interest payment dates for any new notes to be issued by the issuing entity (including modification of the interest payment dates, the interest period and/or the basis for the calculation of interest in respect of any outstanding notes and/or the Funding 2 interest payment dates, the interest period and/or basis for the calculation of interest in respect of any outstanding loan tranches under the master intercompany loan agreement);

(ix) changes to be made to the definitions of asset trigger event and non-asset trigger event;

(x) the entry by Funding 2 into an account bank agreement with an agent account bank and the corresponding opening of Funding 2 eligible bank GIC accounts;

(xi) the entry by Funding 2 into the Funding 2 collateral security agreement and any eligible custody agreement;

(xii) accession of a new seller to the programme, the inclusion of a new seller as a beneficiary of the mortgages trust, the entry into a new mortgage sale agreement by a new seller, the beneficiaries and the Funding 2 security trustee, the assignment of Lloyds Bank Loans and their related security to the mortgages trustee, any amendments to the lending criteria

and/or any amendments to the loan representations and warranties required to include Lloyds Bank Loans in the portfolio; and/or

(xiii) any amendment to the transaction documents for the purposes of enabling new or existing credit enhancement (such as subordinated loans, uncommitted sterling loan facility or similar arrangement) and any other facilities in each case to support cash balances maintained in accounts with account banks whose ratings do not meet current rating agency requirements. Under such arrangements advances may be made pursuant to the intercompany loan agreement to make a contribution to the mortgages trust thereby increasing the seller share. The repayment of such loan facility or similar arrangement will be subordinated to payments of interest and principal when due on the notes which have received a rating from a rating agency and any related master issuer swap agreement (other than payments in respect of any master issuer swap excluded termination amount) provided that such loan facility or similar arrangement may be repaid at any time through a further contribution pursuant to the terms of the relevant transaction documents,

and provided further that:

- in respect of the matters listed in paragraph (i) to (v), the conditions precedent to (w) notes being issued by the issuing entity and/or loan tranches being made available to Funding 2, (x) new notes being issued by new Funding 2 issuing entities or by Funding 2 directly and/or new Funding 2 loan being made available to Funding 2, (y) the sale of new types of loans to the mortgages trustee and (z) the inclusion of a new beneficiary of the mortgages trust have been satisfied;

- in respect of the matters listed in paragraphs (i) to (ix), the issuing entity security trustee has received written confirmation from each of the rating agencies then rating the notes that the relevant modifications will not result in a reduction, qualification or withdrawal of the then current ratings of the notes; and

- in respect of the matters set out in paragraphs (x) to (xiii) inclusive, the issuing entity security trustee (x) has received written confirmation (i) from each of the rating agencies that the relevant modification, authorisation, waiver and/or consent will not result in a reduction, qualification or withdrawal of the current ratings of the notes and (ii) from the issuing entity that no basic terms modification shall result; (y) shall not be obliged to give its consent where, in the opinion of the issuing entity security trustee, to do so would result in the imposition of an increase in its obligations or duties, or a decrease in its rights or protections; and (z) shall comply with the amendments described in the certification and shall not have any liability to any person for so acting.

**Issuing entity security trustee's fees and expenses**

The issuing entity will pay to the issuing entity security trustee a fee (inclusive of VAT, if any) payable on dates and in the amount agreed from time to time by the issuing entity security trustee and the issuing entity. The issuing entity will also pay, on written request, all costs, charges and expenses (including any amount in respect of VAT chargeable thereon) properly incurred by the issuing entity security trustee in the negotiation, preparation and execution of and the exercise of its powers and the performance of its duties under the transaction documents or any action taken or contemplated by the issuing entity security trustee for enforcing the transaction documents.

The issuing entity security trustee will be entitled to additional fees if it undertakes duties of an exceptional nature or otherwise outside the scope of the normal duties of the issuing entity security trustee, as further set out in the issuing entity deed of charge.

Furthermore, the issuing entity shall agree to indemnify the issuing entity security trustee against all liabilities to which it may be or become subject or which may be incurred by it in the proper execution or purported execution of any of its trusts, powers, authorities and discretions under the transaction documents or its functions pursuant to its appointment as issuing entity security trustee.

The issuing entity has agreed to indemnify the issuing entity security trustee and each of its officers, employees and advisers from and against all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses arising out of or in connection with

- the transaction documents; or

- the issuing entity security trustee's engagement as issuing entity security trustee,

which any of its officers, employees or advisers may suffer as a result of the issuing entity failing to perform any of its obligations.

The issuing entity will not be responsible under the issuing entity deed of charge for any liabilities, losses, damages, costs or expenses resulting from the fraud, negligence or wilful default on the part of the issuing entity security trustee.

**Retirement and removal**

Subject to the appointment of a trust corporation as a successor issuing entity security trustee, the issuing entity security trustee may retire after giving three months' notice in writing to the issuing entity. In order to be eligible to act as issuing entity security trustee, such successor issuing entity security trustee must meet the applicable eligibility requirements under the issuing entity deed of charge, including the requirement that it satisfies the minimum capitalisation and other applicable conditions in regards to trustee eligibility set forth in the United States Investment Company Act of 1940, as amended. If within two months of having given notice of its intention to retire, the issuing entity has failed to appoint a replacement issuing entity security trustee, the issuing entity security trustee will be entitled to appoint its own successor trustee, being a trust corporation.

The noteholders may, by extraordinary resolution of each class thereof, instruct the note trustee to remove the issuing entity security trustee at any time.

In addition, the issuing entity security trustee may, subject to the conditions specified in the issuing entity deed of charge, appoint a co-trustee to act jointly with it.

**Additional provisions of the issuing entity deed of charge**

The issuing entity deed of charge contains a range of provisions regulating the scope of the issuing entity security trustee's duties and liability. These include the following:

- the issuing entity security trustee is not responsible for the execution, delivery, legality, validity, adequacy, admissibility in evidence or enforceability of the issuing entity deed of charge or any other transaction document or the title, ownership, value, sufficiency, enforceability or existence of any property charged by the issuing entity (or the security relating thereto);

- the issuing entity security trustee will not, and will not be bound to, exercise its powers under the issuing entity deed of charge without (for so long as the notes remain outstanding) being directed or requested to do so by the note trustee (and then only to the extent that it is indemnified and/or secured to its satisfaction);

- the issuing entity security trustee may rely (without investigation or further inquiry) on the advice of lawyers, valuers, accountants, surveyors, bankers, brokers, auctioneers or other experts and a certificate or confirmation of the issuing entity, agent bank, any paying agent, any of the rating agencies or any reference bank and shall not be bound in any such case to call for further evidence or be responsible for any loss, liability, costs, damages, expenses or inconveniences that may be occasioned by its failing so to do or the exercise or non-exercise by the issuing entity security trustee of any of its powers, duties and discretions under the transaction documents;

- the issuing entity security trustee is not bound to take steps to ascertain whether a note event of default has occurred and, until it shall have actual written notice to the contrary, shall be entitled to assume that no note event of default has occurred and that the issuing entity is observing and performing all its obligations under the issuing entity deed of charge and the other transaction documents;

- each issuing entity secured creditor must make its own independent appraisal of and investigations into the financial condition, creditworthiness, condition, affairs, status and nature of the issuing entity and shall not at any time have any responsibility for the same and no issuing entity secured creditor shall rely on the issuing entity security trustee in respect thereof;

- the issuing entity security trustee has no liability under or in connection with the issuing entity deed of charge or any other transaction document, whether to an issuing entity secured creditor or otherwise, (1) other than to the extent to which the liability is able to be satisfied in accordance with the issuing entity deed of charge out of the property held by it on trust under the issuing entity deed of charge and (2) it is actually indemnified for the liability. This limitation of liability does not apply to a liability of the issuing entity security trustee to the extent that it is not satisfied because there is a reduction in the extent of the issuing entity security trustee's indemnification as a result of its negligence, default, breach of duty or breach of trust; and

- the issuing entity security trustee and its directors, officers, holding companies and associated companies may enter into any contract, transaction or arrangement with the issuing entity or any of the other parties to the transaction documents as if it were not the issuing entity security trustee and shall be entitled to exercise and enforce its rights, comply with its obligations and perform its duties under such contract, transaction or arrangement without regard to the interests of the issuing entity secured creditors.

The issuing entity security trustee has had no involvement in the preparation of any part of this base prospectus, other than any particular reference to the issuing entity security trustee. The issuing entity security trustee expressly disclaims and takes no responsibility for any other part of this base prospectus. The issuing entity security trustee makes no statement or representation in this base prospectus, has not authorised or caused the issue of any part of it and takes no responsibility for any part of it. The issuing entity security trustee does not guarantee the success of the notes or the payment of principal or interest on the notes.

**Trust Indenture Act prevails**

The issuing entity deed of charge contains a provision that, if any other provision of the issuing entity deed of charge limits, qualifies or conflicts with another provision which is required to be included in the issuing entity deed of charge by, and is not subject to contractual waiver under the US Trust Indenture Act of 1939, as amended, then the required provision of that Act will prevail.

**Governing law**

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

## Cashflows

### Definition of Funding 2 available revenue receipts

**Funding 2 available revenue receipts** for each Funding 2 interest payment date will be calculated by the cash manager on the day falling four business days prior to such Funding 2 interest payment date and will be an amount equal to the sum of:

- all mortgages trust available revenue receipts distributed or to be distributed to Funding 2 during the then current interest period;
- any amounts paid or to be paid by the seller to Funding 2 during the then current interest period in consideration of the seller acquiring a further interest in the trust property (see "**The mortgages trust – Acquisition by seller of an interest relating to capitalised interest**" above);
- other net income of Funding 2 including all amounts of interest received on the Funding 2 GIC account, the Funding 2 collateralised GIC account, the Funding 2 eligible bank GIC account, the Funding 2 transaction account and/or authorised investments and amounts received by Funding 2 under the Funding 2 swap agreement (excluding (without double counting) (i) any early termination amount received by Funding 2 under the Funding 2 swap agreement which is to be applied in acquiring a replacement swap (ii) any amounts payable to the Funding 2 swap provider (other than, after the occurrence of a Funding 2 swap provider default or a Funding 2 swap provider downgrade termination event, any Funding 2 swap excluded termination amount) using any premium recovered from any replacement swap provider, and (iii) any excess swap collateral or swap collateral relating to the Funding 2 swap agreement, except to the extent that the value of such collateral has been applied, pursuant to the provisions of the Funding 2 swap agreement, to reduce the amount that would otherwise be payable by the Funding 2 swap provider to Funding 2 on early termination of a Funding 2 swap and, to the extent so applied in reduction of the amount otherwise payable by the Funding 2 swap provider, such collateral is not to be applied in acquiring a replacement swap (each such excluded amount, to the extent due and payable under the terms of the Funding 2 swap agreement, to be paid directly to the Funding 2 swap provider without regard to the Funding 2 priority of payments and in accordance with the terms of the Funding 2 deed of charge), in each case either received or to be received during the then current interest period;
- the amounts then standing to the credit of the Funding 2 general reserve ledger, except that such amounts shall not be used to pay any amount under items in paragraph (S) and (T) in the Funding 2 pre-enforcement revenue priority of payments, subject to any limits or conditions on the purposes for which the Funding 2 general reserve fund may be utilised;
- any amounts which have been made available from amounts standing to the credit of the Funding 2 yield reserve fund pursuant to paragraph (E) of the Funding 2 yield reserve priority of payments;
- if a liquidity reserve fund rating event has occurred and is continuing, and there are no amounts standing to the credit of the Funding 2 general reserve ledger, the amounts then standing to the credit of the Funding 2 liquidity reserve ledger and available to be drawn, to the extent necessary to pay the items in paragraphs (A) to (D), (F), (H), (J) and (L) in the Funding 2 pre-enforcement revenue priority of payments;
- if a liquidity reserve fund rating event has occurred but is no longer continuing due to an increase in the seller's rating since the preceding Funding 2 interest payment date, and Funding 2 elects to terminate the Funding 2 liquidity reserve fund, all amounts standing to the credit of the Funding 2 liquidity reserve ledger;
- any amounts standing to the credit of the Funding 2 liquidity reserve ledger in excess of the Funding 2 liquidity reserve fund required amount as a result of a reduction in the Funding 2 liquidity reserve fund required amount; and
- any amount standing to the credit of the Funding 2 transaction account to the extent equal to the principal amount advanced to Funding 2 by either the issuing entity by way of start-up

loan tranche or by the Funding 2 start-up loan provider by way of a Funding 2 start-up loan and not required by Funding 2 to meet its costs and expenses, as certified by the cash manager on behalf of Funding 2 to the Funding 2 security trustee.

Funding 2 available revenue receipts does not include:

- any payment made by the seller and/or Funding 1 to Funding 2 on such Funding 2 during the then current interest period interest payment date as described in "**The mortgages trust – Payment by the seller and/or Funding 1 of the amount outstanding under a loan tranche**" above; and

- any proceeds of a new loan tranche or Funding 2 Z loan received by Funding 2 during the then current interest period as described in "**The master intercompany loan agreement – The facility**" above and in **"Credit structure – Funding 2 Z loan agreement"** below and any proceeds of a new Funding 2 intercompany loan received by Funding 2 during the then current interest period as described in "**The master intercompany loan agreement – Other Funding 2 intercompany loan agreements**" above.

Four business days prior to each Funding 2 interest payment date, the cash manager will calculate whether Funding 2 available revenue receipts (as calculated above) will be sufficient to pay items (A) to (D), (F), (H), (J) and (L) of the Funding 2 pre-enforcement revenue priority of payments.

If the cash manager determines that there is an insufficiency, then Funding 2 shall pay or provide for that insufficiency by (a) first, applying amounts then standing to the credit of the Funding 2 principal ledger (if any) and (b) second, applying any amounts standing to the credit of the Funding 2 cash accumulation ledger after first applying the amounts in (a) above (if any), and the cash manager shall make a corresponding entry in the relevant Funding 2 principal deficiency ledger, as described in "**Credit structure – Funding 2 principal deficiency ledger**" below. Funding 2 principal receipts thus applied may not be used to pay interest on any rated loan tranche if and to the extent that would result in a deficiency being recorded, or an existing deficiency being increased, on a principal deficiency sub-ledger relating to a rated loan tranche with a higher rating designation.

If the cash manager determines that there is an excess of Funding 2 available revenue receipts over the amount required to pay the specified items in the Funding 2 pre-enforcement revenue priority of payments, then Funding 2 shall apply such excess to extinguish any balance on the Funding 2 principal deficiency ledger, as described in "**Credit structure – Funding 2 principal deficiency ledger**" below.

**Distribution of Funding 2 available revenue receipts before master intercompany loan acceleration**

This section sets out the priority of payments of Funding 2 available revenue receipts. If Funding 2 enters into new Funding 2 intercompany loan agreements, then this priority will change. See "**Risk factors – The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**", "**Security for Funding 2's obligations**" and "**Security for the issuing entity's obligations**".

Except for amounts due to third parties (other than parties to the transaction documents) by the issuing entity and/or Funding 2 under item (A) below or amounts due to the account bank and/or the issuing entity account bank on each Funding 2 interest payment date prior to the service of a master intercompany loan acceleration notice on Funding 2, the cash manager will apply (i) the Funding 2 available revenue receipts for such date and (ii) if Funding 2 available revenue receipts for such date are insufficient to pay items (A) to (D), (F), (H), (J), and (L) below amounts standing to the credit of the Funding 2 principal ledger and the Funding 2 cash accumulation ledger (in the manner described above), in the following priority (the **Funding 2 pre-enforcement revenue priority of payments**):

(A) without priority among them but in proportion to the respective amounts due, to pay amounts due to:

- the Funding 2 security trustee (together with interest and any amount in respect of VAT on those amounts) and to provide for any amounts due or to become due in the immediately following interest period to the Funding 2 security trustee under the Funding 2 deed of charge;

- to pay amounts due to the issuing entity, by way of payment of the senior fee, in respect of the issuing entity's obligations specified in items (A) to (C) inclusive of the

issuing entity pre-enforcement revenue priority of payments or, as the case may be, items (A) and (B) of the issuing entity post-enforcement priority of payments, as described in "**– Distribution of issuing entity revenue receipts before note acceleration**" below and "**– Distribution of issuing entity principal receipts and issuing entity revenue receipts following note acceleration and master intercompany loan acceleration**" below; and

- any third party creditors of Funding 2 (other than those referred to later in this priority of payments), which amounts have been incurred without breach by Funding 2 of the transaction documents to which it is a party and to provide for any of these amounts expected to become due and payable in the immediately following interest period by Funding 2 and to pay or discharge any liability of Funding 2 for corporation tax on any chargeable income or gain of Funding 2, other than corporation tax in respect of Funding 2's profit that can be met out of amounts paid under item (V) below;

(B) without priority among them but in proportion to the respective amounts due, towards payment of amounts, if any, due and payable by Funding 2 to:

- the account bank under the terms of the bank account agreement;
- the eligible GIC custodian under the terms of the relevant eligible custody agreement;
- the agent account bank under the terms of the relevant bank account agreement;
- the cash manager under the terms of the cash management agreement; and
- the corporate services provider under the terms of the corporate services agreement and the post-enforcement call option holder corporate services agreement;

(C) towards payment of all amounts (if any) due and payable to the Funding 2 swap provider under the Funding 2 swap agreement (including termination payments, but excluding any Funding 2 swap excluded termination amount);

(D) without priority among them, but in proportion to the respective amounts due, towards payment of:

- interest due and payable on the AAA loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches); and
- the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve AAA loan tranches;

(E) towards a credit to the AAA principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;

(F) without priority among them, but in proportion to the respective amounts due, towards payment of:

- interest due and payable on the AA loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches); and
- the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve AA loan tranches;

(G) towards a credit to the AA principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;

(H) without priority among them, but in proportion to the respective amounts due, towards payment of:

- interest due and payable on the A loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches); and

- the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve A loan tranches;

(I) towards a credit to the A principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;

(J) without priority among them, but in proportion to the respective amounts due, towards payment of:

- interest due and payable on the BBB loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches); and
- the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve BBB loan tranches;

(K) towards a credit to the BBB principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;

(L) without priority among them, but in proportion to the respective amounts due, towards payment of:

- interest due and payable on the BB loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches); and
- the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve BB loan tranches;

(M) towards a credit to the BB principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;

(N) by way of payment of the senior fee, towards payment of any amounts due to the issuing entity in respect of its obligations (if any) to make a termination payment to an issuing entity swap provider (but excluding any issuing entity swap excluded termination amount);

(O) towards a credit to the Funding 2 general reserve ledger to the extent the amount standing to the credit thereof is less than the Funding 2 reserve required amount, taking into account any net replenishment of the Funding 2 general reserve fund on that Funding 2 interest payment date from Funding 2 available principal receipts (see item (A) of the relevant Funding 2 pre-enforcement principal priority of payments);

(P) if a liquidity reserve fund rating event has occurred and is continuing, towards a credit to the Funding 2 liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the Funding 2 liquidity reserve fund required amount, taking into account any net replenishment of the Funding 2 liquidity reserve fund on that Funding 2 interest payment date from Funding 2 available principal receipts (see item (B) of the relevant Funding 2 pre-enforcement principal priority of payments);

(Q) without priority among them, but in proportion to the respective amounts due, towards payment of interest due and payable on the subordinated loan tranches;

(R) towards a credit to the subordinated loan principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;

(S) towards a credit to the Funding 2 Z loan principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;

(T) without priority among them but in proportion to the respective amounts due, towards payment of interest, capitalised interest and fees due and payable on the Funding 2 Z loans;

(U) without priority among them but in proportion to the respective amounts due, to pay (without double counting):

- after the occurrence of a Funding 2 swap provider default or a Funding 2 swap provider downgrade termination event, any Funding 2 swap excluded termination amount;

- by way of payment of the senior fee, to the issuing entity in respect of its obligations (if any) to pay any issuing entity swap excluded termination amount; and
- by way of payment of the senior fee, any other amounts due to the issuing entity under the master intercompany loan agreement and not otherwise provided for in this priority of payments;

(V) towards payment to Funding 2 of an amount equal to the sum of £5,000 per annum;

(W) towards payments of amounts due to the Funding 2 start-up loan provider under any Funding 2 start-up loan made by the Funding 2 start-up loan provider to fund the Funding 2 yield reserve fund;

(X) without priority among them but in proportion to the respective amounts due, towards:

- payments of amounts due on the issuing entity start-up loan tranches; and
- payment of amounts due to the Funding 2 start-up loan provider under each Funding 2 start-up loan agreement;

(Y) towards payment to the seller of any deferred consideration due to the seller pursuant to the terms of the mortgage sale agreement (the **deferred consideration**); and

(Z) the balance (if any) to Funding 2.

**Definition of issuing entity revenue receipts**

**Issuing entity revenue receipts** will be calculated by the issuing entity cash manager four business days prior to each quarterly interest payment date and will be an amount equal to the sum of:

- interest to be paid by Funding 2 on the relevant Funding 2 interest payment date in respect of the loan tranches under the master intercompany loan agreement;
- principal to be repaid by Funding 2 on the relevant Funding 2 interest payment date in respect of the issuing entity start-up loan tranches under the master intercompany loan agreement;
- fees to be paid to the issuing entity by Funding 2 on the relevant Funding 2 interest payment date under the terms of the master intercompany loan agreement;
- interest payable on the issuing entity bank accounts and any authorised investments and which will be received on or before the relevant quarterly interest payment date;
- other net income of the issuing entity including amounts received or to be received under the issuing entity swap agreements on or before the relevant quarterly interest payment date (including any amounts received by the issuing entity in consideration for entering into a replacement issuing entity swap agreement, but excluding (i) the return or transfer of any excess swap collateral as set out under any of the issuing entity swap agreements and (ii) in respect of each issuing entity swap provider, prior to the designation of an early termination date under the relevant issuing entity swap agreement and the resulting application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by such issuing entity swap provider to the issuing entity pursuant to the relevant issuing entity swap agreement (and any interest or distributions in respect thereof)); and
- any additional amount the issuing entity receives from any taxing authority on account of amounts paid to that taxing authority for and on account of tax by an issuing entity swap provider under an issuing entity swap agreement.

On each Funding 2 interest payment date, all Funding 2 available revenue receipts received by the issuing entity in respect of interest paid on a loan tranche and any payment due by the issuing entity to an issuing entity swap provider in relation to the corresponding class of notes will be credited to a sub-ledger (in respect of the related series and class of notes) on the **issuing entity revenue ledger** (being, the ledger on which the issuing entity cash manager records issuing entity revenue receipts received and paid out of the issuing entity).

On each Funding 2 interest payment date, all Funding 2 available revenue receipts received by or to the order of the issuing entity in respect of principal repaid on a start-up loan tranche will be credited to a sub-ledger (in respect of the related issuing entity start-up loan) on the issuing entity revenue ledger.

**Distribution of issuing entity revenue receipts before note acceleration**

Prior to the occurrence of a pass-through trigger event, the issuing entity cash manager (on behalf of the issuing entity) shall on each monthly interest payment date apply amounts received by the issuing entity from any relevant issuing entity swap provider in respect of any issuing entity swap relating to any money market notes to pay interest due on those money market notes.

In addition, the issuing entity cash management agreement sets out the priority of distribution by the issuing entity cash manager, prior to the service of a note acceleration notice on the issuing entity, of amounts received by the issuing entity on each quarterly interest payment date. The order of priority will be as described in this section as supplemented by the final terms or drawdown prospectus related to each series.

Except for amounts due to third parties by the issuing entity under item (B) below, amounts due to the issuing entity account bank under item (C) below, amounts payable to any replacement swap provider using any termination payment received by the issuing entity in respect of the corresponding issuing entity swap agreement or amounts payable to an issuing entity swap provider (other than amounts pursuant to item (J) below) using any premium recovered from any replacement swap provider, which will be paid when due, the issuing entity cash manager will apply on each quarterly interest payment date prior to the service of a note acceleration notice on the issuing entity or until such time as there are no issuing entity secured liabilities outstanding, issuing entity revenue receipts in the following priority (the **issuing entity pre-enforcement revenue priority of payments**):

(A) without priority among them, but in proportion to the respective amounts due, to pay amounts due to:

- the issuing entity security trustee, together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due during the following interest period to the issuing entity security trustee under the issuing entity deed of charge;
- the note trustee, together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due during the following interest period to the note trustee under the issuing entity trust deed; and
- the agent bank, the paying agents, the registrar and the transfer agent, together with interest and any amount in respect of VAT on those amounts, and any costs, charges, liabilities and expenses then due or to become due during the following interest period to the agent bank, the registrar, the transfer agent and the paying agents under the issuing entity paying agent and agent bank agreement;

(B) to pay amounts due to any third party creditors of the issuing entity (other than those referred to later in this priority of payments), which amounts have been incurred without breach by the issuing entity of the transaction documents to which it is a party and for which payment has not been provided for elsewhere and to provide for any of those amounts expected to become due and payable during the following interest period by the issuing entity and to pay or discharge any liability of the issuing entity for corporation tax on any chargeable income or gain of the issuing entity;

(C) without priority among them, but in proportion to the respective amounts due, to pay amounts due to:

- the issuing entity cash manager, together with any amount in respect of VAT on those amounts, and to provide for any amounts due, or to become due to the issuing entity cash manager in the immediately succeeding interest period, under the issuing entity cash management agreement;
- the issuing entity corporate services provider, together with VAT on those amounts, and to provide for any amounts due, or to become due to the corporate service

provider in the immediately succeeding interest period, under the issuing entity corporate services agreement; and

- the issuing entity account bank, together with VAT on those amounts, and to provide for any amounts due, or to become due to the issuing entity account bank in the immediately succeeding interest period, under the issuing entity bank account agreement;

(D) from amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each AAA loan tranche (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuing entity swap provider(s) under the issuing entity swap agreement(s) in respect of the related series and class of notes):

(i) to pay the amounts due and payable to the relevant issuing entity swap provider(s) (if any) in respect of the related series and class of class A notes (including any termination payment, but excluding any issuing entity swap excluded termination amount) in accordance with the terms of the relevant issuing entity swap agreement; and

(ii) to pay interest due and payable (if any) on the related series and class of class A notes on such interest payment date;

(E) from amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each AA loan tranche (and, in respect of (ii) above, the amounts (if any), excluding principal, received from the issuing entity swap provider(s) under the issuing entity swap agreement(s) in respect of the related series and class of notes):

(i) to pay the amounts due and payable to the relevant issuing entity swap provider(s) (if any) in respect of the related series and class of class B notes (including any termination payment, but excluding any issuing entity swap excluded termination amount) in accordance with the terms of the relevant issuing entity swap agreement; and

(ii) to pay interest due and payable (if any) on the related series and class of class B notes on such interest payment date;

(F) from amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each A loan tranche (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuing entity swap provider(s) under the issuing entity swap agreement(s) in respect of the related series and class of notes):

(i) to pay the amounts due and payable to the relevant issuing entity swap provider(s) (if any) in respect of the related series and class of class M notes (including any termination payment, but excluding any issuing entity swap excluded termination amount) in accordance with the terms of the relevant issuing entity swap agreement; and

(ii) to pay interest due and payable (if any) on the related series and class of class M notes on such interest payment date;

(G) from amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each BBB loan tranche (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuing entity swap provider(s) under the issuing entity swap agreement(s) in respect of the related series and class of notes):

(i) to pay the amounts due and payable to the relevant issuing entity swap provider(s) (if any) in respect of the related series and class of class C notes (including any termination payment, but excluding any issuing entity swap excluded termination amount) in accordance with the terms of the relevant issuing entity swap agreement; and

(ii) to pay interest due and payable (if any) on the related series and class of class C notes on such interest payment date;

(H) from amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each BB loan tranche (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuing entity swap provider(s) under the issuing entity swap agreement(s) in respect of the related series and class of notes):

(i) to pay the amounts due and payable to the relevant issuing entity swap provider(s) (if any) in respect of the related series and class of class D notes (including any termination payment, but excluding any issuing entity swap excluded termination amount) in accordance with the terms of the relevant issuing entity swap agreement; and

(ii) to pay interest due and payable (if any) on the related series and class of class D notes on such interest payment date;

(I) from amounts (excluding principal) received by the issuing entity from Funding 2 in respect of each subordinated loan tranche, to pay interest due and payable (if any) on the related issuing entity subordinated loan on such quarterly interest payment date;

(J) without priority among them but in proportion to the respective amounts due, to pay any issuing entity swap excluded termination payment due to an issuing entity swap provider;

(K) from amounts received by the issuing entity from Funding 2 in respect of each start-up loan tranche, to pay all amounts due and payable (if any) on the related issuing entity start-up loan on such quarterly interest payment date; and

(L) the balance (if any) to the issuing entity.

Prior to the service of a note acceleration notice on the issuing entity, on each quarterly interest payment date, the amounts standing to the credit of any sub-ledger of the issuing entity revenue ledger in respect of amounts (excluding principal) on an issuing entity start-up loan may only be applied by the issuing entity cash manager to pay interest, capitalised interest and other amounts due (except for principal) in respect of such issuing entity start-up loan and the amounts standing to the credit of any sub-ledger of the issuing entity revenue ledger in respect of principal of an issuing entity start-up loan may only be applied by the issuing entity cash manager to repay principal due in respect of such issuing entity start-up loan.

**Distribution of issuing entity revenue receipts after note acceleration but before master intercompany loan acceleration**

Following the service of a note acceleration notice on the issuing entity, but prior to the service of a master intercompany loan acceleration notice on Funding 2, the issuing entity security trustee will apply all amounts received or recovered in respect of issuing entity revenue receipts in the same priority as set out in the issuing entity pre-enforcement revenue priority of payments, except that:

- in addition to the amounts due to the issuing entity security trustee under item (A) of the issuing entity pre-enforcement revenue priority of payments, issuing entity revenue receipts will be applied to pay amounts due to any receiver appointed by the issuing entity security trustee together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due to the receiver during the following interest period; and

- the issuing entity security trustee will not be required to pay amounts due to any entity which is not an issuing entity secured creditor.

**Distribution of Funding 2 available principal receipts**

*Payment of principal receipts to Funding 2 by the mortgages trustee*

On each distribution date mortgages trust available principal receipts will be paid to Funding 2 in the manner and to the extent provided by the mortgages trust principal priority of payments (see "**The mortgages trust – Mortgages trust calculation of principal receipts**" above) and shall be deposited in the Funding 2 GIC account, the Funding 2 eligible bank GIC account or (to the extent such amounts constitute Funding 2 deposit non-reserved amounts) the Funding 2 collateralised GIC account and credited by the cash manager to the **Funding 2 principal ledger** (being a ledger maintained by the cash manager for Funding 2 to record the amount of principal receipts received by Funding 2 from the mortgages trustee).

*Definition of Funding 2 available principal receipts*

**Funding 2 available principal receipts** will be calculated by the cash manager on the day falling four business days prior to each Funding 2 interest payment date and will be an amount equal to the sum of:

- all mortgages trust available principal receipts received by Funding 2 during the then current interest period;

- all other Funding 2 principal receipts standing to the credit of the Funding 2 cash accumulation ledger which are to be applied on the next Funding 2 interest payment date to repay a bullet loan tranche and/or, subject to Rule (1) below, a scheduled amortisation instalment in respect of a scheduled amortisation loan tranche, or to make a payment under items (A) or (B) of the Funding 2 pre-enforcement principal priority of payments and, if such Funding 2 interest payment date occurs on or after a trigger event, the remainder of such receipts standing to the credit of the Funding 2 cash accumulation ledger;

- the amount, if any, to be credited to the Funding 2 principal deficiency ledger pursuant to the Funding 2 pre-enforcement revenue priority of payments on the relevant Funding 2 interest payment date;

- in so far as available for and needed to make a Funding 2 reserve principal payment (see "**Credit structure – Funding 2 general reserve fund**" below), the amount that would then be standing to the credit of the Funding 2 general reserve ledger, less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in items (A) to (M) (inclusive) of the Funding 2 pre-enforcement revenue priority of payments, plus any amounts which will be credited to the Funding 2 general reserve ledger under item (A) of the relevant Funding 2 pre-enforcement principal priority of payments on the next Funding 2 interest payment date (i.e. occurring at the end of such period of four business days);

- in so far as available for and needed to make a Funding 2 reserve principal payment (see "**Credit structure – Funding 2 liquidity reserve fund**" below), the amount that would then be standing to the credit of the Funding 2 liquidity reserve ledger, but less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in items (A) to (D) (inclusive) and (F), (H), (J) and (L) of the Funding 2 pre-enforcement revenue priority of payments plus any amounts which will be credited to the liquidity reserve ledger under item (B) of the relevant Funding 2 pre-enforcement principal priority of payments on the next Funding 2 interest payment date (i.e. occurring at the end of such period of four business days); and

- any other amount standing to the credit of the Funding 2 principal ledger (without double-counting the amounts described above);

less

- amounts to be applied on the relevant Funding 2 interest payment date to pay items (A) to (D) (inclusive) and (F), (H), (J) and (L) of the Funding 2 pre-enforcement revenue priority of payments.

*Due and payable dates of loan tranches*

The repayment of any loan tranche prior to the occurrence of a trigger event, service of a note acceleration notice or service of a master intercompany loan acceleration notice will be made in accordance with the terms of the master intercompany loan agreement. The accompanying final terms or drawdown prospectus will specify the Funding 2 interest payment dates of the loan tranches related to the series and classes of notes issued and/or the issuing entity subordinated loan and/or the issuing entity start-up loan made to the issuing entity.

The following sections set out various priorities of payments for Funding 2 available principal receipts under the following circumstances, and are collectively referred to as the **Funding 2 pre-enforcement principal priority of payments**:

- repayment of loan tranches (other than start-up loan tranches) and Funding 2 Z loans before a trigger event and before the service of a master intercompany loan acceleration notice or a note acceleration notice;

- repayment of loan tranches (other than start-up loan tranches) and Funding 2 Z loans after a non-asset trigger event but before the service of a master intercompany loan acceleration notice or a note acceleration notice;

- repayment of loan tranches (other than start-up loan tranches) and Funding 2 Z loans after an asset trigger event but before the service of a master intercompany loan acceleration notice or a note acceleration notice; and
- repayment of loan tranches (other than start-up loan tranches) and Funding 2 Z loans after the service of a note acceleration notice but before the service of a master intercompany loan acceleration notice.

*Repayment of loan tranches (other start-up loan tranches) and Funding 2 Z loans before a trigger event and before the service of a master intercompany loan acceleration notice or note acceleration notice*

On each Funding 2 interest payment date prior to the occurrence of a trigger event or the service on Funding 2 of a master intercompany loan acceleration notice or the service on the issuing entity of a note acceleration notice, the cash manager shall apply Funding 2 available principal receipts in the following priority:

(A) to the extent only that monies have been drawn from the Funding 2 general reserve fund to make Funding 2 reserve principal payments, towards a credit to the Funding 2 general reserve ledger to the extent the amount standing to the credit thereof is less than the Funding 2 reserve required amount;

(B) if a liquidity reserve fund rating event has occurred and is continuing, (i) to the extent only that monies have been drawn from the Funding 2 liquidity reserve fund in order to make Funding 2 reserve principal payments or (ii) to the extent that the Funding 2 liquidity reserve fund has not been fully funded and Funding 2 available revenue receipts on such Funding 2 interest payment date are insufficient to do so, towards a credit to the Funding 2 liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the Funding 2 liquidity reserve fund required amount;

(C) in order of their final repayment dates, beginning with the earliest such date (and, if two or more AAA loan tranches have the same final repayment date, in proportion to the respective amounts due) to repay the principal amounts due (if any) on such Funding 2 interest payment date on the AAA loan tranches, in each case subject to Rules )١ (and )٢ (below;

(D) in no order of priority among them, but in proportion to the respective amounts due, to repay the principal amounts due (if any) on such Funding 2 interest payment date on the AA loan tranches, in each case subject to Rules )١ (and )٢ (below;

(E) in no order of priority among them, but in proportion to the respective amounts due, to repay the principal amounts due (if any) on such Funding 2 interest payment date on the A rated loan tranches, in each case subject to Rules )١ (and )٢ (below;

(F) in no order of priority among them, but in proportion to the respective amounts due, to repay the principal amounts due (if any) on such Funding 2 interest payment date on the BBB loan tranches, in each case subject to Rules )١ (and )٢ (below;

(G) in no order of priority among them, but in proportion to the respective amounts due, to repay the principal amounts due (if any) on such Funding 2 interest payment date on the BB loan tranches, in each case subject to Rules )١ (and )٢ (below;

(H) towards a credit to the Funding 2 cash accumulation ledger until the balance is equal to Funding 2's cash accumulation liability (as calculated after any payments are made at item (C) of this priority of payments);

(I) in no order of priority among them, but in proportion to the respective amounts due, to repay the principal amounts due (if any) on such Funding 2 interest payment date on the subordinated loan tranches, in each case subject to Rule (1) below;

(J) provided that: (a) there is no debit balance on the Funding 2 Z loan principal deficiency sub-ledger, after application of the Funding 2 available revenue receipts on that Funding 2 interest payment date and (b) the repayment restrictions under Rule (2) are not in effect in respect of a rated loan tranche, then in no order of priority among them, to repay the principal amounts due (if any) on such Funding 2 interest payment date in respect of the Funding 2 Z loans in an amount required (if any) to reduce the principal amount outstanding under the Funding 2 Z loans to the Funding 2 Z loan required amount, in each case subject to Rule (1) below;

(K) following the repayment in full of all amounts of interest and principal outstanding under the loan tranches (other than the start-up loan tranches), in no order of priority among them, to repay the principal amounts due (if any) on such Funding 2 interest payment date in respect of the Funding 2 Z loans; and

(L) the remainder to be credited to the Funding 2 principal ledger.

In the applicable circumstances, the following Rules apply in determining the amounts to be paid under items (C), (D), (E), (F), (G), (I) and (J) of the priority of payments set out above and below:

*Rule (1) – Repayment deferrals*

(A) If on a Funding 2 interest payment date:

(1) there is a debit balance on the BB principal deficiency sub-ledger, the BBB principal deficiency sub-ledger, the A principal deficiency sub-ledger or the AA principal deficiency sub-ledger, after application of the Funding 2 available revenue receipts on that Funding 2 interest payment date; or

(2) the adjusted Funding 2 general reserve fund level is less than the Funding 2 general reserve fund threshold; or

(3) the aggregate outstanding principal balance of loans in the mortgages trust, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is more than 5 per cent. of the aggregate outstanding principal balance of loans in the mortgages trust,

then until the relevant circumstance as described in sub-paragraphs (1), (2) or (3) above has been cured or otherwise ceases to exist, if:

(a) any AAA loan tranche (whether or not such AAA loan tranche is then due and payable) remains outstanding after making the payments under item (C) of the above priority of payments, then the AA loan tranches will not be entitled to principal repayments under item (D) of the above priority of payments;

(b) any AAA loan tranche or any AA loan tranche (whether or not such AAA loan tranche or AA loan tranche is then due and payable) remains outstanding after making the payments under items (C) and/or (D) of the above priority of payments, then the A loan tranches will not be entitled to principal repayments under item (E) of the priority of payments set out above;

(c) any AAA loan tranche, any AA loan tranche or any A loan tranche (whether or not such AAA loan tranche, AA loan tranche or A loan tranche is then due and payable) remains outstanding after making the payments under items (C), (D) and/or (E) of the above priority of payments, then the BBB loan tranches will not be entitled to principal repayments under item (F) of the priority of payments set out above;

(d) any AAA loan tranche, any AA loan tranche, any A loan tranche or any BBB loan tranche (whether or not such AAA loan tranche, AA loan tranche, A loan tranche or BBB loan tranche is then due and payable) remains outstanding after making the payments under items (C), (D), (E) and/or (F) of the above priority of payments, then the BB loan tranches will not be entitled to principal repayments under item (G) of the priority of payments set out above;

(e) any AAA loan tranche, any AA loan tranche, any BBB loan tranche or any BB loan tranche (whether or not such AAA loan tranche, AA loan tranche, BBB loan tranche or BB loan tranche is then due and payable) remains outstanding after making the payments under items (C), (D), (E), (F) and/or (G) of the above priority of payments, then the subordinated loan tranches will not be entitled to principal repayments under item (I) of the above priority of payments; and/or

(f) any AAA loan tranche, any AA loan tranche, any BBB loan tranche, any BB loan tranche or any subordinated loan tranche (whether or not such AAA loan tranche, AA loan tranche, BBB loan tranche, BB loan tranche or subordinated loan tranche is

then due and payable) remains outstanding after making the payments under items (C), (D), (E), (F), (G) or (I) of the above priority of payments, then the Funding 2 Z loans will not be entitled to principal repayments under item (J) of the priority of payments set out above.

(B) If on a Funding 2 interest payment date:

(1) one or more bullet loan tranches are within a cash accumulation period at that time; and

(2) either:

(a) the quarterly CPR is less than 10 per cent.; or

(b) both:

(i) the quarterly CPR is equal to or greater than 10 per cent., but less than 15 per cent.; and

(ii) the annualised CPR is less than 10 per cent.,

then, on or before their step-up dates, the scheduled amortisation loan tranches will be entitled to principal repayments under items (C), (D), (E), (F) and (G) of the priority of payments set out above only to the extent permitted under the scheduled amortisation repayment restrictions (as defined below).

(C) If on a Funding 2 interest payment date:

(1) one or more bullet loan tranches and/or scheduled amortisation instalments are within a cash accumulation period at that time;

(2) the quarterly CPR is less than 15 per cent.; and

(3) there is a cash accumulation shortfall at that time,

then, on or before their step-up dates, the original pass-through loan tranches, the subordinated loan tranches and the Funding 2 Z loans will be entitled to principal repayments under items (C), (D), (E), (F), (G), (I) and (J) of the priority of payments above only to the extent permitted under the pass-through repayment restrictions (as defined below).

In this base prospectus:

**annualised CPR** means the result of:

$$1 - ((1 - \mathrm{M})\text{^}12)$$

where

**M** is expressed as a percentage and determined as at the most recent normal calculation date as indicated in the definition of **anticipated cash accumulation period** (see "**The mortgages trust – Cash management of trust property – distribution of principal receipts to Funding 2**" above);

**bullet accumulation liability** means, on any Funding 2 interest payment date prior to any payment under item (C) of the above priority of payments, the aggregate of each relevant accumulation amount at that time of each bullet loan tranche which is within a cash accumulation period;

**bullet accumulation shortfall** means, at any time, the amount that the cash accumulation ledger amount is less than the bullet accumulation liability;

**cash accumulation liability** means, on any Funding 2 interest payment date prior to any payment under item (C) of the above priority of payments, the sum of:

(1) the bullet accumulation liability at that time; and

(2) the aggregate of each relevant accumulation amount at that time of each scheduled amortisation instalment which is within a cash accumulation period;

**cash accumulation shortfall** means, at any time, the amount that the cash accumulation ledger amount is less than the cash accumulation liability;

**cash accumulation ledger amount** means, at any time, the amount standing to the credit of the Funding 2 cash accumulation ledger at that time (immediately prior to any drawing to be applied on that Funding 2 interest payment date and prior to any payment under item (H) of the above Funding 2 pre-enforcement principal priority of payments);

**pass-through repayment restrictions** means, at any time on a Funding 2 interest payment date, no amount may be applied in repayment of any original pass-through loan tranche, subordinated loan tranche or Funding 2 Z loan respectively unless:

(1) the sum of the cash accumulation ledger amount and the amount of Funding 2 available principal receipts after the application of items (A), (B), (C) and before item (D) of the above Funding 2 pre-enforcement principal priority of payments,

is greater than or equal to:

(2) the sum of the cash accumulation liability and the aggregate amount of all original pass-through loan tranches which are due and payable as at that time;

**scheduled amortisation repayment restrictions** means, at any time on a Funding 2 interest payment date:

(1) where there is not a bullet accumulation shortfall at that time, the total amount withdrawn from the Funding 2 cash accumulation ledger on that Funding 2 interest payment date for repayment of the relevant scheduled amortisation instalments shall not exceed the cash accumulation ledger amount less the bullet accumulation liability at that time; and

(2) where there is a bullet accumulation shortfall at that time:

(a) no amount may be withdrawn from the Funding 2 cash accumulation ledger on that Funding 2 interest payment date to be applied in repayment of the relevant scheduled amortisation instalments; and

(b) no amount may be applied in repayment of the relevant scheduled amortisation instalments unless:

(i) the sum of the cash accumulation ledger amount and the amount of Funding 2 available principal receipts after the application of items (A), (B) and (C) of the above Funding 2 pre-enforcement principal priority of payments, is greater than or equal to

(ii) the sum of the bullet accumulation liability and the aggregate amount of scheduled amortisation instalments which are due and payable as at that time; and

**relevant accumulation amount** means the amount of funds to be accumulated over a cash accumulation period in order to repay a bullet loan tranche or a scheduled amortisation instalment on its scheduled repayment date whether or not actually repaid on that scheduled repayment date.

*Rule (2) – Repayment of payable pass-through loan tranches after a step-up date*

Following the occurrence of the step-up date under rated loan tranches corresponding to a particular issuance of notes (the **series A rated loan tranches**) and provided that the Funding 2 share of the trust property is greater than zero, the aggregate amount repaid on a Funding 2 interest payment date in relation to rated loan tranches (other than bullet loan tranches or scheduled amortisation instalments) comprising those series A rated loan tranches under items (C), (D), (E), (F) and (G) of the priority of payments set out above shall be limited to an amount calculated as follows:

$$\text{Funding 2 Principal funds} \times \frac{\text{Outstanding principal balance of series A rated loan tranches}}{\text{Aggregate outstanding principal balance of all rated loan tranches}}$$

where **Funding 2 principal funds** means in respect of any Funding 2 interest payment date the sum of:

(A) the aggregate of the following amount for each calculation period which has ended in the period from the previous Funding 2 interest payment date to the most recent normal calculation date, such amount being the product of:

(1) the Funding 2 share percentage as calculated at the start of the relevant calculation period; and

(2) the aggregate amount of principal receipts received by the mortgages trustee in the relevant calculation period;

(B) the amount credited to the Funding 2 principal deficiency ledger on the relevant Funding 2 interest payment date; and

(C) the amount, if any, credited to the Funding 2 principal ledger pursuant to item (I) of the above Funding 2 pre-enforcement principal priority of payments on the immediately preceding Funding 2 interest payment date.

***Allocations involving Rule (2)***

Where Rule (2) applies at a level of any priority of payments, the funds available for making payments at that level shall first be allocated without reference to Rule (2). However, if the amount so allocated to one or more loan tranches exceeds the amount permitted under Rule (2) to be paid in respect of those loan tranches (the **capped loan tranches**), the excess shall then be reallocated among any other relevant loan tranches at that level using the method of allocation as applies at that level but without reference to the capped loan tranches in calculating such reallocation. If a further such excess arises as a result of the reallocation process, the reallocation process shall be repeated at that level in relation to each such further excess that arises until no further funds can be allocated at that level following which the remaining excess shall then be applied at the next level of that priority of payments.

Rules (1) and (2) above are referred to in this base prospectus as the "**repayment tests**".

*Repayment of loan tranches (other than start-up loan tranches) and Funding 2 Z loans after a non-asset trigger event but before the service of a master intercompany loan acceleration notice or note acceleration notice*

Following the occurrence of a non-asset trigger event (where no asset trigger event has occurred) under the mortgages trust deed but prior to the service on Funding 2 of a master intercompany loan acceleration notice or the service on the issuing entity of a note acceleration notice, the bullet loan tranches and the scheduled amortisation loan tranches will be deemed to be pass-through loan tranches and on each Funding 2 interest payment date Funding 2 will be required to apply Funding 2 available principal receipts in the following priority:

(A) to the extent only that monies have been drawn from the Funding 2 general reserve fund to make Funding 2 reserve principal payments, towards a credit to the Funding 2 general reserve ledger to the extent that the amount standing to the credit thereof is less than the Funding 2 reserve required amount;

(B) if a liquidity reserve fund rating event has occurred and is continuing, (i) to the extent only that monies have been drawn from the Funding 2 liquidity reserve fund in order to make Funding 2 reserve principal payments or (ii) to the extent that the Funding 2 liquidity reserve fund has not been fully funded, towards a credit to the Funding 2 liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the Funding 2 liquidity reserve fund required amount;

(C) in order of their final repayment dates, beginning with the earliest such date (and if two or more AAA loan tranches have the same final repayment date, in proportion to the respective amounts due) to repay the AAA loan tranches until the AAA loan tranches are fully repaid;

(D) in order of their final repayment dates, beginning with the earliest such date (and if two or more AA loan tranches have the same final repayment date, in proportion to the respective amounts due) to repay the AA loan tranches until the AA loan tranches are fully repaid;

(E) in order of their final repayment dates, beginning with the earliest such date (and if two or more A loan tranches have the same final repayment date, in proportion to the respective amounts due) to repay the A loan tranches until the A loan tranches are fully repaid;

(F) in order of their final repayment dates, beginning with the earliest such date (and if two or more BBB loan tranches have the same final repayment date, in proportion to the respective amounts due) to repay the BBB loan tranches until the BBB loan tranches are fully repaid;

(G) in order of their final repayment dates, beginning with the earliest such date (and if two or more BB loan tranches have the same final repayment date, in proportion to the respective amounts due) to repay the BB loan tranches until the BB loan tranches are fully repaid;

(H) in order of their final repayment dates, beginning with the earliest such date (and if two or more subordinated loan tranches have the same final repayment date, in proportion to the respective amounts due) to repay the subordinated loan tranches until the subordinated loan tranches are fully repaid; and

(I) in no order of priority among them, but in proportion to the respective amounts outstanding, to repay the Funding 2 Z loans until the Funding 2 Z loans are fully repaid.

*Repayment of loan tranches (other than start-up loan tranches) and Funding 2 Z loans after an asset trigger event but before service of a master intercompany loan acceleration notice or note acceleration notice*

Following the occurrence of an asset trigger event (whether or not a non-asset trigger event occurs or has occurred) but prior to the service on Funding 2 of a master intercompany loan acceleration notice or the service on the issuing entity of a note acceleration notice, the bullet loan tranches and the scheduled amortisation loan tranches will be deemed to be pass-through loan tranches and on each Funding 2 interest payment date Funding 2 will be required to apply Funding 2 available principal receipts in the following order of priority:

(A) to the extent only that monies have been drawn from the Funding 2 general reserve fund to make Funding 2 reserve principal payments, towards a credit to the Funding 2 general reserve ledger to the extent that the amount standing to the credit thereof is less than the Funding 2 reserve required amount;

(B) if a liquidity reserve fund rating event has occurred and is continuing, (i) to the extent only that monies have been drawn from the Funding 2 liquidity reserve fund in order to make Funding 2 reserve principal payments or (ii) to the extent that the Funding 2 liquidity reserve fund has not been fully funded, towards a credit to the Funding 2 liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the Funding 2 liquidity reserve fund required amount;

(C) without priority among them, but in proportion to the amounts due, to repay the AAA loan tranches until the AAA loan tranches are fully repaid;

(D) without priority among them, but in proportion to the amounts due, to repay the AA loan tranches until the AA loan tranches are fully repaid;

(E) without priority among them, but in proportion to the amounts due, to repay the A loan tranches until the A loan tranches are fully repaid;

(F) without priority among them, but in proportion to the amounts due, to repay the BBB loan tranches until the BBB loan tranches are fully repaid;

(G) without priority among them, but in proportion to the amounts due, to repay the BB loan tranches until the BB loan tranches are fully repaid;

(H) without priority among them, but in proportion to the amounts due, to repay the subordinated loan tranches until the subordinated loan tranches are fully repaid; and

(I) in no order of priority among them, but in proportion to the respective amounts outstanding, to repay the Funding 2 Z loans until the Funding 2 Z loans are fully repaid.

*Repayment of loan tranches (other than start-up loan tranches) and Funding 2 Z loans after acceleration of all notes but before master intercompany loan acceleration notice*

If a note acceleration notice is served on the issuing entity, then that will not result in automatic enforcement of the Funding 2 security under the Funding 2 deed of charge. In those circumstances, however, the bullet loan tranches and any scheduled amortisation loan tranches will be deemed to be pass-through loan tranches and on each Funding 2 interest payment date Funding 2 will be required to apply Funding 2 available principal receipts in the following order of priority:

(A) to the extent only that monies have been drawn from the Funding 2 general reserve fund to make Funding 2 reserve principal payments, towards a credit to the Funding 2 general

reserve ledger to the extent that the amount standing to the credit thereof is less than the Funding 2 reserve required amount;

(B) if a liquidity reserve fund rating event has occurred and is continuing, (i) to the extent only that monies have been drawn from the Funding 2 liquidity reserve fund in order to make Funding 2 reserve principal payments or (ii) to the extent that the Funding 2 liquidity reserve fund has not been fully funded, towards a credit to the Funding 2 liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the Funding 2 liquidity reserve fund required amount;

(C) without priority among them, but in proportion to the amounts due, to repay the AAA loan tranches until the AAA loan tranches are fully repaid;

(D) without priority among them, but in proportion to the amounts due, to repay the AA loan tranches until the AA loan tranches are fully repaid;

(E) without priority among them, but in proportion to the amounts due, to repay the A loan tranches until the A loan tranches are fully repaid;

(F) without priority among them, but in proportion to the amounts due, to repay the BBB loan tranches until the BBB loan tranches are fully repaid;

(G) without priority among them, but in proportion to the amounts due, to repay the BB loan tranches until the BB loan tranches are fully repaid;

(H) without priority among them, but in proportion to the amounts due, to repay the subordinated loan tranches until the subordinated loan tranches are fully repaid; and

(I) in no order of priority among them, but in proportion to the respective amounts outstanding, to repay the Funding 2 Z loans until the Funding 2 Z loans are fully repaid.

*Repayment of loan tranches (other than start-up loan tranches) and Funding 2 Z loans when Funding 2 receives certain payments from the seller and/or Funding 1 or the proceeds of a new loan tranche (other than a start-up loan tranche)*

If (i) Funding 2 receives a payment from the seller and/or Funding 1 in the circumstances described in "**The mortgages trust – Payment by the seller and/or Funding 1 of the amount outstanding under a loan tranche**" above or (ii) the proceeds of a new loan tranche (other than a start-up loan tranche) or new Funding 2 intercompany loan which is to be used to refinance another loan tranche (other than a start-up loan tranche) as described in "**The master intercompany loan agreement – The facility**" and "**The master intercompany loan agreement – Other Funding 2 intercompany loan agreements**" above, then Funding 2 will not apply the relevant payment as described in "**– Distribution of Funding 2 available principal receipts**" above. Rather, Funding 2 will apply the relevant payment to repay the relevant loan tranche and/or (as applicable) towards repayment of the Funding 2 Z loans (or any one of them) provided that following such repayment the aggregate principal amount outstanding of the Funding 2 Z loans shall be at least equal to the Funding 2 Z loan required amount.

**Definition of issuing entity principal receipts**

Prior to the service of a note acceleration notice on the issuing entity, **issuing entity principal receipts** will be calculated by the issuing entity cash manager four business days prior to each quarterly interest payment date and will be an amount equal to all principal amounts to be repaid by Funding 2 to the issuing entity under the master intercompany loan during the relevant interest period (excluding amounts with respect to the start-up loan tranches). Following the service of a note acceleration notice on the issuing entity, but prior to the service of a master intercompany loan acceleration notice on Funding 2, **issuing entity principal receipts** means the sum calculated by the issuing entity security trustee four business days prior to each quarterly interest payment date as the amount to be repaid by Funding 2 to the issuing entity under the master intercompany loan during the relevant interest period (excluding amounts with respect to the start-up loan tranches) and/or the sum otherwise recovered by the issuing entity security trustee (or the receiver appointed on its behalf) representing the principal balance of the notes.

On each Funding 2 interest payment date, all Funding 2 available principal receipts received by the issuing entity from Funding 2 constituting principal repayments on a loan tranche (other than a start-up loan tranche) will be credited to a sub-ledger (in respect of the related series and class of notes or, as applicable, issuing entity subordinated loan) to the **issuing entity principal ledger**.

**Distribution of issuing entity principal receipts before note acceleration**

Prior to the service of a note acceleration notice on the issuing entity, the issuing entity or the issuing entity cash manager on its behalf will apply any issuing entity principal receipts on each quarterly interest payment date to repay the notes and the issuing entity subordinated loans in the following manner (the **issuing entity pre-enforcement principal priority of payments**):

- the class A notes: from principal amounts received by the issuing entity from Funding 2 in respect of each AAA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuing entity swap providers under the relevant issuing entity swap agreements in respect of the related series and class of notes):

(i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuing entity swap providers in respect of the related series and class of class A notes in accordance with the terms of the relevant issuing entity swap agreements; and

(ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class A notes;

- the class B notes: from principal amounts received by the issuing entity from Funding 2 in respect of each AA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuing entity swap providers under the relevant issuing entity swap agreements in respect of the related series and class of notes):

  (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuing entity swap providers in respect of the related series and class of class B notes in accordance with the terms of the relevant issuing entity swap agreements; and

  (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class B notes;

- the class M notes: from principal amounts received by the issuing entity from Funding 2 in respect of each A loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuing entity swap providers under the relevant issuing entity swap agreements in respect of the related series and class of notes):

  (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuing entity swap providers in respect of the related series and class of class M notes in accordance with the terms of the relevant issuing entity swap agreements; and

  (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class M notes;

- the class C notes: from principal amounts received by the issuing entity from Funding 2 in respect of each BBB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuing entity swap providers under the relevant issuing entity swap agreements in respect of the related series and class of notes):

  (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuing entity swap providers in respect of the related series and class of class C notes in accordance with the terms of the relevant issuing entity swap agreements; and

  (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class C notes;

- the class D notes: from principal amounts received by the issuing entity from Funding 2 in respect of each BB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuing entity swap providers under the relevant issuing entity swap agreements in respect of the related series and class of notes):

  (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuing entity swap providers in respect of the related series and

class of class D notes in accordance with the terms of the relevant issuing entity swap agreements; and

(ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class D notes; and

- the issuing entity subordinated loans: from principal amounts received by the issuing entity from Funding 2 in respect of each subordinated loan tranche to pay amounts due and payable in respect of principal (if any) on such quarterly interest payment date on the related issuing entity subordinated loan.

The amounts standing to the credit of any sub-ledger of the issuing entity principal ledger (in respect of a series and class of notes or, as applicable, issuing entity subordinated loans) may only be applied by the issuing entity cash manager to pay the principal amounts due (if any) in respect of such series and class of notes or, as applicable, issuing entity subordinated loan under the issuing entity pre-enforcement principal priority of payments.

**Distribution of issuing entity principal receipts after note acceleration but before master intercompany loan acceleration**

The issuing entity deed of charge sets out the priority of distribution of issuing entity principal receipts received or recovered by the issuing entity security trustee (or a receiver appointed on its behalf) following the service of a note acceleration notice on the issuing entity but prior to the service of a master intercompany loan acceleration notice on Funding 2. In these circumstances, the issuing entity security trustee will apply issuing entity principal receipts on each quarterly interest payment date to repay the notes and issuing entity subordinated loans in the following manner:

- the class A notes: from principal amounts received by the issuing entity from Funding 2 in respect of each AAA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuing entity swap providers under the relevant issuing entity swap agreements in respect of the related series and class of notes):

  (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuing entity swap providers in respect of the related series and class of class A notes in accordance with the terms of the relevant issuing entity swap agreements; and

  (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class A notes;

- the class B notes: from principal amounts received by the issuing entity from Funding 2 in respect of each AA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuing entity swap providers under the relevant issuing entity swap agreements in respect of the related series and class of notes):

  (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuing entity swap providers in respect of the related series and class of class B notes in accordance with the terms of the relevant issuing entity swap agreements; and

  (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class B notes;

- the class M notes: from principal amounts received by the issuing entity from Funding 2 in respect of each A loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuing entity swap providers under the relevant issuing entity swap agreements in respect of the related series and class of notes):

  (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuing entity swap providers in respect of the related series and class of class M notes in accordance with the terms of the relevant issuing entity swap agreements; and

  (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class M notes;

- the class C notes: from principal amounts received by the issuing entity from Funding 2 in respect of each BBB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuing entity swap providers under the relevant issuing entity swap agreements in respect of the related series and class of notes):

  (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuing entity swap providers in respect of the related series and class of class C notes in accordance with the terms of the relevant issuing entity swap agreements; and

  (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class C notes;

- the class D notes: from principal amounts received by the issuing entity from Funding 2 in respect of each BB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuing entity swap providers under the relevant issuing entity swap agreements in respect of the related series and class of notes):

  (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuing entity swap providers in respect of the related series and class of class D notes in accordance with the terms of the relevant issuing entity swap agreements; and

  (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class D notes; and

- the issuing entity subordinated loans: from principal amounts received by the issuing entity from Funding 2 in respect of each subordinated loan tranche to pay amounts due and payable in respect of principal (if any) on such quarterly interest payment date on the related issuing entity subordinated loan.

The amounts standing to the credit of any sub-ledger of the issuing entity principal ledger (in respect of a series and class of notes or, as applicable, issuing entity subordinated loans) may only be applied by the issuing entity security trustee to pay the principal amounts due (if any) in respect of such series and class of notes or, as applicable, issuing entity subordinated loan under the above issuing entity principal priority of payments.

**Distribution of Funding 2 principal receipts and Funding 2 revenue receipts following master intercompany loan acceleration**

The Funding 2 deed of charge sets out the priority of distribution of amounts received or recovered by the Funding 2 security trustee or a receiver appointed on its behalf following the service of a master intercompany loan acceleration notice on Funding 2. If Funding 2 enters into new Funding 2 intercompany loan agreements, then this priority will change. See "**Risk factors – The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**", "**Security for Funding 2's obligations**" and "**Security for the issuing entity's obligations**".

The Funding 2 security trustee will apply amounts received or recovered following the service of a master intercompany loan acceleration notice on Funding 2 (other than amounts representing (without double counting) (i) any early termination amount received by Funding 2 under the Funding 2 swap agreement which is to be applied in acquiring a replacement swap, (ii) any excess swap collateral or swap collateral relating to the Funding 2 swap agreement, except to the extent that the value of such collateral has been applied, pursuant to the provisions of the Funding 2 swap agreement, to reduce the amount that would otherwise be payable by the Funding 2 swap provider to Funding 2 on early termination of a Funding 2 swap and, to the extent so applied in reduction of the amount otherwise payable by the Funding 2 swap provider, such collateral is not to be applied in acquiring a replacement swap and (iii) monies standing to the credit of the Funding 2 Yield Reserve Fund which fund shall be applied in accordance with the Funding 2 yield reserve fund priority of payments) on each Funding 2 interest payment date in accordance with the following priority (the **Funding 2 post-enforcement priority of payments**):

(A) without priority among them, but in proportion to the respective amounts due, to pay amounts due to:

- the Funding 2 security trustee and any receiver appointed by the Funding 2 security trustee, together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due to the Funding security trustee and the receiver in the following interest period under the Funding 2 deed of charge; and

- the issuing entity in respect of the issuing entity's obligations specified in items (A) and (B) of the issuing entity post-enforcement priority of payments;

(B) without priority among them but in proportion to the respective amounts due, towards payment of amounts (if any) due by Funding 2 to the account bank (or account banks, as applicable) under the terms of the bank account agreement, to the eligible GIC custodian under the terms of the eligible custody agreement, to the agent account bank under the terms of the relevant bank account agreement, to the cash manager under the terms of the cash management agreement and to the corporate services provider under the terms of the corporate services agreement and the post-enforcement call option holder corporate services agreement;

(C) towards payment of amounts (if any) due to the Funding 2 swap provider under the Funding 2 swap agreement (including any termination payment, but excluding any Funding 2 swap excluded termination amount);

(D) without priority among them, but in proportion to the respective amounts due, towards payments of:

- interest, principal and fees due and payable on the AAA loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches); and

- the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve AAA loan tranches;

(E) without priority among them, but in proportion to the respective amounts due, towards payments of:

- interest, principal and fees due and payable on the AA loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches); and

- the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve AA loan tranches;

(F) without priority among them, but in proportion to the respective amounts due, towards payments of:

- interest, principal and fees due and payable on the A loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches); and

- the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve A loan tranches;

(G) without priority among them, but in proportion to the respective amounts due, towards payments of:

- interest, principal and fees due and payable on the BBB loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches); and

- the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve BBB loan tranches;

(H) without priority among them, but in proportion to the respective amounts due, towards payments of:

- interest, principal and fees due and payable on the BB loan tranches (other than interest due and payable on the Funding 2 yield reserve loan tranches); and

- the Funding 2 yield reserve loan primary interest amount due and payable on the Funding 2 yield reserve BB loan tranches;

(I) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the subordinated loan tranches;

(J) by way of payment of the senior fee, towards payment of any amounts due to the issuing entity in respect of its obligations (if any) to make a termination payment to an issuing entity swap provider (but excluding any issuing entity swap excluded termination amount);

(K) without priority among them but in proportion to the amounts then due, towards payment of:

- interest, principal and fees due and payable on the Funding 2 Z loans (if any); and
- any other amounts due to the Funding 2 Z loan provider under the Funding 2 Z loan agreement;

(L) without priority among them but in proportion to the respective amounts due, to pay (without double counting):

- by way of payment of the senior fee, amounts due to the issuing entity in respect of its obligations (if any) to pay any issuing entity swap excluded termination amount to an issuing entity swap provider following an issuing entity swap provider default or an issuing entity swap provider downgrade termination event (as appropriate);
- by way of payment of the senior fee, any other amounts due to the issuing entity under the master intercompany loan agreement and not otherwise provided for earlier in this priority of payments; and
- amounts due to the Funding 2 swap provider in respect of Funding 2's obligation to pay any termination amount to the Funding 2 swap provider as a result of a Funding 2 swap provider default or a Funding 2 swap provider downgrade termination event;

(M) towards payments of amounts due to the Funding 2 start-up loan provider under any Funding 2 start-up loan made by the Funding 2 start-up loan provider to fund the Funding 2 yield reserve fund;

(N) without priority among them but in proportion to the amounts then due, towards payment of:

- amounts due towards payment of interest, principal and fees due and payable on the start-up loan tranches; and
- amounts due to the Funding 2 start-up loan provider under each Funding 2 start-up loan agreement; and

(O) towards payment of an amount equal to £5,000 to be retained by Funding 2 as profit in each accounting period;

(P) towards payment of any deferred consideration due to the seller pursuant to the terms of the mortgage sale agreement.

**Distribution of issuing entity principal receipts and issuing entity revenue receipts following note acceleration and master intercompany loan acceleration**

If a master intercompany loan acceleration notice is served on Funding 2, then there will be an automatic enforcement of the issuing entity security under the issuing entity deed of charge. The issuing entity deed of charge sets out the priority of distribution by the issuing entity security trustee, following the service of a note acceleration notice on the issuing entity and the service of a master intercompany loan acceleration notice on Funding 2 (known as the **issuing entity post-enforcement priority of payments**), of amounts received or recovered by the issuing entity security trustee (or a receiver appointed on its behalf).

On each quarterly interest payment date, the issuing entity security trustee will apply amounts (other than amounts representing (i) any excess swap collateral which shall be returned directly to the relevant issuing entity swap provider, (ii) in respect of each issuing entity swap provider, prior to the designation of an early termination date under the relevant issuing entity swap agreement and the resulting application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by such issuing entity swap provider to the issuing entity pursuant to the relevant issuing entity swap agreement (and any interest or distributions in respect thereof) (iii) amounts payable to any replacement swap provider using any termination payment received by the issuing entity in respect of the

corresponding issuing entity swap agreement or amounts payable to an issuing entity swap provider (other than amounts pursuant to item (N) below) using any premium recovered from any replacement swap provider, which will be paid when due) and (iv) amounts received or recovered from Funding 2 or the Funding 2 security trustee under paragraph (C) of the Funding 2 yield reserve priority of payments) received or recovered following enforcement of the issuing entity security as follows:

(A) without priority among them, but in proportion to the respective amounts due, to pay amounts due to:

- the issuing entity security trustee and any receiver appointed by the issuing entity security trustee together with interest and any amount in respect of VAT on those amounts and any amounts then due or to become due to the issuing entity security trustee and the receiver under the provisions of the issuing entity deed of charge;
- the note trustee together with interest and any amount in respect of VAT on those amounts and any amounts then due or to become due and payable to the note trustee under the provisions of the issuing entity trust deed; and
- the agent bank, the paying agents, the registrar and the transfer agent together with interest and any amount in respect of VAT on those amounts and any costs, charges, liabilities and expenses then due or to become due and payable to them under the provisions of the issuing entity paying agent and agent bank agreement;

(B) without priority among them, but in proportion to the respective amounts due, towards payment of amounts (together with any amount in respect of VAT on those amounts) due and payable to:

- the issuing entity cash manager under the issuing entity cash management agreement;
- to the issuing entity corporate services provider under the issuing entity corporate services agreement; and
- to the issuing entity account bank under the issuing entity bank account agreement;

(C) subject to item (D) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuing entity swap providers for each series of class A notes (excluding any termination payment);

(D) without priority among them, but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class A notes and to pay any swap termination payment due to the issuing entity swap provider for each series of class A notes (but excluding any issuing entity swap excluded termination amount) provided that if the amounts available for distribution under this item (D) (on the assumption that no amounts are due and payable under item (C) and no amounts are received from any issuing entity swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (D), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuing entity to the issuing entity swap provider in respect of any series of class A notes under item (C) above will be reduced by the amount of the shortfall applicable to that series of class A notes;

(E) subject to item (F) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuing entity swap providers for each series of class B notes (excluding any termination payment);

(F) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class B notes and to pay any swap termination payment due to the issuing entity swap provider for each series of class B notes (but excluding any issuing entity swap excluded termination amount) provided that if the amounts available for distribution under this item (F) (on the assumption that no amounts are due and payable under item (E) and no amounts are received from any issuing entity swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (F), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuing entity to the issuing entity swap

provider in respect of any series of class B notes under item (E) above will be reduced by the amount of the shortfall applicable to that series of class B notes;

(G) subject to item (H) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuing entity swap providers for each series of class M notes (excluding any termination payment);

(H) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class M notes and to pay any swap termination payment due to the issuing entity swap provider for each series of class M notes (but excluding any issuing entity swap excluded termination amount) provided that if the amounts available for distribution under this item (H) (on the assumption that no amounts are due and payable under item (G) and no amounts are received from any issuing entity swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (H), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuing entity to the issuing entity swap provider in respect of any series of class M notes under item (G) above will be reduced by the amount of the shortfall applicable to that series of class M notes;

(I) subject to item (J) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuing entity swap providers for each series of class C notes (excluding any termination payment);

(J) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class C notes and to pay any swap termination payment due to the issuing entity swap provider for each series of class C notes (but excluding any issuing entity swap excluded termination amount) provided that if the amounts available for distribution under this item (J) (on the assumption that no amounts are due and payable under item (I) and no amounts are received from any issuing entity swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (J), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuing entity to the issuing entity swap provider in respect of any series of class C notes under item (I) above will be reduced by the amount of the shortfall applicable to that series of class C notes;

(K) subject to item (L) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuing entity swap providers for each series of class D notes (excluding any termination payment);

(L) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class D notes and to pay any swap termination payment due to the issuing entity swap provider for each series of class D notes (but excluding any issuing entity swap excluded termination amount) provided that if the amounts available for distribution under this item (L) (on the assumption that no amounts are due and payable under item (K) and no amounts are received from any issuing entity swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (L), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuing entity to the issuing entity swap provider in respect of any series of class D notes under item (K) above will be reduced by the amount of the shortfall applicable to that series of class D notes;

(M) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the issuing entity subordinated loans;

(N) without priority among them but in proportion to the respective amounts due, to pay any issuing entity swap excluded termination amount to the issuing entity swap providers;

(O) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the issuing entity start-up loans; and

(P) the balance to the issuing entity.

Notwithstanding the above, amounts standing to the credit of any sub-ledger to the issuing entity revenue ledger and/or the issuing entity principal ledger (in respect of a series and class of notes, any issuing entity subordinated loan or, as applicable, any issuing entity start-up loan) may only be applied by the issuing entity security trustee to pay the interest, principal and other amounts due in respect of such series and class of notes, such issuing entity subordinated loan or, as applicable, such issuing entity start-up loan or any shortfall in the amounts available to pay items (A) to (B) under the issuing entity post-enforcement priority of payments and may not be applied in payment of interest, principal and other amounts due in respect of any other series and class of notes or in respect of any issuing entity subordinated loans or any issuing entity start-up loan.

Following enforcement of the issuing entity security, any amounts received or recovered from Funding 2 or the Funding 2 security trustee in respect of a series and class of Funding 2 yield reserve loan tranches pursuant to paragraph (C) of the Funding 2 yield reserve priority of payments may only be applied by the issuing entity security trustee without priority among them, but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the corresponding series and class of yield reserve notes.

**Distribution of amounts standing to the credit of the Funding 2 yield reserve fund before and after master intercompany loan acceleration**

This section sets out the order of priority of payments of amounts standing to the credit of the Funding 2 yield reserve fund.

On each Funding 2 interest payment date prior to the service of a master intercompany loan acceleration notice, the cash manager or, following the service of a master intercompany loan acceleration notice the Funding 2 security trustee, will apply all amounts standing to the credit of the Funding 2 yield reserve fund in the following order of priority (being the **Funding 2 yield reserve priority of payments**):

(A) first, to pay the Funding 2 excess margin interest amount due on the Funding 2 yield reserve loan tranches:

(i) first, in respect of each series or class of Funding 2 yield reserve AAA loan tranches, *pro rata* and *pari passu* by applying amounts then standing to the credit of the Funding 2 yield reserve AAA sub-ledger;

(ii) second, in respect of each series or class of Funding 2 yield reserve AA loan tranches, *pro rata* and *pari passu* by applying amounts then standing to the credit of the Funding 2 yield reserve AA Sub-Ledger;

(iii) third, in respect of each series or class of Funding 2 yield reserve A loan tranches, *pro rata* and *pari passu* by applying amounts then standing to the credit of the Funding 2 yield reserve A sub-ledger;

(iv) fourth, in respect of each series or class of Funding 2 yield reserve BBB loan tranches, *pro rata* and *pari passu* by applying amounts then standing to the credit of the Funding 2 yield reserve BBB sub-ledger;

(v) fifth, in respect of each series or class of Funding 2 yield reserve BB loan tranches, *pro rata* and *pari passu* by applying amounts then standing to the credit of the Funding 2 yield reserve BB sub-ledger;

(B) second, prior to the service of a master intercompany loan acceleration notice only if (i) a Funding 2 yield reserve loan tranche has been repaid in full and the corresponding Funding 2 yield reserve notes have been redeemed in full on their applicable Funding 2 yield reserve reduction date; and (ii) if the Funding 2 start-up loan provider (in its absolute discretion) so elects, then on such Funding 2 interest payment date, to repay the relevant Funding 2 start-up loan corresponding to such Funding 2 yield reserve loan tranche in an amount up to the Funding 2 yield reserve reduction amount (such amount as determined by the Funding 2 start-up loan provider in its sole discretion), by applying amounts then standing to the credit of the relevant Funding 2 yield reserve sub-ledger corresponding to the relevant Funding 2 yield reserve loan tranche. For the avoidance of doubt, if a Funding 2 yield reserve loan tranche and the corresponding Funding 2 yield reserve notes have not been repaid in full on their applicable Funding 2 yield reserve reduction date, then the relevant Funding 2 start-up loan corresponding to such Funding 2 yield reserve loan tranche may only be repaid from

amounts standing to the credit of the Funding 2 yield reserve fund in accordance with paragraphs (C), (D) and (E) below;

(C) third, following service of a master intercompany loan acceleration notice only, and after making any payments due to the relevant loan tranches under the Funding 2 post-enforcement priority of payments, and the determination by the Funding 2 security trustee that there are no other available funds for application in accordance with the Funding 2 post-enforcement priority of payments, to pay any principal amounts outstanding on the relevant Funding 2 yield reserve loan tranches by applying amounts then standing to the credit of the Funding 2 yield reserve sub-ledger corresponding to the relevant loan tranche;

(D) fourth, after repayment of all Funding 2 yield reserve loan tranches corresponding to any relevant Funding 2 reserve sub-ledger, to repay the relevant Funding 2 start-up loan corresponding to such Funding 2 yield reserve loan tranches by applying amounts then standing to the credit of the relevant Funding 2 yield reserve sub-ledger corresponding to the relevant Funding 2 yield reserve loan tranches; and

(E) fifth, if following repayment in full of all Funding 2 yield reserve loan tranches corresponding to any relevant Funding 2 reserve sub-ledger, the relevant Funding 2 start-up loan corresponding to such Funding 2 yield reserve loan tranches has been repaid in full pursuant to paragraph (D) above, any amounts standing to the credit of the relevant Funding 2 yield reserve sub-ledger corresponding to the relevant Funding 2 yield reserve loan tranches will be made available to Funding 2 and form part of Funding 2 available revenue receipts.

**Disclosure of modifications to the priorities of payments**

Any events which trigger change in the priorities of payments and any change to priorities of payments which will materially adversely affect the repayment of the term advances or the notes shall be disclosed without undue delay to the extent required under Article 21(9) of the Securitisation Regulation.

## Credit structure

The notes will be obligations of the issuing entity only and will not be obligations of, or the responsibility of, or guaranteed by, any other party. However, there are a number of features of the transaction which enhance the likelihood of timely receipt of payments to noteholders, as follows:

- Funding 2 available revenue receipts are expected to exceed interest and the senior fee payable to the issuing entity;
- a shortfall in Funding 2 available revenue receipts may be met from Funding 2's principal receipts;
- a Funding 2 general reserve fund has been established to help meet shortfalls in principal due on the original bullet loan tranches and original scheduled amortisation loan tranches in the circumstances described below;
- the Funding 2 general reserve fund may also be used to help meet any deficit in Funding 2 available revenue receipts available for payment of interest and fees due under the master intercompany loan agreement (other than with respect to the subordinated loan tranches or the start-up loan tranches) and to help meet any deficit on the Funding 2 principal deficiency ledger (other than with respect to the subordinated loan principal deficiency sub-ledger or the Funding 2 Z loan principal deficiency sub-ledger);
- Funding 2 will be obliged to establish a liquidity reserve fund if the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated below A- by S&P, A3 by Moody's or A by Fitch or the short-term unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated below F1 by Fitch (unless the relevant rating agency confirms that the current rating of the notes will not be reduced, withdrawn or qualified by the rating downgrade of the seller);
- the Funding 2 yield reserve fund has been established to be used by Funding 2 to meet payment of interest and, in certain limited circumstances, to make payments of principal, on the Funding 2 yield reserve loan tranche(s) corresponding to such series and class of Funding 2 yield reserve notes;
- payments on the issuing entity subordinated loans will be subordinated to payments on the class A notes, the class B notes, the class M notes, the class C notes and the class D notes;
- payments on the class D notes will be subordinated to payments on the class A notes, the class B notes, the class M notes and the class C notes;
- payments on the class C notes will be subordinated to payments on the class A notes, the class B notes and the class M notes;
- payments on the class M notes will be subordinated to payments on the class A notes and the class B notes;
- payments on the class B notes will be subordinated to payments on the class A notes;
- payments on the Funding 2 Z loans will be subordinated to payments on the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches and the BB loan tranches;
- the mortgages trustee GIC account, the Funding 2 GIC account and the Funding 2 collateralised GIC account each earn interest at a specified rate;
- Funding 2 start-up loans may be provided to Funding 2 from time to time to fund the Funding 2 general reserve fund and/or Funding 2 yield reserve fund (if applicable) and/or the Funding 2 liquidity reserve fund (if applicable) and to meet the costs in connection with the issuance of notes and/or for meeting the costs and expenses incurred by Funding 2 and the mortgages trustee in connection with the payment of any purchase price by Funding 2 for any sale of loans and their related security to the mortgages trustee and/or the acquisition by Funding 2 of part of the Funding 1 share of the trust property and/or seller share of the trust property;

- issuing entity start-up loans may be provided to the issuing entity, to be on-lent to Funding 2 by way of start-up loan tranches in connection with each issuance of notes to fund the Funding 2 general reserve fund and/or Funding 2 liquidity reserve fund (if any) and/or the Funding 2 yield reserve fund (if applicable) and to meet the costs and expenses in connection with the issuance of notes;

- simultaneously with the advance of any loan tranche on any closing date, Funding 2 Z loans may be provided to Funding 2 from time to time for the purposes of either making a payment to the seller so as to increase the Funding 2 share of the trust property (with a corresponding decrease in the seller share of the trust property) or to make a payment to the seller in respect of the purchase price of new loans to be sold to the mortgages trustee (with a corresponding increase in the Funding 2 share of the trust property); and

- proceeds from the realisation of eligible collateral (if any) deposited with the eligible custodian under the custody agreement will be applied by Funding 2 (or the cash manager on behalf of Funding 2) or, following the delivery of a master intercompany loan acceleration notice, the Funding 2 security trustee, to replace amounts not capable of being withdrawn from the Funding 2 collateralised GIC account.

Each of these factors is considered more fully in the remainder of this section.

**Credit support for the notes provided by Funding 2 available revenue receipts**

It is anticipated that, during the life of the notes issued under the programme, the Funding 2 share of the interest received from borrowers on the loans will, assuming that all of the loans are fully performing, be greater than the sum of interest which Funding 2 is required to pay on the rated loan tranches outstanding under the master intercompany loan agreement and any new Funding 2 intercompany loan in order to fund (by payment to a swap provider or otherwise) the interest payments due on the relevant notes and the notes of any new Funding 2 issuing entity and the other senior costs and expenses of the structure. In other words, it is anticipated that the Funding 2 available revenue receipts will be sufficient to pay the amounts payable under items (A) to (D), (F), (H), (J) and (L) of the Funding 2 pre-enforcement revenue priority of payments assuming all loans are fully performing.

The actual amount of any excess will vary during the life of the notes. Two of the key factors determining the variation are as follows:

- the interest rate on the loans in the portfolio; and

- the level of arrears experienced.

On any Funding 2 interest payment date, any excess will be available to meet the payments referred to under items (M) to (Y) (inclusive) of the Funding 2 pre-enforcement revenue priority of payments including the payment of any deferred consideration to the seller.

**Level of arrears experienced**

If the level of arrears of interest payments made by the borrowers results in Funding 2 experiencing an income deficit, Funding 2 will be able to use the following amounts to cure that income deficit:

- *first*, amounts standing to the credit of the Funding 2 general reserve fund, as described in "**– Funding 2 general reserve fund**" below;

- *second*, drawings under the Funding 2 liquidity reserve fund, if established, as described in "**–Funding 2 liquidity reserve fund**" below; and

- *third*, principal receipts, if any, as described in "**– Use of Funding 2 principal receipts to pay Funding 2 income deficiency**" below,

provided that such amounts cannot be used in respect of the subordinated loan tranches or the start-up loan tranches and/or the Funding 2 Z loans.

Any excess of Funding 2 available revenue receipts will be applied on each Funding 2 interest payment date to the extent described in the Funding 2 pre-enforcement revenue priority of payments, including to extinguish amounts standing to the debit of any principal deficiency sub-ledger and to replenish the Funding 2 reserve funds.

**Use of Funding 2 principal receipts to pay Funding 2 income deficiency**

Four business days prior to each Funding 2 interest payment date, the cash manager will calculate whether there will be an excess or a deficit of Funding 2 available revenue receipts to pay items (A) to (D), (F), (H), (J) and (L) of the Funding 2 pre-enforcement revenue priority of payments.

If there is a deficit, then Funding 2 shall pay or provide for that deficit by the application of amounts standing to the credit of the Funding 2 principal ledger (plus any amounts standing to the credit of the Funding 2 cash accumulation ledger which is not comprised in Funding 2 available principal receipts), if any, and the cash manager shall make a corresponding entry in the relevant principal deficiency sub-ledger, as described in "**– Funding 2 principal deficiency ledger**" below as well as making a debit in the Funding 2 principal ledger. Any such entry and debit shall be made and taken into account (including as to which priority of payments shall apply) prior to the application of Funding 2 available principal receipts on the relevant Funding 2 interest payment date.

Funding 2 principal receipts may not be used to pay interest on any loan tranche if and to the extent that would result in a deficiency being recorded, or an existing deficiency being increased, on a principal deficiency sub-ledger relating to a rated loan tranche with a higher rating designation.

**Funding 2 general reserve fund**

A Funding 2 general reserve fund has been established:

- to contribute to Funding 2 available revenue receipts (including to help meet any deficit recorded on the Funding 2 principal deficiency ledger (excluding the subordinated loan principal deficiency sub-ledger and the Funding 2 Z loan principal deficiency sub-ledger)); and
- to make, where necessary, **Funding 2 reserve principal payments**, being:

(i) prior to the occurrence of a trigger event;

  (a) repayments of principal which are then due and payable in respect of the original bullet loan tranches; and

  (b) repayments of principal in respect of original scheduled amortisation loan tranches on their respective final repayment dates only; and

(ii) on or after the occurrence of a trigger event, repayments of principal in respect of original bullet loan tranches and original scheduled amortisation loan tranches on their respective final repayment dates only,

in each case prior to the service of a master intercompany loan acceleration notice on Funding 2.

The Funding 2 general reserve fund will be funded and replenished from:

- Funding 2 available revenue receipts in accordance with item (O) of the Funding 2 pre-enforcement revenue priority of payments up to an amount equal to the Funding 2 reserve required amount (see "**Cashflows – Distribution of Funding 2 available revenue receipts before master intercompany loan acceleration**" above);
- Funding 2 available principal receipts to the extent applied in making Funding 2 reserve principal payments;
- Funding 2 start-up loans provided to Funding 2 from time to time to fund the Funding 2 general reserve fund pursuant to the terms of a Funding 2 start-up loan agreement; and
- issuing entity start-up loans advanced to the issuing entity by the issuing entity start-up loan provider or new issuing entity start-up loan providers in connection with each issuance of notes, the proceeds of which will be advanced to Funding 2 by way of start-up loan tranches under the master intercompany loan agreement for the purposes of, among other things, funding the Funding 2 general reserve fund and/or the Funding 2 liquidity reserve fund (if any) and/or the Funding 2 yield reserve fund (if applicable).

The **Funding 2 reserve required amount** as at any date will be the amount specified as such in the most recent final terms or drawdown prospectus. Changes may be made to the Funding 2 reserve required

amount and/or the manner in which the Funding 2 general reserve is funded. See "**Risk factors – The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**", "**Security for Funding 2's obligations**" and "**Security for the issuing entity's obligations**".

Funding 2 may adjust, at any time, the Funding 2 reserve required amount without the consent of noteholders so long as the Funding 2 security trustee and Funding 2 obtain confirmation from the rating agencies that such adjustments will not cause a reduction, qualification or withdrawal of the ratings of any outstanding notes.

A Funding 2 general reserve ledger is maintained by the cash manager to record the balance from time to time of the Funding 2 general reserve fund.

On each Funding 2 interest payment date the amount of the Funding 2 general reserve fund is added to the other income of Funding 2 in calculating Funding 2 available revenue receipts.

**Funding 2 principal deficiency ledger**

A principal deficiency ledger has been established to record:

- on each calculation date, any losses on the loans allocated to Funding 2; and/or
- on each Funding 2 interest payment date, any application of amounts standing to the credit of the Funding 2 principal ledger and/or the Funding 2 cash accumulation ledger to meet any deficiency in Funding 2 available revenue receipts (as described in "**– Use of Funding 2 principal receipts to pay Funding 2 income deficiency**" above); and/or
- the application of Funding 2 available principal receipts which are allocated to fund the Funding 2 liquidity reserve fund up to the Funding 2 liquidity reserve fund required amount.

The Funding 2 principal deficiency ledger is split into seven sub-ledgers which will correspond to each of the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches, the subordinated loan tranches and the Funding 2 Z loans, respectively.

Losses on the loans and/or the application of amounts standing to the credit of the Funding 2 principal ledger and/or the Funding 2 cash accumulation ledger, to pay certain senior expenses of Funding 2 and interest and fees due under the master intercompany loan agreement will be recorded as follows:

- *first*, to the Funding 2 Z loan principal deficiency sub-ledger, until the debit balance thereon is equal to the then aggregate principal amount outstanding of the Funding 2 Z loans;
- *second*, on the subordinated loan principal deficiency sub-ledger until the balance of the subordinated loan principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all the subordinated loan tranches;
- *third*, on the BB principal deficiency sub-ledger until the balance of the BB principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all BB loan tranches;
- *fourth*, on the BBB principal deficiency sub-ledger until the balance of the BBB principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all BBB loan tranches;
- *fifth*, on the A principal deficiency sub-ledger until the balance of the A principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all A loan tranches;
- *sixth*, on the AA principal deficiency sub-ledger until the balance of the AA principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all AA loan tranches; and
- *seventh*, on the AAA principal deficiency sub-ledger, at which point there will be an asset trigger event (unless such losses are recorded when (a) the aggregate principal amount outstanding of all Funding 2 Z loans, subordinated loan tranches, BB loan tranches, BBB loan tranches, A loan tranches and AA loan tranches is equal to zero and (b) the sum of (i) the amount standing to the credit of the Funding 2 general reserve ledger and (ii) the amount standing to the credit of the Funding 2 revenue ledger together with amounts determined

and due to be credited to the Funding 2 revenue ledger prior to the immediately following Funding 2 interest payment date after such debit is made, is greater than the amount necessary to pay the items in paragraphs (A) to (E) in the Funding 2 pre-enforcement revenue priority of payments on the immediately following Funding 2 interest payment date after such debit is made).

Losses on the loans and/or the application of amounts standing to the credit of the Funding 2 principal ledger and/or the Funding 2 cash accumulation ledger to pay certain senior expenses of Funding 2 and interest and fees on the master intercompany loan will not be recorded on the Funding 2 principal deficiency ledger on any day to the extent that the Funding 2 share of the trust property together with amounts standing to the credit of the Funding 2 cash accumulation ledger and the Funding 2 principal ledger in aggregate is greater than or equal to the sum of (i) the aggregate outstanding principal balance of the rated loan tranches and the subordinated loan tranches and (ii) the aggregate outstanding principal amount of the Funding 2 Z loans under the Funding 2 Z loan agreement on that day, after taking account of such losses or the relevant application of principal receipts.

Prior to the service of a master intercompany loan acceleration notice on Funding 2, Funding 2 available revenue receipts will be applied on each Funding 2 interest payment date in the manner and to the extent described in the Funding 2 pre-enforcement revenue priority of payments. Within the Funding 2 pre-enforcement revenue priority of payments, the credits to the Funding 2 principal deficiency ledgers are as follows:

- *first*, provided that interest due on the AAA loan tranches has been paid, in an amount necessary to reduce to zero the balance on the AAA principal deficiency sub-ledger;
- *second*, provided that interest due on the AA loan tranches has been paid, in an amount necessary to reduce to zero the balance on the AA principal deficiency sub-ledger;
- *third*, provided that interest due on the A loan tranches has been paid, in an amount to reduce to zero the balance on the A principal deficiency sub-ledger;
- *fourth*, provided that interest due on the BBB loan tranches has been paid, in an amount necessary to reduce to zero the balance on the BBB principal deficiency sub-ledger;
- *fifth*, provided that interest due on the BB loan tranches has been paid, in an amount necessary to reduce to zero the balance on the BB principal deficiency sub-ledger;
- *sixth*, provided that interest due on the subordinated loan tranches has been paid, in an amount necessary to reduce to zero the balance on the subordinated principal deficiency sub-ledger; and
- *seventh*, in an amount necessary to reduce to zero the balance on the Funding 2 Z loan principal deficiency sub-ledger.

See also "– **Use of Funding 2 principal receipts to pay Funding 2 income deficiency**" above.

**Issuing entity available funds**

On each Funding 2 interest payment date in respect of the master intercompany loan agreement, the issuing entity will receive from Funding 2 an amount equal to or less than the amount which it needs to pay out on the corresponding interest payment date in respect of the notes, the issuing entity subordinated loans and the issuing entity start-up loan in accordance with the issuing entity pre-enforcement principal priority of payments and the issuing entity pre-enforcement revenue priority of payments.

Please see also the description of the issuing entity swaps under "**The swap agreements**" below.

**Priority of payments among the class A notes, the class B notes, the class M notes, the class C notes, the class D notes and the issuing entity subordinated loans**

Payments of interest on the Funding 2 Z loans on any Funding 2 interest payment date will be subordinated to interest payments on the BB loan tranches, the BBB loan tranches, the A loan tranches, the AA loan tranches and the AAA loan tranches due on the same interest payment date. Payments of interest on the notes and the issuing entity subordinated loans will be prioritised so that interest payments due on the issuing entity subordinated loans on any interest payment date will be subordinated to interest payments on the class D notes, the class M notes, the class C notes, the class B notes and the class A notes due on the

same interest payment date. Interest payments due on the class D notes on any interest payment date will be subordinated to interest payments on the C notes, the class M notes, the class B notes and the class A notes due on the same interest payment date. Interest payments due on the class C notes on any interest payment date will be subordinated to interest payments on the class M notes, the class B notes and the class A notes due on the same interest payment date. Interest payments due on the class M notes on any interest payment date will be subordinated to interest payments on the class B notes and the class A notes due on the same interest payment date. Interest payments due on the class B notes on any interest payment date will be subordinated to interest payments on the class A notes on the same interest payment date. The above is subject to the applicable issuing entity priority of payments.

Any shortfall in payments of interest due on any issuing entity subordinated loan and/or any series of class D notes and/or class C notes and/or class M notes and/or class B notes on any interest payment date in respect of such issuing entity subordinated loan or notes will be deferred until the next interest payment date in respect of such notes and will accrue interest. On that next interest payment date, the amount of interest due on the relevant issuing entity subordinated loan or class of notes will be increased to take account of any deferred interest. If, on that interest payment date, there is still a shortfall, that shortfall will be deferred again. This deferral process will continue until the final maturity date of 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 issuing entity to pay interest on the class D notes and/or the class C notes and/or class M notes and/or the class B notes, then you may not receive all interest amounts payable on those classes of notes and Bank of Scotland may not receive payment on the issuing entity subordinated loans.

The issuing entity is not able to defer payments of interest due on any interest payment date in respect of the class A notes or (if applicable) the most senior class of notes then outstanding. The failure to pay interest on such notes will be a note event of default.

The class A notes, the class B notes, the class M notes, the class C notes and the class D notes will be constituted by the issuing entity trust deed and, together with the issuing entity subordinated loans, will share the same security.

However, upon the service of a note acceleration notice or the occurrence of a trigger event, the class A notes of each series will rank in priority to each series of class B notes, each series of class M notes, each series of class C notes, each series of class D notes and each issuing entity subordinated loan, the class B notes of each series will rank in priority to each series of class M notes, each series of class C notes, each series of class D notes and each issuing entity subordinated loan, the class M notes of each series will rank in priority to each series of class C notes, each series of class D notes and each issuing entity subordinated loan, the class C notes of each series will rank in priority to each series of class D notes and each issuing entity subordinated loan and the class D notes of each series will rank in priority to each issuing entity subordinated loan.

**Issuing entity subordinated loan agreements**

The following section contains a summary of the expected material terms of issuing entity subordinated loan agreements. The summary does not purport to be complete and is subject to the provisions of each relevant issuing entity subordinated loan agreement.

*General description*

Pursuant to issuing entity subordinated loan agreements to be entered into from time to time, Bank of Scotland (acting as **issuing entity subordinated loan provider**) will, on the applicable date, advance an issuing entity subordinated loan to the issuing entity. Each issuing entity subordinated loan will be used by the issuing entity to fund a subordinated loan tranche to be advanced by the issuing entity to Funding 2 pursuant to the master intercompany loan agreement. Each subordinated loan tranche will be used to:

(a) pay the seller part of the consideration for loans (together with their related security) sold by the seller to the mortgages trustee on the relevant closing date;

(b) acquire part of the Funding 1 share of the trust property and/or the seller share of the trust property, as the case may be (such payment to be made to Funding 1 and/or the seller, as the case may be);

(c) fund or replenish the Funding 2 general reserve fund and/or the Funding 2 liquidity reserve fund (if any); and/or

(d) fund the Funding 2 yield reserve fund.

The amount of each subordinated loan tranche issued at the same time as an issuance of notes will be described in the applicable loan tranche supplement and (if applicable) final terms or drawdown prospectus.

The issuing entity may, from time to time, enter into new issuing entity subordinated loan agreements with providers other than Bank of Scotland. On entering into a subordinated loan agreement, the issuing entity subordinated loan provider or, as applicable, any new issuing entity subordinated loan provider will enter into a deed of accession to the issuing entity deed of charge.

*Interest*

Each issuing entity subordinated loan will bear interest until repaid at a rate which will correspond to the interest paid under the corresponding subordinated loan tranche as set out in the applicable loan tranche supplement and the accompanying final terms or drawdown prospectus (if applicable). Any unpaid interest will not fall due but will instead be due on the next following quarterly interest payment date on which sufficient funds are available to pay such unpaid amount and, pending such payment, will itself bear interest. Interest in respect of each issuing entity subordinated loan will be payable by the issuing entity on each quarterly interest payment date.

*Repayment*

Funding 2 will make repayments of each subordinated loan tranche on a *pro rata* basis (a) on each Funding 2 interest payment date, but only to the extent that the aggregate principal amount outstanding on all subordinated loan tranches exceeds the required subordinated loan tranche principal amount outstanding and to the extent that it has Funding 2 available principal receipts after making higher ranking payments (see further "**Cashflows – Distribution of Funding 2 available principal receipts**" and "**Cashflows – Distribution of Funding 2 principal receipts and Funding 2 revenue receipts following master intercompany loan acceleration**" above) or (b) on any date, to the extent that such subordinated loan tranches are being refinanced on such date by other loan tranches (which may be another subordinated loan tranche). The issuing entity will make repayment on each issuing entity subordinated loan if and to the extent that it receives amounts from Funding 2 representing repayment of principal on the corresponding subordinated loan tranche. After the issuing entity has repaid an issuing entity subordinated loan, it will have no further recourse to the issuing entity subordinated loan provider or, as applicable, the relevant new issuing entity subordinated loan provider in respect of such issuing entity subordinated loan.

The **required subordinated loan tranche principal amount outstanding**, as at any date, will be the amount specified as such in the most recent final terms or drawdown prospectus. See further "**Risk factors – The required subordinated loan tranche principal amount outstanding for a class of notes may be changed**" above.

*Acceleration*

If a master intercompany loan acceleration notice is served by the issuing entity security trustee on Funding 2, then each issuing entity subordinated loan will become immediately due and payable.

*Governing law*

Each issuing entity subordinated loan agreement and each new issuing entity subordinated loan agreement (and any non-contractual obligations arising out of or in connection with each issuing entity subordinated loan agreement and each new issuing entity subordinated loan agreement) will be governed by and shall be construed in accordance with English law.

**Funding 2 Z loan agreement**

The following section contains a summary of the material terms of the Funding 2 Z loan agreement. The summary does not purport to be complete and is subject to the provisions of the Funding 2 Z loan agreement.

*General description*

Simultaneously with the advance of any loan tranche on any closing date, the Funding 2 Z loan provider may make available to Funding 2 the Funding 2 Z loans under the Funding 2 Z loan agreement. This is a subordinated loan facility available in the amounts set out in the applicable Funding 2 Z loan supplement, which may be used by Funding 2 either (a) to make a payment to the seller so as to increase

the Funding 2 share of the trust property (with a corresponding decrease in the seller share of trust property), or (b) to make a payment to the seller in respect of the purchase price of new loans to be sold to the mortgages trustee, which will result in a corresponding increase in the Funding 2 share of the trust property.

The Funding 2 Z loan provider has agreed to be bound by any calculations and determinations made by the cash manager, the Funding 2 security trustee or the mortgages trustee, respectively. Additional Funding 2 Z loans may be made (and corresponding Funding 2 Z loan supplements entered into) in connection with each issuance of notes after the restructuring date by the Funding 2 Z loan provider to Funding 2.

*Interest*

Payment of interest, capitalised interest and fees on each Funding 2 Z loan will be made only if, and to the extent that, there are Funding 2 available revenue receipts, or after the service of a master intercompany loan acceleration notice, amounts available therefor. Such payments of interest, capitalised interest and fees will be made in accordance with the relevant Funding 2 priority of payments set forth in "Cashflows".

The interest rates applicable to the Funding 2 Z loans from time to time will be determined by reference to SONIA (or such other rate specified in the accompanying Funding 2 Z loan supplement) plus or minus, in each case, a margin which may differ for each separate Funding 2 Z loan.

*Repayment*

Subject to the below, repayment of principal on the Funding 2 Z loans will only be made if, and to the extent that, there are Funding 2 available principal receipts, or after the service of a master intercompany loan acceleration notice, amounts available therefor but repayment of principal on the Funding 2 Z loans will not be made from amounts in the Funding 2 general reserve fund or the Funding 2 yield reserve fund.

Repayments of principal on the Funding 2 Z loans will be made:

(a) on each Funding 2 interest payment date prior to the occurrence of a trigger event and prior to the service on Funding 2 of a master intercompany loan acceleration notice or the service on the issuing entity of a note acceleration notice:

(i) provided that: (a) there is no debit balance on the Funding 2 Z loan principal deficiency sub-ledger after application of the Funding 2 available revenue receipts on that Funding 2 interest payment date and (b) the repayment restrictions under Rule (2) are not in effect in respect of a rated loan tranche, then in no order of priority among them, in an amount required (if any) to reduce the principal amount outstanding under the Funding 2 Z loans to the Funding 2 Z loan required amount, in each case subject to Rule (1), for a description of Rule (1) and Rule (2) as referred to above please see "**Cashflows – Repayment of loan tranches (other start-up loan tranches) and Funding 2 Z loans before a trigger event and before master intercompany loan acceleration or acceleration of all notes – Rule (1) - Repayment deferrals**" and "**Cashflows – Repayment of loan tranches (other start-up loan tranches) and Funding 2 Z loans before a trigger event and before master intercompany loan acceleration or acceleration of all notes – Rule (2) - Repayment of payable pass-through loan tranches after a step-up date**"; or

(ii) following the repayment in full of all amounts of interest and principal outstanding under the loan tranches (other than the start-up loan tranches), in no order of priority among them, to repay the principal amounts due (if any) under the Funding 2 Z loans; or

(b) on all other Funding 2 interest payment dates, following the repayment in full of all amounts of interest and principal outstanding under the loan tranches (other than the start-up loan tranches), in no order of priority among them, to repay the principal amounts due (if any) under the Funding 2 Z loans,

in each case subject to the applicable Funding 2 priority of payments set forth in "**Cashflows**".

In each case, when repayment of a Funding 2 Z loan becomes due, it shall continue to be due until it is fully repaid. If there are insufficient funds available to repay a Funding 2 Z loan on a Funding 2 interest payment date upon which that Funding 2 Z loan has become or remains due, then the shortfall will be repaid on subsequent Funding 2 interest payment dates from Funding 2 available principal receipts until that Funding 2 Z loan is fully repaid.

Principal repayments of the Funding 2 Z loans may also be made up to an amount required to reduce the aggregate principal amount outstanding of the Funding 2 Z loans to the Funding 2 Z loan required amount in the circumstances described in "**The mortgages trust**– Payment by the seller and/or Funding 1 of the amount outstanding under a Funding 2 Z loan" above and "Repayment of loan tranches (other than start-up loan tranches) and Funding 2 Z loans when Funding 2 receives certain payments from the seller and/or Funding 1 or the proceeds of a new loan tranche (other than a start-up loan tranche)" above.

*Event of default*

It will be an event of default under the Funding 2 Z loan agreement if Funding 2 has sufficient Funding 2 available revenue receipts or Funding 2 available principal receipts (as applicable) to pay amounts due to the Funding 2 Z loan provider, and it does not pay them.

The occurrence of an event of default under the Funding 2 Z loan agreement may constitute a master intercompany loan event of default as set out in "**The master intercompany loan agreement – Master intercompany loan events of default**".

*Acceleration*

If a master intercompany loan acceleration notice is served upon Funding 2 under the master intercompany loan agreement, then each Funding 2 Z loan will become immediately due and payable and amounts outstanding on each Funding 2 Z loan will be paid in accordance with the relevant Funding 2 priority of payments.

*Limited recourse*

Funding 2 will only be obliged to pay amounts to the Funding 2 Z loan provider in respect of any Funding 2 Z loan to the extent that it has funds to do so after making payments ranking in priority to amounts due on such Funding 2 Z loans. To the extent that Funding 2 does not have such funds available, the shortfall will itself accrue interest and, together with such accrued interest, will be deferred until such Funding 2 interest payment date as Funding 2 does have the relevant funds available in accordance with the then applicable Funding 2 priority of payments. The obligations of Funding 2 to pay the shortfall together with any amounts falling due and payable thereafter shall on any day be limited to the available funds acquired by Funding 2 subsequent to such date (together, if applicable, with the proceeds of the enforcement of the security paid to the Funding 2 Z loan provider pursuant to the Funding 2 deed of charge).

*New Funding 2 Z loans*

Funding 2 may enter into a new Funding 2 Z loan agreement with the Funding 2 Z loan provider or a new Funding 2 Z loan provider and the obligations of Funding 2 to repay the Funding 2 Z loans and any new Funding 2 Z loans will at all times rank *pari passu* and will be paid *pro rata* between themselves.

*Governing law*

The Funding 2 Z loan agreement and any non-contractual obligations arising out of or in connection with the Funding 2 Z loan agreement is governed by, and shall be construed in accordance with, English law.

**Mortgages trustee GIC account/Funding 2 GIC account/Funding 2 eligible bank GIC account/Funding 2 collateralised GIC account**

All amounts held by the mortgages trustee have been and will continue to be deposited in the **mortgages trustee GIC account** with the account bank. This account is subject to the mortgages trustee guaranteed investment contract under which the mortgages trustee GIC provider has agreed to pay a variable rate of interest on funds in the mortgages trustee GIC account of 0.25 per cent. per annum below LIBOR for three-month sterling deposits.

Amounts held in the collection account will not have the benefit of a guaranteed investment contract but following receipt will be transferred into the mortgages trustee GIC account on a regular basis and in any event in the case of direct debits no later than the next business day after they are deposited in the collection account.

All amounts held by Funding 2 will be deposited in the **Funding 2 GIC account** in the first instance. The Funding 2 GIC account is maintained with the account bank. This account is subject to the Funding 2 guaranteed investment contract under which the Funding 2 GIC provider has agreed to pay a variable rate of interest on funds in the Funding 2 GIC account of 0.25 per cent. per annum below LIBOR for three-month sterling deposits.

The cash manager may also deposit amounts held by Funding 2 in any **Funding 2 eligible bank GIC account**. The Funding 2 eligible bank GIC account will be maintained with the agent account bank.

The cash manager may deposit Funding 2 deposit non-reserve amounts in the **Funding 2 collateralised GIC account** provided the conditions described under "**Cash management for the mortgages trustee, Funding 1 and Funding 2—Cash management services with respect to the Funding 2 collateralised GIC account**" are met. The Funding 2 collateralised GIC account is maintained with Bank of Scotland, as account bank. This account is subject to the Funding 2 guaranteed investment contract under which the Funding 2 GIC provider has agreed to pay a variable rate of interest on funds in the Funding 2 collateralised GIC account of 0.25 per cent. per annum below LIBOR for three-month sterling deposits.

The account bank, with whom the mortgages trustee GIC account, the Funding 2 GIC account and the Funding 2 collateralised GIC account are held, is required to satisfy certain rating requirements in order to continue to receive deposits in the mortgages trustee GIC account, the Funding 2 GIC account, and the Funding 2 collateralised GIC account, respectively. Under these requirements such bank accounts maintained with the relevant account bank will be required to be closed and equivalent bank accounts opened with a replacement account bank:

(a) with respect to the mortgages trustee bank account, the account bank ceases to have the mortgages trustee account bank required ratings, unless, within 60 calendar days of such occurrence, an account is opened with a stand-by account bank which has the mortgages trustee account bank required ratings and provided that the mortgages trustee account bank continues to have a long-term "Issuer Default Rating" of at least BBB- by Fitch; and

(b) with respect to the Funding 1 bank accounts or the Funding 2 GIC account, the account bank ceases to have the Funding account bank required ratings; provided that, in the event that Bank of Scotland plc, as Funding 2 account bank with respect to the Funding 2 collateralised GIC account, does not have the Funding account bank required ratings (but does have the Funding 2 collateralised GIC account bank required ratings), Bank of Scotland plc may continue to act as account bank in respect of the Funding 2 collateralised GIC account and shall not be terminated on the basis of its ratings and it shall continue to operate and receive deposits of Funding 2 deposit non-reserved amounts into the Funding 2 collateralised GIC account, provided that the conditions described under "**Cash management for the mortgages trustee, Funding 1 and Funding 2—Cash management services with respect to the Funding 2 collateralised GIC account**" are met,

unless, with respect to both (a) and (b) above, within any relevant notice period (1) the relevant rating agency confirms that its then current rating of the notes would not be reduced, withdrawn or qualified as a result of the relevant account bank's ratings falling below the requisite ratings or (2) the relevant account bank obtains (at its own costs) a guarantee of its obligations from a financial institution with at least the required minimum ratings or such other ratings as would not cause the then current rating of the notes to be reduced, withdrawn or qualified by the relevant rating agency.

With respect to the Funding 2 collateralised GIC account, if the account bank ceases to have the Funding 2 collateralised GIC account bank required ratings, the cash manager or Funding 2 shall, within 5 London business days, transfer amounts standing to the credit of the Funding 2 collateralised GIC account to the Funding 2 GIC account and, following such transfer, the cash manager or Funding 2 shall (or the Funding 2 security trustee may), close the Funding 2 collateralised GIC account.Following termination of the bank account agreement and/or closing of the mortgages trustee GIC account or the Funding 2 GIC account in accordance with the bank account agreement, the mortgages trustee, Funding 2 or the Funding 2 security trustee (as applicable) may terminate the mortgages trustee guaranteed investment contract or the Funding 2 guaranteed investment contract by written notice on the mortgages trustee GIC provider or the Funding 2 GIC provider (as applicable).

**Funding 2 liquidity reserve fund**

Funding 2 will be required to establish a liquidity reserve fund to the extent of the Funding 2 liquidity reserve fund required amount if, and for as long as, the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated below A- by S&P, A3 by Moody's or A by Fitch or the short-term unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated below F1 by Fitch (unless the relevant rating agency confirms that the then current ratings of the notes will not be adversely affected as a consequence of a ratings downgrade of the seller). If, following a subsequent increase in the seller's rating, Funding 2 would no longer be required to maintain the Funding 2 liquidity reserve fund, then Funding 2 at its option may terminate the Funding 2 liquidity reserve fund, and all amounts standing to the credit of the Funding 2 liquidity reserve ledger will then be treated as Funding 2 available revenue receipts for the next Funding 2 interest payment date. In addition, following a reduction in the Funding 2 liquidity reserve fund required amount, amounts standing to the credit of the Funding 2 liquidity reserve ledger in excess of the Funding 2 liquidity reserve fund required amount will then be treated as Funding 2 available revenue receipts for the next Funding 2 interest payment date.

Prior to enforcement of Funding 2 security or service of a master intercompany loan acceleration notice on Funding 2, the Funding 2 liquidity reserve fund may be used as part of Funding 2 available revenue receipts available to fund payment of certain senior expenses and interest due on rated loan tranches under the master intercompany loan agreement. Prior to the service of a master intercompany loan acceleration notice on Funding 2 and taking into account any allocation of principal to meet any deficiency in Funding 2's available revenue receipts, the Funding 2 liquidity reserve fund will also be available to make Funding 2 reserve principal payments, being:

- to contribute to Funding 2 available revenue receipts (including to help meet any deficit recorded on the Funding 2 principal deficiency ledger); and
- to make, where necessary, Funding 2 reserve principal payments, being:

(i) prior to the occurrence of a trigger event;

(a) repayments of principal which are then due and payable in respect of the original bullet loan tranches; and

(b) repayments of principal in respect of original scheduled amortisation loan tranches on their respective final repayment dates only; and

(ii) on or after the occurrence of a trigger event, repayments of principal in respect of original bullet loan tranches and original scheduled amortisation loan tranches on their respective final repayment dates only, in each case prior to the service of a master intercompany loan acceleration notice on Funding 2.

The Funding 2 liquidity reserve fund, if required to be funded, will be funded initially from Funding 2 available principal receipts or (if insufficient funds are available therefrom) from Funding 2 available revenue receipts in accordance with the Funding 2 pre-enforcement principal priority of payments or Funding 2 pre-enforcement revenue priority of payments, as applicable. The Funding 2 liquidity reserve fund may also be funded from loan tranches pursuant to the intercompany loan agreement or from a Funding 2 start-up loan pursuant to the Funding 2 start-up loan agreement.

A tranche (if any) drawn down on the relevant closing date by Funding 2 pursuant to a Funding 2 start-up loan agreement for the purposes of funding the Funding 2 liquidity reserve fund (or any other similar reserve fund) will be credited to the Funding 2 liquidity reserve ledger. In addition, the Funding 2 liquidity reserve fund, if required, will be funded and replenished up to and including an amount equal to the Funding 2 liquidity reserve fund required amount on Funding 2 interest payment dates from Funding 2 available revenue receipts at item (P) of the Funding 2 pre-enforcement revenue priority of payments and from Funding 2 available principal receipts at item (B) of the relevant Funding 2 pre-enforcement principal priority of payments.

The **Funding 2 liquidity reserve fund required amount** is an amount, as of any Funding 2 interest payment date, equal to the excess (if any) of 3 per cent. of the aggregate outstanding balance of the notes on that Funding 2 interest payment date (taking into account any principal repayments to be made by the issuing entity on that date) over the aggregate of amounts standing to the credit of the Funding 2 general reserve fund on that Funding 2 interest payment date (taking into account any amount credited to the Funding 2 general reserve ledger on that date). Changes may be made to the Funding 2 liquidity reserve required amount and/or the manner in which the Funding 2 liquidity reserve fund is funded. See "**Risk**

**factors – The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**", "**Security For Funding 2's obligations**" and "**Security for the issuing entity's obligations**".

Following enforcement of the Funding 2 security, amounts standing to the credit of the Funding 2 liquidity reserve ledger may be applied in making payments of principal due under the loan tranches.

**Funding 2 yield reserve fund**

The Funding 2 yield reserve fund has been established to make payments on each Funding 2 interest payment date of Funding 2 excess margin interest amounts due on the Funding 2 yield reserve loan tranches by applying amounts then standing to the credit of the Funding 2 yield reserve sub-ledgers with the corresponding rating designation to the relevant series or class of Funding 2 yield reserve loan tranches, in each case in accordance with the Funding 2 yield reserve fund priority of payments (see "**Cashflows – Distribution of amounts standing to the credit of the Funding 2 yield reserve fund before and after master intercompany loan acceleration**" above).

The Funding 2 yield reserve fund has been and will be funded from Funding 2 start-up loans provided to Funding 2 from time to time to fund the Funding 2 yield reserve fund pursuant to the terms of a Funding 2 start-up loan agreement and from issuing entity start-up loans provided to the issuing entity from time to time to fund the Funding 2 yield reserve fund pursuant to the terms of an issuing entity start-up loan agreement. The Funding 2 yield reserve fund may also be funded through loan tranches pursuant to the master intercompany loan agreement.

Amounts standing to the credit of the relevant Funding 2 yield reserve sub-ledger will not, prior to the service of a master intercompany loan acceleration notice, be applied to repay any principal amount due on the relevant series and class of the relevant Funding 2 yield reserve loan tranche. Instead, on any Funding 2 interest payment date on which a Funding 2 yield reserve loan tranche is repaid in full and the corresponding Funding 2 yield reserve notes have been redeemed in full on their applicable Funding 2 yield reserve reduction date occurring on such Funding 2 interest payment date then, if the Funding 2 start-up loan provided so elects in its sole discretion, amounts standing to the credit of the relevant Funding 2 yield reserve sub-ledger will be used to repay the relevant start-up loan corresponding to such Funding 2 yield reserve loan tranche in an amount up to the Funding 2 yield reserve reduction amount for such Funding 2 yield reserve loan tranche (see "**Cashflows – Distribution of amounts standing to the credit of the Funding 2 yield reserve fund before and after master intercompany loan acceleration**" above).

Following the service of a master intercompany loan acceleration notice amounts standing to the credit of the Funding 2 yield reserve fund will be used to pay any principal amounts outstanding on any series or class of Funding 2 yield reserve loan tranches by applying amounts then standing to the credit of the Funding 2 yield reserve sub-ledgers corresponding to such series or class of Funding 2 yield reserve loan tranches in accordance with the Funding 2 yield reserve priority of payments (see "**Cashflows – Distribution of amounts standing to the credit of the Funding 2 yield reserve fund before and after master intercompany loan acceleration**" above).

The **Funding 2 yield reserve required amount** as at any date will be the amount specified as such in the most recent final terms or drawdown prospectus in respect of each series or class of Funding 2 yield reserve notes with the same rating designation. Changes may be made to the Funding 2 yield reserve required amount and/or the manner in which the Funding 2 yield reserve is funded. See "**Risk factors – The Funding 2 security trustee and/or the issuing entity security trustee and/or the note trustee may agree modifications to the transaction documents, which may adversely affect your interests**".

A Funding 2 yield reserve ledger is maintained by the cash manager to record the balance from time to time of the Funding 2 yield reserve fund.

**Funding 2 start-up loan agreements**

The following section contains a summary of the material terms of each Funding 2 start-up loan agreement. The summary does not purport to be complete and is subject to the provisions of each Funding 2 start-up loan agreement.

*General description*

Pursuant to Funding 2 start-up loan agreements dated the programme date and on the subsequent closing date, Halifax (acting as the **Funding 2 start-up loan provider**) agreed to make available to Funding 2 a Funding 2 start-up loan. After the reorganisation date, additional Funding 2 start-up loan agreements

have been, and in the future may be, entered into by Bank of Scotland (acting as the **Funding 2 start-up loan provider**) pursuant to which the Funding 2 start-up loan provider will make further Funding 2 start-up loans available to Funding 2. Each Funding 2 start-up loan will be a subordinated loan advance which will be used for (i) increasing the Funding 2 general reserve fund on the relevant closing date and/or (ii) increasing the Funding 2 liquidity reserve fund (if applicable) and/or (iii) funding the Funding 2 yield reserve fund and/or (iv) for meeting the costs and expenses incurred by Funding 2 and the mortgages trustee in connection with the payment of the purchase price by Funding 2 for any sale of loans and their related security to the mortgages trustee and/or the acquisition by Funding 2 of part of the Funding 1 share of the trust property and/or seller share of the trust property and/or (v) the fees payable under the master intercompany loan agreement which relate to the issuance of notes, as the case may be, on the relevant closing date and/or advance date and the fees payable under the master intercompany loan agreement which relate to the costs of issue of the relevant series of notes (including any fees payable in connection with any notes which have been issued or re-offered at a discount to par). The amount of each Funding 2 start-up loan will be described in the applicable final terms or drawdown prospectus.

Funding 2 may, from time to time, enter into Funding 2 start-up loan agreements with providers other than Bank of Scotland subject to (i) such Funding 2 start-up loan agreement being on similar terms to that form of the Funding 2 start-up loan agreement which was entered into on the programme date and (ii) such new entity entering into a deed of accession to the Funding 2 deed of charge.

*Interest*

Each Funding 2 start-up loan will bear interest until repaid at a rate which will be described in the applicable final terms or drawdown prospectus. Any unpaid interest will not fall due but will instead be due on the next following Funding 2 interest payment date on which sufficient funds are available to pay such unpaid amount and pending such payment will itself bear interest. Interest in respect of each Funding 2 start-up loan is payable by Funding 2 on each Funding 2 interest payment date.

*Repayment*

Funding 2 will repay each Funding 2 start-up loan, but only to the extent that it has Funding 2 available revenue receipts after making higher ranking payments (see further "**Cashflows – Distribution of Funding 2 available revenue receipts**" **and** "**Cashflows – Distribution of Funding 2 principal receipts and Funding 2 revenue receipts following master intercompany loan acceleration**" above) or amounts standing to the credit of the relevant Funding 2 yield reserve sub-ledger after making higher ranking payments (see further "**Cashflows – Distribution of Funding 2 available revenue receipts**" and "**Cashflows – Distribution of amounts standing to the credit of the Funding 2 yield reserve fund before and after master intercompany loan acceleration**" above). Amounts due to the Funding 2 start-up loan provider are payable after amounts due on the loan tranches. After Funding 2 has repaid a Funding 2 start-up loan, it will have no further recourse to the Funding 2 start-up loan provider in respect of that Funding 2 start-up loan.

*Event of default*

It will be an event of default under the Funding 2 start-up loan agreement if Funding 2 has available revenue receipts to pay amounts due to the Funding 2 start-up loan provider and it does not pay them.

The occurrence of an event of default under a Funding 2 start-up loan agreement may constitute a master intercompany loan event of default.

*Acceleration*

If notice is given that the security granted by Funding 2 under the Funding 2 deed of charge is to be enforced, then each Funding 2 start-up loan will become immediately due and payable.

*Governing law*

Each Funding 2 start-up loan agreement and any non-contractual obligations arising out of or in connection with each Funding 2 start-up loan agreement will be governed by, and shall be construed in accordance with, English law.

**Issuing entity start-up loan agreements**

The following section contains a summary of the material terms of the issuing entity start-up loan agreements. The summary does not purport to be complete and is subject to the provisions of the issuing entity start-up loan agreements.

*General description*

Pursuant to any issuing entity start-up loan agreement entered into from time to time, the **issuing entity start-up loan provider** will agree to make available to the issuing entity an issuing entity start-up loan. On any closing date after the reorganisation date, issuing entity start-up loan agreements may be entered into pursuant to which the issuing entity start-up loan provider or, as applicable, a new issuing entity start-up loan provider will make issuing entity start-up loans available to the issuing entity. Each issuing entity start-up loan will be a subordinate-ranking loan which will be used by the issuing entity to advance start-up loan tranches to Funding 2 pursuant to the master intercompany loan agreement. The proceeds of each start-up loan tranche may be used by Funding 2 for increasing the Funding 2 general reserve fund and/or the Funding 2 liquidity reserve fund and/or the Funding 2 yield reserve fund on the relevant closing date and/or for meeting the costs and expenses incurred by Funding 2 and the mortgages trustee in connection with the payment of any purchase price for any sale of loans and their related security to the mortgages trustee and/or the acquisition by Funding 2 of part of the Funding 1 share of the trust property and/or the seller share of the trust property (including any reasonable costs incurred by the mortgages trustee in relation to any issuance, as the case may be, on the relevant closing date) and the fees payable under the master intercompany loan agreement which relate to the costs and expenses of the related issuance of notes. The amount of each issuing entity start-up loan will be described in the accompanying final terms or drawdown prospectus.

The issuing entity may, from time to time, enter into new issuing entity start-up loan agreements with providers other than Bank of Scotland subject to (i) such new issuing entity start-up loan agreement being on similar terms to the issuing entity start-up loan agreement and (ii) such new entity entering into a deed of accession to the issuing entity deed of charge.

*Interest*

Each issuing entity start-up loan will bear interest until repaid at a rate which will be described in the accompanying final terms or drawdown prospectus. Any unpaid interest will not fall due but will instead be due on the next following quarterly interest payment date on which sufficient funds are available to pay such unpaid amount and pending such payment will itself bear interest. Interest in respect of each issuing entity start-up loan will be payable by the issuing entity on each quarterly interest payment date. The rate of interest on each start-up loan tranche will match the rate of interest on the corresponding issuing entity start-up loan.

*Repayment*

Funding 2 will repay each start-up loan tranche on a *pro rata* basis on each Funding 2 interest payment date, but only to the extent that it has Funding 2 available revenue receipts after making higher ranking payments (see further "**Cashflows – Distribution of Funding 2 available revenue receipts**" and "**Cashflows – Distribution of Funding 2 principal receipts and Funding 2 revenue receipts following master intercompany loan acceleration**" above) or amounts standing to the credit of the relevant Funding 2 yield reserve sub-ledger after making higher ranking payments (see further "**Cashflows – Distribution of Funding 2 available revenue receipts**" and "**Cashflows – Distribution of amounts standing to the credit of the Funding 2 yield reserve fund before and after master intercompany loan acceleration**" above). The issuing entity will repay each issuing entity start-up loan if and to the extent that it receives amounts from Funding 2 representing repayments of principal on the corresponding start-up loan tranche. Amounts due to the issuing entity start-up loan provider or a new issuing entity start-up loan provider are payable after amounts due on the notes and the issuing entity subordinated loans. After the issuing entity has repaid an issuing entity start-up loan, it will have no further recourse to the issuing entity start-up loan provider or, as applicable, the relevant new issuing entity start-up loan provider in respect of such issuing entity start-up loan.

*Acceleration*

If a master intercompany loan acceleration notice is served by the issuing entity security trustee on Funding 2, then each issuing entity start-up loan will become immediately due and payable.

*Governing law*

The issuing entity start-up loan agreement and each new issuing entity start-up loan agreement and any non-contractual obligations arising out of or in connection with each issuing entity start-up loan agreement and each new issuing entity start-up loan agreement will be governed by, and shall be construed in accordance with, English law.

## The swap agreements

The following section contains a summary of the material terms of the Funding 2 swap agreement and the issuing entity swap agreements. The summary does not purport to be complete and is subject to the provisions of those swap agreements.

### General

Funding 2 entered into the Funding 2 swap agreement with Halifax (as the **Funding 2 swap provider**) and the Funding 2 security trustee and since the reorganisation date Bank of Scotland has been party thereto in place of Halifax. The issuing entity has entered and will enter into issuing entity swaps with the issuing entity swap providers and the issuing entity security trustee. In general, the swaps are designed to do the following:

- Funding 2 swaps: to hedge against the possible variance between the mortgages trustee variable base rate payable on the variable rate loans, the rates of interest payable on the tracker rate loans and the fixed rates of interest payable on the fixed rate loans and (i) the LIBOR rate or (ii) a weighed average of the compounded daily SONIA rates (as applicable) for sterling deposits (excluding spreads) payable in respect of any outstanding loan tranches under the master intercompany loan agreement and any outstanding Funding 2 Z loans; and

- Issuing entity swaps: to protect the issuing entity against certain interest rate and/or currency risks in respect of amounts payable to the issuing entity by Funding 2 under certain rated loan tranches under the master intercompany loan agreement and amounts payable by the issuing entity under the corresponding series and class of notes.

### The Funding 2 swaps

Some of the loans in the portfolio pay a variable rate of interest for a period of time which may be linked to the mortgages trustee variable base rate, a variable interest rate other than the mortgages trustee variable base rate, such as a rate set by the Bank of England, or the flexible variable rate. Other loans pay a fixed rate of interest for a period of time. However, the interest rate payable by Funding 2 with respect to the loan tranches under the master intercompany loan agreement and each Funding 2 Z loan is calculated by reference to (i) LIBOR for three-month sterling deposits or, for some loan tranches or Funding 2 Z loans, such other sterling LIBOR rate as may be specified in the applicable loan tranche supplement or Funding 2 Z loan supplement, each plus or minus a margin or (ii) compounded daily SONIA rates (as applicable). To provide a hedge against the possible variance between:

(1) (i) the mortgages trustee variable base rate payable on the variable rate loans, the rates of interest payable on the tracker rate loans and the fixed rates of interest payable on the fixed rate loans; and (ii) the LIBOR-based rates for sterling deposits (excluding spreads) payable in respect of any outstanding loan tranches under the master intercompany loan agreement and in respect of any outstanding Funding 2 Z loans, or

(2) (i) the mortgages trustee variable base rate payable on the variable rate loans, the rates of interest payable on the tracker rate loans and the fixed rates of interest payable on the fixed rate loans; and (ii) compounded daily SONIA rates payable in respect of any outstanding loan tranches under the master intercompany loan agreement and in respect of any outstanding Funding 2 Z loans,

Funding 2, the Funding 2 swap provider and the Funding 2 security trustee entered into the Funding 2 swap agreement on the programme date and will (if necessary) amend and restate the Funding 2 swap agreement on each relevant closing date such that the Funding 2 swaps will:

- have a notional amount that is sized to hedge against any potential interest rate mismatches in relation to the loan tranches under the master intercompany loan agreement and the Funding 2 Z loans which remain outstanding (subject to the adjustments set out below); and

- provide for the notional amount to be increased as appropriate to hedge against similar potential interest rate mismatches in relation to any future loan tranches and Funding 2 Z loans made available from time to time.

Under the Funding 2 swaps, on each calculation date the following amounts will be calculated (as applicable):

- the amount produced by applying a rate equal to LIBOR payable in respect of any outstanding loan tranches and any outstanding Funding 2 Z loans (as determined on the last day of the relevant calculation period) plus a spread for the relevant calculation period to the notional amount of the Funding 2 swap (known as the **calculation period swap provider amount**), or

- the amount produced by applying a weighted average of the compounded daily SONIA rates (as calculated in accordance with the provisions of the Funding 2 swap agreement for an Interest Period which is the same as the relevant Interest Period) in respect of an interest period plus the blended weighted average SONIA spread in respect of any outstanding loan tranches and any outstanding Funding 2 Z loans (as determined on the last day of the relevant calculation period) plus the calculation period swap provider amount; and

- the amount produced by applying a rate equal to the weighted average of:

(i) the rates of interest payable on the variable rate loans;

(ii) the rates of interest payable on the tracker rate loans; and

(iii) the rates of interest payable on the fixed rate loans,

for the relevant calculation period to the notional amount of the applicable Funding 2 swap (known as the **calculation period Funding 2 amount**).

On each Funding 2 interest payment date the following amounts will be calculated:

- the sum of each of the calculation period swap provider amounts calculated during the preceding interest period; and

- the sum of each of the calculation period Funding 2 amounts calculated during the preceding interest period.

After these two amounts are calculated in relation to a Funding 2 interest payment date, the following payments will be made on that Funding 2 interest payment date:

- if the first amount is greater than the second amount, then the Funding 2 swap provider will pay the difference to Funding 2;

- if the second amount is greater than the first amount, then Funding 2 will pay the difference to the Funding 2 swap provider; and

- if the two amounts are equal, neither party will make a payment to the other.

If a payment is to be made by the Funding 2 swap provider, that payment will be included in the Funding 2 available revenue receipts and will be applied on the relevant Funding 2 interest payment date according to the relevant priority of payments of Funding 2. If a payment is to be made by Funding 2, it will be made according to the relevant priority of payments of Funding 2.

The notional amount of the applicable Funding 2 swap in respect of a calculation period during an interest period will be an amount in sterling equal to:

- the aggregate principal amount outstanding of the loan tranches under the master intercompany loan agreement and the aggregate principal amount outstanding of all Funding 2 Z loans on the first day of the relevant calculation period, less

- the balance of the Funding 2 principal deficiency ledger attributable to such loan tranches and such Funding 2 Z loans on the first day of the relevant calculation period, less

- without double counting, the amount of the principal receipts in the Funding 2 GIC account, the Funding 2 eligible bank GIC account and the Funding 2 collateralised GIC account attributable to such loan tranches and such Funding 2 Z loans on the first day of the relevant calculation period, less

- the aggregate outstanding principal balance of the LIBOR or compounded daily SONIA based loans for which the amount in arrears is equal to or greater than six times the monthly

payment for such loan which is due on the first day of the relevant calculation period multiplied by the Funding 2 share percentage in respect of the first day of the relevant calculation period.

Unless a relevant swap early termination event occurs, each Funding 2 swap will terminate on the date on which the aggregate principal amount outstanding of loan tranches under the master intercompany loan agreement is reduced to zero. In the event that a Funding 2 swap is terminated prior to the service of a master intercompany loan acceleration notice or the latest occurring final repayment date of any loan tranche outstanding under the master intercompany loan agreement, Funding 2 shall enter into a replacement Funding 2 swap on terms acceptable to Funding 2, the rating agencies and the Funding 2 security trustee with a swap provider whom the rating agencies have previously confirmed in writing to Funding 2 and the Funding 2 security trustee will not cause the then current ratings of the notes to be downgraded. If Funding 2 is unable to enter into a replacement Funding 2 swap on terms acceptable to the rating agencies, and/or the Funding 2 security trustee this may affect amounts available to pay interest on the loan tranches under the master intercompany loan agreement.

**The issuing entity currency swaps**

The rated loan tranches under the master intercompany loan agreement will be denominated in sterling and interest payable by Funding 2 to the issuing entity under the rated loan tranches is calculated by reference to LIBOR for three-month sterling deposits, compounded daily SONIA or SONIA (as applicable) or, for some loan tranches, such other sterling LIBOR rate as may be specified in the applicable loan tranche supplement, each plus or minus a margin. However, the issuing entity may (subject to compliance with all applicable legal, regulatory and central bank requirements) issue a series or class of notes in such currency as may be agreed with the relevant dealers and/or (in the case of any privately placed notes) the relevant noteholders. Such notes will accrue interest at a rate calculated by reference to a rate for one-month deposits in such currency, three-month deposits in such currency or such other rate specified in the applicable final terms or drawdown prospectus. To deal with the potential currency mismatch between (i) its receipts and liabilities in respect of a rated loan tranche and (ii) its receipts and liabilities under the corresponding series and class of notes, the issuing entity will, pursuant to the terms of the issuing entity swap agreements in respect of each series and class of notes, swap its receipts and liabilities in respect of the relevant rated loan tranche on terms that match the issuing entity's obligations under the relevant series and class of notes.

The currency amount of each such issuing entity swap will be the principal amount outstanding under the series of notes to which the relevant issuing entity swap relates. Subject, in the case of the issuing entity's obligations under certain classes of notes, to certain deferral of interest provisions that will apply when payment of interest under the corresponding notes is deferred in accordance with the terms and conditions of such notes, and to the extent that the issuing entity makes its corresponding payments to the issuing entity swap providers, the issuing entity swap providers will pay to the issuing entity amounts in the specified currency that are equal to the amounts of interest to be paid on each of the classes of the notes of the relevant series and the issuing entity will pay to the issuing entity swap providers the sterling interest amounts received on the rated loan tranche corresponding to the classes of notes of the relevant series. In order to allow for the effective currency amount of each relevant issuing entity swap to amortise at the same rate as the relevant series and class of notes, each issuing entity swap agreement will provide that, as and when the notes amortise, a corresponding portion of the currency amount of the relevant issuing entity swap will amortise. Pursuant to each such issuing entity swap agreement, any portion of issuing entity swap so amortised will be swapped from sterling into the specified currency at the specified currency exchange rate for such notes. The issuing entity priority of payments do not distinguish between the amounts received by the issuing entity from Funding 2 under the relevant rated loan tranches that pay interest calculated by reference to LIBOR and those that pay interest calculated by reference to SONIA (as applicable).

On the final maturity date of each such class of notes or, if earlier, the date on which such notes are redeemed in full (other than following delivery of a note acceleration notice in respect of such series and class of notes), the relevant issuing entity swap provider will pay to the issuing entity an amount in the specified currency, equal to the principal amount outstanding under the relevant notes, and the issuing entity will pay to the relevant issuing entity swap provider an equivalent amount in sterling, converted by reference to the specified currency exchange rate for such notes. In respect of any payment date, if the issuing entity does not have sufficient cash available to pay amounts under the issuing entity swap in full on such date and accordingly pays only a part of such amount to the relevant issuing entity swap provider, the relevant issuing entity swap provider will be obliged on such date to pay only the equivalent of such partial amount in the specified currency, in each case converted by reference to the specified currency exchange rate for such notes.

In the event that any such issuing entity swap is terminated prior to the service of a note acceleration notice or the final redemption of the relevant series of notes, the issuing entity cash manager (on behalf of the issuing entity and the issuing entity security trustee) shall procure the purchase of a replacement currency swap in respect of that class and series of notes. Any replacement currency swap must be entered into on terms acceptable to the rating agencies, the issuing entity and the issuing entity security trustee and with a replacement currency swap provider whom the rating agencies have previously confirmed in writing to the issuing entity and the issuing entity security trustee will not cause the then current ratings of the notes of the relevant series to be downgraded. If the issuing entity is unable to enter into any replacement currency swaps on terms acceptable to the rating agencies and/or the issuing entity security trustee, this may affect amounts available to pay amounts due under the notes.

If such an issuing entity swap is terminated and the issuing entity is unable to enter into a replacement swap as described above, then any payments received by the issuing entity from Funding 2 on each Funding 2 interest payment date shall be deposited in the issuing entity transaction account (or such other account opened for this purpose) and applied by the issuing entity to repay the notes on each periodic interest payment date after exchanging at the "spot" rate the relevant proceeds from sterling into the specified currency as required.

**The issuing entity interest rate swaps**

The rated loan tranches under the master intercompany loan agreement will be denominated in sterling and interest payable by Funding 2 to the issuing entity under the rated loan tranches is calculated by reference to LIBOR for three-month sterling deposits or compounded daily SONIA (or such other rate specified in the accompanying final terms or drawdown prospectus), each plus or minus a margin. However, the issuing entity may (subject to compliance with all applicable legal, regulatory and central bank requirements) issue a series or class of notes in sterling and such notes may accrue interest at a fixed rate of interest or a floating rate of interest which differs from the LIBOR-based rate or the compounded daily SONIA-based rate on the corresponding rated loan tranche. To deal with the potential interest rate mismatch between (i) its receipts and liabilities in respect of the loan tranches and (ii) its receipts and liabilities under the notes, the issuing entity will, pursuant to the terms of the issuing entity swap agreements in respect of each such series and class of notes, swap its receipts and liabilities in respect of the relevant loan tranches on terms that match the issuing entity's obligations under the relevant series and class of notes.

In the event that any such issuing entity swap is terminated prior to the service of a note acceleration notice or its scheduled termination date, the issuing entity cash manager (on behalf of the issuing entity and the issuing entity security trustee) shall procure the purchase of a replacement interest rate swap in respect of that series and class of notes. Any replacement interest rate swap must be entered into on terms acceptable to the rating agencies, the issuing entity and the issuing entity security trustee and with a replacement interest rate swap provider whom the rating agencies have previously confirmed in writing to the issuing entity and the issuing entity security trustee will not cause the then current ratings of the notes of the relevant series and class to be downgraded. If the issuing entity is unable to enter into any replacement interest rate swaps on terms acceptable to the rating agencies and/or the issuing entity security trustee, this may affect amounts available to pay amounts due under such series and class of notes.

If such an issuing entity swap is terminated and the issuing entity is unable to enter into a replacement swap as described above, then any payments received by the issuing entity from Funding 2 on each Funding 2 interest payment date shall be deposited in the issuing entity transaction account (or such other account opened for this purpose) and applied by the issuing entity to pay interest to the holders of the relevant series and class of notes on each interest payment date.

**Ratings downgrade of swap providers**

Under each of the swap agreements, in the event that the relevant rating(s) of a swap provider, or its respective co-obligor or guarantor, as applicable, is or are, as applicable, downgraded by a rating agency below the rating(s) specified in the relevant swap agreement for such swap provider, co-obligor or the relevant swap provider will, in accordance with the relevant Funding 2 swap or the relevant issuing entity swap, as applicable, be required to take certain remedial measures which may include (a) providing collateral for its obligations under the relevant swap, (b) arranging for its obligations under the relevant swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant swap agreement (in accordance with the requirements of the relevant rating agency), (c) procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant swap agreement (in accordance with the requirements of the relevant rating agency) to become co-obligor or guarantor, as applicable, in respect of its obligations under the relevant swap or (d) depending on the relevant swap

agreement, taking any other action as is required to maintain or restore the rating of the relevant notes by the relevant rating agency or taking such other action as it may agree with the relevant rating agency.

**Termination of the swaps**

Any swap agreement may also be terminated in certain other circumstances that may include, but will not be limited to, the following, each referred to as a **swap early termination event**:

- at the option of one party to the swap agreement, if there is a failure by the other party to pay any amounts due under that swap agreement and any applicable grace period has expired;
- in respect of the issuing entity swaps, at the option of the relevant issuing entity swap provider, if a note event of default under the relevant series and class of notes occurs and the note trustee serves a note acceleration notice;
- in respect of the Funding 2 swaps, at the option of the Funding 2 swap provider, if a master intercompany loan event of default occurs and the Funding 2 security trustee serves a master intercompany loan acceleration notice;
- if applicable, at the option of the issuing entity (in the case of an issuing entity swap) or Funding 2 (in the case of a Funding 2 swap), if certain tax representations by the relevant swap provider prove to have been incorrect or misleading in any material respect;
- at the option of the relevant swap provider, if certain insolvency events occur with respect to the issuing entity (in the case of an issuing entity swap) or Funding 2 (in the case of a Funding 2 swap);
- at the option of the issuing entity (in the case of an issuing entity swap) or Funding 2 (in the case of a Funding 2 swap), upon the occurrence of an insolvency of the relevant swap provider, or its guarantor, or the merger of the relevant swap provider without an assumption of its obligations under the relevant swap agreement, or if a material misrepresentation is made by the swap provider under the relevant swap agreement, or if the relevant swap provider defaults under an over-the-counter derivatives transaction under another agreement between the issuing entity and such swap provider or, if a breach of a provision of the relevant swap agreement by the swap provider is not remedied within the applicable grace period or, if applicable, if the guarantor of the relevant swap provider fails to comply with its obligations under the guarantee;
- if applicable, at the option of Funding 2, if the Funding 2 swap provider fails to provide the cash manager with the required financial information necessary to complete Funding 2's Exchange Act filings with the SEC as required pursuant to the Funding 2 swap agreement;
- if a change in law results in the obligations of one of the parties becoming illegal;
- at the option of the relevant swap provider, if withholding taxes are imposed on payments made by the relevant swap provider or issuing entity (in the case of an issuing entity swap) or Funding 2 (in the case of a Funding 2 swap) due to a change in law;
- at the option of the issuing entity (in the case of an issuing entity swap) or Funding 2 (in the case of a Funding 2 swap) if the relevant swap provider or its guarantor, as applicable, is downgraded and the relevant swap provider fails to comply with the requirements of the ratings downgrade provision contained in the relevant swap agreement and described under "**Ratings downgrade of swap providers**" above;
- in respect of the issuing entity swaps, at the option of the relevant issuing entity swap provider, if a redemption or purchase of the relevant series and class (or sub-class) of notes occurs pursuant to Condition 5.4 (Optional Redemption in Full) under "**Terms and conditions of the notes**";
- in respect of the issuing entity swaps, at the option of the relevant issuing entity swap provider, if a redemption or purchase of the relevant series and class (or sub-class) of notes occurs pursuant to Condition 5.5 (Optional Redemption for Tax and other Reasons) under "**Terms and conditions of the notes**";

- in respect of the issuing entity swaps, at the option of the relevant issuer entity swap provider, if any of the issuing entity priority of payments is amended (other than in accordance with the issuing entity deed of charge or with the prior written consent of the relevant issuer entity swap provider) such that the issuing entity's obligations to the relevant issuing entity swap provider under the relevant issuing entity swap agreement are further contractually subordinated to the issuing entity's obligations to any other issuing entity secured creditors; and

- in respect of the issuing entity swaps, at the option of the relevant issuing entity swap provider, if any of the transaction documents is amended without the consent of the relevant issuing entity swap provider such that the relevant issuing entity swap provider is required to pay more or receive less under the relevant issuing entity swap agreement on the immediately following payment date under the relevant issuing entity swap agreement than would otherwise have been the case immediately prior to such amendment.

Upon the occurrence of a swap early termination event, the issuing entity or the relevant issuing entity swap provider may be liable to make a termination payment to the other (in the case of an issuing entity swap) and/or Funding 2 or the Funding 2 swap provider may be liable to make a termination payment to the other (in the case of a Funding 2 swap). This termination payment will be calculated and payable in sterling or, in respect of some issuing entity swaps, in the same currency as the series and class of notes to which any such issuing entity swap relates. The amount of any termination payment will be based on the market value of the terminated swap as determined on the basis of quotations sought from leading dealers as to the cost of entering into a swap with the same terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (or based upon a good faith determination of total losses and costs (or gains) if an insufficient number of quotations can be obtained or if basing the valuation on quotations would not produce a commercially reasonable result) and will include any unpaid amounts that became due and payable on or before the date of termination. Any such termination payment could be substantial.

If a swap early termination event occurs with respect to any issuing entity swap and a termination payment is due by the issuing entity to an issuing entity swap provider, then, pursuant to its obligations under the master intercompany loan agreement, Funding 2 shall pay to the issuing entity an amount equal to the termination payment due to the relevant issuing entity swap provider less any amount received by the issuing entity under any replacement issuing entity swap agreement. These payments will be made by Funding 2 only after paying interest amounts due on the loan tranches and after providing for any debit balance on the Funding 2 principal deficiency ledger. The issuing entity shall apply amounts received from Funding 2 under the master intercompany loan agreement in accordance with the issuing entity pre-enforcement revenue priority of payments or, as the case may be, the issuing entity post-enforcement priority of payments. The application by the issuing entity of termination payments due to an issuing entity swap provider may affect the funds available to pay amounts due to the noteholders (see further "**Risk factors – You may be subject to exchange rate risks and interest rate risks on any series of notes that are denominated in a currency other than sterling**" and "**Risk factors – Termination payments on the issuing entity swaps may adversely affect the funds available to make payments on your notes**" above).

If the issuing entity receives a termination payment from an issuing entity swap provider, then the issuing entity shall use those funds towards meeting its costs in effecting any currency exchanges at the applicable spot rate of exchange and/or funding the negative impact of any unhedged interest rate mismatches, as applicable, until a replacement issuing entity swap is entered into and/or to acquire a replacement issuing entity swap.

If Funding 2 receives a termination payment from the Funding 2 swap provider, then Funding 2 shall use those funds towards meeting its costs in effecting any interest rate exchanges until a replacement Funding 2 swap is entered into and/or to acquire a replacement Funding 2 swap.

Noteholders will not receive extra amounts (over and above interest and principal payable on the notes) as a result of the issuing entity receiving a termination payment.

**Transfer of the swaps**

Each swap provider may, subject to certain conditions specified in the relevant swap agreement, including (without limitation) the satisfaction of certain requirements of the rating agencies, transfer its obligations under any of the swaps to another entity.

**Taxation**

Neither Funding 2 nor the issuing entity is obliged under any of the swaps to gross up payments made by them if withholding taxes are imposed on payments made under the Funding 2 swaps or the issuing entity swaps.

Each swap provider will generally be obliged to gross up payments made by it to Funding 2 or the issuing entity, as appropriate, if withholding taxes are imposed on payments made under the Funding 2 swaps or the issuing entity swaps. However, if a swap provider is required to gross up a payment under a swap due to a change in law, the relevant swap provider may be entitled to terminate the relevant swap.

**Governing law**

The Funding 2 swap agreement and the issuing entity swap agreements and any non-contractual obligations arising out of or in connection with the Funding 2 swap agreement and the issuing entity swap agreements will be governed by and shall be construed in accordance with English law.

## The bank account agreements

The following section contains a summary of the material terms of the various bank account agreements of the issuing entity, Funding 2 and the mortgages trustee. This summary does not purport to be complete and, by virtue of being a summary only, is subject to the provisions of those bank account agreements.

### Bank account agreement

Pursuant to the terms of the bank account agreement, the following bank accounts have been opened and maintained with the account bank (currently Bank of Scotland) in the name of the mortgages trustee and Funding 2: (i) the mortgages trustee GIC account, (ii) the Funding 2 GIC account, (iii) the Funding 2 transaction account, (iv) the Funding 2 swap collateral cash account and (v) the Funding 2 collateralised GIC account. The bank account agreement regulates the operation of those bank accounts.

The **mortgages trustee GIC account**: all principal receipts and revenue receipts are paid into the mortgages trustee GIC account. The mortgages trustee makes all distributions and payments made out of this account.

The **Funding 2 GIC account**: the Funding 2 general reserve fund, the Funding 2 yield reserve fund and Funding 2 yield reserve fund are credited to this account. On each distribution date Funding 2's share of the mortgages trust available revenue receipts and any distribution of mortgages trust available principal receipts to Funding 2 under the mortgages trust are initially deposited in this account. Also, all amounts received by Funding 2 pursuant to the Funding 2 swaps and any other amounts received by or on behalf of Funding 2 will be deposited into this account. On each Funding 2 interest payment date, amounts required to meet Funding 2's obligations to its various creditors are transferred to the Funding 2 transaction account; and

The **Funding 2 transaction account**: on each Funding 2 interest payment date, in respect of monies standing to the credit of the Funding 2 GIC account and the Funding 2 eligible bank GIC account and seven business days prior to each Funding 2 interest payment date in respect of monies standing to the credit of the Funding 2 collateralised GIC account, as applicable, are transferred to the Funding 2 transaction account and applied by the cash manager in accordance with the relevant priority of payments. Amounts representing Funding 2's profits are retained in the Funding 2 transaction account.

The **Funding 2 swap collateral cash account**: swap collateral in the form of cash is paid into this account by the Funding 2 swap provider when required pursuant to the Funding 2 swap agreement.

The **Funding 2 collateralised GIC account**: on each distribution date amounts which constitute Funding 2 deposit non-reserved amounts may be deposited in this account provided that the conditions described under "**Cash management for the mortgages trustee, Funding 1 and Funding 2—Cash management services with respect to the Funding 2 collateralised GIC account**" are met. Pursuant to the terms of the bank account agreement, the Funding 2 eligible bank GIC account may be opened. A bank account agreement (or, with respect to the Funding 2 eligible bank GIC account, a bank account agreement on substantially similar terms to the bank account agreement with such amendments as are satisfactory to the cash manager and will not result in a downgrade, withdrawal or qualification of the then current ratings of the notes) will regulate the operation of this bank account.

The **Funding 2 eligible bank GIC account**: If opened with the agent account bank, on each distribution date Funding 2's share of the mortgages trust available revenue receipts and any distribution of mortgages trust available principal receipts to Funding 2 under the mortgages trust may be deposited in this account. In addition, all amounts received by Funding 2 pursuant to the Funding 2 swaps and any other amounts received by or on behalf of Funding 2 may be deposited in this account. On each Funding 2 interest payment date, amounts required to meet Funding 2's obligations to its various creditors are transferred to the Funding 2 transaction account. Amounts on deposit in the Funding 2 transaction account may be deposited with panel banks pursuant to the panel bank guidelines as described under "**Cash management for the mortgages trustee, Funding 1 and Funding 2—Panel bank guidelines**".

### Instructions

The account bank will comply with the instructions of the cash manager, except that following receipt of a notice that a master intercompany loan acceleration notice has been served on Funding 2 or that the appointment of Bank of Scotland as the cash manager has been terminated, the account bank will act on the instructions of the Funding 2 security trustee.

**Termination events**

Subject to "**—Funding 2 collateralised GIC account**" below with respect to the Funding 2 collateralised GIC account, the cash manager or Funding 2 (in the case of a Funding 2 bank account) or the cash manager, Funding 1, Funding 2 or the mortgages trustee (in the case of the mortgages trustee GIC account):

(a) may (with the prior written consent of the Funding 1 security trustee and the Funding 2 security trustee, and subject to a replacement financial institution or institutions having being appointed in accordance with the terms of the bank account agreement) terminate the bank account agreement and close the relevant bank accounts by giving not less than 30 calendar days' prior written notice to the account bank, in the event that the matters described in paragraphs (i) or (iv) below occur;

(b) unless one of the termination remedies described below applies, shall (with the prior written consent of the Funding 1 security trustee and the Funding 2 security trustee, and subject to a replacement financial institution or institutions having being appointed in accordance with the terms of the bank account agreement) terminate the bank account agreement and close the relevant bank accounts by giving 30 calendar days' prior written notice to the account bank, in the event that any of the matters described in paragraphs (ii)(1)(A), (ii)(1)(B) or (iii) below occurs; or

(c) unless one of the termination remedies described below applies, shall (with the prior written consent of the Funding 1 security trustee and the Funding 2 security trustee, and subject to a replacement financial institution or institutions having being appointed in accordance with the terms of the bank account agreement) terminate the bank account agreement and close the relevant bank accounts by giving 60 calendar days' prior written notice to the account bank, in the event that any of the matters described in paragraph (ii)(1)(C) and (ii)(2) below occurs.

The circumstances referred to in paragraphs (a), (b) and (c) above are:

(i) if a deduction or withholding for or on account of any tax is imposed, or it appears likely that such a deduction or withholding will be imposed, in respect of the interest payable on any bank account; or

(ii) if:

(1) with respect to the account bank as holder of the Funding 1 bank accounts or the Funding 2 bank accounts, as applicable, the ratings of the account bank fall below (A) the Funding Fitch required ratings, (B) the Funding Moody's required ratings and (C) the Funding S&P required ratings;

(2) with respect to the account bank as holder of the mortgages trustee GIC account, the ratings of the account bank fall below any of the mortgages trustee account bank required ratings;

(iii) if certain insolvency related events occur in relation to the account bank; or

(iv) if the account bank fails to perform any of its obligations under the bank account agreement and such failure remains unremedied for three business days after the cash manager or the Funding 1 security trustee and the Funding 2 security trustee have given notice of such failure.

The termination remedies referred to above include (1) the relevant rating agency confirms that its then current rating of the notes would not be downgraded, withdrawn or qualified as a result of the account bank's ratings falling below the above ratings; or (2) the account bank obtains (at its own cost) a guarantee of its obligations from a financial institution with at least the relevant account bank required ratings or mortgages trustee account bank required ratings, as applicable, or such other ratings as would not cause the then current rating of the notes to be downgraded, withdrawn or qualified by the relevant rating agency.

Any termination of the account bank will not be effective until, among other things, a replacement financial institution (with the requisite ratings outlined in (ii) above) has entered into an agreement substantially similar to the bank account agreement and provided that the termination would not adversely affect the then current ratings of the notes.

**Funding 2 collateralised GIC account**

Notwithstanding the information provided above under "**—Termination events**", but subject to the following paragraph, in the event that Bank of Scotland, as Funding 2 account bank with respect to the Funding 2 collateralised GIC account, does not have the Funding account bank required ratings, Bank of Scotland may continue to act as account bank in respect of such account and shall not be terminated on the basis of its ratings and it shall continue to operate and receive deposits of Funding 2 deposit non-reserved amounts in to the Funding 2 collateralised GIC account, provided that the conditions described under "**Cash management for the mortgages trustee, Funding 1 and Funding 2—Cash management services with respect to the Funding 2 collateralised GIC account**" are met.

If, (i) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Funding 2 account bank fall below F2 by Fitch or the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the Funding 2 account bank fall below BBB- by Fitch; or (ii) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Funding 2 account bank fall below P-2 by Moody's; or (iii) the unsecured, unsubordinated and unguaranteed debt obligations of the Funding 2 account bank fall below A-2 short-term or BBB- long-term by S&P, the cash manager or Funding 2 shall, within five London business days of the occurrence of any of the events specified in sub-paragraphs (i) to (iii) (inclusive) above, transfer amounts standing to the credit of the Funding 2 collateralised GIC account to the Funding 2 GIC account.

Following the transfer of any amounts standing to the credit of the Funding 2 collateralised GIC account to the Funding 2 GIC account as described in the paragraph above, the cash manager or Funding 2 shall, or the Funding 2 security trustee may, close the Funding 2 collateralised GIC account by giving not less than five London business days' prior written notice to the Funding 2 account bank (with a copy to, as applicable, the cash manager, Funding 2 and the Funding 2 security trustee).

Notwithstanding the foregoing, upon the occurrence of the ratings event specified in sub-paragraph (iii) above and the subsequent transfer of amounts standing to the credit of the Funding 2 collateralised GIC account to the Funding 2 GIC account, Bank of Scotland (as the account bank at which the Funding 2 GIC account is maintained) may not close the GIC collateral custody account or withdraw eligible collateral from the GIC collateral custody account if such withdrawal of eligible collateral from the GIC collateral custody account would mean that the collateral test would be failed after such withdrawal until it has first provided a solvency certificate to the Funding 2 security trustee with respect to Bank of Scotland as of both the date (i) the GIC collateral custody account is closed and (ii) amounts are transferred from the Funding 2 collateralised GIC account as described above.

**Governing law**

The bank account agreement and any non-contractual obligations arising out of or in connection with the bank account agreement is governed by, and shall be construed in accordance with, English law.

**Issuing entity bank account agreement**

The issuing entity has opened and maintained the issuing entity transaction account with the issuing entity account bank (currently Bank of Scotland). All monies received by the issuing entity from Funding 2 or otherwise are paid into the issuing entity bank account. The issuing entity bank account agreement regulates the operation of that account.

**Instructions**

The issuing entity account bank will comply with the instructions of the issuing entity cash manager, except that following receipt of a notice that (i) a master intercompany loan acceleration notice has been served on Funding 2 or (ii) a note acceleration notice has been served on the issuing entity or (iii) the appointment of Bank of Scotland as the issuing entity cash manager has been terminated, the issuing entity account bank will act on the instructions of the issuing entity security trustee.

**Termination events**

The issuing entity cash manager or the issuing entity:

(a) may (with the prior written consent of issuing entity security trustee) terminate the issuing entity bank account agreement and close the issuing entity accounts by giving not less than 30 calendar days' prior written notice to the issuing entity account bank, in the event that the matters described in paragraphs (i) or (iii) below occur;

(b) unless one of the termination remedies described below applies, shall (with the prior written consent of issuing entity security trustee) terminate the issuing entity bank account agreement and close the issuing entity accounts by giving not less than 30 calendar days' prior written notice to the issuing entity account bank, in the event that the matters described in paragraphs (ii)(A), (ii)(B) or (iii) below occurs; or

(c) unless one of the termination remedies described below applies, shall (with the prior written consent of issuing entity security trustee) terminate the issuing entity bank account agreement and close the issuing entity accounts by giving not less than 60 calendar days' prior written notice to the issuing entity account bank, in the event that the matter described in paragraph (ii)(C) below occurs.

The circumstances referred to above are:

(i) if a deduction or withholding for or on account of any tax is imposed, or it appears likely that such a deduction or withholding will be imposed, in respect of the interest payable on any issuing entity bank account;

(ii) if the issuing entity account bank ceases to have any of the (A) issuing entity account bank Moody's required ratings, (B) issuing entity account bank Fitch required ratings or (C) issuing entity account bank S&P required ratings;

(iii) if certain insolvency related event occur in relation to the issuing entity account bank; or

(iv) if the issuing entity account bank fails to perform any of its obligations under the issuing entity bank account agreement and such failure remains unremedied for three business days after the issuing entity cash manager or the issuing entity security trustee has given notice of such failure.

The termination remedies referred to above include (1) the relevant rating agency confirms that its then current rating of the notes would not be downgraded, withdrawn or qualified as a result of the issuing entity account bank's ratings falling below applicable issuing entity account bank required ratings; or (2) the issuing entity account bank obtains (at its own costs) a guarantee of its obligations from a financial institution with at least all the issuing entity account bank required ratings or such other ratings as would not cause the then current rating of the notes to be downgraded, withdrawn or qualified by the relevant rating agency.

Any termination of the issuing entity account bank will not be effective until, among other things, a replacement financial institution (with the requisite ratings outlined in (ii) above) has entered into an agreement substantially similar to the issuing entity bank account agreement and provided that the termination would not adversely affect the then current ratings of the notes.

**Governing law**

The issuing entity bank account agreement and any non-contractual obligations arising out of or in connection with the issuing entity bank account agreement is governed by, and shall be construed in accordance with, English law.

**Cash management for the mortgages trustee, Funding 1 and Funding 2**

The following section contains a summary of the material terms of the cash management agreement. The summary does not purport to be complete and is subject to the provisions of the cash management agreement. Halifax (acting as **cash manager**) was appointed by the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee and the Funding 2 security trustee to provide cash management services in relation to the mortgages trust, Funding 1 and Funding 2 and since the reorganisation date Bank of Scotland has been responsible for such services.

**Cash management services provided in relation to the mortgages trust**

The cash manager's duties in relation to the mortgages trust include, but are not limited to:

(A) determining the current shares of Funding 1, Funding 2 and the seller in the trust property in accordance with the terms of the mortgages trust deed;

(B) maintaining the following ledgers on behalf of the mortgages trustee:

- a ledger designated the Funding 1 share/Funding 2 share/seller share ledger, which records the current shares and share percentage of the seller, Funding 1 and Funding 2 in the trust property;
- the losses ledger, which records losses on the loans;
- the principal ledger, which records principal receipts on the loans received by the mortgages trustee and payments of principal from the mortgages trustee GIC account to Funding 1, Funding 2 and the seller; and
- the revenue ledger, which records revenue receipts on the loans received by the mortgages trustee and payments of revenue receipts from the mortgages trustee GIC account to Funding 1, Funding 2 and the seller; and

(C) distributing the mortgages trust available revenue receipts and the mortgages trustee principal receipts to Funding 1, Funding 2 and the seller in accordance with the terms of the mortgages trust deed.

**Cash management services provided to Funding 2**

The cash manager's duties in relation to Funding 2 will include, but are not limited to:

(A) four business days before each Funding 2 interest payment date, determining:

- the amount of Funding 2 available revenue receipts to be applied on the following Funding 2 interest payment date in accordance with the Funding 2 pre-enforcement revenue priority of payments;
- the amount of Funding 2 available principal receipts to be applied on the following Funding 2 interest payment date in accordance with the Funding 2 pre-enforcement principal priority of payments;
- the amount of any Funding 2 income deficit; and
- the principal amount outstanding of the Funding 2 Z loans in accordance with the Funding 2 Z loan agreement.

(B) if required, making drawings under the Funding 2 general reserve fund and/or the Funding 2 liquidity reserve fund and/or the Funding 2 yield reserve fund;

(C) if required, opening the Funding 2 eligible bank GIC account;

(D) maintaining the following ledgers on behalf of Funding 2:

- the Funding 2 principal ledger, which records the amount of principal receipts received by Funding 2 on each distribution date;
- the Funding 2 revenue ledger, which records all amounts (other than principal receipts) received by Funding 2 on each distribution date, together with interest

received by Funding 2 on its authorised investments or pursuant to the bank account agreement;

- the Funding 2 general reserve ledger, which records (i) the amount credited to the Funding 2 general reserve fund from a portion of the proceeds of Funding 2 start-up loans on the relevant closing dates, (ii) other amounts standing to the credit of the Funding 2 general reserve fund (but not exceeding the Funding 2 reserve required amount) and (iii) all deposits and other credits in respect of the Funding 2 general reserve fund;
- the Funding 2 liquidity reserve ledger, which records the amounts credited to the Funding 2 liquidity reserve fund from Funding 2 available revenue receipts and from Funding 2 available principal receipts up to the Funding 2 liquidity reserve fund required amount and drawings made under the Funding 2 liquidity reserve fund;
- the Funding 2 principal deficiency ledger, which records principal deficiencies arising from losses on the loans which have been allocated to the Funding 2 share or the use of the Funding 2 principal receipts to cover certain senior expenses (including interest on the loan tranches and fees due under the master intercompany loan agreement);
- the Funding 2 yield reserve ledger, which records (i) on each relevant closing date on which any Funding 2 yield reserve notes are issued, an amount drawn down on such closing date by Funding 2 pursuant to a Funding 2 start-up loan agreement or an issuing entity start-up loan tranche for the purposes of funding the Funding 2 yield reserve fund (or any other similar reserve fund) and (ii) drawings made under the Funding 2 yield reserve fund;
- the master intercompany loan ledger, which records payments of interest and repayments of principal made on each of the loan tranches under the master intercompany loan agreement;
- the Funding 2 cash accumulation ledger, which records the amount accumulated by Funding 2 from time to time to pay the amounts due on the bullet loan tranches and the scheduled amortisation instalments;
- the start-up loan revenue contribution ledger, which records all amounts received by Funding 2 under a Funding 2 start-up loan agreement or a start-up loan tranche under the master intercompany loan agreement;
- the Funding 2 swap collateral ledger, which records all payments, transfers and receipts of swap collateral under the Funding 2 swap agreement, and the return of any excess swap collateral under the Funding 2 swap agreement to the Funding 2 swap provider; and
- on the date on which an agent account bank is appointed and accedes to the bank account agreement, the Funding 2 panel bank ledger, which records all cash deposited with a panel bank (including the agent account bank).

(E) investing sums standing to the credit of the Funding 2 GIC account, the Funding 2 collateralised GIC accounts and the Funding 2 eligible bank GIC account in short-term authorised investments as determined by Funding 2, (insofar as permitted by applicable law, including without limitation, the FSMA) the cash manager and the Funding 2 security trustee;

(F) making withdrawals from the Funding 2 reserve funds as and when required;

(G) applying the Funding 2 available revenue receipts and Funding 2 available principal receipts in accordance with the relevant Funding 2 priority of payments;

(H) making all returns and filings in relation to Funding 2 and the mortgages trustee and providing or procuring the provision of company secretarial and administration services to them; and

(I) determining the amount of interest due on each Funding 2 Z loan on each Funding 2 interest payment date.

For the definitions of Funding 2 available revenue receipts and Funding 2 available principal receipts, see "**Cashflows**" above.

**Cash management services provided to Funding 1**

The cash manager is also responsible for providing similar cash management services to Funding 1 as those provided to Funding 2.

**Cash management services with respect to the Funding 2 collateralised GIC account**

The cash manager may deposit Funding 2 deposit non-reserved amounts into the Funding 2 collateralised GIC Account, if (i) Bank of Scotland (in its capacity as Funding 2 collateralised GIC account bank) has (a)(1) short-term, unsecured, unsubordinated and unguaranteed debt obligations of at least F2 by Fitch and long-term, unsecured, unsubordinated and unguaranteed debt obligations of at least BBB- by Fitch, (2) short-term, unsecured, unsubordinated and unguaranteed debt obligations of at least P-2 by Moody's, and (3) unsecured, unsubordinated and unguaranteed debt obligations of at least A-2 short term and BBB- long term by S&P, (b) entered into the Funding 2 collateral security agreement, and (c) pursuant to the Funding 2 collateral security agreement, entered into an eligible custody agreement with the eligible GIC custodian whose long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least BBB by S&P and whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least F-2 or its long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least BBB+, in each case by Fitch (or such other ratings as may be agreed with the relevant rating agency); and (ii) the cash manager is satisfied that the collateral test would be passed after the making of such deposit.

The cash manager's duties in relation to the Funding 2 collateralised GIC account will include, but are not limited to:

(A) transfer monies standing to the credit of the Funding 2 collateralised GIC account to the Funding 2 transaction account seven business days prior to each Funding 2 interest payment date;

(B) on each business day on which funds are standing to the credit of the Funding 2 collateralised GIC account, run the collateral test and, if the collateral test is failed on any such date, withdraw an amount from the Funding 2 collateralised GIC account and transfer such amount to the Funding 2 GIC account so that the collateral test is passed in respect of the amount remaining in the Funding 2 collateralised GIC account or, with respect to a failure of the collateral test due to an insolvency event with respect to the eligible GIC custodian, withdraw all amounts standing to the credit of the Funding 2 collateralised GIC account and transfer such amounts to the Funding 2 GIC account;

(C) based on information provided to it on a daily basis by the eligible GIC custodian, monitor the amounts of eligible collateral posted to or proposed to be withdrawn from the GIC collateral custody account and the amounts standing to the credit of or proposed to be withdrawn from the cash accounts and/or distribution account; and

(D) upon the occurrence of a Funding 2 collateralised GIC enforcement event, the Cash Manager on behalf of Funding 2 shall (or following the delivery of a master intercompany loan acceleration notice, the Funding 2 security trustee shall) deliver an enforcement notice and a secured party notice instructing the eligible GIC custodian to instruct the liquidation agent appointed pursuant to the eligible custody agreement to realise the eligible collateral.

Proceeds from the realisation of the eligible collateral will be paid into the Funding 2 GIC account if and to the extent amounts standing to the credit of the Funding 2 collateralised GIC account are not capable of being withdrawn to the Funding 2 GIC account. Thereafter, any remaining realisation proceeds will then be paid to Bank of Scotland (in its capacity as Funding 2 collateralised GIC account bank) as Funding 2 excess collateral under the terms of the Funding 2 collateral security agreement.

**Panel Bank Guidelines**

A part of or all amounts standing to the credit of the Funding 2 transaction account may be deposited with panel banks upon instructions of the cash manager to the agent account bank. Amounts deposited with a panel bank may be invested in authorised investments provided that (i) with respect to term deposits, such authorised investment shall have a maturity of no greater than 60 calendar days, and/or (ii) with respect to demand deposits, the issuing entity or guaranteeing entity with which the demand deposits are made has

"Issuer Default Ratings" of at least F1 short-term or A long-term by Fitch. In addition, notwithstanding any other provision of the panel bank guidelines, amounts deposited with any panel bank may only be deposited with each such panel bank for a maximum period maturing on or before the immediately following Funding 2 payment date. All monies deposited with a panel bank need to be returned to the Funding 2 transaction account at the latest by 10 a.m. (London time) on the immediately following Funding 2 payment date.

The cash manager may modify the panel bank guidelines provided that (i) any modifications to the panel bank guidelines are notified in advance to the rating agencies, the agent account bank and the Funding 2 security trustee, (ii) the rating agencies have confirmed in writing that the then current ratings of the notes would not be adversely affected by such modification and (iii) such modification does not have any adverse effect on the security in respect of the notes and in the case of (ii) and (iii) above as confirmed to the Funding 2 security trustee in writing by the cash manager (which confirmation the Funding 2 security trustee shall be entitled to rely on without further investigation).

**Compensation of cash manager**

The cash manager is paid a rate of 0.025 per cent. per annum (inclusive of VAT) by Funding 1 of the aggregate of the principal amount outstanding of the term advances under the Funding 1 intercompany loan agreements and by Funding 2 of the aggregate of the principal amount outstanding of the rated loan tranches and the subordinated loan tranches under the master intercompany loan agreement for the services provided to the mortgages trustee, Funding 2 and Funding 1. The rate is subject to adjustment if the applicable rate of VAT changes.

In addition, the cash manager is entitled to be reimbursed for any expenses or other amounts properly incurred by it in carrying out its duties. The cash manager is paid by (a) Funding 2 prior to payment of interest due on the loan tranches and (b) Funding 1 prior to payment of interest due on the term advances.

**Resignation of cash manager**

The cash manager may resign only on giving 12 months' written notice to the Funding 1 security trustee, the Funding 2 security trustee, Funding 1, Funding 2 and the mortgages trustee and if (among other things):

- a substitute cash manager has been appointed and a new cash management agreement is entered into on terms satisfactory to the Funding 1 security trustee, the Funding 2 security trustee, the mortgages trustee, Funding 1 and Funding 2; and
- the ratings of the notes and the Funding 1 notes at that time would not be adversely affected as a result of that replacement (unless otherwise agreed by an extraordinary resolution of the noteholders of each class and the holders of each class of Funding 1 notes).

**Termination of appointment of cash manager**

Funding 1, Funding 2, the Funding 1 security trustee or the Funding 2 security trustee may, upon written notice to the cash manager, terminate the cash manager's rights and obligations immediately if any of the following events occurs:

- the cash manager defaults in the payment of any amount due and fails to remedy the default for a period of three London business days after becoming aware of the default;
- the cash manager fails to comply with any of its other obligations under the cash management agreement which in the opinion of the Funding 1 security trustee and/or the Funding 2 security trustee (as the case may be) is materially prejudicial to the Funding 1 secured creditors or the Funding 2 secured creditors (as the case may be) and does not remedy that failure within 20 London business days after the earlier of becoming aware of the failure and receiving a notice from Funding 1 or Funding 2 or the Funding 1 security trustee or the Funding 2 security trustee (case may be) requiring the same to be remedied; or
- Bank of Scotland, while acting as the cash manager, suffers an insolvency event.

If the appointment of the cash manager is terminated or it resigns, the cash manager must deliver its books of account relating to the loans to or at the direction of the mortgages trustee, Funding 1, Funding 2, the Funding 1 security trustee or the Funding 2 security trustee, as the case may be. The cash management agreement will terminate automatically when Funding 1 and Funding 2 have no further interests in the trust

property and the Funding 1 intercompany loans, the master intercompany loan and all other Funding 2 intercompany loans have been repaid or otherwise discharged.

Upon the termination of the cash manager the mortgages trustee and Funding 1 or Funding 2, as applicable, will elect a substitute cash manager.

**Governing law**

The cash management agreement and any non-contractual obligations arising out of or in connection with the cash management agreement is governed by and shall be construed in accordance with, English law.

## Cash management for the issuing entity

The following section contains a summary of the material terms of the issuing entity cash management agreement. The summary does not purport to be complete and is subject to the provisions of the issuing entity cash management agreement.

On the programme date, the issuing entity appointed Halifax (acting as **issuing entity cash manager**) to provide cash management services to the issuing entity and since the reorganisation date Bank of Scotland has been responsible for such services.

### Cash management services to be provided to the issuing entity

The issuing entity cash manager's duties will include, but are not limited to:

(A) four business days before each quarterly interest payment date, determining:

- the amount of issuing entity revenue receipts to be applied to pay interest on the notes and the issuing entity subordinated loans on the following quarterly interest payment date and to pay amounts due to other creditors of the issuing entity; and
    - the amount of issuing entity principal receipts to be applied to repay the notes and the issuing entity subordinated loans on the following quarterly interest payment date;

(B) applying issuing entity revenue receipts and issuing entity principal receipts in accordance with the relevant priority of payments for the issuing entity set out in the issuing entity cash management agreement or, as applicable, the issuing entity deed of charge;

(C) maintaining the following ledgers on behalf of the issuing entity:

- the issuing entity revenue ledger, which records issuing entity revenue receipts (excluding certain fees to be paid by Funding 2 on each Funding 2 interest payment date under the terms of the master intercompany loan agreement (other than in respect of any non-subordinated termination payment due by the issuing entity in respect of any issuing entity swap), which will be credited to the issuing entity expense ledger) received and paid out of the issuing entity. The issuing entity revenue ledger will be split into sub-ledgers corresponding to each series and class of notes issued by the issuing entity, each issuing entity subordinated loan advanced to the issuing entity and each issuing entity start-up loan advanced to the issuing entity and any interest received from Funding 2 in respect of a loan tranche and any payment due by the issuing entity to an issuing entity swap provider in relation to the corresponding class of notes and any principal received from Funding 2 in respect of a start-up loan tranche will be credited to the relevant corresponding sub-ledger;
- the issuing entity principal ledger, which records all Funding 2 available principal receipts received by the issuing entity from Funding 2 constituting principal repayments on a loan tranche (other than a start-up loan tranche). All such Funding 2 available principal receipts in relation to each loan tranche (other than a start-up loan tranche) will be credited to a sub-ledger (in respect of the related series and class of notes or, as applicable, issuing entity subordinated loan);
- the issuing entity expense ledger, which records payments of certain fees received from Funding 2 under the master intercompany loan and payments out in accordance with the issuing entity pre-enforcement revenue priority of payments;
- the series ledgers, which record payments of interest and repayments of principal on each series and class of notes and any payment of fees in respect of any termination payment due by the issuing entity in respect of a corresponding issuing entity swap and payments of interest and repayments of principal on each issuing entity subordinated loan and on each issuing entity start-up loan;
- the issuing entity subordinated loan ledgers, which record payments of interest and repayments and prepayments of principal made under each issuing entity subordinated loan;
- the issuing entity start-up loan ledgers, which record payments of interest and repayments and prepayments of principal made under each issuing entity start-up loan; and

- the issuing entity swap collateral ledger, which records all payments, transfers and receipts in connection with swap collateral (provided that such ledger will only be established in the event that any issuing entity swap provider pays or transfers swap collateral to the issuing entity in accordance with the relevant issuing entity swap agreement);

(D) making all returns and filings required to be made by the issuing entity and providing or procuring the provision of company secretarial and administration services to the issuing entity;

(E) arranging payment of all fees to the London Stock Exchange or, as applicable, the FCA; and

(F) if necessary, performing all currency and interest rate conversions (whether it be a conversion from sterling to another specified currency or *vice versa*, or floating rates of interest to fixed rates of interest or *vice versa*) free of charge, cost or expense at the relevant exchange rate.

**Compensation of issuing entity cash manager**

The issuing entity cash manager will be paid a rate of 0.025 per cent. per annum (inclusive of VAT) of the principal amount outstanding of the notes and the subordinated loans for its services which will be paid quarterly in arrears on each quarterly interest payment date. The rate is subject to adjustment if the applicable rate of VAT changes.

In addition, the issuing entity cash manager will be entitled to be reimbursed for any expenses or other amounts properly incurred by it in carrying out its duties. The issuing entity cash manager will be paid by the issuing entity prior to amounts due on the notes.

**Resignation of the issuing entity cash manager**

The issuing entity cash manager may resign only on giving 12 months' written notice to the issuing entity security trustee and the issuing entity and if:

- a substitute issuing entity cash manager has been appointed and a new issuing entity cash management agreement is entered into on terms satisfactory to the issuing entity security trustee and the issuing entity; and
- the ratings of the notes at that time would not be reduced, withdrawn, or qualified as a result of that replacement.

**Termination of appointment of the issuing entity cash manager**

The issuing entity security trustee may, upon written notice to the issuing entity cash manager, terminate the issuing entity cash manager's rights and obligations immediately if any of the following events occurs:

- the issuing entity cash manager defaults in the payment of any amount due and fails to remedy the default for a period of three London business days after the earlier of the issuing entity cash manager becoming aware of the default and receipt by the issuing entity cash manager of written notice from the issuing entity or the issuing entity security trustee, as the case may be, requiring the same to be remedied;
- the issuing entity cash manager fails to comply with any of its other obligations under the issuing entity cash management agreement which in the opinion of the issuing entity security trustee is materially prejudicial to the issuing entity secured creditors and does not remedy that failure within 20 London business days after the earlier of becoming aware of the failure and receiving a notice from the issuing entity or the issuing entity security trustee, as the case may be, requiring the same to be remedied; or
- the issuing entity cash manager suffers an insolvency event.

If the appointment of the issuing entity cash manager is terminated or it resigns, the issuing entity cash manager must deliver its books of account relating to the notes to or at the direction of the issuing entity security trustee. The issuing entity cash management agreement will terminate automatically when the notes have been fully redeemed.

Upon the termination of the issuing entity cash manager, the master issuer and the issuing entity security trustee will elect a substitute issuing entity cash manager.

**Governing law**

The issuing entity cash management agreement and any non-contractual obligations arising out of or in connection with the issuing entity cash management agreement is governed by and shall be construed in accordance with, English law.

## Description of the issuing entity trust deed

### General

The principal agreement governing the notes is the issuing entity trust deed dated on or about the programme date and made between the issuing entity and the note trustee (the **issuing entity trust deed**). The issuing entity trust deed has five primary functions. It:

- constitutes the notes;
- sets out the covenants of the issuing entity in relation to the notes;
- sets out the enforcement and post-enforcement procedures relating to the notes;
- contains provisions necessary to comply with the US Trust Indenture Act of 1939, as amended; and
- sets out the appointment, powers and responsibilities of the note trustee.

The following section contains a summary of the material terms of the issuing entity trust deed. The summary does not purport to be complete and is subject to the provisions of the issuing entity trust deed.

The issuing entity trust deed sets out the form of the global notes and the definitive notes (including the form of registered uncleared note certificates). It also sets out the terms and conditions and the conditions for the issue of definitive notes and/or the cancellation of any notes. It stipulates, among other things, that the paying agents, the registrar, the transfer agent and the agent bank will be appointed. The detailed provisions regulating these appointments are contained in the issuing entity paying agent and agent bank agreement.

The issuing entity trust deed also contains covenants made by the issuing entity in favour of the note trustee and the noteholders. The main covenants are that the issuing entity will (subject to the deferral provisions contained in the terms and conditions of the notes) pay interest and repay principal on each of the notes when due. The issuing entity is intended to be insolvency-remote and covenants are included to help ensure that and to give the note trustee access to all information and reports that it may need in order to discharge its responsibilities in relation to the noteholders. Some of the covenants also appear in the terms and conditions of the notes. See Condition 3 (Covenants) of "**Terms and conditions of the notes**" below. The issuing entity also covenants that it will (in respect of those notes that are listed) do all things necessary to maintain the listing of the notes on the official list of the UK Listing Authority and to maintain the trading of those notes on the London Stock Exchange's Regulated Market. In addition, the issuing entity covenants to keep in place a common depositary, paying agents and an agent bank.

The issuing entity trust deed provides that the class A noteholders' interests take precedence over the interests of other noteholders for so long as the class A notes are outstanding and thereafter the interests of the class B noteholders take precedence for so long as the class B notes are outstanding and thereafter the interests of the class M noteholders take precedence for so long as the class M notes are outstanding and thereafter the interests of the class C noteholders take precedence for so long as the class C notes are outstanding and thereafter the interests of the class D noteholders take precedence for so long as the class D notes are outstanding. Certain basic terms of each class of notes may not be amended without the consent of the majority of the holders of that class of note and the consent of the majority of the holders of the other classes of affected notes outstanding. This is described further in Condition 11 (Meetings of Noteholders, Modifications and Waiver) of "**Terms and conditions of the notes**" below.

The issuing entity trust deed also sets out the terms on which the note trustee is appointed, the indemnification of the note trustee, the payment it receives and the extent of the note trustee's authority to act beyond its statutory powers under English law. The note trustee is also given the ability to appoint a co-trustee or any delegate or agent in the execution of any of its duties under the issuing entity trust deed. The issuing entity trust deed also sets out the circumstances in which the note trustee may resign or retire.

The issuing entity trust deed includes certain provisions mandated by the US Trust Indenture Act of 1939, as amended. Generally, these provisions outline the duties, rights and responsibilities of the note trustee and the issuing entity and the rights of the noteholders. Specifically these include, but are not limited to:

(a) maintenance of a noteholder list by the note trustee;

(b) provision of financial statements and other information by the issuing entity to the note trustee;

(c) ability of noteholders to waive certain past defaults of the issuing entity;

(d) duty of the note trustee to use the same degree of care in exercising its responsibilities as would be exercised by a prudent person conducting their own affairs;

(e) duty of the note trustee to notify all noteholders of any events of default of which it has actual knowledge; and

(f) right of the note trustee to resign at any time by notifying the issuing entity in writing and the ability of the issuing entity to remove the note trustee under certain circumstances.

**Trust Indenture Act prevails**

The issuing entity trust deed contains a provision that, if any other provision of the issuing entity trust deed limits, qualifies or conflicts with another provision which is required to be included in the issuing entity trust deed by, and is not subject to contractual waiver under the US Trust Indenture Act of 1939, as amended, then the required provision of that Act will prevail.

**Modification**

Subject to the following paragraph, the note trustee may without the consent or sanction of the noteholders at any time and from time to time: (i) concur with the issuing entity or any other person; (ii) direct the issuing entity security trustee to concur with the issuing entity or any other person; or (iii) direct the issuing entity security trustee to direct the Funding 2 security trustee to concur with Funding 2 or any other person, in making any modification (except a Basic Terms Modification) to the issuing entity trust deed or any of the other transaction documents which in the sole opinion of the note trustee it may be proper to make; provided that the note trustee is of the opinion that such modification will not be materially prejudicial to the interests of the holders of any series and class of notes or any modification to the issuing entity trust deed or any of the other transaction documents if in the sole opinion of the note trustee such modification is of a formal, minor or technical nature or is necessary to correct a manifest error or an error established as such to the satisfaction of the note trustee (and for the avoidance of doubt, the note trustee shall be entitled to assume, without further investigation or inquiry, that such modification, waiver or authorisation will not be materially prejudicial to the interests of the noteholders if each of the rating agencies has confirmed in writing that the then current ratings of the applicable series and/or class/es of notes would not be adversely affected by such modification, waiver or authorisation). Any such modification may be made on such terms and subject to such conditions (if any) as the note trustee may determine, shall be binding upon the noteholders and, unless the note trustee agrees otherwise, shall be notified by the issuing entity to the noteholders and the rating agencies in accordance with Condition 14 as soon as practicable thereafter.

The note trustee is required to give its consent to any modifications to any relevant transaction documents that are requested by Funding 2 or the cash manager, provided that Funding 2 or the cash manager, as the case may be, has certified to the note trustee in writing that such modifications are required in order to accommodate:

(i) changes to the Funding 2 Z loan agreement and the subordination of the Funding 2 Z loans provided that payments to the Funding 2 Z loan provider will always be made after payments of amounts due by Funding 2 to the issuing entity in respect of the rated loan tranches or by the issuing entity to noteholders in respect of the notes; and/or

(ii) changes to the Funding 2 Z loan required amount; and/or

(iii) the entry by Funding 2 into an account bank agreement with an agent account bank and the corresponding opening of Funding 2 eligible bank GIC accounts; and/or

(iv) the entry by Funding 2 into the Funding 2 collateral security agreement and any eligible custody agreement; and/or

(v) accession of a new seller to the programme, the inclusion of a new seller as a beneficiary of the mortgages trust, the entry into a new mortgage sale agreement by a new seller, the beneficiaries and the Funding 2 security trustee, the assignment of Lloyds Bank Loans and their related security to the mortgages trustee, any amendments to the lending criteria and/or any amendments to the loan warranties required to include Lloyds Bank Loans in the portfolio; and/or

(vi) any amendment to the transaction documents for the purposes of enabling new or existing credit enhancement (such as subordinated loans, uncommitted sterling loan facility or similar arrangement) and any other facilities in each to support cash balances maintained in accounts with account banks whose ratings do not meet current rating agency requirements.

Under such arrangements advances may be made pursuant to the intercompany loan agreement to make a contribution to the mortgages trust thereby increasing the seller share. The repayment of such loan facility or similar arrangement will be subordinated to payments of interest and principal when due on the notes which have received a rating from a Rating Agency and any related issuing entity swap agreement (other than payments in respect of any issuing entity swap excluded termination amount) provided that such loan facility or similar arrangement may be repaid at any time through a further contribution pursuant to the terms of the relevant transaction documents. The note trustee shall only be required to make the modifications set out in paragraph (i) to (ii) (inclusive) above if the note trustee has received written confirmation from each of the rating agencies that the relevant modifications will not result in a reduction, qualification or withdrawal of the current ratings of the notes. The note trustee shall only be required to make the modifications set out in paragraph (iii) to (vi) (inclusive) above if, the note trustee (x) has received written confirmation (i) from each of the rating agencies that the relevant modification, authorisation, waiver and/or consent will not result in a reduction, qualification or withdrawal of the current ratings of the notes and (ii) from the master issuer that no Basic Terms Modification shall result; (y) shall not be obliged to give its consent where, in the opinion of the note trustee, to do so would result in the imposition of an increase in its obligations or duties, or decrease in its rights or protections; and (z) shall comply with the amendments described in the certification and shall not have any liability to any person for so acting.

**Governing law**

The issuing entity trust deed and non-contractual obligations arising out of or in connection with the issuing entity trust deed will be governed by and shall be construed in accordance with, English law.

## The notes and the global notes

The initial issuance of notes under the programme was authorised by a resolution of the board of directors of the issuing entity passed on 25 September 2006. Each subsequent issuance of notes is or will be constituted by the issuing entity trust deed and any deeds supplemental thereto between the issuing entity and the note trustee, as trustee for, among others, the holders for the time being of the notes. While the material terms of the notes, the definitive notes and the global notes are described in this base prospectus, the statements set out in this section with regard to the notes, the definitive notes and the global notes are subject to the detailed provisions of the issuing entity trust deed. The issuing entity trust deed includes the form of the global notes and the form of definitive notes (including the form of registered uncleared note certificates). The issuing entity trust deed includes provisions which enable it to be modified or supplemented and any reference to the issuing entity trust deed is a reference also to the document as modified or supplemented in accordance with its terms.

An issuing entity paying agent and agent bank agreement between the issuing entity, the note trustee, Citibank, N.A. in London as principal paying agent, the US paying agent, the registrar, the transfer agent and the agent bank, regulate how payments will be made on the notes and how determinations and notifications will be made. The trust deed and the paying agent and agent bank agreement are dated on or about the programme date and the parties include, on an ongoing basis, any successor party appointed in accordance with its terms.

The notes of each class offered and sold in the United States to QIBs in reliance on Rule 144A (the **Rule 144A notes**) will be initially represented on issue by one or more global notes of such class, in fully registered form without interest coupons or principal receipts attached (each, a **Rule 144A global note**) which will either (i) (in respect of each Rule 144A global note to be held through DTC) be deposited on behalf of the beneficial owners of the notes with Citibank, N.A. in London, as the custodian for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company (**DTC**) or (ii) (in respect of each Rule 144A global note to be held through Euroclear Bank S.A./N.V. (**Euroclear**) or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**)), be deposited on behalf of the beneficial owners of the notes with a common depositary or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of a common depositary for Euroclear and Clearstream, Luxembourg or in the name of a nominee of a common safekeeper for Euroclear and Clearstream, Luxembourg. On confirmation from the custodian or the common depositary or common safekeeper (as applicable) that it holds the global notes, DTC, Euroclear and Clearstream, Luxembourg (as applicable) will record book-entry interests in the beneficial owner's account or the participant account through which the beneficial owner holds its interests in the notes. These book-entry interests will represent the beneficial owner's beneficial interest in the relevant global notes. See "**Book-entry clearance procedures**".

The notes of each class offered and sold outside the United States to non-U.S. persons in reliance on Regulation S of the Securities Act (the **Reg S notes**) will be represented on issue by either (a) one or more global notes of such class in fully registered form without interest coupons or principal receipts attached (each, a **Reg S global note**) which will either (i) be deposited on behalf of the beneficial owners of those notes with a common depositary or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of a common depositary for Euroclear and Clearstream, Luxembourg or in the name of a nominee of a common safekeeper for Euroclear and Clearstream, Luxembourg or (ii) be deposited with a custodian for, and registered in the name of a nominee of, DTC or any alternative clearing system agreed by the issuing entity or (b) one or more registered definitive form note certificates (the **registered uncleared note certificates**), which will not be cleared through any of the clearing systems but will be registered in the name of the relevant holder. On confirmation from the common depositary or the common safekeeper or the custodian that it holds the Reg S global notes, DTC, Clearstream, Luxembourg and/or Euroclear, as the case may be, will record book-entry interests in the beneficial owner's account or the participant account through which the beneficial owner holds its interests in the Reg S global notes. These book-entry interests will represent the beneficial owner's beneficial interest in the relevant Reg S global notes. See "**Book-entry clearance procedures**". Reg S notes issued in the form of registered uncleared note certificates will be known as **registered uncleared notes**.

The amount of notes represented by each global note is evidenced by the register maintained for that purpose by the registrar. Together, the notes represented by the global notes and any outstanding definitive notes will equal the aggregate principal amount of the notes outstanding at any time. However, except as described under "**– Definitive notes**" below, definitive certificates representing individual notes shall not be issued.

Beneficial interests in a Rule 144A global note may only be held by persons who are QIBs holding their interests for their own account or for the account of another QIB. By acquisition of a beneficial interest in a Rule 144A global note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A global note (see "**Transfer restrictions and investor representations**").

Beneficial interests in Reg S global notes and Rule 144A global notes will be subject to certain restrictions on transfer set out herein under "**Transfer restrictions and investor representations**", in the applicable final terms or drawdown prospectus and/or in the note trust deed and such global notes will bear the applicable legends regarding the restrictions set out under "**Transfer restrictions and investor representations**". No owner of a beneficial interest in Reg S global notes or Rule 144A global notes will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case, to the extent applicable.

Beneficial owners may hold their interests in the global notes only through DTC, Clearstream, Luxembourg or Euroclear, as applicable, or through any alternative clearing system agreed by the issuing entity, or indirectly through organisations that are participants in any of those systems. Ownership of these beneficial interests in a global note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC, Clearstream, Luxembourg or Euroclear (with respect to interests of their participants) and the records of their participants (with respect to interests of persons other than their participants) or by any alternative clearing system agreed by the issuing entity. By contrast, ownership of definitive notes and direct interests in a global note will be shown on, and the transfer of that ownership will be effected through, the register maintained by the registrar. Because of this holding structure of notes, beneficial owners of notes may look only to DTC, Clearstream, Luxembourg or Euroclear, as applicable, or their respective participants for their beneficial entitlement to those notes or to any alternative clearing system agreed by the issuing entity. The issuing entity expects that DTC, Clearstream, Luxembourg or Euroclear will take any action permitted to be taken by a beneficial owner of notes only at the direction of one or more participants to whose account the interests in a global note is credited and only in respect of that portion of the aggregate principal amount of notes as to which that participant or those participants has or have given that direction.

Beneficial owners will be entitled to the benefit of, will be bound by and will be deemed to have notice of, all the provisions of the issuing entity trust deed and the issuing entity paying agent and agent bank agreement. Beneficial owners can see copies of these agreements at the principal office for the time being of the note trustee, which is, as at the date of this document, The Bank of New York Mellon, One Canada Square, London, E14 5AL, United Kingdom and at the specified office for the time being of each of the paying agents. Pursuant to its obligations under the listing rules made by the UK Listing Authority, the issuing entity will maintain a paying agent in the United Kingdom until the date on which the notes are finally redeemed for as long as any note is outstanding.

**Payment**

Principal and interest payments on the global notes will be made via the paying agents to DTC, Euroclear or Clearstream, Luxembourg (as applicable) or to any alternative clearing system agreed by the issuing entity or their respective nominee, as the registered holder of the global notes. After receipt of any payment by any alternative clearing system or its nominee as may be agreed by the issuing entity, the common depositary, such alternative clearing system or DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, will credit their respective participants' accounts in proportion to those participants' holdings as shown on the records of such alternative clearing system or DTC, Euroclear and Clearstream, Luxembourg, respectively, in accordance with the relevant system's rules and procedures. Such alternative clearing system, DTC, Euroclear or Clearstream, Luxembourg, as the case may be, will take any other action permitted to be taken by a beneficial owner on behalf of its participants only as permitted by its rules and procedures and, in the case of Euroclear or Clearstream, Luxembourg, only if the common depositary is able to take these actions on its behalf. DTC's practice is to credit its participants' accounts on the applicable interest payment date according to their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that interest payment date.

Payments by DTC, Clearstream, Luxembourg and Euroclear participants, or by any participants of any alternative clearing system agreed by the issuing entity, to the beneficial owners of notes (other than the registered uncleared notes) will be governed by standing instructions, customary practice, and any statutory or regulatory requirements as may be in effect from time to time, as is now the case with securities held by the accounts of customers registered in "street name". These payments will be the responsibility of the DTC,

Clearstream, Luxembourg or Euroclear participant or the participant of such alternative clearing system and not of DTC, Clearstream, Luxembourg, Euroclear, any such alternative clearing system, any paying agent, the note trustee or the issuing entity. Neither the issuing entity, the note trustee, the dealers, the arranger, nor any paying agent will have any responsibility or liability for any aspect of the records of DTC, Clearstream, Luxembourg or Euroclear or such alternative clearing system relating to payments made by DTC, Clearstream, Luxembourg or Euroclear on account of beneficial interests in the global notes or for maintaining, supervising or reviewing any records of DTC, Clearstream, Luxembourg or Euroclear or such alternative clearing system relating to those beneficial interests.

Customary settlement procedures will be followed for participants of each system on the relevant closing date. Notes will be credited to investors' securities accounts on the relevant closing date against payment in same day funds.

Secondary market sales of book-entry interests in notes held through such alternative clearing system or DTC, Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in notes through such alternative clearing system or DTC, Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of such alternative clearing system or DTC, Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds as the case may be or the relevant jurisdiction in which such alternative clearing system is located.

**Clearance and settlement**

*DTC*

DTC has advised the issuing entity that it intends to follow the following procedures:

DTC will act as securities depository for the Rule 144A global notes held through DTC. The Rule 144A global notes held through DTC will be issued as securities registered in the name of Cede & Co. (DTC's nominee).

DTC has advised the issuing entity that it is a:

- limited-purpose trust company organised under the New York Banking Law;
- banking organisation within the meaning of the New York Banking Law;
- member of the Federal Reserve System;
- clearing corporation within the meaning of the New York Uniform Commercial Code; and
- clearing agency registered under the provisions of section 17A of the Exchange Act.

DTC holds securities for its participants and facilitates the clearance and settlement among its participants of securities transactions, including transfers and pledges, in deposited securities through electronic book-entry changes in its participants' accounts. This eliminates the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organisations. Indirect access to the DTC system is also available to others, including securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC. Transfers between participants on the DTC system will occur under DTC rules.

Purchases of notes under the DTC system must be made by or through DTC participants, which will receive a credit for the notes on DTC's records. The ownership interest of each actual beneficial owner is in turn to be recorded on the DTC participants' and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. However, beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC participant or indirect participant through which the beneficial owner entered into the transaction. Transfer of ownership interests in the global notes are to be accomplished by entries made on the books of DTC participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interest in notes unless use of the book-entry system for the notes described in this section is discontinued.

To facilitate subsequent transfers, all global notes deposited with DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of these global notes with DTC and their registration in the name of

Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the ultimate beneficial owners of the notes. DTC's records reflect only the identity of the DTC participants to whose accounts the beneficial interests are credited, which may or may not be the actual beneficial owners of the notes. The DTC participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC participants, by DTC participants to indirect participants, and by DTC participants and indirect participants to beneficial owners, will be governed by arrangements among them and by any statutory or regulatory requirements in effect from time to time.

Redemption notices for the Rule 144A global notes held through DTC will be sent to DTC. If less than all of those global notes are being redeemed by investors, DTC's practice is to determine by lot the amount of the interest of each participant in those global notes to be redeemed.

Neither DTC nor Cede & Co. will consent or vote on behalf of the Rule 144A global notes held through DTC. Under its usual procedures, DTC will mail an omnibus proxy to the issuing entity as soon as possible after the record date, which assigns the consenting or voting rights of Cede & Co. to those DTC participants to whose accounts the book-entry interests are credited on the record date, identified in a list attached to the proxy.

The issuing entity understands that under existing industry practices, when the issuing entity requests any action of noteholders or when a beneficial owner desires to give or take any action which a noteholder is entitled to give or take under the issuing entity trust deed, DTC generally will give or take that action, or authorise the relevant participants to give or take that action, and those participants would authorise beneficial owners owning through those participants to give or take that action or would otherwise act upon the instructions of beneficial owners through them.

*Clearstream, Luxembourg and Euroclear*

Clearstream, Luxembourg and Euroclear each hold securities for their participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of those participants, thereby eliminating the need for physical movement of securities. Clearstream, Luxembourg and Euroclear provide various services, including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg and Euroclear also deal with domestic securities markets in several countries through established depository and custodial relationships. Clearstream, Luxembourg and Euroclear have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Transactions may be settled in Clearstream, Luxembourg and Euroclear in any of numerous currencies, including United States dollars. Transfer between participants on the Clearstream, Luxembourg system and participants of the Euroclear system will occur under their respective rules and operating procedures.

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg participants are financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Clearstream, Luxembourg is also available to others, including banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream, Luxembourg participant, either directly or indirectly.

The Euroclear system was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment. The Euroclear system is operated by Euroclear, under contract with Euroclear Clearance System, Co-operative, a Belgium co-operative corporation (the **Euroclear co-operative**). All operations are conducted by Euroclear. All Euroclear securities clearance accounts and Euroclear cash accounts are accounts with Euroclear, not the Euroclear co-operative. The board of the Euroclear co-operative establishes policy for the Euroclear system.

Euroclear participants include banks – including central banks – securities brokers and dealers and other professional financial intermediaries. Indirect access to the Euroclear system is also available to other firms that maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with Euroclear are governed by the Terms and Conditions Governing use of Euroclear and the related Operating Procedures of the Euroclear system. These terms and conditions govern transfers of securities and cash within the Euroclear system, withdrawal

of securities and cash from the Euroclear system and receipts of payments for securities in the Euroclear system. All securities in the Euroclear system are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. Euroclear acts under these terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

The information in this section concerning DTC and DTC's book-entry system, and the book-entry system of any alternative clearing system agreed by the issuing entity, Clearstream, Luxembourg and Euroclear has been obtained from sources that the issuing entity believes to be reliable, but the issuing entity takes no responsibility for the accuracy thereof.

As the holders of book-entry interests, beneficial owners will not have the right under the issuing entity trust deed to act on solicitations by the issuing entity for action by noteholders. Beneficial owners will only be able to act to the extent they receive the appropriate proxies to do so from DTC, Clearstream, Luxembourg or Euroclear or any alternative clearing system agreed by the issuing entity or, if applicable, their respective participants. No assurances are made about these procedures or their adequacy for ensuring timely exercise of remedies under the issuing entity trust deed.

No beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with applicable procedures, in addition to those provided for under the issuing entity trust deed, of DTC, Clearstream, Luxembourg and Euroclear, as applicable. The laws of some jurisdictions require that some purchasers of securities take physical delivery of those securities in definitive form. These laws and limitations may impair the ability to transfer beneficial interests in the global notes.

Where the global notes issued in respect of any series and class of notes are registered global notes, the relevant International Central Securities Depository will be notified whether or not such global notes are intended to be held in a manner which would allow Eurosystem eligibility. Depositing the global notes with the common safekeeper does not necessarily mean that the global notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

*Global clearance and settlement procedures*

**Initial settlement**

The Rule 144A global notes will be delivered at initial settlement to Citibank, N.A., London branch as custodian for DTC, or to a common depositary on behalf of Euroclear and Clearstream, Luxembourg or to a common safekeeper on behalf of Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of a common depositary for Euroclear and Clearstream, Luxembourg or in the name of a nominee of a common safekeeper for Euroclear and Clearstream, Luxembourg, as specified in the applicable final terms or drawdown prospectus. The Reg S global notes will either (i) be delivered to a common depositary or common safekeeper, as the case may be, for Clearstream, Luxembourg and Euroclear and registered in the name of a nominee of a common depositary for Euroclear and Clearstream, Luxembourg or in the name of a nominee of a common safekeeper for Euroclear and Clearstream, Luxembourg or (ii) be deposited with a custodian for, and registered in the name of a nominee of, DTC (or such other name as may be requested by an authorised representative of DTC) or any alternative clearing system agreed by the issuing entity. Customary settlement procedures will be followed for participants of each system at initial settlement. Reg S notes and Rule 144A notes will be credited to investors' securities accounts on the settlement date against payment in same-day funds. Registered uncleared notes of each class will be represented on issue by one or more registered individual note certificates in fully registered form, without interest coupons attached, which must be registered in the name of the note purchaser.

**Secondary trading**

Secondary market sales of book-entry interests in notes between DTC participants will occur in accordance with DTC rules and will be settled using the procedures applicable to conventional United States corporate debt obligations.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to these procedures to facilitate transfers of interests in securities among participants of DTC, Clearstream, Luxembourg, Euroclear and any alternative clearing system agreed by the issuing entity, they are not obligated to perform these procedures. Additionally, these procedures may be discontinued at any time. None of the issuing entity, any agent, the arranger, the dealers or any affiliate of any of the foregoing, or any person by whom any of the

foregoing is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Clearstream, Luxembourg, Euroclear, any alternative clearing system agreed by the issuing entity or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described herein.

**Definitive notes**

Notes represented by note certificates in definitive form are referred to as **definitive notes**. Registered uncleared notes will be issued as definitive notes. Beneficial owners of global notes will only be entitled to receive definitive notes under the following limited circumstances:

- as a result of any amendment to, or change in UK law, (or of any political subdivision thereof), or of any authority therein or thereof having power to tax, or in the interpretation or administration by a revenue authority or a court or administration of such laws or regulations which become effective on or after the date of the issuance of the notes, the issuing entity or any paying agent is or will be required to make any deduction or withholding on account of tax from any payment on the notes that would not be required if the notes were in definitive registered form;

- in the case of the Rule 144A global notes held through DTC, DTC has notified the issuing entity that it is unwilling or unable to hold the Rule 144A global notes (as relevant) or at any time is unwilling or unable to continue as, or has ceased to be, a clearing agency under the Exchange Act and, in each case, the issuing entity cannot appoint a successor within 90 days of such notification; or

- in the case of the global notes held through Clearstream, Luxembourg and Euroclear, Clearstream, Luxembourg and Euroclear are closed for business for a continuous period of 14 days or more (other than by reason of holidays, statutory or otherwise) or announce an intention to cease business permanently or do in fact do so and no alternative clearing system satisfactory to the note trustee is available.

In no event will definitive notes in bearer form be issued. Any definitive notes will be issued in registered form in minimum denominations as specified in the applicable final terms or drawdown prospectus. Any definitive notes (other than registered uncleared notes) will be registered in that name or those names as the registrar shall be instructed by DTC, Clearstream, Luxembourg, Euroclear and any alternative clearing system agreed by the issuing entity, as applicable. It is expected that these instructions will be based upon directions received by DTC, Clearstream, Luxembourg, Euroclear and any alternative clearing system agreed by the issuing entity, from their participants reflecting the ownership of book-entry interests. To the extent permitted by law, the issuing entity, the note trustee and any paying agent shall be entitled to treat the person in whose name any definitive notes are registered as the absolute owner thereof. The issuing entity paying agent and agent bank agreement contains provisions relating to the maintenance by a registrar of a register reflecting ownership of the notes and other provisions customary for a registered debt security.

Any person receiving definitive notes will not be obligated to pay or otherwise bear the cost of any tax or governmental charge or any cost or expense relating to insurance, postage, transportation or any similar charge, which will be solely the responsibility of the issuing entity. No service charge will be made for any registration of transfer or exchange of any definitive notes.

Registered uncleared notes will be issues in definitive, certificated, fully registered form.

**Transfer of interests**

A beneficial interest in a Rule 144A global note of one class may be transferred to a person that takes delivery in the form of a beneficial interest in a Reg S global note of the same class, whether before or after the expiration of the distribution compliance period applicable to the notes of such class, only upon receipt by the registrar of a written certification from the transferor to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S. A beneficial interest in a Reg S global note of one class may be transferred to a person who takes delivery in the form of a beneficial interest in a Rule 144A global note of the same class only upon receipt by the registrar of written certification from the transferor to the effect that such transfer is being made to a person whom the transferor reasonably believes is purchasing for its own account or for an account or accounts as to which it exercises sole investment discretion and that such person and such account or accounts is a QIB, in each case, in a transaction

meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

A beneficial interest in a Reg S global note of one class that is transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A global note of the same class will, upon transfer, cease to be represented by a beneficial interest in such Reg S global note and will become represented by a beneficial interest in such Rule 144A global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Rule 144A global note for as long as it remains such a beneficial interest. Any beneficial interest in a Rule 144A global note of one class that is transferred to a person who takes delivery in the form of a beneficial interest in the Reg S global note of the same class will, upon transfer, cease to be represented by a beneficial interest in such Rule 144A global note and will become represented by a beneficial interest in such Reg S global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Reg S global note as long as it remains such a beneficial interest.

A registered uncleared note may be transferred upon surrender of the relevant registered uncleared note certificate, with the endorsed form of transfer duly completed, at the specified office of the registrar together with such evidence as the registrar may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a registered uncleared note may not be transferred unless the principal amount of such registered uncleared notes transferred and (where not all of the registered uncleared notes held by a holder are being transferred) the principal amount of the balance of registered uncleared notes not transferred are a specified denomination or multiple thereof. Where not all the registered uncleared notes represented by the surrendered registered uncleared note certificate are the subject of the transfer, a new registered uncleared note certificate in respect of the balance of the registered uncleared notes not transferred will be issued to the transferor.

## Material legal aspects of the loans

The following discussion 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.

### English loans

*General*

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property. The second party is the mortgagee, who is the lender. Each English loan will be secured by an English mortgage which has a first ranking priority over all other mortgages secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the seller, 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 mortgages by the seller to the mortgages trustee will take effect in equity only. The mortgages trustee will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the mortgages. The consequences of this are explained in "**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on the notes**" above.

*Enforcement of mortgages*

If a borrower defaults under an English loan, the English 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 mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assigns may enforce its English mortgage in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following:

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

A court order under section 126 of the CCA is necessary to enforce a land mortgage securing the following types of credit agreement: a regulated agreement, a regulated mortgage contract or a buy-to-let credit agreement.

**Scottish loans**

*General*

A standard security is the only means of creating a fixed charge over heritable or long leasehold property in Scotland. Its form must comply with the requirements of the Conveyancing and Feudal Reform (Scotland) Act 1970 (the **1970 Act**). There are two parties to a standard security. The first party is the grantor, who is the borrower and homeowner. The grantor grants the standard security over its property (and is generally the only party to execute the standard security). The second party is the grantee of the standard security, who is the lender and is called the heritable creditor. Each Scottish loan will be secured by a standard security which has a first ranking priority over all other standard securities secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent standard security over the relevant property without the consent of the seller. Upon intimation to the seller (in its capacity as trustee for the mortgages trustee pursuant to the relevant Scottish declaration of trust) of any subsequent standard security the prior ranking of the seller's standard security shall be restricted to security for advances made prior to such intimation and advances made subsequent to such intimation which the seller or the mortgages trustee is obliged to advance, and 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 seller, along with most major lenders in the residential mortgage market in Scotland, has elected to vary the Standard Conditions by means of its own set of Scottish mortgage conditions, the terms of which are in turn imported into each standard security. The main provisions of the Standard Conditions which cannot be varied by

agreement relate to redemption and enforcement, and in particular the notice and other procedures that are required to be carried out prior to the exercise of the heritable creditor's rights on a default by the borrower.

*Nature of property as security*

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

*Land Register*

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, from 1 April 2016, the granting of a standard security alone) 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 only. 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.

*Sasine Register*

Title to all land in Scotland where no event has yet occurred to trigger registration in the Land Register 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 or the Sasine Register (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 their date of registration rather than their date of execution. However, a prospective heritable creditor is able to obtain an advance notice in respect of their standard security which will accord it priority of registration for a period of 35 days from the entry of the advance notice in the title to the property against any inhibition against the grantor and any competing deed to a third party.

*The seller as heritable creditor*

The sale of the Scottish mortgages by the seller to the mortgages trustee has been given effect by a number of declarations of trust by the seller (and any further sale of Scottish mortgages in the future will be given effect by further declarations of trust), by which the beneficial interest in the Scottish mortgages has been or will be transferred to the mortgages trustee. Such beneficial interest (as opposed to the legal title) cannot be registered in the Land Register or Sasine Register. The consequences of this are explained in

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

*Enforcement of mortgages*

If a borrower defaults under a Scottish loan, the Scottish mortgage conditions provide that all monies under that Scottish 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, subject to taking various preliminary steps to attempt to resolve the borrower's position and observing certain procedural requirements, its standard security in relation to the defaulted Scottish loan. Enforcement may occur in a number of ways, including the following (all of which arise under the 1970 Act):

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

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

A court order under section 126 of the CCA is necessary to enforce a standard security securing the following types of credit agreement: a regulated agreement, a regulated mortgage contract or a buy-to-let credit agreement.

See also "**Risk factors – Home Owner and Debtor Protection (Scotland) Act 2010**" above.

**Borrower's right of redemption**

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, interest thereon and expenses incurred by the lender in relation to that standard security.

## Book-Entry Clearance Procedures

*The information set out below has been obtained from the clearing systems (as defined herein) and the issuing entity believes that such sources are reliable, but prospective investors are advised to make their own enquiries as to such procedures. The issuing entity confirms that the information set out below has been accurately reproduced and that, as far as the issuing entity is aware and is able to ascertain from information published by the clearing systems, no facts have been omitted which would render the reproduced information set out below inaccurate or misleading. Such information is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream, Luxembourg or DTC (together, the **clearing systems**) currently in effect and investors wishing to use the facilities of any of the clearing systems are therefore advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the arranger, dealers, the sponsor, the seller, the servicer, the funding 2 start-up loan provider, the cash manager, the issuing entity cash manager, Funding 2, the mortgages trustee, the issuing entity security trustee, the Funding 2 security trustee, the issuing entity security trustee, the Funding 1 security trustee, the note trustee, any paying agent, the account bank, the Funding 2 swap provider, the issuing entity swap providers, the issuing entity account bank, the Funding 2 account bank, the issuing entity subordinated loan provider or the issuing entity start-up loan provider (or any affiliate of any of the above, as defined in the Securities Act) will have any responsibility for the performance by the clearing systems or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described below.*

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of beneficial interests in a global note among participants of DTC and participants of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discounted at any time. None of the issuing entity, the note trustee, the issuing entity security trustee, the arranger, the dealers or any of their respective agents will have any responsibility or liability for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

### Euroclear, Clearstream, Luxembourg and DTC

Custodial and depositary links have been established between the clearing systems to facilitate the initial issue of the notes (other than the registered uncleared notes) and cross-market transfers of the notes (other than the registered uncleared notes) associated with secondary market trading. See "**Settlement and Transfer of Notes**" below.

*Euroclear and Clearstream, Luxembourg*

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such global notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**direct participants**) or indirectly (**indirect participants** and, together with direct participants, **participants**) through organisations which are accountholders therein.

*DTC*

DTC has advised the issuing entity as follows: "DTC, the world's largest depositary, is a limited-purpose trust company organised under the New York Banking Law, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of section 17A of the Exchange Act." DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic

computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Investors may hold their interests in a global note directly through DTC if they are participants (**direct participants**) in the DTC system, or indirectly through organisations which are participants in such system (**indirect participants**, and together with direct participants, **participants**).

DTC has advised the issuing entity that it will take any action permitted to be taken by a holder of notes only at the direction of one or more participants in whose accounts with DTC interests in global notes are credited and only in respect of such portion of the aggregate principal amount of the relevant global notes as to which such participant or participants has to have given such direction.

**Book-entry ownership**

*Euroclear and Clearstream, Luxembourg*

Each Reg S global note will have an ISIN and a common code and will be deposited with a common depositary or common safekeeper for Euroclear and Clearstream, Luxembourg, or deposited with a custodian for, and registered in the name of, a nominee of DTC.

*DTC*

Each Rule 144A global note will have an ISIN, a common code and a CUSIP number and will either (i) be deposited with a custodian (the **custodian**) for, and registered in the name of Cede & Co. as nominee of DTC (or such other name as may be requested by an authorised representative of DTC) or (ii) be deposited with the custodian as common depositary on behalf of Euroclear and Clearstream, Luxembourg or with the custodian as common safekeeper on behalf of Euroclear and Clearstream, Luxembourg, as specified in the applicable final terms or drawdown prospectus. In relation to Rule 144A global notes deposited with the custodian, the custodian and DTC will electronically record the principal amount of the notes held within the DTC system.

**Payments and relationship of participants with clearing systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note represented by a global note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the issuing entity to the holder of such global note (save in the case of payments other than U.S. dollars outside DTC, as referred to below) and in relation to all other rights arising under the global note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The issuing entity expects that, upon receipt of any payment in respect of notes represented by a global note, the common depositary by whom such note is held, or nominee in whose name it is registered or, in the case of Reg S global notes to be held under the NSS, the common safekeeper, will (save as provided below in respect of Rule 144A global notes held through DTC) immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant global note as shown on the records of the relevant clearing system or its nominee. The issuing entity also expects that payments by direct participants in any clearing system to owners of beneficial interests in any global note held through such direct participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the issuing entity in respect of payments due on the notes for so long as the notes are represented by such global note and the obligations of the issuing entity will be discharged by payment to the registered holder, as the case may be, of such global note in respect of each amount so paid. None of the arranger, dealers, the sponsor, the seller, the servicer, the funding 2 start-up loan provider, the cash manager, the issuing entity cash manager, Funding 2, the mortgages trustee, the issuing entity security trustee, the Funding 2 security trustee, the issuing entity security trustee, the Funding 1 security trustee, the note trustee, any paying agent, the account bank, the Funding 2 swap provider, the issuing entity swap providers, the issuing entity account bank, the Funding 2 account bank, the issuing entity subordinated loan provider or the issuing entity start-up loan provider will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any global note or for maintaining, supervising or reviewing any records relating to such ownership interests.

DTC will only process payments of principal and interest in U.S. dollars. Accordingly, holders of beneficial interests in Rule 144A global notes held through DTC and denominated in a currency other than U.S. dollars must notify the exchange rate agent not less than 15 days prior to each interest payment date (i) that they wish to be paid in such currency outside DTC and (ii) of the relevant bank account details into which such payments are to be made.

If such instructions are not received, the exchange rate agent will exchange the relevant non-U.S. dollar amounts into U.S. dollars. The exchange rate agent will effect the exchange of the relevant amounts into U.S. dollars on such payment date at a market rate available on such interest payment date and in accordance with the exchange rate agent's usual procedures for such currency exchange, and the relevant holders of beneficial interests will receive the U.S. dollar equivalent of such payment converted at such exchange rate. Upon written request by a holder of beneficial interests in Rule 144A global notes held through DTC, the exchange rate agent will provide information regarding the exchange rate (and any relevant commission) with respect to any amounts converted into U.S. dollars.

*Settlement and transfer of notes*

Subject to the rules and procedures of each applicable clearing system, purchases of notes held within a clearing system must be made by or through direct participants, which will receive a credit for such notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the **beneficial owner**) will in turn be recorded on the participant's records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct and indirect participant through which such beneficial owner entered into the transaction. Transfers of ownership interests in notes held within the clearing system will be effected by entries made on the books of participants acting on behalf of beneficial owners. **Beneficial owners will not receive individual certificates representing their ownership interests in such notes unless use of the book-entry system for the notes described in this section is discontinued.**

No clearing system has knowledge of the actual beneficial owners of the notes held within such clearing system and their records will reflect only the identity of the direct participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some states in the United States may require that certain persons take physical delivery in definitive form of securities. Consequently, it may not be possible to transfer interests in a global note to such persons. Because DTC can only act on behalf of direct participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a global note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

*Trading between Euroclear and/or Clearstream, Luxembourg participants*

Secondary market sales of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds, sterling denominated bonds, U.S. dollar denominated bonds and, where relevant, bonds denominated in such other currencies as have been issued.

*Trading between DTC participants*

Secondary market sales of book-entry interests in the Rule 144A notes held through DTC between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

*Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser*

When book-entry interests in global notes are to be transferred from the account of a DTC participant holding a beneficial interest in a global note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in that global note (subject to the certification procedures provided in the note trust deed), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the global note will instruct the registrar to (i) decrease the amount of U.S. dollar notes registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC), evidenced by the relevant global note and (ii) increase the amount of U.S. dollar notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg evidenced by the relevant global note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

*Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser*

When book-entry interests in the global notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a global note (subject to the certification procedures provided in the note trust deed), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will: (a) transmit appropriate instructions to the custodian of the global note who will in turn deliver evidence of such book-entry interests in the dollar notes free of payment to the relevant account of the DTC participant; and (b) instruct the registrar to (i) decrease the amount of dollar notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant global note and (ii) increase the amount of dollar notes registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC) and evidenced by the relevant global note.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in global notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the arranger, dealers, the sponsor, the seller, the servicer, the funding 2 start-up loan provider, the cash manager, the issuing entity cash manager, Funding 2, the mortgages trustee, the issuing entity security trustee, the Funding 2 security trustee, the issuing entity security trustee, the Funding 1 security trustee, the note trustee, any paying agent, the account bank, the Funding 2 swap provider, the issuing entity swap providers, the issuing entity account bank, the Funding 2 account bank, the issuing entity subordinated loan provider or the issuing entity start-up loan provider will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants of their respective obligations under the rules and procedures governing their operations.

*Pre-issue trades settlement*

It is expected that delivery of notes will be made against payment therefor on the closing date, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant closing date will be required, by virtue of the fact the notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of notes may be affected by such local settlement practices and purchasers of notes who wish to trade notes between the date of pricing and the relevant closing date should consult their own adviser.

## Terms and conditions of the notes

The following are the terms and conditions (the **Conditions**, and any reference to a **Condition** shall be construed accordingly) of each Series and Class of the Notes in the form (subject to amendment) which will be incorporated by reference into each Global Note and each Definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by Permanent Master Issuer PLC (referred to in the Base Prospectus as the **Master Issuer** or the **issuing entity**) and the relevant Dealer(s) and/or Manager(s) at the time of issue but, if not so permitted and agreed, such Definitive Note will have endorsed thereon or attached thereto such Conditions. A Drawdown Prospectus in relation to the relevant Series and Class of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purpose of such Series and Class of Notes. The applicable Final Terms or Drawdown Prospectus (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and each Definitive Note.

The Notes are constituted by the Master Issuer Trust Deed. The security for the Notes is created pursuant to, and on the terms set out in, the Master Issuer Deed of Charge. By the Master Issuer Paying Agent and Agent Bank Agreement, provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes.

References herein to the **Notes** shall, unless the context otherwise requires, be references to all the Notes issued by the Master Issuer and constituted by the Master Issuer Trust Deed and shall mean:

(a) in relation to any Notes of a Series and Class represented by a Global Note or Global Notes, units of the lowest Specified Denomination in the Specified Currency in each case of such Series and Class;

(b) any Global Note;

(c) any Registered Uncleared Note Certificate; and

(d) any Definitive Note.

Notes constituted by the Master Issuer Trust Deed are issued in series (each a **Series**) and each Series comprises one or more classes of Notes (each a **Class**). Each Series and Class of Notes is subject to the applicable Final Terms or Drawdown Prospectus. The Final Terms or Drawdown Prospectus in relation to each Series and Class of Notes (or the relevant provisions thereof) will be endorsed upon, or attached to, such Series and Class of Notes and will, in the case of Final Terms, supplement these Conditions in respect of such Series and Class of Notes and, in the case of a Drawdown Prospectus, may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purpose of such Series and Class of Notes. References to the **applicable Final Terms** or **applicable Drawdown Prospectus** are, in relation to a Series and Class of Notes, to the Final Terms or Drawdown Prospectus (or the relevant provisions thereof) attached to or endorsed on such Series and Class of Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Master Issuer Trust Deed, the Master Issuer Deed of Charge and the Master Issuer Paying Agent and Agent Bank Agreement.

Copies of the Master Issuer Trust Deed, the Master Issuer Deed of Charge, the Master Issuer Paying Agent and Agent Bank Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the registered office of the Master Issuer, being 35 Great St. Helen's, London EC3A 6AP, United Kingdom and the specified office for the time being of (a) the Principal Paying Agent, being at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom and (b) the US Paying Agent, being at 14th Floor, 388 Greenwich Street, New York, New York 10013, United States. Copies of the applicable Final Terms or Drawdown Prospectus of each Series and Class of Notes are obtainable by Noteholders during normal business hours at the registered office of the Master Issuer and the specified office for the time being of (i) the Principal Paying Agent and (ii) the US Paying Agent and any Noteholder must produce evidence satisfactory to the relevant Paying Agent as to its holding of Notes and identity.

The Holders of any Series and Class of Notes are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of, and definitions contained or incorporated in, the Master Issuer Trust Deed, the Master Issuer Deed of Charge, the Master Issuer Paying Agent and Agent Bank Agreement, each of the other Transaction Documents and the applicable Final Terms or Drawdown Prospectus and to have notice of each other Final Terms or Drawdown Prospectus relating to each other Series and Class of Notes.

A glossary of definitions appears in **Condition 19**.

References herein to the Class A Noteholders, the Class B Noteholders, the Class M Noteholders, the Class C Noteholders and the Class D Noteholders shall, in each case and unless specified otherwise, be references to the Holders of the Notes of all Series of the applicable Class.

References herein to the Class A Notes, the Class B Notes, the Class M Notes, the Class C Notes or the Class D Notes shall, in each case and unless specified otherwise, be references to the Notes of all Series of the applicable Class.

## 1. Form, Denomination, Register, Title and Transfers

### *1.1 Form and Denomination*

The US Notes will initially be offered and sold pursuant to a registration statement filed with the United States Securities and Exchange Commission. The Reg S Notes will initially be offered and sold outside the United States to non-US persons pursuant to Reg S. The Rule 144A Notes will initially be offered only to QIBs pursuant to Rule 144A.

Each Series and Class of Notes will be issued in the Specified Currency and in the Specified Denomination.

Each Series and Class of US Notes will be initially represented by a US Global Note, which, in the aggregate, will represent the Principal Amount Outstanding from time to time of such Series and Class of US Notes. Each Series and Class of Reg S Notes will be initially represented by either (a) a Reg S Global Note which, in the aggregate, will represent the Principal Amount Outstanding from time to time of such Series and Class of the Reg S Notes or (b) one or more Registered Uncleared Note Certificates, which, in the aggregate, will represent the Principal Amount Outstanding from time to time of such Series and Class of Reg S Notes. Each Series and Class of Rule 144A Notes will be initially represented by one or more Rule 144A Global Notes, which, in the aggregate, will represent the Principal Amount Outstanding from time to time of such Series and Class of Rule 144A Notes.

Each Reg S Global Note will either (i) be deposited with, and registered in the name of a nominee of, a common depositary or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, or (ii) be deposited with a custodian for, and registered in the name of a nominee of, DTC (or such other name as may be requested by an authorised representative of DTC) or any alternative clearing system agreed by the Master Issuer, as specified in the applicable Final Terms or Drawdown Prospectus. Each US Global Note and Rule 144A Global Note will either (i) be deposited with a custodian for, and registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC) as nominee of, DTC or (ii) be deposited with a common depositary or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of a common depositary for, Euroclear and Clearstream, Luxembourg or in the name of a nominee of a common safekeeper, as specified in the applicable Final Terms or Drawdown Prospectus. Each Global Note will be numbered serially with an identifying number which will be recorded on the relevant Global Note and in the Register.

Each Series and Class of Notes may be Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or a combination of any of the foregoing, depending upon the interest basis shown in the applicable Final Terms or Drawdown Prospectus.

Each Series and Class of Notes may be Bullet Redemption Notes, Scheduled Redemption Notes, Pass-Through Notes or a combination of any of the foregoing, depending upon the redemption/payment basis shown in the applicable Final Terms or Drawdown Prospectus.

Global Notes will be exchanged for notes in definitive registered form (**Definitive Notes**) only under certain limited circumstances (as described in the relevant Global Note). If Definitive Notes are issued in exchange for Global Notes, they will be serially numbered and issued in an aggregate principal amount equal to the Principal Amount Outstanding of the relevant Global Note and in registered form only.

The Reg S Notes and the Rule 144A Notes (in either global or definitive form) will each be issued in such denominations as specified in the applicable Final Terms or Drawdown Prospectus, save that each Dollar Note will be issued in minimum denominations of $250,000 and in integral multiples of $1,000 in excess thereof, each Euro Note will be issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof and each Sterling Note will be issued in minimum denominations of £100,000 and in integral multiples of £1,000 in excess thereof (provided that Notes issued with a maturity of less than one year will be issued in minimum denominations of £100,000 (or such equivalent amount)). No Note will be issued in a denomination of less than €100,000 (or its equivalent in the relevant currency).

In the case of a Series and Class of Notes with more than one Specified Denomination, Notes of one Specified Denomination may not be exchanged for Notes of such Series and Class of another Specified Denomination.

***1.2 Register***

The Registrar will maintain the Register in respect of the Notes in accordance with the provisions of the Master Issuer Paying Agent and Agent Bank Agreement. In these Conditions, the **Holder** of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A Note will be issued to each Noteholder in respect of its registered holding. Each Note will be numbered serially with an identifying number which will be recorded in the Register.

***1.3 Title***

The Holder of each Note shall (to the fullest extent permitted by applicable law) be treated by the Master Issuer, the Note Trustee, the Master Issuer Security Trustee, the Agent Bank and any Agent as the absolute owner of such Note for all purposes (including the making of any payments) regardless of any notice of ownership, theft or loss or any trust or other interest therein or of any writing thereon (other than the endorsed form of transfer).

***1.4 Transfers***

(a) Title to the Notes shall pass by and upon registration in the Register. Subject as provided otherwise in this **Condition 1.4**, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer certificate (a **transfer certificate**) duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may only be transferred in the minimum denominations specified in the applicable Final Terms or Drawdown Prospectus. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Notes will be issued to the transferor.

Within five Business Days of such surrender of a Note, the Registrar will register the transfer in question and deliver a new Note of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (and by airmail if the Holder is overseas) to the address specified for such purpose by such relevant Holder.

The transfer of a Note will be effected without charge by the Registrar, but subject to payment of (or the giving of such indemnity as the Registrar may require for) any tax or other governmental charges which may be imposed in relation to it.

Noteholders may not require transfers of Notes to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Master Issuer Paying Agent and Agent Bank Agreement. The regulations may be changed by the Master Issuer with the prior written approval of the Note Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

The Notes are not issuable in bearer form.

(b) Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Reg S Note to a transferee in the United States or who is a U.S. person will only be made:

(i) upon receipt by the Registrar of a duly completed transfer certificate from the transferor of the note or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

(ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the issuing entity of such satisfactory evidence as the issuing entity may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States,

and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. In the case of (i) above, such transferee may take delivery through a Rule 144A Note. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Reg S Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

(c) Transfers of Rule 144A Notes or beneficial interests therein may be made:

(i) to a transferee who takes delivery of such interest through a Reg S Note, upon receipt by the Registrar of a duly completed transfer certificate from the transferor to the effect that such transfer is being made in accordance with Reg S and that, in the case of a Reg S Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable distribution compliance period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(ii) to a transferee who takes delivery of such interest through a Rule 144A Note where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the issuing entity of such satisfactory evidence as the issuing entity may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States,

and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Upon the transfer, exchange or replacement of Rule 144A Notes, or upon specific request for removal of the legend thereon, the registrar shall deliver only Rule 144A Notes or refuse to remove the legend, as the case may be, unless there is delivered to the issuing entity such satisfactory evidence as may reasonably be required by the issuing entity, which may include an opinion of U.S. counsel, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(d) Subject to (a) above, a Registered Uncleared Note may be transferred upon surrender of the relevant Registered Uncleared Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar together with such evidence as the Registrar may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Uncleared Note may not be transferred unless the principal amount of such Registered Uncleared Notes transferred and (where not all of the Registered Uncleared Notes held by a holder are being transferred) the principal amount of the balance of Registered Uncleared Notes not transferred are a Specified Denomination or multiple thereof. Where not all the Registered Uncleared Notes represented by the surrendered Registered Uncleared Note Certificate are the subject of the transfer, a new Registered Uncleared Note Certificate in respect of the balance of the Registered Uncleared Notes not transferred will be issued to the transferor.

## 2. Status, Priority and Security

### *2.1 Status*

The Notes of each Series and Class are direct, secured and, subject to the limited recourse provisions in Condition 10 (Enforcement of Notes) and if limited recourse provisions are specified to apply to such Notes in the applicable Final Terms or Drawdown Prospectus, unconditional obligations of the Master Issuer.

Subject to the provisions of **Conditions 4** and **5** and subject to the other payment conditions set out in the applicable Final Terms or Drawdown Prospectus and the other Transaction Documents:

(a) the Class A Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class A Notes of each other Series but in priority to the Class B Notes, the Class M Notes, the Class C Notes and the Class D Notes of any Series;

(b) the Class B Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class B Notes of each other Series but in priority to the Class M Notes, the Class C Notes and the Class D Notes of any Series;

(c) the Class M Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class M Notes of each other Series but in priority to the Class C Notes and the Class D Notes of any Series;

(d) the Class C Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class C Notes of each other Series but in priority to the Class D Notes of any Series; and

(e) the Class D Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class D Notes of each other Series.

### *2.2 Conflict between the classes of Notes*

The Master Issuer Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders, the Class M Noteholders, the Class C Noteholders and the Class D Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Note Trustee under these Conditions or any of the Transaction Documents (except where expressly provided otherwise), but requiring the Note Trustee to have regard (except as expressly provided otherwise):

(a) for so long as there are any Class A Notes outstanding, only to the interests of the Class A Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders and/or the interests of the Class M Noteholders and/or the interests of the Class C Noteholders and/or the interests of the Class D Noteholders;

(b) subject to (a) above and for so long as there are any Class B Notes outstanding, only to the interests of the Class B Noteholders if, in the opinion of the Note Trustee there is or may be a conflict between the interests of the Class B Noteholders and the interest of the Class M Noteholders and/or the interests of the Class C Noteholders and/or the interests of the Class D Noteholders;

(c) subject to (a) and (b) above and for so long as there are any Class M Notes outstanding, only to the interests of the Class M Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class M Noteholders and the interests of the Class C Noteholders and/or the interests of the Class D Noteholders; and

(d) subject to (a), (b) above and (c) above and for so long as there are any Class C Notes outstanding, only to the interests of the Class C Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class C Noteholders and the Class D Noteholders.

The Master Issuer Trust Deed also contains provisions:

(i) limiting the powers of the Class B Noteholders, the Class M Noteholders, the Class C Noteholders and the Class D Noteholders in each case, of any Series, *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class A Noteholders of that Series or of

any other Series. Except in certain circumstances described in **Condition 11**, the Master Issuer Trust Deed contains no such limitation on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders, the Class M Noteholders, the Class C Noteholders and the Class D Noteholders in each case, of any Series, irrespective of the effect thereof on their respective interests;

(ii) limiting the powers of the Class M Noteholders, the Class C Noteholders and the Class D Noteholders in each case, of any Series, *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class B Noteholders of that Series or of any other Series. Except in certain circumstances described above and in **Condition 11**, the Master Issuer Trust Deed contains no such limitation on the powers of the Class B Noteholders, the exercise of which will be binding on the Class M Noteholders, the Class C Noteholders and the Class D Noteholders, in each case, of any Series, irrespective of the effect thereof on their respective interests;

(iii) limiting the powers of the Class C Noteholders and the Class D Noteholders in each case, of any Series, *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class M Noteholders of that Series or of any other Series. Except in certain circumstances described above and in **Condition 11**, the Master Issuer Trust Deed contains no such limitation on the powers of the Class M Noteholders, the exercise of which will be binding on the Class C Noteholders and the Class D Noteholders in each case, of any Series, irrespective of the effect thereof on their interests; and

(iv) limiting the powers of the Class D Noteholders of any Series, *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class C Noteholders of that Series or of any other Series. Except in certain circumstances described above and in **Condition 11**, the Master Issuer Trust Deed contains no such limitation on the powers of the Class C Noteholders, the exercise of which will be binding on the Class D Noteholders of any Series, irrespective of the effect thereof on their respective interests.

The Note Trustee shall be entitled to assume, for the purpose of exercising any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents, without further investigation or inquiry, that such exercise will not be materially prejudicial to the interests of the Noteholders (or any Series and Class thereof), if each of the Rating Agencies rating the relevant Series and Class has confirmed in writing that the then current ratings of the applicable Series and Class of Notes would not be reduced, withdrawn or qualified by such exercise.

### *2.3 Security*

As security for, *inter alia*, the payment of all monies payable in respect of the Notes, the Master Issuer has entered into the Master Issuer Deed of Charge creating the Master Issuer Security in favour of the Master Issuer Security Trustee for itself and on trust for, *inter alios*, the Note Trustee and the Noteholders.

## 3. Covenants

Save with the prior written consent of the Note Trustee or unless provided in or contemplated under these Conditions or any of the Transaction Documents to which the Master Issuer is a party, the Master Issuer shall not, so long as any Note remains outstanding:

### *3.1 Negative Pledge*

create or permit to subsist any mortgage, standard security, pledge, lien, charge or other security interest whatsoever (unless arising by operation of law), upon the whole or any part of its assets (including any uncalled capital) or its undertakings, present or future except where the same is given in connection with the issue of a Series and Class of Notes or the advance of a Master Issuer Subordinated Loan;

### *3.2 Disposal of Assets*

sell, assign, transfer, lend, lease or otherwise dispose of, or deal with, or grant any option or present or future right to acquire all or any of its properties, assets or undertakings or any interest, estate, right, title or benefit therein or thereto or agree or attempt or purport to do any of the foregoing;

***3.3 Equitable Interest***

permit any person other than itself and the Master Issuer Security Trustee (as to itself and on behalf of the Master Issuer Secured Creditors) to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;

***3.4 Bank Accounts***

have an interest in any bank account, other than the Master Issuer Bank Accounts, except in connection with the issue of a Series where such bank account is immediately charged in favour of the Master Issuer Security Trustee pursuant to the Master Issuer Deed of Charge;

***3.5 Restrictions on Activities***

carry on any business other than as described in the Base Prospectus (as revised, supplemented and/or amended from time to time) relating to the issue of the Notes, the advancing of Loan Tranches under the Master Intercompany Loan Agreement to Funding 2 and the related activities described therein or as contemplated in the Transaction Documents relating to the issue of the Notes and the advancing of Loan Tranches under the Master Intercompany Loan Agreement to Funding 2;

***3.6 Borrowings***

incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness or obligation of any person, except where the same is incurred or given or the Master Issuer becomes so obligated in connection with the issue of a Series and Class of Notes or the advance of a Master Issuer Subordinated Loan or a Master Issuer Start-Up Loan;

***3.7 Merger***

consolidate or merge with any other person or convey or transfer substantially all of its properties or assets to any other person;

***3.8 Waiver or Consent***

permit the validity or effectiveness of any of the Master Issuer Trust Deed or the Master Issuer Deed of Charge or the priority of the security interests created thereby to be amended, terminated, postponed, waived or discharged, or permit any other person whose obligations form part of the Master Issuer Security to be released from such obligations;

***3.9 Employees or premises***

have any employees or premises or subsidiaries;

***3.10 Dividends and Distributions***

pay any dividend or make any other distribution to its shareholders or issue any further shares or alter any rights attaching to its shares as at the date of the Master Issuer Deed of Charge;

***3.11 Purchase Notes***

purchase or otherwise acquire any Note or Notes; or

***3.12 United States activities***

engage in any activities in the United States (directly or through agents), or derive any income from United States sources as determined under United States income tax principles, or hold any property if doing so would cause it to be engaged in a trade or business within the United States as determined under United States income tax principles.

**4. Interest**

***4.1 Interest on Fixed Rate Notes***

Each Fixed Rate Note bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable, subject as provided in these Conditions, in arrear on the Interest Payment Date(s) in each year specified for such Fixed Rate Note up to (and including) the Final Maturity Date.

Except as provided in the applicable Final Terms or Drawdown Prospectus, the amount of interest payable in respect of any Fixed Rate Note on each Interest Payment Date for a Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified for such Note in the applicable Final Terms or Drawdown Prospectus, amount to the Broken Amount so specified.

As used in these Conditions, **Fixed Interest Period** means the period from and including an Interest Payment Date (or the Interest Commencement Date) to but excluding the next (or the first) Interest Payment Date.

If interest is required to be calculated in respect of any Fixed Rate Note for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest specified for such Note in the applicable Final Terms or Drawdown Prospectus to the Principal Amount Outstanding on such Note, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention and (in the case of a Global Note) apportioning the resulting total between the Noteholders in respect thereof *pro rata* and *pari passu*.

**Day Count Fraction** means, in respect of the calculation of an amount of interest for any Fixed Rate Note in accordance with this **Condition 4.1**:

(a) if "Actual/Actual (ICMA)" is specified for such Note in the applicable Final Terms or Drawdown Prospectus:

(i) in the case of Fixed Rate Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date for such Fixed Rate Notes (or, if none, the Interest Commencement Date) to (but excluding) the relevant Interest Payment Date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms or Drawdown Prospectus) that would occur in one calendar year; or

(ii) in the case of Fixed Rate Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified for such Fixed Rate Note in the applicable Final Terms or Drawdown Prospectus, the number of days in the period from (and including) the most recent Interest Payment Date for such Fixed Rate Note (or, if none, the Interest Commencement Date) to (but excluding) the relevant Interest Payment Date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

As used in these Conditions, **Determination Period** means each period from and including a Determination Date (as defined in the applicable Final Terms or Drawdown Prospectus) to but excluding the next Determination Date (including where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

### *4.2 Interest on Floating Rate Notes*

(a) Interest Payment Dates

Each Floating Rate Note bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on

the Interest Payment Date(s) in each year specified for such Floating Rate Note. Such interest will be payable in respect of each Floating Interest Period.

As used in these Conditions, **Floating Interest Period** means the period from and including an Interest Payment Date (or the Interest Commencement Date) to but excluding the next (or the first) Interest Payment Date.

If a Business Day Convention is specified for a Floating Rate Note in the applicable Final Terms or Drawdown Prospectus and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(i) the "Following Business Day Convention", the Interest Payment Date for such Floating Rate Note shall be postponed to the next day which is a Business Day; or

(ii) the "Modified Following Business Day Convention", the Interest Payment Date for such Floating Rate Note shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(iii) the "Preceding Business Day Convention", the Interest Payment Date for such Floating Rate Note shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, New York and any Additional Business Centre specified in the applicable Final Terms or Drawdown Prospectus;

(ii) a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and

(iii) in relation to any sum payable in a Specified Currency other than sterling, US dollar or euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London, New York and any Additional Business Centre).

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of a Floating Rate Note will be determined in the manner specified for such Note in the applicable Final Terms or Drawdown Prospectus.

(i) ISDA Determination for Floating Rate Notes

Where "ISDA Determination" is specified for such Floating Rate Note in the applicable Final Terms or Drawdown Prospectus as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Floating Rate Interest Period will be the relevant ISDA Rate plus or minus (as indicated for such Floating Rate Note in the applicable Final Terms or Drawdown Prospectus) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent Bank or other person specified in the applicable Final Terms or Drawdown Prospectus under an interest rate swap transaction if the Agent Bank or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA 2006 Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated (the **ISDA Definitions**), and under which:

(A) the Floating Rate Option is as specified for such Floating Rate Note in the applicable Final Terms or Drawdown Prospectus;

(B) the Designated Maturity is the period specified for such Floating Rate Note in the applicable Final Terms or Drawdown Prospectus; and

(C) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on LIBOR or EURIBOR for a currency, the first day of that Interest Period, or (ii) in any other case, as specified for such Floating Rate Note in the applicable Final Terms or Drawdown Prospectus.

Unless otherwise stated in the applicable Final Terms or Drawdown Prospectus, the Minimum Rate of Interest shall be deemed to be zero.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Notes

(I) If "Applicable – Term Rate" is specified as the method of **Screen Rate Determination** for a Floating Rate Note in the applicable Final Terms or Drawdown Prospectus as the manner in which the Rate of Interest is to be determined for such Floating Rate Note, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR or New York time, in the case of USD LIBOR) on the Determination Date in question plus or minus the Margin (if any), all as determined by the Agent Bank. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent Bank for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations. If the Relevant Screen Page is not available or if, in the case of clause (ii)(A), no offered quotation appears or, in the case of clause (ii)(B), fewer than three offered quotations appear, in each case as at the Specified Time, the Agent Bank shall request each of the Reference Banks to provide the Agent Bank with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Determination Date in question. If two or more of the Reference Banks provide the Agent Bank with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent Bank.

If on any Determination Date one only or none of the Reference Banks provides the Agent Bank with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent Bank determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent Bank by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR or USD LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of

the Reference Banks provide the Agent Bank with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Master Issuer suitable for the purpose) informs the Agent Bank it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR or USD LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

***SONIA and SOFR***

(II) If "Applicable – Overnight Rate" is specified as the method of Screen Rate Determination for a Floating Rate Note in the applicable Final Terms or Drawdown Prospectus as the manner in which the Rate of Interest is to be determined for such Floating Rate Note, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) where the calculation method in respect of the relevant Floating Rate Note is specified in the applicable Final Terms or Drawdown Prospectus as being "Compounded Daily", the Rate of Interest for each Interest Period will, subject to Condition 11.8 and as provided below, be the Compounded Daily Reference Rate plus or minus (as indicated in the applicable Final Terms or Drawdown Prospectus) the Margin, where:

"**Compounded Daily Reference Rate**" means, with respect to an Interest Period, the rate of return of a daily compound interest investment in the Specified Currency (with the applicable Reference Rate (as indicated in the applicable Final Terms or Drawdown Prospectus and further provided for below) as the reference rate for the calculation of interest) and will be calculated by the Agent Bank (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms or Drawdown Prospectus) on the Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{r_{\text{i - pBD}} \times n_i}{D}\right)-1\right]\times\frac{D}{d}$$

where:

"**D**" is the number specified in the applicable Final Terms or Drawdown Prospectus;

"**d**" is the number of calendar days in the relevant Interest Period;

"$\mathbf{d_o}$" is the number of Business Days in the relevant Interest Period;

"**i**" is a series of whole numbers from one to $d_o$, each representing the relevant Business Day in chronological order from, and including, the first Business Day in the relevant Interest Period;

"**Business Day**" or "**BD**", in this Condition 4.2(b)(ii)(II)(A) has the meaning set out in Condition 4.2, save that where "SOFR" is specified as the Reference Rate, it means a U.S. Government Securities Business Day;

"$\mathbf{n}_i$", for any Business Day "i", means the number of calendar days from and including such Business Day "i" up to but excluding the following Business Day;

"**p**" means, for any Interest Period:

a. where "**Lag**" is specified as the Observation Method in the applicable Final Terms or Drawdown Prospectus, the number of Business Days included in the Observation Look-Back Period specified in the applicable Final Terms or Drawdown Prospectus (or, if no such number is specified five Business Days);

b. where "Lock-out" is specified as the Observation Method in the applicable Final Terms or Drawdown Prospectus, zero;

"**r**" means:

a. where in the applicable Final Terms or Drawdown Prospectus "SONIA" is specified as the Reference Rate and "**Lag**" is specified as the Observation Method, in respect of any Business Day, the SONIA rate in respect of such Business Day;

b. where in the applicable Final Terms or Drawdown Prospectus "SOFR" is specified as the Reference Rate and "**Lag**" is specified as the Observation Method, in respect of any Business Day, the SOFR in respect of such Business Day;

c. where in the applicable Final Terms or Drawdown Prospectus "SONIA" is specified as the Reference Rate and "**Lock-out**" is specified as the Observation Method:

1. in respect of any Business Day "i" that is a Reference Day, the SONIA rate in respect of the Business Day immediately preceding such Reference Day, and

2. in respect of any Business Day "i" that is not a Reference Day (being a Business Day in the Lock-out Period), the SONIA rate in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the Determination Date); and

d. where in the applicable Final Terms or Drawdown Prospectus "SOFR" is specified as the Reference Rate and "Lock-out" is specified as the Observation Method:

1. in respect of any Business Day "i" that is a Reference Day, the SOFR in respect of the Business Day immediately preceding such Reference Day, and

2. in respect of any Business Day "i" that is not a Reference Day (being a Business Day in the Lock-out Period), the SOFR in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the Determination Date); and

"$\mathbf{r}_{\mathbf{i\text{-}pBD}}$" means the applicable Reference Rate as set out in the definition of "r" above for, where "Lag" is specified as the Observation Method in the applicable Final Terms or Drawdown Prospectus, the Business Day (being a Business Day falling in the relevant Observation Period) falling "p" Business Days prior to the relevant Business Day "i" or, where "Lock-out" is specified as the Observation Method in the applicable Final Terms or Drawdown Prospectus, the relevant Business Day "i".

(B) where the Calculation Method in respect of the relevant Series of Floating Rate Notes is specified in the applicable Final Terms or Drawdown Prospectus as being "Weighted Average", the Rate of Interest for each Interest Period will, subject to Condition 11.8 and as provided below, be the Weighted Average Reference Rate (as defined below) plus or minus (as indicated in the applicable Final Terms or Drawdown Prospectus) the Margin and will be calculated by the Agent Bank (or such other party responsible for the calculation of the Rate of Interest, as specified in the

applicable Final Terms or Drawdown Prospectus) on the Determination Date and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards, where:

"**Weighted Average Reference Rate**" means:

a. where "Lag" is specified as the Observation Method in the applicable Final Terms or Drawdown Prospectus, the arithmetic mean of the Reference Rate in effect for each calendar day during the relevant Observation Period, calculated by multiplying each relevant Reference Rate by the number of calendar days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant Observation Period. For these purposes the Reference Rate in effect for any calendar day which is not a Business Day shall be deemed to be the Reference Rate in effect for the Business Day immediately preceding such calendar day; and

b. where "Lock-out" is specified as the Observation Method in the applicable Final Terms or Drawdown Prospectus, the arithmetic mean of the Reference Rate in effect for each calendar day during the relevant Interest Period, calculated by multiplying each relevant Reference Rate by the number of days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant Interest Period, provided however that for any calendar day of such Interest Period falling in the "Lock-out Period", the relevant Reference Rate for each day during that Lock-out Period will be deemed to be the Reference Rate in effect for the Reference Day immediately preceding the first day of such Lock-out Period. For these purposes the Reference Rate in effect for any calendar day which is not a Business Day shall, subject to the proviso above, be deemed to be the Reference Rate in effect for the Business Day immediately preceding such calendar day.

(C) subject to Condition 11.8, where "SONIA" is specified as the Reference Rate in the applicable Final Terms or Drawdown Prospectus, if, in respect of any Business Day, SONIA is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such Reference Rate shall be:

1. (i) the Bank of England's Bank Rate (the "**Bank Rate**") prevailing at close of business on the relevant Business Day; plus (ii) the mean of the spread of SONIA to the Bank Rate over the previous five days on which SONIA has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate, or

2. if such Bank Rate is not available, the SONIA rate published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) for the first preceding Business Day on which the SONIA rate was published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors), and

in each case, "r" shall be interpreted accordingly.

(D) subject to Condition 11.8, where "SOFR" is specified as the Reference Rate in the applicable Final Terms or Drawdown Prospectus, if, in respect of any Business Day, the Reference Rate is not available, such Reference Rate shall be the SOFR for the first preceding Business Day on which the SOFR was published on the New York Fed's Website, and "r" shall be interpreted accordingly.

For the purposes of this Condition 4(b)(ii)(II), the following definitions will apply:

"**Lock-out Period**" means the period from, and including, the day following the Determination Date to, but excluding, the corresponding Interest Payment Date.

"**New York Fed's Website**" means the website of the Federal Reserve Bank of New York currently at http://www.newyorkfed.org, or any successor website of the Federal Reserve Bank of New York.

"**Observation Period**" means, in respect of an Interest Period, the period from and including the date falling "p" Business Days prior to the first day of the relevant Interest Period and ending on, but excluding, the date which is "p" Business Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" Business Days prior to such earlier date, if any, on which the Notes become due and payable).

"**Reference Day**" means each Business Day in the relevant Interest Period, other than any Business Day in the Lock-out Period.

"**SOFR**" means, in respect of any Business Day, a reference rate equal to the daily Secured Overnight Financing Rate as provided by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator of such rate) on the New York Fed's Website, in each case on or about 5:00p.m. (New York City Time) on the Business Day immediately following such Business Day.

"**SONIA**" means, in respect of any Business Day, a reference rate equal to the daily Sterling Overnight Index Average rate for such Business Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors in each case on the Business Day immediately following such Business Day.

**"U.S. Government Securities Business Day"** means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association (or any successor thereto) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(III) In the event that the Rate of Interest cannot be determined in accordance with the foregoing provisions, but without prejudice to Condition 11.8, the Rate of Interest shall be (i) that determined as at the last preceding Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Period) or (ii) if there is no such preceding Determination Date, the initial Rate of Interest which would have been applicable to such Series of Notes for the first Interest Period had the Notes been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin and any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first Interest Period).

If the relevant Series of Notes become due and payable in accordance with Condition 9, the final Determination Date shall, notwithstanding any Determination Date specified in the applicable Final Terms or Drawdown Prospectus, be deemed to be the date on which such Notes became due and payable and the Rate of Interest on such Notes shall, for so long as any such Note remains outstanding, be that determined on such date.

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms or Drawdown Prospectus specifies a Minimum Rate of Interest for a Floating Rate Note for any Interest Period, then, in the event that the Rate of Interest for such Floating Rate Note in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate

of Interest for such Floating Rate Note for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms or Drawdown Prospectus specifies a Maximum Rate of Interest for such Floating Rate Note for any Interest Period, then, in the event that the Rate of Interest for such Floating Rate Note in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Floating Rate Note for such Interest Period shall be such Maximum Rate of Interest.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Agent Bank will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent Bank will calculate the amount of interest payable on the Floating Rate Notes in respect of each Specified Denomination or (in the case of a Global Note) the Principal Amount Outstanding thereunder (each an **Interest Amount**) for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of each Floating Rate Note, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such subunit being rounded upwards or otherwise in accordance with applicable market convention and (in the case of a Global Note) apportioning the resulting total between the Noteholders in respect thereof *pro rata* and *pari passu*.

**Day Count Fraction** means, in respect of the calculation of an amount of interest for a Floating Rate Note in accordance with this **Condition 4.2(d)** for any Interest Period:

(a) if **Actual/365** or **Actual/Actual (ISDA)** is specified for such Floating Rate Note in the applicable Final Terms or Drawdown Prospectus, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(b) if **Actual/365 (Fixed)** is specified for such Floating Rate Note in the applicable Final Terms or Drawdown Prospectus, the actual number of days in the Interest Period divided by 365;

(c) if **Actual/365 (Sterling)** is specified for such Floating Rate Note in the applicable Final Terms or Drawdown Prospectus, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(d) if **Actual/360** is specified for such Floating Rate Note in the applicable Final Terms or Drawdown Prospectus, the actual number of days in the Interest Period divided by 360;

(e) if **30/360**, **360/360** or **Bond Basis** is specified for such Floating Rate Note in the applicable Final Terms or Drawdown Prospectus, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months (unless (i) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(f) if **30E/360** or **Eurobond Basis** is specified for such Floating Rate Note in the applicable Final Terms or Drawdown Prospectus, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Final Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(e) Notification of Rate of Interest and Interest Amounts

The Agent Bank will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Note Trustee, the Master Issuer Security Trustee, the Master Issuer Cash Manager, the Paying Agents, the Registrar and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Notes are for the time being listed, quoted and/or traded or by which they have been admitted to listing and to be published in accordance with **Condition 14** as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Note Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and to Noteholders in accordance with **Condition 14.**

(f) Determination or Calculation by Note Trustee

If for any reason at any relevant time, the Agent Bank or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest for a Floating Rate Note or the Agent Bank defaults in its obligation to calculate any Interest Amount for such Note in accordance with **subparagraph (b) (i)** or **(ii) above** or as otherwise specified for such Note in the applicable Final Terms or Drawdown Prospectus, as the case may be, and in each case in accordance with **paragraph (d) above**, the Note Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified for such Note in the applicable Final Terms or Drawdown Prospectus), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Note Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent Bank or the Calculation Agent, as the case may be.

(g) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this **Condition 4.2**, whether by the Agent Bank or the Calculation Agent or the Note Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Master Issuer, the Master Issuer Cash Manager, the Principal Paying Agent, the Calculation Agent, the other Paying Agents, the Note Trustee and all Noteholders and (in the absence of wilful default or bad faith) no liability to the Master Issuer or the Noteholders shall attach to the Agent Bank or the Calculation Agent or the Note Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

***4.3 Accrual of interest***

Interest (if any) will cease to accrue on each Note (or in the case of the redemption of part only of a Note, that part only of such Note) on the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused in which event, interest will continue to accrue until the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) the seventh day after notice is duly given by the Principal Paying Agent or the US Paying Agent (as the case may be) to the Holder thereof that such payment will be made, provided that subsequently, payment is in fact made.

***4.4 Deferred Interest***

To the extent that, subject to and in accordance with the relevant Master Issuer Priority of Payments, the funds available to the Master Issuer to pay interest on any Series and Class of Notes (other than any

Series and Class of Notes if then the most senior Class of Notes then outstanding) on an Interest Payment Date (after discharging the Master Issuer's liabilities of a higher priority) are insufficient to pay the full amount of such interest, payment of the shortfall attributable to such Series and Class of Notes (**Deferred Interest**) will not then fall due but will instead be deferred until the first Interest Payment Date for such Notes thereafter on which sufficient funds are available (after allowing for the Master Issuer's liabilities of a higher priority and subject to and in accordance with the relevant Master Issuer Priority of Payments) to fund the payment of such Deferred Interest to the extent of such available funds.

Such Deferred Interest will accrue interest (**Additional Interest**) at the Rate of Interest applicable from time to time to the applicable Series and Class of Notes and payment of any Additional Interest will also be deferred until the first Interest Payment Date for such Notes thereafter on which funds are available (after allowing for the Master Issuer's liabilities of a higher priority subject to and in accordance with the relevant Master Issuer Priority of Payments) to the Master Issuer to pay such Additional Interest to the extent of such available funds.

Amounts of Deferred Interest and Additional Interest shall not be deferred beyond the Final Maturity Date of the applicable Series and Class of Notes, when such amounts will become due and payable.

Payments of interest due on an Interest Payment Date in respect of the most senior Class of Notes of any Series then outstanding will not be deferred. In the event of the delivery of a Note Acceleration Notice (as described in **Condition 9**), the amount of interest in respect of such Notes that was due but not paid on such Interest Payment Date will itself bear interest at the applicable rate until both the unpaid interest and the interest on that interest are paid as provided in the Master Issuer Trust Deed.

## 5. Redemption, Purchase and Cancellation

### *5.1 Final Redemption*

Unless previously redeemed in full as provided in this **Condition 5**, the Master Issuer shall redeem a Series and Class of Notes at their then Principal Amount Outstanding together with all accrued interest on the Final Maturity Date in respect of such Notes.

The Master Issuer may not redeem such Notes in whole or in part prior to their Final Maturity Date except as provided in **Conditions 5.2**, **5.4** or **5.5 below**, but without prejudice to **Condition 9**.

### *5.2 Mandatory Redemption of the Notes in Part*

On each Interest Payment Date, other than an Interest Payment Date on which a Series and Class of Notes are to be redeemed under **Conditions 5.1, 5.4 or 5.5 below**, the Master Issuer shall repay principal in respect of such Series and Class of Notes in an amount equal to the amount (if any) repaid on the corresponding Funding 2 Interest Payment Date in respect of the related Loan Tranche and pursuant to the Master Intercompany Loan Agreement converted, where the Specified Currency for such Notes is not Sterling, into the Specified Currency at the Specified Currency Exchange Rate for such Notes.

To the extent that there are insufficient funds available to the Master Issuer to repay the amount due to be paid on such Interest Payment Date the Master Issuer will be required to repay the shortfall, to the extent that it receives funds therefor (and subject to the terms of the Master Issuer Deed of Charge and the Master Issuer Cash Management Agreement) on subsequent Interest Payment Dates in respect of such Series and Class of Notes.

### *5.3 Note Principal Payments and Principal Amount Outstanding*

The principal amount redeemable (the **Note Principal Payment**) in respect of each Note of a particular Series and Class on any Interest Payment Date under **Condition 5.2 above** shall be a proportion of the amount required as at that Interest Payment Date to be applied in redemption of such Series and Class of Notes on such date equal to the proportion that the Principal Amount Outstanding of the relevant Note bears to the aggregate Principal Amount Outstanding of such Series and Class of Notes rounded down to the nearest sub-unit of the Specified Currency; provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note.

On each Note Determination Date the Master Issuer shall determine (or cause the Agent Bank to determine) (a) the amount of any Note Principal Payment payable in respect of each Note of the relevant Series and Class on the immediately following Interest Payment Date and (b) the Principal Amount Outstanding of each such Note which shall be the Specified Denomination less (in each case) the aggregate amount of all Note Principal Payments in respect of such Note that has been paid since the relevant Closing

Date and on or prior to that Note Determination Date (the **Principal Amount Outstanding**) and (c) the fraction expressed as a decimal to the fifth decimal point (the **Pool Factor**), of which the numerator is the Principal Amount Outstanding of that Note (as referred to in (b) above) and the denominator is the Specified Denomination. Each determination by or on behalf of the Master Issuer of the Note Principal Payment of a Note, the Principal Amount Outstanding of a Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Master Issuer will cause each determination of the Note Principal Payment and the Principal Amount Outstanding and the Pool Factor in respect of a Series and Class of Notes to be notified forthwith, and in any event not later than 1.00 p.m. (London time) on the Business Day immediately succeeding the Note Determination Date, to the Principal Paying Agent, who will then notify the Agent Bank, other Paying Agents, the Note Trustee, the Registrar and (for so long as such Notes are listed on one or more stock exchanges) the relevant stock exchanges, and will cause notice of each determination of the Note Principal Payment and the Principal Amount Outstanding to be given to Noteholders in accordance with **Condition 14** by no later than the Business Day after the relevant Interest Payment Date.

If the Master Issuer does not at any time for any reason determine (or cause the Agent Bank to determine) a Note Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this **Condition 5.3**, such Note Principal Payment and/or Principal Amount Outstanding and/or Pool Factor may be determined by the Note Trustee in accordance with this **Condition 5.3** in the manner the Note Trustee in its discretion considers fair and reasonable in the circumstances, having regard to this **Condition 5.3**, and each such determination or calculation shall be deemed to have been made by the Master Issuer. Any such determination shall (in the absence of wilful default, bad faith or manifest error) be binding on the Master Issuer, the Agent Bank and the Noteholders. Any redemption of the Notes in part will be reflected in the records of Euroclear and Clearstream, Luxembourg as either a Pool Factor or a reduction in nominal amount, at their discretion.

***5.4 Optional Redemption in Full***

Provided a Note Acceleration Notice has not been served and subject to the provisos below, upon giving not more than 60 nor less than 30 days' prior written notice to the Note Trustee, the relevant Master Issuer Swap Provider(s) and the Noteholders in accordance with **Condition 14**, the Master Issuer may redeem a Series and Class of Notes at their aggregate Redemption Amount together with any accrued and unpaid interest in respect thereof on the following dates:

(a) the date specified as the **Call Option Date** (if any) for such Series and Class of Notes in the applicable Final Terms or Drawdown Prospectus and on any Interest Payment Date for such Series and Class of Notes thereafter; or

(b) the date specified as the **Step-Up Date** for such Series and Class of Notes (if any) in the applicable Final Terms or Drawdown Prospectus and on any Interest Payment Date for such Series and Class of Notes thereafter; and

(c) on such Interest Payment Date on which the aggregate Principal Amount Outstanding of such Series and Class of Notes and all other Classes of Notes of the same Series is less than 10 per cent. of the aggregate Principal Amount Outstanding of such Series of Notes as at the Closing Date on which such Series of Notes were issued,

**PROVIDED THAT:**

(i) (in any of the cases above), on or prior to giving any such notice, the Master Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Master Issuer to the effect that it will have the necessary funds to pay all amounts due in respect of the relevant Series and Class of Notes on the relevant Interest Payment Date and to discharge all other amounts required to be paid by it on the relevant Interest Payment Date in priority to or *pari passu* with such Series and Class of Notes in accordance with the applicable Master Issuer Priority of Payments, and

(ii) (in the cases of (a) and (b) above), (1) the amount standing to the credit of the Funding 2 General Reserve Ledger is equal to or greater than the Funding 2 Reserve Required Amount or (2) each Rating Agency has provided written confirmation that the redemption will not result in a reduction, qualification or withdrawal of the then current ratings of the Notes then outstanding.

### *5.5 Optional Redemption for Tax and other Reasons*

Provided a Note Acceleration Notice has not been served, if the Master Issuer at any time satisfies the Note Trustee immediately prior to the giving of the notice referred to below that:

(a) on the next Interest Payment Date the Master Issuer would by virtue of a change in the law or regulations of the United Kingdom or any other jurisdiction (or the application or interpretation thereof) be required to deduct or withhold from any payment of principal or interest or any other amount under a Series and Class of Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (other than where the relevant Holder or beneficial owner has some connection with the relevant jurisdiction other than the holding of the Notes); or

(b) on the next Interest Payment Date Funding 2 would be required to deduct or withhold from amounts due in respect of the Loan Tranche under the Master Intercompany Loan Agreement which was funded by such Series and Class of Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature; or

(c) the Master Issuer or Funding 2, as the case may be, falls within the Securitisation Tax Regime but subsequently ceases to fall within such regime and that such cessation would result in the Master Issuer and/or Funding 2 having to pay more tax than if the Master Issuer and Funding 2 remained within the Securitisation Tax Regime; and

(d) in relation to any of the events described in (a), (b) and (c) above, such obligation of the Master Issuer or Funding 2 (as the case may be) or such ceasing to fall within the Securitisation Tax Regime cannot be avoided by the Master Issuer or Funding 2 (as the case may be) taking reasonable measures available to the Master Issuer or Funding 2 (as the case may be),

then (in the case of any of the events described in (a) to (b) above) the Master Issuer shall use its reasonable endeavours to arrange the substitution of a company incorporated in another jurisdiction approved by the Note Trustee as principal debtor under such Notes, upon the Note Trustee being satisfied that such substitution will not be materially prejudicial to the interests of the Noteholders of any Series and Class and upon the Master Issuer Security Trustee being satisfied that (A) the position of the Master Issuer Secured Creditors will not thereby be adversely affected and (B) such substitution would not require registration of any new security under United States securities laws or materially increase the disclosure requirements under United States law or the costs of issuance. Only if the Master Issuer is unable to arrange a substitution will the Master Issuer be entitled to redeem the Notes as described in this **Condition 5.5**.

Subject to the proviso below, if the Master Issuer is unable to arrange a substitution as described above and, as a result, one or more of the events described in (a) or (b) above (as the case may be) is continuing or if the event described in (c) above is continuing, then the Master Issuer may, having given not more than 60 nor less than 30 days' notice to the Note Trustee, the relevant Master Issuer Swap Provider(s) and the Noteholders in accordance with **Condition 14**, redeem all (but not some only) of such Series and Class of Notes on the immediately succeeding Interest Payment Date for such Notes at their aggregate Redemption Amount together with any accrued and unpaid interest in respect thereof provided that (in either case), prior to giving any such notice, the Master Issuer shall have provided to the Note Trustee:

(i) a certificate signed by two directors of the Master Issuer stating the circumstances referred to in (a), (b) or (c) above and (d) above prevail and setting out details of such circumstances; and

(ii) an opinion in form and substance satisfactory to the Note Trustee of independent legal advisors of recognised standing to the effect that the Master Issuer has or will become obliged to deduct or withhold such amounts as a result of such change or amendment or, as the case may be, that the Master Issuer or Funding 2, as the case may be, has or will cease to fall within the Securitisation Tax Regime and that such cessation would result in the Master Issuer and/or Funding 2 having to pay more tax than if the Master Issuer and Funding 2 remained within the Securitisation Tax Regime.

The Note Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstance set out in (a), (b) or (c) above and (d) above, in which event they shall be conclusive and binding on the Noteholders. The Master Issuer may only redeem such Series and Class of Notes as aforesaid if, on or prior to giving such notice, the Master Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Master Issuer to the effect that (A) it will have the funds

available to make the required payment of principal and interest due in respect of such Series and Class of Notes on the relevant Interest Payment Date and to discharge all other amounts required to be paid by it on the relevant Interest Payment Date in priority to or *pari passu* with such Series and Class of Notes in accordance with the applicable Master Issuer Priority of Payments.

In addition to the foregoing, if at any time the Master Issuer delivers a certificate to Funding 2, the Note Trustee and the Master Issuer Security Trustee to the effect that it would be unlawful for the Master Issuer to make, fund or allow to remain outstanding a Rated Loan Tranche under the Master Intercompany Loan Agreement, then the Master Issuer may require Funding 2 to prepay the relevant Loan Tranche on a Funding 2 Interest Payment Date subject to and in accordance with the provisions of the Master Intercompany Loan Agreement to the extent necessary to cure such illegality and the Master Issuer may redeem all (but not some only) of the relevant Series and Class of Notes at their Redemption Amount together with any accrued interest upon giving not more than 60 nor less than 30 days' (or such shorter period as may be required under any relevant law) prior written notice to the Master Issuer Security Trustee, the Note Trustee, the relevant Master Issuer Swap Provider(s) and the Noteholders in accordance with **Condition 14**, provided that, prior to giving any notice, the Master Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Master Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the relevant Series and Class of Notes as provided above and any amount to be paid in priority to or *pari passu* with the relevant Series and Class of Notes. Such monies received by the Master Issuer shall be used to redeem the relevant Series and Class of Notes in full, together with any accrued and unpaid interest, on the equivalent Interest Payment Date.

***5.6 Redemption Amounts***

For the purposes of this **Condition 5**, **Redemption Amount** means, in respect of any Series and Class of Notes, the amount specified in relation to such Notes in the applicable Final Terms or Drawdown Prospectus or, if not so specified:

(a) in respect of each Note (other than a Zero Coupon Note), the Principal Amount Outstanding of such Note or such other amount specified in the applicable Final Terms or Drawdown Prospectus; and

(b) in respect of each Zero Coupon Note, an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

Redemption Amount = $\mathrm{RP} \times (1 + \mathrm{AY})^{y}$

where:

RP = the Reference Price;

AY = the Accrual Yield expressed as a decimal; and

y = the Day Count Fraction

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to **Condition 5.1**, **5.2**, **5.4** or **5.5 above** or upon its becoming due and repayable as provided in **Condition 9** is improperly withheld or refused, the amount due and repayable in respect of such Note shall be the amount calculated as provided in paragraph (b) above as though the reference therein to the date fixed for the redemption or, as the case may be, the date upon which such Note becomes due and payable were replaced by reference to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Note have been paid; and

(ii) the date on which the full amount of the monies payable in respect of such Note has been received by the Principal Paying Agent or the Note Trustee or the Registrar and notice to that effect has been given to the Noteholders in accordance with **Condition 14**.

**Day Count Fraction** means, in respect of the calculation of the Redemption Amount for a Zero Coupon Note in accordance with this **Condition 5.6** for any Zero Coupon Period:

(a) if **Actual**/**Actual** is specified for the relevant Series and Class of Notes in the applicable Final Terms or Drawdown Prospectus, the actual number of days from (and including) the first Closing Date of such Series and Class of Notes to (but excluding) the date fixed for redemption (the **Zero Coupon Period**) or, as the case may be, the date upon which such Series and Class of Notes becomes due and payable divided by 365 (or, if any portion of the Zero Coupon Period falls in one or more leap

years, the sum of (A) the actual number of days in the Zero Coupon Period falling in a leap year divided by 366 and (B) the actual number of days in the Zero Coupon Period falling in a non-leap year divided by 365); or

(b) if **30/360** is specified for the relevant Series and Class of Notes in the applicable Final Terms or Drawdown Prospectus, the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) during the Zero Coupon Period divided by 360.

### *5.7 Mandatory Transfer of Remarketable Notes*

(a) Each Series and Class of the Remarketable Notes shall, subject to paragraph (c) below, be transferred in accordance with paragraph (b) below on each relevant Mandatory Transfer Date prior to the occurrence of a Mandatory Transfer Termination Event (as confirmed by the relevant Remarketing Agent or the relevant Tender Agent by the provision of a Conditional Purchaser Confirmation to the Master Issuer and the Principal Paying Agent) in exchange for payment of the relevant Mandatory Transfer Price, and the Master Issuer will procure payment of the relevant Mandatory Transfer Price to the Holders of such Series and Class of Remarketable Notes on the relevant Mandatory Transfer Date, provided that the Master Issuer shall not be liable for the failure to make payment of the relevant Mandatory Transfer Price to the Holders of such Series and Class of Remarketable Notes to the extent that such failure is a result of the failure of the Remarketing Agent or the Conditional Purchaser to perform its obligations under the relevant Remarketing Agreement.

(b) Subject to paragraphs (a) above and (c) below, all the Holders' interests in a Series and Class of Remarketable Notes shall be transferred on the relevant Mandatory Transfer Date to the account of the relevant Remarketing Agent on behalf of the relevant purchasers or as otherwise notified by or on behalf of the relevant Remarketing Agent prior to such date or, if Definitive Notes have been issued with respect to such Series and Class of Remarketable Notes, such Series and Class of Remarketable Notes will be registered in the name of the relevant Remarketing Agent or as otherwise notified by or on behalf of the relevant Remarketing Agent by the Registrar and the Register will be amended accordingly with effect from the relevant Mandatory Transfer Date.

(c) Any Holder of a Series and Class of Remarketable Note may exercise his right to retain such Series and Class of Remarketable Notes through the facilities of DTC at any time prior to the commencement of the relevant remarketing period that ends immediately before the relevant Mandatory Transfer Date.

### *5.8 Mandatory Transfer of Maturity Purchase Notes*

(a) Each Series and Class of the Maturity Purchase Notes shall, subject to paragraphs (b) and (d) below and the provisions of the relevant Conditional Note Purchase Deed, be transferred in accordance with paragraph (c) below on the relevant Transfer Date in exchange for payment of the relevant Maturity Purchase Price by the Maturity Purchaser to the Holders of such Series and Class of Maturity Purchase Notes on the relevant Transfer Date.

(b) If the Master Issuer fails to redeem any Maturity Purchase Notes in full on the Expected Maturity Date (or within 3 Business Days thereof) then, subject to the terms of the relevant Conditional Note Purchase Deed, the Maturity Purchaser agrees to purchase on the Transfer Date, at the Maturity Purchase Price all, but not some only, of the outstanding Maturity Purchase Notes held by a Holder of Maturity Purchase Notes and in respect of which a valid Transfer Instruction, Tender Instruction or Acceptance Instruction, as the case may be, has been delivered to the relevant clearing system or the Registrar (as relevant), provided that no Note Event of Default has occurred which is continuing on the Transfer Date.

(c) In respect of any Series and Class of Maturity Purchase Notes outstanding following the Expected Maturity Date the Master Issuer will (i) give notice (which notices shall be irrevocable) on the Business Day following the Loss Calculation Date to the Holder(s) of any Maturity Purchase Notes via Euroclear and Clearstream, Luxembourg of the Maturity Purchaser's intention to purchase the Maturity Purchase Notes on the Transfer Date for cash at a price equal to the Maturity Purchase Price (an **EC/CS Notice to Purchase**), (ii) instruct the DTC Tender Agent to give notice (which notices shall be irrevocable) on the Business Day following the Loss Calculation Date to the Holder(s) of any Maturity Purchase Notes via DTC of the Maturity Purchaser's intention to purchase such Maturity Purchase Notes on the Transfer Date for cash at a price equal to the Maturity Purchase Price (a **DTC Notice to Purchase**), (iii) instruct the Registrar to give notice (which notices shall be irrevocable) on the Business Day following the Loss Calculation Date to the Holder(s) of any

Maturity Purchase Notes that are Registered Uncleared Notes of the Maturity Purchaser's intention to purchase such Maturity Purchase Notes on the Transfer Date for cash at a price equal to the Maturity Purchase Price (a **Registered Uncleared Notice to Purchase**) and (iv) make a corresponding announcement via the London Stock Exchange and Bloomberg.

(d) A Holder of any Maturity Purchase Notes has the right (but not the obligation) to elect to have all, but not some only, of its Maturity Purchase Notes purchased by the Maturity Purchaser on the Transfer Date. A Holder of any Maturity Purchase Note may exercise its right to have its Maturity Purchase Notes purchased by the Maturity Purchaser on the Transfer Date (i) in the case of Maturity Purchase Notes held in Euroclear and Clearstream, Luxembourg, by giving a Transfer Instruction (which shall be irrevocable) via Euroclear or Clearstream, Luxembourg (as applicable) no later than 4:00 p.m. (London time) on the Business Day that is 5 Business Days prior to (but excluding) the Transfer Date (or such earlier deadline set by any relevant intermediary or clearing system), (ii) in the case of Maturity Purchase Notes held in DTC, by instructing the DTC tender agent to deliver instructions to DTC in accordance with the usual procedures of DTC acknowledging acceptance of the Maturity Purchaser's offer to buy the Maturity Purchase Notes (a **Tender Instruction**) (which shall be irrevocable) no later than 4:00 p.m. (New York time) on the Business Day that is 5 Business Days prior to (but excluding) the Transfer Date (or such earlier deadline set by any relevant intermediary or clearing system) and (iii) in the case of Maturity Purchase Notes that are Registered Uncleared Notes, by delivering instructions to the Registrar acknowledging acceptance of the Maturity Purchaser's offer to buy the Maturity Purchase Notes (an **Acceptance Instruction**) (which shall be irrevocable) no later than 4:00 p.m. (London time) on the Business Day that is 5 Business Days prior to (but excluding) the Transfer Date.

(e) The Principal Paying Agent shall arrange on the Transfer Date for an amount equal to the aggregate Maturity Purchase Price received from the Maturity Purchaser to be credited (via Euroclear, Clearstream, Luxembourg, DTC or the Registrar, as the case may be) to the accounts of the Holder(s) of any Maturity Purchase Notes that have delivered a Transfer Instruction, Tender Instruction or Acceptance Instruction, as the case may be, in accordance with paragraph (d) above.

(f) Subject to paragraphs (a) and (d) above, all the Holders' interests in a Series and Class of Maturity Purchase Notes specified in any valid Transfer Instruction, Tender Instruction or Acceptance Instruction in accordance with paragraph (d) above shall be transferred on the relevant Transfer Date to the account of the Maturity Purchaser or as otherwise notified by the Maturity Purchaser prior to such date. For the avoidance of doubt, the Holders of interests in a Series and Class of Maturity Purchase Notes which are transferred in accordance with this Condition 5.8 shall, following such transfer, have no further claim or rights against the Master Issuer in respect of such transferred Notes.

(g) Notwithstanding the provisions of this Condition 5.8 where Definitive Notes have been issued in respect of any Maturity Purchase Notes or if the relevant clearing system ceases to offer the relevant mechanisms to enable the purchase and settlement of the Maturity Purchase Notes as provided for in this Condition 5.8, the Maturity Purchaser will purchase the relevant Maturity Purchase Notes on the later of (i) the relevant Scheduled Transfer Date and (ii) the date (the **Deferred Transfer Date**) which is the earlier of (A) the date that is 5 Business Days after the date on which the parties to the Conditional Note Purchase Deed agree a procedure by which the purchase can occur and (B) 60 days after the Scheduled Transfer Date.

## 6. Payments

### *6.1 Payment of Interest and Principal*

Payments of principal shall be made by cheque in the Specified Currency, drawn on a Designated Bank, or upon application by a Holder of the relevant Note to the Specified Office of the Principal Paying Agent not later than the fifth Business Day before the Record Date (as defined in **Condition 6.7**), by transfer to a Designated Account maintained by the payee with a Designated Bank and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note at the Specified Office of any Paying Agent.

Payments of interest shall be made by cheque in the Specified Currency drawn on a Designated Bank, or upon application by a Holder of the relevant Note to the Specified Office of the Principal Paying Agent not later than the fifth Business Day before the Record Date (as defined in **Condition 6.7**), by transfer to a Designated Account maintained by the payee with a Designated Bank and (in the case of interest

payable on final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note at the Specified Office of any Paying Agent.

All amounts payable to DTC or its nominee as registered holder of a Rule 144A Global Note held through DTC in respect of Notes denominated in a currency other than U.S. dollars shall be paid by transfer by the Principal Paying Agent to an account in the relevant currency of the Exchange Rate Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Paying Agent and Agent Bank Agreement.

***6.2 Laws and Regulations***

Payments of principal and interest in respect of the Notes are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8; and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**) or otherwise pursuant to Sections 1471 through 1474 of the Code , as amended, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. Noteholders will not be charged commissions or expenses on payments.

***6.3 Payment of Interest following a failure to pay Principal***

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with **Condition 4** will be paid in accordance with this **Condition 6**.

***6.4 Change of Agents***

The initial Principal Paying Agent, the Registrar, the Transfer Agent and the initial Paying Agents are listed in these Conditions. The Master Issuer reserves the right, subject to the prior written approval of the Note Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, the Registrar, the Transfer Agent and the US Paying Agent and to appoint additional or other Paying Agents. The Master Issuer will at all times maintain a Paying Agent with a Specified Office in London and a US Paying Agent with a Specified Office in New York and a Registrar. Except where otherwise provided in the Master Issuer Trust Deed, the Master Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents, the Transfer Agent or the Registrar or their Specified Offices to be given in accordance with **Condition 14** and will notify the Rating Agencies of such change or addition.

***6.5 No payment on non-Business Day***

Where payment is to be made by transfer to a Designated Account, payment instructions (for value the due date or, if the due date is not a Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (a) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (b) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for a payment not being a Business Day or (ii) a cheque mailed in accordance with this **Condition 6.5** arriving after the due date for payment or being lost in the mail.

***6.6 Partial Payment***

If a Paying Agent makes a partial payment in respect of any Note, the Master Issuer shall procure and the Registrar will ensure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and date of such payment is endorsed on the relevant Note.

***6.7 Record Date***

Each payment in respect of a Note will be made to the persons shown as the Holder in the Register, at the close of business in the place of Euroclear and Clearstream, Luxembourg on the day before the due date for such payment (the **Record Date**). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

### *6.8 Payment of Interest*

Subject as provided otherwise in these Conditions, if interest is not paid in respect of a Note of any Class on the date when due and payable (other than because the due date is not a Business Day) or by reason of non-compliance with **Condition 6.1**, then such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to such Note until such interest and interest thereon are available for payment and notice thereof has been duly given in accordance with **Condition 14**.

## 7. Prescription

Claims against the Master Issuer for payment of interest and principal on redemption shall be prescribed and become void if the relevant Notes are not surrendered for payment within a period of 10 years from the relevant date in respect thereof. After the date on which a payment under a Note becomes void in its entirety, no claim may be made in respect thereof. In this **Condition 7**, the **relevant date**, in respect of a payment under a Note, is the date on which the payment in respect thereof first becomes due or (if the full amount of the monies payable in respect of those payments under all the Notes due on or before that date has not been duly received by the Principal Paying Agent, the US Paying Agent or the Note Trustee (as the case may be) on or prior to such date) the date on which the full amount of such monies having been so received, notice to that effect is duly given to Noteholders in accordance with **Condition 14**.

## 8. Taxation

All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Master Issuer or any relevant Paying Agent is required by applicable law to make any payment in respect of the Notes subject to any such withholding or deduction. In that event, the Master Issuer or such Paying Agent shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Master Issuer, any Paying Agent or any other person will be obliged to make any additional payments to Noteholders in respect of such withholding or deduction.

## 9. Events of Default

### *9.1 Class A Noteholders*

The Note Trustee in its absolute discretion may (and, if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class A Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.1** means the Class A Notes of all Series constituted by the Master Issuer Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class A Notes, shall), subject in each case to being indemnified and/or secured to its satisfaction, give notice (a **Class A Note Acceleration Notice**) to the Master Issuer, the Master Issuer Security Trustee and the Funding 2 Security Trustee of a Note Event of Default (as defined below) declaring (in writing) the Class A Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events which is continuing or unwaived:

(a) default being made for a period of three Business Days in the payment of any amount of principal of the Class A Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class A Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or

(b) the Master Issuer failing duly to perform or observe any other obligation binding upon it under the Class A Notes of any Series, the Master Issuer Trust Deed, the Master Issuer Deed of Charge or any other Transaction Document and, in any such case (except where the Note Trustee certifies that, in its sole opinion, such failure is incapable of remedy, in which case no notice will be required), such failure is continuing unremedied for a period of 20 days following the service by the Note Trustee on the Master Issuer of notice requiring the same to be remedied and the Note Trustee has certified that the failure to perform or observe is materially prejudicial to the interests of the Holders of the Class A Notes of such Series; or

(c) the Master Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in **subparagraph (d) below**, ceases or threatens to cease to carry on its business or a substantial part of its business or the Master Issuer is deemed unable to pay its debts within the

meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becomes insolvent; or

(d) an order being made or an effective resolution being passed for the winding-up of the Master Issuer except a winding-up for the purposes of or pursuant to an amalgamation, restructuring or merger the terms of which have previously been approved by the Note Trustee in writing or by an Extraordinary Resolution of the Holders of the Class A Notes; or

(e) proceedings being otherwise initiated against the Master Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order, the filing of documents with the court for an administration or the service of a notice of intention to appoint an administrator) and (except in the case of presentation of a petition for an administration order) such proceedings are not, in the sole opinion of the Note Trustee, being disputed in good faith with a reasonable prospect of success, or an administration order being granted or the appointment of an administrator takes effect or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the Master Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Master Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Master Issuer, or a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Master Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 30 days, or the Master Issuer initiating or consenting to the foregoing proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally or a composition or similar arrangement with the creditors or takes steps with a view to obtaining a moratorium in respect of its indebtedness, including without limitation, the filing of documents with the court; or

(f) if a Master Intercompany Loan Acceleration Notice is served under the Master Intercompany Loan Agreement while the Class A Notes of any Series are outstanding.

***9.2 Class B Noteholders***

This **Condition 9.2** shall have no effect if, and for as long as, any Class A Notes of any Series are outstanding. Subject thereto, for so long as any Class B Notes of any Series are outstanding, the Note Trustee in its absolute discretion may (and, if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class B Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.2**, means the Class B Notes of all Series constituted by the Master Issuer Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class B Notes, shall), subject in each case to it being indemnified and/or secured to its satisfaction, give notice (a **Class B Note Acceleration Notice**) to the Master Issuer, the Master Issuer Security Trustee and the Funding 2 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class B Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

(a) default being made for a period of three Business Days in the payment of any amount of principal of the Class B Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class B Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or

(b) the occurrence of any of the events in **Condition 9.1(b), (c), (d), (e)** or **(f) above** provided that the references in **Condition 9.1(b)**, **Condition 9.1(d)** and **Condition 9.1(f)** to Class A Notes shall be read as references to Class B Notes.

***9.3 Class M Noteholders***

This **Condition 9.3** shall have no effect if, and for as long as, any Class A Notes or Class B Notes of any Series are outstanding. Subject thereto, for so long as any Class M Notes of any Series are outstanding, the Note Trustee in its absolute discretion may (and, if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class M Notes (which for this purpose and the

purpose of any Extraordinary Resolution referred to in this **Condition 9.3**, means the Class M Notes of all Series constituted by the Master Issuer Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class M Notes, shall), subject in each case to it being indemnified and/or secured to its satisfaction, give notice (a **Class M Note Acceleration Notice**) to the Master Issuer, the Master Issuer Security Trustee and the Funding 2 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class M Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

(a) default being made for a period of three Business Days in the payment of any amount of principal of the Class M Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class M Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or

(b) the occurrence of any of the events in **Condition 9.1(b)**, **(c)**, **(d)**, **(e)** or **(f) above** provided that the references in **Condition 9.1(b)**, **Condition 9.1(d)** and **Condition 9.1(f)** to Class A Notes shall be read as references to Class M Notes.

***9.4 Class C Noteholders***

This **Condition 9.4** shall have no effect if, and for as long as, any Class A Notes, Class B Notes or Class M Notes of any Series are outstanding. Subject thereto, for so long as any Class C Notes of any Series are outstanding, the Note Trustee in its absolute discretion may (and, if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class C Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.4**, means the Class C Notes of all Series constituted by the Master Issuer Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class C Notes, shall), subject in each case to it being indemnified and/or secured to its satisfaction, give notice (a **Class C Note Acceleration Notice**) to the Master Issuer, the Master Issuer Security Trustee and the Funding 2 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class C Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

(a) default being made for a period of three Business Days in the payment of any amount of principal of the Class C Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class C Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or

(b) the occurrence of any of the events in **Condition 9.1(b)**, **(c)**, **(d)**, **(e)** or **(f) above** provided that the references in **Condition 9.1(b)**, **Condition 9.1(d)** and **Condition 9.1(f)** to Class A Notes shall be read as references to Class C Notes.

***9.5 Class D Noteholders***

This **Condition 9.5** shall have no effect if, and for as long as, any Class A Notes, Class B Notes, Class M Notes or Class C Notes of any Series are outstanding. Subject thereto, for so long as any Class D Notes of any Series are outstanding, the Note Trustee in its absolute discretion may (and, if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class D Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.5**, means the Class D Notes of all Series constituted by the Master Issuer Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class D Notes, shall), subject in each case to it being indemnified and/or secured to its satisfaction, give notice (a **Class D Note Acceleration Notice**) to the Master Issuer, the Master Issuer Security Trustee and the Funding 2 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class D Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

(a) default being made for a period of three Business Days in the payment of any amount of principal of the Class D Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount

of interest on the Class D Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or

(b) the occurrence of any of the events in **Condition 9.1(b)**, **(c)**, **(d)**, **(e)** or **(f) above** provided that the references in **Condition 9.1(b)**, **Condition 9.1(d)** and **Condition 9.1(f)** to Class A Notes shall be read as references to Class D Notes.

### *9.6 Following Service of a Note Acceleration Notice*

In these Conditions, a **Note Acceleration Notice** means any of a Class A Note Acceleration Notice, a Class B Note Acceleration Notice, a Class M Note Acceleration Notice, a Class C Note Acceleration Notice and a Class D Note Acceleration Notice. For the avoidance of doubt, upon any Note Acceleration Notice being given by the Note Trustee in accordance with **Condition 9.1**, **9.2**, **9.3**, **9.4** or **9.5** all Notes shall immediately become due, without further action, notice or formality at their Principal Amount Outstanding together with accrued interest (or, in the case of a Zero Coupon Note, at its Redemption Amount, calculated in accordance with **Condition 5.6**).

## 10. Enforcement of Notes

### *10.1 Enforcement*

The Note Trustee may, at its discretion and without notice at any time and from time to time, take such steps and institute such proceedings against the Master Issuer or any other person as it may think fit to enforce the provisions of the Notes, the Master Issuer Trust Deed (including these Conditions) or any of the other Transaction Documents to which it is a party and the Note Trustee may, at its discretion without notice, at any time after the Master Issuer Security has become enforceable (including after the service of a Note Acceleration Notice in accordance with **Condition 9**), instruct the Master Issuer Security Trustee to take such steps as it may think fit to enforce the Master Issuer Security. The Note Trustee shall not be bound to take such steps or institute such proceedings or give such instructions unless:

(a) (subject in all cases to restrictions contained in the Master Issuer Trust Deed to protect the interests of any higher ranking Class of Noteholders) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders, the Class B Noteholders, the Class M Noteholders, the Class C Noteholders or the Class D Noteholders (which for this purpose means the Holders of all Series of the Class A Notes, the Class B Notes, the Class M Notes, the Class C Notes or the Class D Notes (as applicable)) or so requested in writing by the Holders of at least one quarter in aggregate Principal Amount Outstanding of the Class A Notes, Class B Notes, Class M Notes, Class C Notes or Class D Notes (as applicable) of all Series; and

(b) it shall have been indemnified and/or secured to its satisfaction.

The Master Issuer Security Trustee shall not, and shall not be bound to, take such steps or take any such other action unless it is so directed by the Note Trustee and indemnified and/or secured to its satisfaction.

Amounts available for distribution after enforcement of the Master Issuer Security shall be distributed in accordance with the terms of the Master Issuer Deed of Charge.

No Noteholder may institute any proceedings against the Master Issuer to enforce its rights under or in respect of the Notes, the Master Issuer Trust Deed or the Master Issuer Deed of Charge unless (i) the Note Trustee or the Master Issuer Security Trustee, as applicable, has become bound to institute proceedings and has failed to do so within 30 days of becoming so bound and (ii) such failure is continuing; provided that no Class B Noteholder, Class M Noteholder, Class C Noteholder or Class D Noteholder will be entitled to commence proceedings for the winding up or administration of the Master Issuer unless there are no outstanding Notes of a Class with higher priority, or if Notes of a Class with higher priority are outstanding, there is consent of Noteholders of not less than one quarter of the aggregate principal amount of the Notes outstanding (as defined in the Master Issuer Trust Deed) of the Class or Classes of Notes with higher priority or pursuant to an Extraordinary Resolution of the Holders of such Class of Notes. Notwithstanding the foregoing and notwithstanding any other provision of the Master Issuer Trust Deed, the right of any Noteholder to receive payment of principal and interest on its Notes on or after the due date for such principal or interest, or to institute suit for the enforcement of payment of that principal or interest, may not be impaired or affected without the consent of that Noteholder.

### *10.2 Post Enforcement Call Option*

Only in respect of Notes where the post-enforcement call option is specified to apply to such Notes in the applicable Final Terms or Drawdown Prospectus, in the event that:

(a) the Master Issuer Security is enforced and the Master Issuer Security Trustee determines that (i) the proceeds of such enforcement, after distribution of such proceeds to the persons entitled thereto ranking in priority to the Notes under the Master Issuer Deed of Charge and to the Noteholders (to the extent entitled thereto), are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Notes and all other claims ranking *pari passu* therewith (ii) such proceeds of enforcement have been so distributed in accordance with the terms of the Master Issuer Deed of Charge and (iii) there are no further assets available to pay principal and interest and other amounts whatsoever due in respect of the Notes; or

(b) within 20 days following the Final Maturity Date of the latest maturing Note, the Master Issuer Security Trustee certifies that there is no further amount outstanding under the Master Intercompany Loan Agreement,

then the Note Trustee is required, at the request of the Post-Enforcement Call Option Holder, for a nominal amount, to transfer or (as the case may be) procure transfer of all (but not some only) of the Notes to the Post-Enforcement Call Option Holder pursuant to the option granted to it by the Note Trustee (as agent for the Noteholders) under the terms of the Master Issuer Post-Enforcement Call Option Agreement. Immediately upon such transfer, no such former Noteholder shall have any further interest in the Notes. Each of the Noteholders acknowledges that the Note Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Master Issuer Post-Enforcement Call Option Agreement and each Noteholder, by subscribing for or purchasing Notes, agrees to be so bound. The Note Trustee shall give notice of the exercise of such option to the Noteholders in accordance with **Condition 14**.

### *10.3 Limited Recourse*

Only in respect of those Notes where limited recourse provisions are specified to apply to such Notes in the applicable Final Terms or Drawdown Prospectus, notwithstanding any other Condition or any provision of any Transaction Document, all obligations of the Master Issuer to the Noteholders are limited in recourse to the property, assets and undertakings of the Master Issuer that are the subject of any security created under the Master Issuer Deed of Charge (the **Issuer Charged Assets**) as described in the remainder of this Condition. If:

(a) there are no Issuer Charged Assets remaining which are capable of being realised or otherwise converted into cash;

(b) all amounts available from the Issuer Charged Assets have been applied to meet or provide for the relevant obligations specified in, and in accordance with, the provisions of the Master Issuer Deed of Charge; and

(c) there are insufficient amounts available from the Issuer Charged Assets to pay in full, in accordance with the provisions of the Master Issuer Deed of Charge, amounts outstanding under the Notes (including payments of principal, premium (if any) and interest),

then the Noteholders shall have no further claim against the Master Issuer in respect of any amounts owing to them which remain unpaid (including, for the avoidance of doubt, payments of principal, premium (if any) and/or interest in respect of the Notes) and such unpaid amounts shall be deemed to be discharged in full and any relevant payment rights shall be deemed to cease.

## 11. Meetings of Noteholders, Modifications and Waiver

### *11.1 Meetings of Noteholders*

The Master Issuer Trust Deed contains provisions for convening meetings of Noteholders of any Series and Class to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any provision of these Conditions or the provisions of any of the Transaction Documents.

(a) Class A Notes

In respect of the Class A Notes, the Master Issuer Trust Deed provides that, subject to **Condition 11.2**:

(i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of one class only of the Class A Notes shall be deemed to have been duly passed if passed at a meeting of the Holders of that class of the Class A Notes;

(ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of any two or more classes of the Class A Notes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class A Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of that class of such two or more Classes of Class A Notes; and

(iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of any two or more classes of the Class A Notes and gives or may give rise to a conflict of interest between the Holders of any such two or more Classes of Class A Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class A Notes, it shall be passed at separate meetings of the Holders of each of such two or more Classes of Class A Notes.

(b) Class B Notes

In respect of the Class B Notes, the Master Issuer Trust Deed provides that, subject to **Condition 11.2**:

(i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of one class only of the Class B Notes shall be deemed to have been duly passed if passed at a meeting of the Holders of that class of the Class B Notes;

(ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of any two or more classes of the Class B Notes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class B Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class B Notes; and

(iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of any two or more classes of the Class B Notes and gives or may give rise to a conflict of interest between the Holders of any such two or more Classes of Class B Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class B Notes, it shall be passed at separate meetings of the Holders of each of such two or more Classes of Class B Notes.

(c) Class M Notes

In respect of the Class M Notes, the Master Issuer Trust Deed provides that, subject to **Condition 11.2**:

(i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of one class only of the Class M Notes shall be deemed to have been duly passed if passed at a meeting of the Holders of that class of the Class M Notes;

(ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of any two or more classes of the Class M Notes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class M Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class M Notes; and

(iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of any two or more classes of the Class M Notes and gives or may give rise to a conflict of interest between the Holders of any such two or more Classes of Class M Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class M Notes, it shall be passed at separate meetings of the Holders of each of such two or more Classes of Class M Notes.

(d) Class C Notes

In respect of the Class C Notes, the Master Issuer Trust Deed provides that, subject to **Condition 11.2**:

(i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of one class only of the Class C Notes shall be deemed to have been duly passed if passed at a meeting of that class of the Holders of that class of the Class C Notes;

(ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of any two or more classes of the Class C Notes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class C Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class C Notes; and

(iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of any two or more classes of the Class C Notes and gives or may give rise to a conflict of interest between the Holders of any such two or more Classes of Class C Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class C Notes, it shall be passed at separate meetings of the Holders of each of such two or more Classes of Class C Notes.

(e) Class D Notes

In respect of the Class D Notes, the Master Issuer Trust Deed provides that, subject to **Condition 11.2**:

(i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of one class only of the Class D Notes shall be deemed to have been duly passed if passed at a meeting of the Holders of that class of the Class D Notes;

(ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of any two or more classes of the Class D Notes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class D Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class D Notes; and

(iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of any two or more classes of the Class D Notes and gives or may give rise to a conflict of interest between the Holders of any such two or more Classes of Class D Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class D Notes, it shall be passed at separate meetings of the Holders of each of such two or more Classes of Class D Notes.

The quorum for any meeting of the Holders of any Series and Class of Notes or of any Class of Notes of more than one Series convened to consider a resolution (except for the purpose of passing an Extraordinary Resolution or a Programme Resolution) will be one or more persons holding or representing not less than one-twentieth of the aggregate Principal Amount Outstanding of such Series and Class of Notes or such Class of Notes of more than one Series or, at any adjourned meeting, one or more persons being or representing Noteholders of such Series and Class of Notes or such Class of Notes of more than one Series, whatever the aggregate Principal Amount Outstanding of the relevant Notes so held or represented. A **resolution** means a resolution (excluding an Extraordinary Resolution or a Programme Resolution) passed at a meeting of Noteholders duly convened and held in accordance with the provisions of the Master Issuer Trust Deed by a simple majority of the persons voting thereat upon a show of hands or, if a poll is duly demanded, by a simple majority of the votes cast on such poll.

Subject as provided in the following paragraph, the quorum at any meeting of the Holders of any Series and Class of Notes or of any Class of Notes of more than one Series of Notes convened to consider an Extraordinary Resolution will be one or more persons holding or representing not less than 50% of the aggregate Principal Amount Outstanding of such Series and Class of Notes or such Class of Notes of more than one Series or, at any adjourned meeting, one or more persons being or representing Noteholders of such Series and Class of Notes or such Class of Notes of more than one Series of Notes, whatever the aggregate Principal Amount Outstanding of the relevant Notes so held or represented.

The quorum at any meeting of Noteholders for passing an Extraordinary Resolution which includes the sanctioning of a modification which would have the effect of (a) reducing the amount or changing the timing of payments of principal or interest on the Notes of such Series and Class or of such Class or (b) changing the method of calculating the amount payable or the date of payment in respect of any principal or interest in respect of the Notes of such Series or of such Class or (c) changing the currency in which payment of interest or principal on the Notes of such Series and Class or of such Class are to be made or (d) altering the quorum or majority required in relation to an Extraordinary Resolution in respect of any such Basic Terms Modification or (e) changing what constitutes a Basic Terms Modification or (f) changing the quorum required for passing a resolution at an adjourned or reconvened meeting (each a **Basic Terms Modification**, as more fully defined in the Master Issuer Trust Deed) shall be one or more persons holding or representing not less than 75% of the aggregate Principal Amount Outstanding of the Notes of the relevant Series and Class or of the Class of Notes of more than one Series of Notes or, at any adjourned and reconvened meeting, not less than 25% of the aggregate Principal Amount Outstanding of the Notes of the relevant Series and Class or of the Class of Notes of more than one Series of Notes.

An Extraordinary Resolution passed at any meeting of Noteholders shall be binding on all of the Noteholders of the relevant Series and Class or of the Class of Notes of more than one Series of Notes whether or not they are present or represented at the meeting.

In connection with any meeting of Noteholders where the relevant Notes (or any of them) are not denominated in Sterling, the Principal Amount Outstanding of any Note not denominated in Sterling shall be converted into Sterling at the relevant Specified Currency Exchange Rate.

A resolution signed by or on behalf of all the Noteholders of the relevant Series and Class or of the relevant Class of more than one Series of Notes who for the time being are entitled to receive notice of a meeting under the Master Issuer Trust Deed shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders of such Series and Class or of the relevant Class of more than one Series of Notes.

Every such meeting shall be held at such time and place as the Note Trustee may elect or approve, provided that the place shall be a location in the United Kingdom (or, if applicable, the European Union). At least 21 days' (and no more than 365 days') notice specifying the place, day and hour of meeting shall be given to the relevant Noteholders prior to any meeting of such Noteholders.

***11.2 Programme Resolution***

Notwithstanding the provisions of **Condition 11.1**, any Extraordinary Resolution of the Noteholders of any Class to direct the Note Trustee to give a Note Acceleration Notice pursuant to **Condition 9** or take any enforcement action or instruct the Master Issuer Security Trustee to enforce the Master Issuer Security pursuant to **Condition 10** (a **Programme Resolution**) shall only be capable of being passed at a single meeting of the Noteholders of all Series of such Class of Notes. The quorum at any such meeting for passing a Programme Resolution shall be one or more persons holding or representing not less than 50% of the aggregate Principal Amount Outstanding of the Notes of such Class or, at any adjourned and reconvened meeting, one or more persons being or representing Noteholders of such Class of Notes, whatever the aggregate Principal Amount Outstanding of such Class of Notes so held or represented by them.

A Programme Resolution passed at any meeting of all Series of any Class of Notes shall be binding on all Noteholders of all Series of that Class of Notes, whether or not they are present or represented at the meeting.

***11.3 Limitations on Noteholders***

Subject as provided in **Condition 11.4** and **11.5**:

(a) an Extraordinary Resolution of the Class A Noteholders of any Series shall be binding on all Class B Noteholders, all Class M Noteholders, all Class C Noteholders and all Class D Noteholders, in each case, of that Series or of any other Series;

(b) no Extraordinary Resolution of the Class B Noteholders of any Series shall take effect for any purpose while any Class A Notes of that Series or of any other Series remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders of each Series or the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders of any Series (as applicable) and, subject hereto and to **Condition 11.5**, an Extraordinary Resolution of the Class B Noteholders of any Series will be binding on the Class M Noteholders, the Class C Noteholders and the Class D Noteholders, in each case, of that or any other Series irrespective of the effect upon them;

(c) no Extraordinary Resolution of the Class M Noteholders of any Series shall take effect for any purpose while any Class A Notes or Class B Notes in each case, of that Series or of any other Series remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders and an Extraordinary Resolution of the Class B Noteholders, in each case, of each Series or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders and/or the Class B Noteholders of any Series (as applicable) and, subject hereto and to **Condition 11.5**, an Extraordinary Resolution of the Class M Noteholders of any Series will be binding on the Class C Noteholders and the Class D Noteholders, in each case, of that or of any other Series irrespective of the effect upon them;

(d) no Extraordinary Resolution of the Class C Noteholders of any Series shall take effect for any purpose while any Class A Notes, Class B Notes or Class M Notes in each case, of that Series or of any other Series remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders, an Extraordinary Resolution of the Class B Noteholders and an Extraordinary Resolution of the Class M Noteholders, in each case, of each Series or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders and/or the Class M Noteholders of any Series (as applicable) and, subject hereto and to **Condition 11.5**, an Extraordinary Resolution of the Class C Noteholders of any Series will be binding on the Class D Noteholders, in each case, of that or any other Series irrespective of the effect upon them; and

(e) no Extraordinary Resolution of Class D Noteholders of any Series shall take effect for any purpose while any Class A Notes, Class B Notes, Class M Notes or Class C Notes, in each case, of that Series or of any other Series remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders, an Extraordinary Resolution of the Class B Noteholders, an Extraordinary Resolution of the Class M Noteholders and an Extraordinary Resolution of the Class C Noteholders, in each case, of each Series or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders, the Class M Noteholders and/or the Class C Noteholders of any Series (as applicable).

### *11.4 Approval of Modifications and Waivers by Noteholders*

No Extraordinary Resolution of the Noteholders of any one or more Series of Class A Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or the Conditions of the Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class B Noteholders, an Extraordinary Resolution of the Class M Noteholders, an Extraordinary Resolution of the Class C Noteholders and an Extraordinary Resolution of the Class D Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class B Noteholders, the Class M Noteholders, the Class C Noteholders and the Class D Noteholders of any Series.

No Extraordinary Resolution of the Noteholders of any one or more Series of Class B Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or the Conditions of the Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class M Noteholders, an Extraordinary Resolution of the Class C Noteholders and an Extraordinary Resolution of the Class D Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class M Noteholders, the Class C Noteholders and the Class D Noteholders of any Series.

No Extraordinary Resolution of the Noteholders of any one or more Series of Class M Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or the Conditions of the Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class C Noteholders and an Extraordinary Resolution of the Class D Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class C Noteholders and the Class D Noteholders of any Series.

No Extraordinary Resolution of the Noteholders of any one or more Series of Class C Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or the Conditions of the Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class D Noteholders of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class D Noteholders of any Series.

### *11.5 Modifications and Determinations by Note Trustee*

(a) Subject to paragraph (b) below, the Note Trustee, may, without the consent of the Noteholders:

(i) agree to any modification (other than a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, the Conditions of any Series and Class of Notes or any of the Transaction Documents which is not, in the opinion of the Note Trustee, materially prejudicial to the interests of the Noteholders of any Series and Class of Notes; or

(ii) determine that any Note Event of Default shall not be treated as such provided that it is not in the opinion of the Note Trustee materially prejudicial to the interests of the Holders of the most senior Class of Notes then outstanding; or

(iii) agree to any modification (including a Basic Terms Modification) of these Conditions or any of the Transaction Documents which, in the sole opinion of the Note Trustee, is of a formal, minor or technical nature or is to correct a manifest error or an error established as such to the satisfaction of the Note Trustee or is to comply with the mandatory provisions of law; or

(iv) agree to any modification of any of these Conditions or any Transaction Documents as expressly provided for in the Transaction Documents.

For the avoidance of doubt, the Note Trustee shall be entitled to assume, without further investigation or inquiry, that such modification, waiver or authorisation, will not be materially prejudicial to the interests of the Noteholders if each of the Rating Agencies rating the relevant Series and Class of Notes has confirmed in writing that the then current ratings of the applicable Series and Class of Notes would not be reduced, withdrawn or qualified by such modification, waiver or authorisation unless such modification, waiver or authorisation relates to an amendment of a Conditional Note Purchase Deed or Condition 5.8. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Note Trustee, agrees otherwise, any such modification shall be notified to the Noteholders and the Rating Agencies in accordance with **Condition 14** as soon as practicable thereafter.

(b) Subject to paragraph (c) below, the Note Trustee shall be required to give its consent to any modifications to any relevant Transaction Documents that are requested by Funding 2 or the Cash Manager, provided that Funding 2 or the Cash Manager, as the case may be, has certified to the Note Trustee in writing that such modifications are required in order to accommodate:

(i) changes to the Funding 2 Z Loan Agreement and the subordination of the Funding 2 Z Loans provided that payments to the Funding 2 Z Loan Provider will always be made after payments of amounts due by Funding 2 to the Master Issuer in respect of the Rated Loan Tranches or by the Master Issuer to Noteholders in respect of the Notes; and/or

(ii) changes to the Funding 2 Z Loan Required Amount; and/or

(iii) the entry by Funding 2 into an Account Bank Agreement with an Agent Account Bank and the corresponding opening of Funding 2 Eligible Bank GIC Accounts; and/or

(iv) the entry by Funding 2 into the Funding 2 Collateral Security Agreement and any Eligible Custody Agreement; and/or

(v) accession of a New Seller to the Programme, the inclusion of a New Seller as a beneficiary of the Mortgages Trust, the entry into a New Mortgage Sale Agreement by a New Seller, the Beneficiaries and the Funding 2 Security Trustee, the assignment of Lloyds Bank Loans and their Related Security to the Mortgages Trustee, any amendments to the Lending Criteria and/or any amendments to the loan representations and warranties required to include Lloyds Bank Loans in the Portfolio; and/or

(vi) any amendment to the Transaction Documents for the purposes of enabling new or existing credit enhancement (such as subordinated loans, uncommitted sterling loan facility or similar arrangement) and any other facilities in each case to support cash balances maintained in accounts with account banks whose ratings do not meet current rating agency requirements. Under such arrangements advances may be made pursuant to the Intercompany Loan Agreement to make a Contribution to the Mortgages Trust thereby increasing the Seller Share. The repayment of such loan facility or similar arrangement will be subordinated to payments of interest and principal when due on the Notes which have received a rating from a Rating Agency and any related Master Issuer Swap Agreement (other than payments in respect of any Master Issuer Swap Excluded Termination Amount) provided that such loan facility or similar arrangement may be repaid at any time through a Further Contribution pursuant to the terms of the relevant Transaction Documents

(c) The Note Trustee shall only be required to make the modifications set out in paragraph (b)(i) to (b)(ii) (inclusive) above if the Note Trustee has received written confirmation from each of the Rating Agencies that the relevant modifications will not result in a reduction, qualification or withdrawal of the current ratings of the Notes.

(d) So long as any of the Notes are rated by the Rating Agencies, the Master Issuer shall notify the Rating Agencies in writing as soon as reasonably practicable thereafter of any modification to the provisions of these presents, the Notes or any of the other relevant Transaction Documents.

(e) The Note Trustee shall only be required to make the modifications set out in paragraph (b)(iii) to (b)(vi) (inclusive) above if, the Note Trustee (x) has received written confirmation (i) from each of the Rating Agencies that the relevant modification, authorisation, waiver and/or consent will not result in a reduction, qualification or withdrawal of the current ratings of the Notes and (ii) from the Master Issuer that no Basic Terms Modification shall result; (y) shall not be obliged to give its consent where, in the opinion of the Note Trustee, to do so would result in the imposition of an increase in its obligations or duties, or decrease in its rights or protections; and (z) shall comply with the amendments described in the certification and shall not have any liability to any person for so acting.

### *11.6 Redenomination*

The Note Trustee may agree, without the consent of the Holders of the Sterling Notes on or after the Specified Date (as defined below), to such modifications to the Sterling Notes and the Master Issuer Trust Deed in respect of redenomination of such Notes in euro and associated reconventioning, renominalisation and related matters in respect of such Notes as may be proposed by the Master Issuer (and confirmed by an independent financial institution approved by the Note Trustee to be in conformity with then applicable market conventions) and to provide for redemption at the euro equivalent of the sterling principal amount of the Sterling Notes. For these purposes, **Specified Date** means the date on which the United Kingdom participates in the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time, or otherwise participates in European Economic and Monetary Union in a manner with an effect similar to such third stage.

Any such modification shall be binding on the Holders of the Sterling Notes and, unless the Note Trustee agrees otherwise, any such modification shall be notified to such Noteholders in accordance with **Condition 14** as soon as practicable thereafter.

### *11.7 Exercise of Note Trustee's Functions*

Where the Note Trustee is required, in connection with the exercise of its powers, trusts, authorities, duties and discretions under these Conditions or any Transaction Document, to have regard to the interests of the Noteholders of any Class, it shall have regard to the interests of such Noteholders as a Class and, in particular but without prejudice to the generality of the foregoing, the Note Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Note Trustee shall not be entitled to require,

and no Noteholder shall be entitled to claim, from the Master Issuer or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

***11.8 Additional right of modification***

Notwithstanding the provisions of Condition 11.4 (Approval of Modifications and Waivers by Noteholders) and Condition 11.5 (Modifications and Determinations by Note Trustee), the Note Trustee shall be obliged, without any consent or sanction of the Noteholders or any of the other Secured Creditors, to concur with the Master Issuer in making any modification (other than a Basic Terms Modification, provided that a Base Rate Modification (as defined below) shall not constitute a Basic Terms Modification) to any Transaction Document to which it is a party or in relation to which the Master Issuer Security Trustee holds security that the Master Issuer (or the Cash Manager on its behalf) considers necessary:

(a) for the purpose of changing the Screen Rate or the base rate that then applies in respect of the applicable Notes issued after the Base Rate Modification Reference Date and/or any consequential amendments to any related Master Issuer Swap Agreement and the Funding 2 Swap Agreement to an alternative base rate (any such rate, which may include an alternative Screen Rate, an **Alternative Base Rate**) and make such other related or consequential amendments as are necessary or advisable in the reasonable judgment of the Master Issuer (or the Cash Manager on its behalf) to facilitate such change (including but not limited to any consequential amendments under any related Master Issuer Swap Agreement and/or the Funding 2 Swap Agreement) (a **Base Rate Modification**), provided that the Master Issuer (or the Cash Manager on its behalf), certifies to the Note Trustee in writing (such certificate, a **Base Rate Modification Certificate**) that:

(i) such Base Rate Modification is being undertaken due to:

(A) a material disruption to LIBOR, EURIBOR or any other relevant interest rate benchmark, an adverse change in the methodology of calculating such interest rate benchmark or such interest rate benchmark ceasing to exist or be published;

(B) the insolvency or cessation of business of the administrator of LIBOR, EURIBOR or any other relevant interest rate benchmark (in circumstances where no successor administrator has been appointed);

(C) a public statement by the administrator of LIBOR, EURIBOR or any other relevant interest rate benchmark that it will cease publishing the relevant interest rate benchmark permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such interest rate benchmark) or has changed or will change such interest rate benchmark in an adverse manner;

(D) a public statement by the supervisor of the administrator of LIBOR, EURIBOR or any other relevant interest rate benchmark that the relevant interest rate benchmark has been or will be permanently or indefinitely discontinued or will be changed in an adverse manner;

(E) a public statement by the supervisor of the administrator of LIBOR, EURIBOR or any other relevant interest rate benchmark that means the relevant interest rate benchmark might no longer be used or that its use is subject to restrictions or adverse consequences;

(F) a public announcement by a relevant regulatory authority of the permanent or indefinite discontinuation of the relevant Screen Rate or base rate that applies to the Notes at such time; or

(G) the reasonable expectation of the Master Issuer (or the Cash Manager on its behalf) that any of the events specified in sub-paragraphs (A) to (F) above will occur or exist within six months of the proposed effective date of such Base Rate Modification,

and in each case is required solely for such purpose and has been drafted solely to such effect; and

(ii) such Alternative Base Rate is:

(A) a base rate published, endorsed, approved or recognised by the Federal Reserve, the Bank or England or the European Central Bank, any regulator in the United States, the United Kingdom or the European Union or any stock exchange on which the Notes are listed (or any relevant committee or other body established, sponsored or approved by any of the foregoing);

(B) a base rate utilised in a material number of publicly-listed new issues of Sterling-denominated, Dollar-denominated and/or Euro-denominated asset backed notes prior to the effective date of such Base Rate Modification (for these purposes, unless agreed otherwise by the Note Trustee, five (5) such issues shall be considered material); or

(C) such other base rate as the Cash Manager (on behalf of the Master Issuer) reasonably determines,

and for the avoidance of doubt, the Master Issuer (or the Cash Manager on its behalf) may propose an Alternative Base Rate on more than one occasion provided that the conditions set out in this Condition 11.8 are satisfied);

(b) for the purpose of changing the base rate that then applies in respect of the Master Issuer Swap Agreement or the Funding 2 Swap Agreement to an Alternative Base Rate as is necessary or advisable in the commercially reasonable judgment of the Master Issuer (or the Cash Manager on its behalf) and the Master Issuer Swap Provider or (as applicable) the Funding 2 Swap Provider, solely as a consequence of a Base Rate Modification and solely for the purpose of aligning the base rate of the swap to the base rate of the Notes or the Loan Tranches following such Base Rate Modification (a **Swap Rate Modification**), provided that the Cash Manager, on behalf of the Master Issuer, certifies to the Note Trustee in writing (upon which certificate the Note Trustee may rely absolutely and without enquiry or liability) that such modification is required solely for such purpose and it has been drafted solely to such effect (such certificate being a **Swap Rate Modification Certificate**); and

(c) in respect of the applicable Notes issued after the date of issuance of the series 2019-1 notes, for the purpose of complying with any changes in the requirements of (i) Article 6 of the Securitisation Regulation, including as a result of the adoption of Regulatory Technical Standards in relation thereto or (ii) any other provision of the Securitisation Regulation, including Articles 19, 20, 21 or 22 of the Securitisation Regulation, including as a result of the adoption of Regulatory Technical Standards in relation thereto, or any equivalent securitisation legislation or regulations or official guidance applicable to the issuing entity or Bank of Scotland, provided in each case that the Master Issuer certifies to the Note Trustee, the Master Issuer Security Trustee and the Funding 2 Security Trustee in writing (upon which certificate each of the Note Trustee, the Master Issuer Security Trustee and the Funding 2 Security Trustee may rely absolutely and without enquiry or liability) that such modification is required solely for such purpose and has been drafted solely to such effect (such certificate being an **SR Modification Certificate**);

*Conditions to Additional Right of Modification*

The Note Trustee is only obliged to concur with the Master Issuer in making any modification to any Transaction Document pursuant to this Condition 11.8 if:

(a) the Base Rate Modification Certificate the Swap Rate Modification Certificate and/or the SR Modification Certificate (as applicable) in relation to such modification shall be provided to the Note Trustee both at the time the Note Trustee is notified of the proposed modification and on the date that such modification takes effect;

(b) the consent of each party (other than the Note Trustee) which is party to the Transaction Documents proposed to be modified has been obtained (evidence of which shall be provided to the Note Trustee at the same time as the provision of the Base Rate Modification Certificate and/or Swap Rate Modification Certificate, as applicable); and

(c) the person who proposes such modification pays all fees, costs and expenses (including legal fees) incurred by the issuing entity and the Note Trustee and each other applicable party including, without limitation, any of the Agents or the Account Banks in connection with such modifications,

and provided further that:

(x) either: (i) the Master Issuer (or the Cash Manager) obtains from each of the Rating Agencies written confirmation that such modification would not result in (A) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the notes by such Rating Agency or (B) such Rating Agency placing any notes on rating watch negative (or equivalent) (such written confirmation to be provided with the Base Rate Modification Certification, the Swap Rate Modification Certificate and/or the SR Modification Certificate, as applicable); or (ii) the Master Issuer (or the Cash Manager) certifies (in the Base Rate Modification Certificate, the Swap Rate Modification Certificate and/or the SR Modification Certificate, as applicable), that it has notified in writing each of the Rating Agencies of the proposed modification and in its opinion, formed on the basis of due consideration, such modification would not result in (A) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of Notes by any Rating Agency or (B) any Rating Agency placing any Notes on rating watch negative (or equivalent); and

(y) the Master Issuer certifies in writing to the Note Trustee (which certification may be in the Base Rate Modification Certificate the Swap Rate Modification Certificate and/or the SR Modification Certificate (as applicable)) that in relation to such modification that (i) the issuing entity has provided at least 30 calendar days' notice to the Noteholders of each Note Series which would be affected by the proposed Base Rate Modification and/or Swap Rate Modification, as applicable (together the **Affected Note Series**) of the proposed modification in accordance with Condition 14 (Notice to Noteholders) (and shall have provided a draft of such notice to the Note Trustee at least 5 Business Days before delivery to the Noteholders) and by publication on Bloomberg on the "Company News" screen relating to the Notes in each case specifying the date and time by which Noteholders must respond (which must be no less than 30 calendar days after the date on which the notice above is published in accordance with Condition 14 (Notice to Noteholders)), the relevant circumstance giving rise to the Base Rate Modification and/or Swap Rate Modification (as applicable), the Alternative Base Rate being proposed and details of any consequential or related amendments (including any changes to the Master Issuer Swap Agreement), and (ii) Noteholders representing at least 10 per cent. of the aggregate Outstanding Principal Amount of the Most Senior Class of Notes then outstanding across the Affected Note Series have not contacted the Master Issuer via the Principal Paying Agent in accordance with the notice and the then current practice of any applicable clearing system through which such Notes may be held by the time specified in such notice that such Noteholders do not consent to the modification.

If Noteholders representing at least 10 per cent. of the aggregate Outstanding Principal Amount of the Most Senior Class of Notes then outstanding across the Affected Note Series have notified the issuing entity via the Principal Paying Agent in accordance with the notice and the then current practice of any applicable clearing system through which such notes may be held by the time specified in such notice that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes then outstanding across the Affected Note Series is passed in favour of such modification in accordance with Condition 11.4 (Meetings of Noteholders; Modification and Waiver).

When implementing any modification pursuant to this Condition 11.8, the Note Trustee shall not consider the interests of the Noteholders, any other Secured Creditor or any other person and shall act and rely solely and without further investigation on any certificate or evidence provided to it by the Master Issuer, the Cash Manager or the relevant Transaction Party, as the case may be, pursuant to this Condition 11.8, and shall not be liable to the Noteholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person.

The Note Trustee shall not be obliged to agree to any modification pursuant to this Condition 11.8 which, in the sole opinion of the Note Trustee would have the effect of (i) exposing the Note Trustee to any liability against which is has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protections, of the Note Trustee in the Note Trust Deed or any other Transaction Document.

Any modification implemented pursuant to this Condition 11.8 shall be binding on all Noteholders and shall be notified by the Master Issuer as soon as reasonably practicable to:

(i) so long as any of the Notes rated by the Rating Agencies remains outstanding, each Rating Agency;

(ii) the Secured Creditors; and

(iii) the Noteholders in accordance with Condition 14 (Notice to Noteholders).

*Effect of Benchmark Transition Event on the USD-LIBOR Issue 2019-1 Notes*

(a) Notwithstanding the provisions of Condition 11.4 (Approval of Modifications and Waivers by Noteholders) and Condition 11.5 (Modifications and Determinations by Note Trustee), if the Designated Transaction Representative determines on or prior to the relevant determination date that a Benchmark Transition Event has occurred with respect to LIBOR then the Note Trustee shall be obliged, without the consent or sanction of the Noteholders (including without the requirement to provide to Noteholders an opportunity to object) or any confirmation from any Rating Agencies, to concur with the Designated Transaction Representative, and to direct the Master Issuer Security Trustee, the Funding 1 Security Trustee and the Funding 2 Security Trustee to concur with the Designated Transaction Representative, in making any modification (other than a Basic Terms Modification, provided that neither replacing the then-current Benchmark with the Benchmark Replacement nor any Benchmark Replacement Conforming Changes (each as defined below) shall constitute Basic Terms Modifications) of these Conditions or any of the Transaction Documents solely with respect to the USD-LIBOR Issue 2019-1 Notes (as defined below) that the Designated Transaction Representative decides may be appropriate to give effect to the provisions set forth under this section titled “Effect of Benchmark Transition Event on the USD-LIBOR Issue 2019-1 Notes” in relation only to all determinations of the rate of interest payable on the USD-LIBOR Issue 2019-1 Notes and any related swap agreements:

(b) If the Designated Transaction Representative determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred prior to the Reference Time in respect of any determination of the Benchmark on any date applicable to the USD-LIBOR Issue 2019-1 Notes, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the USD-LIBOR Issue 2019-1 Notes in respect of such determination on such date and all determinations on all subsequent dates.

(c) In connection with the implementation of a Benchmark Replacement, the Designated Transaction Representative will have the right to make Benchmark Replacement Conforming Changes from time to time.

(d) Any determination, decision or election that may be made by the Designated Transaction Representative pursuant to this section titled “Effect of Benchmark Transition Event,” including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error, may be made in the Designated Transaction Representative’s sole discretion, and, notwithstanding anything to the contrary in the documentation relating to the USD-LIBOR Issue 2019-1 Notes, shall become effective without consent, sanction or absence of objection from any other party (including Noteholders).

(e) To the extent that there is any inconsistency between the conditions set out in this section titled "*Effect of Benchmark Transition Event on the USD-LIBOR Issue 2019-1 Notes*" and any other Condition, the statements in this section shall prevail.

(f) Nothing in this section titled "*Effect of Benchmark Transition Event on the USD-LIBOR Issue 2019-1 Notes*" affects the rights of the Holders of Notes other than the USD-LIBOR Issue 2019-1 Notes.

(g) Notwithstanding anything to the contrary in this section titled "*Effect of Benchmark Transition Event on the USD-LIBOR Issue 2019-1 Notes*" or any Transaction Document, when implementing any replacement of the then-current Benchmark with the Benchmark Replacement or any Benchmark Replacement Conforming Changes pursuant to this section, the Note Trustee shall not consider the interests of the Noteholders, any other Secured Creditor or any other person and shall act and rely, solely and without further enquiry or liability, on any certificate or evidence provided to it by the Master Issuer or the Master Issuer Cash Manager acting on behalf of the Master Issuer, and shall not be liable to the Noteholders, any other Secured Creditor or any other person for so acting or

relying, irrespective of whether any such replacement of the then current Benchmark with the Benchmark Replacement or any Benchmark Replacement Conforming Changes is or may be materially prejudicial to the interests of any such person.

(h) For the avoidance of doubt, the Designated Transaction Representative may propose that a Benchmark Replacement replace the then-current Benchmark and any Benchmark Replacement Conforming Changes on more than one occasion provided that the conditions set out in this section titled "*Effect of Benchmark Transition Event on the USD-LIBOR Issue 2019-1 Notes*" are satisfied.

(i) For the purposes of this Condition 11.8, the following definitions will apply:

**Benchmark** means, initially, LIBOR; provided that if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to LIBOR or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement.

**Benchmark Replacement** means the Interpolated Benchmark; provided that if the Designated Transaction Representative cannot determine the Interpolated Benchmark as of the Benchmark Replacement Date, then "Benchmark Replacement" means the first alternative set forth in the order below that can be determined by the Designated Transaction Representative as of the Benchmark Replacement Date:

(1) the sum of: (a) Term SOFR and (b) the Benchmark Replacement Adjustment;

(2) the sum of: (a) Compounded SOFR and (b) the applicable Benchmark Replacement Adjustment;

(3) the sum of: (a) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark for the applicable Corresponding Tenor and (b) the Benchmark Replacement Adjustment;

(4) the sum of: (a) the ISDA Fallback Rate and (b) the Benchmark Replacement Adjustment;

(5) the sum of: (a) the alternate rate of interest that has been selected by the Designated Transaction Representative as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for the USD-LIBOR Issue 2019-1 Notes at such time and (b) the Benchmark Replacement Adjustment.

If a Benchmark Replacement is selected pursuant to paragraph (2) above, then on the first day of each calendar quarter following such selection, if a redetermination of the Benchmark Replacement on such date would result in the selection of a Benchmark Replacement under paragraph (1) above, then (x) the Benchmark Replacement Adjustment shall be redetermined on such date utilizing the Unadjusted Benchmark Replacement corresponding to the Benchmark Replacement under paragraph (1) above and (y) such redetermined Benchmark Replacement shall become the Benchmark on each Determination Date on or after such date. If redetermination of the Benchmark Replacement on such date as described in the preceding sentence would not result in the selection of a Benchmark Replacement under paragraph (1), then the Benchmark shall remain the Benchmark Replacement as previously determined pursuant to paragraph (2) above.

**Benchmark Replacement Adjustment** means the first alternative set forth in the order below that can be determined by the Designated Transaction Representative as of the Benchmark Replacement Date:

(1) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected, endorsed or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(2) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, then the ISDA Fallback Adjustment;

(3) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Designated Transaction Representative giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for the USD-LIBOR Issue 2019-1 Notes at such time.

**Benchmark Replacement Conforming Changes** means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of "Interest Period," timing and frequency of determining rates and making payments of interest, changes to the definition of "Corresponding Tenor" solely when such tenor is longer than the Interest Period and other administrative matters) that the Designated Transaction Representative decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Designated Transaction Representative decides that adoption of any portion of such market practice is not administratively feasible or if the Designated Transaction Representative determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Designated Transaction Representative determines is reasonably necessary).

**Benchmark Replacement Date** means:

(1) in the case of paragraph (1) or (2) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the relevant Benchmark permanently or indefinitely ceases to provide such Benchmark, or,

(2) in the case of paragraph (3) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information;

provided, however, that on or after the 60th day preceding the date on which such Benchmark Replacement Date would otherwise occur (if applicable), the Designated Transaction Representative may give written notice to Noteholders in which the Designated Transaction Representative designates an earlier date (but not earlier than the 30th day following such notice) and represents that such earlier date will facilitate an orderly transition of the USD-LIBOR Issue 2019-1 Notes to the Benchmark Replacement, in which case such earlier date shall be the Benchmark Replacement Date.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination.

**Benchmark Transition Event** means the occurrence of one or more of the following events with respect to the then-current Benchmark:

(1) a public statement or publication of information by or on behalf of the administrator of the Benchmark announcing that the administrator has ceased or will cease to provide the Benchmark permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark;

(2) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark, the central bank for the currency of the Benchmark, an insolvency official with jurisdiction over the administrator for the Benchmark, a resolution authority with jurisdiction over the administrator for the Benchmark or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark has ceased or will cease to provide the Benchmark permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark; or

(3) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative.

**Compounded SOFR** means the compounded average of SOFRs for the applicable Corresponding Tenor, with the rate, or methodology for this rate, and conventions for this rate (which, for example, may be compounded in arrears with a lookback and/or suspension period as a mechanism to determine the interest amount payable prior to the end of each Interest Period or compounded in advance) being established by the Designated Transaction Representative in accordance with:

(1) the rate, or methodology for this rate, and conventions for this rate selected or recommended by the Relevant Governmental Body for determining compounded SOFR; provided that:

(2) if, and to the extent that, the Designated Transaction Representative determines that Compounded SOFR cannot be determined in accordance with paragraph (1) above, then the rate, or methodology for this rate, and conventions for this rate that have been selected by the Designated Transaction Representative giving due consideration to any industry-accepted market practice for similar U.S. dollar denominated Notes at such time.

Notwithstanding the foregoing, Compounded SOFR will be calculated in advance and be determined in accordance with the provisions set out under "SONIA and SOFR" under Condition 4.2(b)(ii) (*Interest on Floating Rate Notes—Rate of Interest—Screen Rate Determination for Floating Rate Notes*).

**Corresponding Tenor** with respect to a Benchmark Replacement means a tenor (including overnight) having approximately the same length (disregarding business day adjustment) as the applicable tenor for the then-current Benchmark.

**Designated Transaction Representative** means, with respect to the USD-LIBOR Issue 2019-1 Notes and a particular obligation to be performed in connection with the transition to a Benchmark Replacement, the Master Issuer (acting on the advice of the Master Issuer Cash Manager).

**Federal Reserve Bank of New York's Website** means the website of the Federal Reserve Bank of New York at http://www.newyorkfed.org, or any successor source.

**Interpolated Benchmark** with respect to the Benchmark, means the rate determined for the Corresponding Tenor by interpolating on a linear basis between: (1) the Benchmark for the longest period (for which the Benchmark is available) that is shorter than the Corresponding Tenor and (2) the Benchmark for the shortest period (for which the Benchmark is available) that is longer than the Corresponding Tenor.

**ISDA Definitions** means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time.

**ISDA Fallback Adjustment** means the spread adjustment, (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark for the applicable tenor.

**ISDA Fallback Rate** means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment.

**Reference Time** with respect to any determination of the Benchmark means (1) if the Benchmark is LIBOR, 11:00 a.m. (London time) on the day that is two London banking days preceding the date of such determination, and (2) if the Benchmark is not LIBOR, the time determined by the Designated Transaction Representative in accordance with the Benchmark Replacement Conforming Changes.

**Relevant Governmental Body** means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

**SOFR** with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark, (or a successor administrator) on the Federal Reserve Bank of New York's Website.

**Term SOFR** means the forward-looking term rate for the applicable Corresponding Tenor based on SOFR that has been selected or recommended by the Relevant Governmental Body.

**Unadjusted Benchmark Replacement** means the Benchmark Replacement excluding the applicable Benchmark Replacement Adjustment.

**USD-LIBOR Issue 2019-1 Notes** means any U.S. dollar denominated floating rate 2019-1 Notes calculated by reference to USD-LIBOR.

## 12. Indemnification of The Note Trustee and the Master Issuer Security Trustee

The Master Issuer Trust Deed and the Master Issuer Deed of Charge set out certain provisions for the benefit of the Note Trustee and the Master Issuer Security Trustee. The following is a summary of such provisions and is subject to the more detailed provisions of the Master Issuer Trust Deed and the Master Issuer Deed of Charge.

The Transaction Documents contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee and the Master Issuer Security Trustee and providing for their indemnification in certain circumstances, including, among others, provisions relieving the Master Issuer Security Trustee from taking enforcement proceedings or enforcing the Master Issuer Security unless indemnified to its satisfaction. The Note Trustee and the Master Issuer Security Trustee are also entitled to be paid their costs and expenses in priority to any interest payments to Noteholders.

The Note Trustee and the Master Issuer Security Trustee and their related companies are entitled to enter into business transactions with the Master Issuer or Bank of Scotland, the Master Issuer Cash Manager, and/or the related companies of any of them and to act as note trustee or security trustee for the holders of any new notes and/or any other person who is a party to any Transaction Document or whose obligations are comprised in the Master Issuer Security and/or any of its subsidiary or associated companies without accounting for any profit resulting therefrom.

Neither the Note Trustee nor the Master Issuer Security Trustee will be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Master Issuer Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Note Trustee or the Master Issuer Security Trustee, as applicable.

Furthermore, the Note Trustee and the Master Issuer Security Trustee will be relieved of liability for making searches or other inquiries in relation to the assets comprising the Master Issuer Security. The Note Trustee and the Master Issuer Security Trustee do not have any responsibility in relation to the legality and the enforceability of the trust arrangements and the related Master Issuer Security. Neither the Note Trustee nor the Master Issuer Security Trustee will be obliged to take any action that might result in its incurring personal liabilities. Neither the Note Trustee nor the Master Issuer Security Trustee is obliged to monitor or investigate the performance of any other person under the Transaction Documents and is entitled to assume, until it has actual knowledge to the contrary, that all such persons are properly performing their duties, unless it receives express notice to the contrary.

Neither the Note Trustee nor the Master Issuer Security Trustee will be responsible for any deficiency that may arise because it is liable to tax in respect of the proceeds of any Master Issuer Security.

## 13. Replacement of Notes

If Definitive Notes are lost, stolen, mutilated, defaced or destroyed, the Noteholder can replace them at the Specified Office of any Paying Agent subject to all applicable laws and stock exchange requirements. The Noteholder will be required both to pay the expenses of producing a replacement and to comply with the Master Issuer's, the Registrar's and the Paying Agent's reasonable requests for evidence and indemnity.

If a Global Note is lost, stolen, mutilated, defaced or destroyed, the Master Issuer will deliver a replacement Global Note to the registered holder upon receipt of satisfactory evidence and surrender of any defaced or mutilated Global Note. A replacement will only be made upon payment of the expenses for a replacement and compliance with the Master Issuer's, Registrar's and Paying Agents' reasonable requests as to evidence and indemnity.

Defaced or mutilated Notes must be surrendered before replacements will be issued.

**14. Notice to Noteholders**

***14.1 Publication of Notice***

Any notice to Noteholders shall be validly given if such notice is:

(a) sent to them by first class mail (or its equivalent) or (if posted to a non-UK address) by airmail at the respective addresses on the Register; and

(b) published in The Financial Times; and

(c) for so long as amounts are outstanding on the US Notes or the Rule 144A Notes, in a daily newspaper of general circulation in New York (which is expected to be The New York Times);

or, if any of such newspapers set out above shall cease to be published or timely publication therein shall not be practicable, in a leading English language daily newspaper having general circulation in the United Kingdom or the United States (as applicable) provided that if, at any time, the Master Issuer procures that the information concerned in such notice shall be published on the Relevant Screen, publication in the newspapers set out above or such other newspaper or newspapers shall not be required with respect to such information.

***14.2 Date of Publication***

Any notices so published shall be deemed to have been given on the fourth day after the date of posting, or as the case may be, on the date of such publication or, if published more than once on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen on which) publication is required.

***14.3 Global Notes***

While the Notes are represented by Global Notes, any notice to Noteholders will be validly given if such notice is provided in accordance with **Condition 14.1** or (at the option of the Master Issuer) if delivered to DTC (in the case of the US Notes or the Rule 144A Notes held through DTC) or Euroclear and/or Clearstream, Luxembourg (in the case of the Reg S Notes and the Rule 144A Notes held through Euroclear and/or Clearstream, Luxembourg) or (if specified in the applicable Final Terms or Drawdown Prospectus) if delivered through any **Alternative Clearing System** specified therein. Any notice delivered to the DTC and/or Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System will be deemed to be given on the day of such delivery.

***14.4 Note Trustee's Discretion to Select Alternative Method***

The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or any Series or Class or category of them having regard to market practice then prevailing and to the requirements of the stock exchanges on which the Notes are then admitted for trading and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

**15. Note Issues**

The Master Issuer shall be at liberty from time to time, without the consent of the Noteholders, to create and issue Notes, upon satisfaction of the following conditions:

(a) the Master Issuer obtaining written confirmation from each of the Rating Agencies that its then current ratings of the outstanding Funding 1 Notes and the outstanding Notes will not be reduced, withdrawn or qualified because of the new issue;

(b) the Master Issuer providing written certification to the Funding 2 Security Trustee and the Master Issuer Security Trustee that no Master Intercompany Loan Event of Default has occurred which has

not been remedied or waived and no Master Intercompany Loan Event of Default will occur as a result of the issue of the new Notes; and

(c) the Master Issuer providing written certification to the Funding 2 Security Trustee and the Master Issuer Security Trustee:

(i) that no principal deficiency is recorded on the Funding 2 Principal Deficiency Ledger in relation to the Loan Tranches outstanding at that time; or

(ii) where a Principal Deficiency is recorded on the Funding 2 Principal Deficiency Ledger at that time, that there will be sufficient Funding 2 Available Revenue Receipts on the forthcoming Funding 2 Interest Payment Date, when applied in accordance with the Funding 2 Pre-Enforcement Revenue Priority of Payments, to eliminate such Principal Deficiency.

**16. Rating Agencies**

If:

(a) a confirmation of rating or other response by a Rating Agency is a condition to any action or step under any Transaction Document (other than pursuant to **Condition 15**); and

(b) a written request for such confirmation or response is delivered to each Rating Agency by the Master Issuer (copied to the Note Trustee and/or the Master Issuer Security Trustee and/or the Funding 2 Security Trustee, as applicable) and either one or more Rating Agency (each a **Non-Responsive Rating Agency**) indicates that it does not consider such confirmation or response necessary in the circumstances; and

(c) at least one Rating Agency gives such a confirmation or response based on the same facts,

then such condition shall be deemed to be modified with respect to the facts set out in the request referred to in (b) so that there shall be no requirement for the confirmation or response from the Non-Responsive Rating Agency.

The Note Trustee and/or the Master Issuer Security Trustee and/or the Funding 2 Security Trustee, as applicable, shall be entitled to treat as conclusive a certificate by any director, officer or employee of the Master Issuer, Funding 2, the Seller, any investment bank or financial adviser acting in relation to the Notes as to any matter referred to in (b) in the absence of manifest error or the Note Trustee and/or the Master Issuer Security Trustee and/or the Funding 2 Security Trustee, as applicable, having facts contradicting such certificates specifically drawn to his attention and the Note Trustee and/or the Master Issuer Security Trustee and/or the Funding 2 Security Trustee, as applicable, shall not be responsible for any loss, liability, costs, damages, expenses or inconvenience that may be caused as a result.

**17. Governing Law and Jurisdiction**

The Transaction Documents and the Notes and, in each case, any non-contractual obligations arising out of or in connection with the relevant document are governed by and shall be construed in accordance with, English law unless specifically stated to the contrary. Certain provisions in the Transaction Documents relating to property situated in Scotland are governed by Scots law. Unless specifically stated to the contrary:

(a) the courts of England are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and the Transaction Documents; and

(b) the Master Issuer and the other parties to the Transaction Documents irrevocably submit to the non-exclusive jurisdiction of the courts of England.

**18. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy of a third party which exists or is available apart from that Act.

**19. Definitions**

Unless otherwise defined in these Conditions or unless the context otherwise requires, in these Conditions the following words shall have the following meanings and any other capitalised terms used in these Conditions shall have the meanings ascribed to them or incorporated in the Master Issuer Trust Deed

or set out in the Master Definitions Schedule. The provisions of **Clause 2** (Interpretation and Construction) of the Master Definitions Schedule are incorporated into and shall apply to these Conditions.

**A Loan Tranches** means the Loan Tranches made by the Master Issuer to Funding 2 under the Master Intercompany Loan Agreement from the proceeds of issue of the Class M Notes of any Series;

**AA Loan Tranches** means the Loan Tranches made by the Master Issuer to Funding 2 under the Master Intercompany Loan Agreement from the proceeds of issue of the Class B Notes of any Series;

**AAA Loan Tranches** means the Loan Tranches made by the Master Issuer to Funding 2 under the Master Intercompany Loan Agreement from the proceeds of issue of the Class A Notes of any Series;

**Acceptance Instruction** means the instruction to be delivered to the Registrar by or on behalf of any Holder of Maturity Purchase Notes that are Registered Uncleared Notes, acknowledging acceptance of the Maturity Purchaser's offer to buy the Maturity Purchase Notes;

**Accrual Yield** means, in respect of any Series and Class of Notes, the yield specified as such for such Notes in the applicable Final Terms or Drawdown Prospectus;

**Additional Business Centre** means, in respect of any Series and Class of Notes, each place specified as such for such Notes in the applicable Final Terms or Drawdown Prospectus;

**Affected Note Series** has the meaning given to that term in Condition 11.8(y);

**Agents** means the Paying Agents, the Transfer Agent, the Registrar and the Agent Bank;

**Agent Bank** means Citibank, N.A. in its capacity as agent bank at its Specified Office or such other person for the time being acting as agent bank under the Master Issuer Paying Agent and Agent Bank Agreement;

**Alternative Base Rate** has the meaning given to that term in Condition 11.8(a);

**Australian Dollar** means the lawful currency for the time being of Australia;

**Base Prospectus** means the base prospectus of the Master Issuer from time to time, the first being the base prospectus dated 11 October 2006;

**Base Rate Modification** has the meaning given to that term in Condition 11.8(a);

**Base Rate Modification Certificate** has the meaning given to that term in Condition 11.8(a);

**Base Rate Modification Reference Date** means 8 June 2018;

**BB Loan Tranche** means the Loan Tranches made by the Master Issuer to Funding 2 under the Master Intercompany Loan Agreement from the proceeds of issue of the Class D Notes of any Series;

**BBB Loan Tranches** means the Loan Tranches made by the Master Issuer to Funding 2 under the Master Intercompany Loan Agreement from the proceeds of issue of the Class C Notes of any Series;

**Broken Amount** means, in respect of any Series and Class of Notes, the amount specified as such (if any) for such Notes in the applicable Final Terms or Drawdown Prospectus;

**Business Day Convention** has the meaning given to that term in the applicable Final Terms or Drawdown Prospectus;

**Call Option Date** means, in respect of any Series and Class of Notes, the date specified as such in the applicable Final Terms or Drawdown Prospectus, being the Interest Payment Date on which the Master Issuer is entitled to redeem such Series and Class of Notes pursuant to **Condition 5.4(a)**;

**Class** or **class** means, in relation to the Class A Notes, the Class B Notes, the Class M Notes, the Class C Notes and the Class D Notes and the holders thereof, each single class thereof as the context requires and except where otherwise specified, and the respective holders thereof;

**Class A Noteholders** means the Holders of the Class A Notes;

**Class A Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms or Drawdown Prospectus;

**Class B Noteholders** means the Holders of the Class B Notes;

**Class B Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms or Drawdown Prospectus;

**Class C Noteholders** means the Holders of the Class C Notes;

**Class C Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms or Drawdown Prospectus;

**Class D Noteholders** means the Holders of the Class D Notes;

**Class D Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms or Drawdown Prospectus;

**Class M Noteholders** means the Holders of the Class M Notes;

**Class M Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms or Drawdown Prospectus;

**Clearstream, Luxembourg** means Clearstream Banking, société anonyme;

**Closing Date** has the meaning given to it in the relevant Final Terms or Drawdown Prospectus;

**Conditional Note Purchase Deed** means any conditional note purchase deed entered into in connection with the issuance of any Series and Class of Maturity Purchase Notes between, among others, the Master Issuer, the Master Issuer Cash Manager, the Maturity Purchaser, the Note Trustee and the Principal Paying Agent, as amended and restated from time to time;

**Conditional Purchaser** means, in respect of any Series and Class of Remarketable Notes, the person specified as such for such Series and Class of Remarketable Notes in the applicable Final Terms or Drawdown Prospectus;

**Conditional Purchaser Confirmation** means, in respect of any Series and Class of Remarketable Notes, the confirmation given by the Remarketing Agent or the Tender Agent to the Master Issuer and the Principal Paying Agent that the Conditional Purchaser has purchased an interest in or has had transferred to it or on its behalf an interest in all such Series and Class of Remarketable Notes;

**Deferred Transfer Date** has the meaning indicated in **Condition 5.8(g)**;

**Definitive Notes** means the note certificates representing the Notes while in definitive form;

**Designated Account** means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a Holder with a Designated Bank and identified as such in the Register;

**Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro;

**Determination Date** means, in respect of any Series and Class of Notes, the date(s) specified as such (if any) for such Notes in the applicable Final Terms or Drawdown Prospectus;

**Determination Period** has the meaning indicated in **Condition 4.1**;

**Distribution Compliance Period** means the period that ends 40 days after the later of the commencement of the offering and the date of issue of the relevant Notes;

**Dollars**, **US$**, **US Dollars** or **$** means the lawful currency for the time being of the United States of America;

**Drawdown Prospectus** means, in relation to any Series of Notes, the drawdown prospectus issued in relation to such Series of Notes as a supplement to these Conditions;

**DTC** means The Depository Trust Company;

**DTC Notice to Purchase** means any notice given by the Master Issuer to a Holder of any Maturity Purchase Note(s) in accordance with **Condition 5.8(c)**;

**DTC Tender Agent** means any party designated or appointed by the Master Issuer to coordinate delivery of a DTC Notice to Purchase and related DTC matters in relation to the purchase of any Maturity Purchase Notes by the Maturity Purchaser in accordance with **Condition 5.8(c)**;

**EC/CS Notice to Purchase** means any notice given by the Master Issuer to a Holder of any Maturity Purchase Note(s) in accordance with **Condition 5.8(c)**;

**EURIBOR** means the Euro-zone inter-bank offered rate;

**Euro**, **euro** or **€** means the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time;

**Euroclear** means Euroclear Bank S.A./N.V., as operator of the Euroclear System;

**Expected Maturity Date** means in respect of any Series and Class of Maturity Purchase Notes, the bullet redemption date specified in the applicable Final Terms or Drawdown Prospectus;

**Extraordinary Resolution** means a resolution passed at a meeting of the Noteholders of a particular Class, Series or Series and Class duly convened and held in accordance with the provisions of the Master Issuer Trust Deed by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three-fourths of the votes cast on such poll;

**Final Maturity Date** means, in respect of any Series and Class of Notes, the date specified as such for such Notes in the applicable Final Terms or Drawdown Prospectus;

**Final Terms** means, in relation to any Series of Notes, the final terms issued in relation to such Series of Notes as a supplement to these Conditions and giving details of, *inter alia*, the amount and price of such Series of Notes and which forms a part of the Base Prospectus in relation to such Series of Notes;

**Fixed Coupon Amount** means, in respect of any Series and Class of Notes, the amount specified as such (if any) for such Notes in the applicable Final Terms or Drawdown Prospectus;

**Funding 2** means Permanent Funding (No. 2) Limited;

**Funding 2 Deed of Charge** means the deed of charge entered into on the Programme Date, as amended and restated from time to time, between, among others, Funding 2, the Funding 2 Security Trustee, the Master Issuer and the Note Trustee and each deed of accession or supplement entered into in connection therewith;

**Funding 2 Security Trustee** means The Bank of New York Mellon and its successors or any other security trustee under the Funding 2 Deed of Charge;

**Funding 2 Yield Reserve Notes** means any Series and Class of Notes identified as such in the applicable Final Terms or Drawdown Prospectus;

**Funding 2 Z Loan Provider** means Bank of Scotland plc or a New Funding 2 Z Loan Provider under the relevant New Funding 2 Z Loan Agreement;

**Funding 2 Z Loans** means each Z Loan that the Funding 2 Z Loan Provider will make available to Funding 2 pursuant to Clause 2 of the Funding 2 Z Loan Agreement and each New Funding 2 Z Loan that a New Funding 2 Z Loan Provider will make available to Funding 2 pursuant to a New Funding 2 Z Loan Agreement;

**Global Notes** means the US Global Notes, the Rule 144A Global Notes and the Reg S Global Notes;

**Holder** has the meaning indicated in **Condition 1.2**;

**Interest Commencement Date** means, in respect of any Series and Class of Notes, the Closing Date of such Notes or such other date as may be specified as such for such Notes in the applicable Final Terms or Drawdown Prospectus;

**Interest Payment Date** means, in respect of a Series and Class of Notes or a Master Issuer Subordinated Loan or a Master Issuer Start-up Loan (other than Money Market Notes), the Quarterly Interest Payment Dates and (in the case of Money Market Notes) the Monthly Interest Payment Dates, subject, in each case, to the terms and conditions of the Notes;

**ISDA Definitions** means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Closing Date of the first Series of Notes;

**Japanese Yen** means the lawful currency for the time being of Japan;

**LIBOR** means the London inter-bank offered rate;

**Listed Notes** means each Series and Class of Notes which is admitted to the official list maintained by the UK Listing Authority and admitted to trading on the London Stock Exchange's Regulated Market;

**Lloyds Bank Loans** means each loan originated by Lloyds Bank plc;

**Loan Tranches** means the AAA Loan Tranches, the AA Loan Tranches, the A Loan Tranches, the BBB Loan Tranches and the BB Loan Tranches, being the advances made by the Master Issuer to Funding 2, pursuant to the Master Intercompany Loan Agreement, each being funded from proceeds received by the Master Issuer from the issue of a Series and Class of Notes;

**London Stock Exchange** means London Stock Exchange plc;

**Loss Calculation Date** means in respect of any Series and Class of Maturity Purchase Notes, the date specified in the applicable Final Terms or Drawdown Prospectus;

**Mandatory Transfer Date** means, in respect of any Series and Class of Remarketable Notes, the Interest Payment Date specified as such for such Series and Class of Remarketable Notes in the applicable Final Terms or Drawdown Prospectus;

**Mandatory Transfer Price** means, in respect of any Series and Class of Remarketable Notes, the Principal Amount Outstanding of such Series and Class of Remarketable Notes on the relevant Mandatory Transfer Date following the application of Note Principal Payments on such date;

**Mandatory Transfer Termination Event** shall occur, in respect of any Series and Class of Remarketable Notes, if the Conditional Purchaser has purchased an interest in all such Series and Class of Remarketable Notes;

**Margin** means, in respect of any Series and Class of Notes, the amount specified as such for such Series and Class of Notes in the applicable Final Terms or Drawdown Prospectus;

**Master Definitions Schedule** means the master definitions schedule dated the Programme Date setting out, among other things, definitions which apply to certain Transaction Documents, as amended and restated from time to time;

**Master Intercompany Loan** means, at any time, the aggregate of all Loan Tranches advanced under the Master Intercompany Loan Agreement;

**Master Intercompany Loan Agreement** means the loan agreement entered into on the Programme Date between, among others, Funding 2, the Master Issuer and the Funding 2 Security Trustee, as amended and restated from time to time;

**Master Issuer** means Permanent Master Issuer PLC;

**Master Issuer Account Bank** means Bank of Scotland plc or such other person for the time being acting as account bank to the Master Issuer under the Master Issuer Bank Account Agreement, as amended and restated from time to time;

**Master Issuer Bank Accounts** means the Master Issuer Transaction Account and any other account opened and maintained by the Master Issuer with the Master Issuer Account Bank pursuant to the Transaction Documents;

**Master Issuer Bank Account Agreement** means the bank account agreement entered into on the Programme Date between the Master Issuer, the Master Issuer Cash Manager, the Master Issuer Account Bank and the Master Issuer Security Trustee, as amended and restated from time to time;

**Master Issuer Cash Management Agreement** means the cash management agreement dated the Programme Date between, amongst others, the Master Issuer Cash Manager, the Master Issuer and the Master Issuer Security Trustee, as amended and restated from time to time;

**Master Issuer Cash Manager** means Bank of Scotland plc or such other person or persons for the time being acting, under the Master Issuer Cash Management Agreement, as agent, *inter alia*, for the Master Issuer;

**Master Issuer Deed of Charge** means the deed of charge entered into on the Programme Date, as amended and restated from time to time, between, among others, the Master Issuer and the Master Issuer Security Trustee and each deed of accession or supplement entered into in connection therewith;

**Master Issuer Paying Agent and Agent Bank Agreement** means the master issuer paying agent and agent bank agreement entered into on the Programme Date between, among others, the Master Issuer, the Paying Agents, the Transfer Agent, the Registrar, the Agent Bank and the Master Issuer Security Trustee;

**Master Issuer Post-Enforcement Call Option Agreement** means the master issuer post-enforcement call option agreement entered into on the Programme Date between the Master Issuer, the Post-Enforcement Call Option Holder and the Note Trustee;

**Master Issuer Priority of Payments** means the master issuer pre-enforcement revenue priority of payments, the master issuer pre-enforcement principal priority of payments or the master issuer post-enforcement priority of payments, as the case may be, each as set out in the Master Issuer Cash Management Agreement or the Master Issuer Deed of Charge (as the case may be);

**Master Issuer Secured Creditors** means the Master Issuer Security Trustee (and any receiver appointed under the Master Issuer Deed of Charge), the Note Trustee, the Master Issuer Swap Providers, the Master Issuer Corporate Services Provider, the Master Issuer Account Bank, the Master Issuer Cash Manager, the Paying Agents, the Agent Bank, the Transfer Agent, the Registrar and the Noteholders and any new Master Issuer Secured Creditor who accedes to the Master Issuer Deed of Charge from time to time under a deed of accession or a supplemental deed;

**Master Issuer Security** means the security created by the Master Issuer pursuant to the Master Issuer Deed of Charge;

**Master Issuer Security Trustee** means The Bank of New York Mellon and its successors or any other security trustee under the Master Issuer Deed of Charge;

**Master Issuer Swap Agreements** means the ISDA master agreements, schedules thereto and confirmations thereunder relating to the currency and/or interest rate swaps to be entered into on each Closing Date, and any credit support annexes or other credit support documents entered into at any time, as amended from time to time, among the Master Issuer and the applicable Master Issuer Swap Provider and/or any credit support provider and includes any additional and/or replacement Master Issuer Swap Agreement entered into by the Master Issuer from time to time in connection with the Notes;

**Master Issuer Swap Providers** means the institutions identified in respect of each Master Issuer Swap Agreement in the applicable Final Terms or Drawdown Prospectus related to the relevant Series and Class of Notes;

**Master Issuer Transaction Account** means the day to day bank account of the Master Issuer, held with the Master Issuer Account Bank as at the Programme Date pursuant to the terms of the Master Issuer Bank Account Agreement;

**Master Issuer Trust Deed** means the master issuer trust deed entered into on the Programme Date, as amended and restated from time to time between the Master Issuer and the Note Trustee, and each supplemental deed entered into in connection therewith;

**Maturity Purchase Notes** means any Series and Class of Notes identified as such in the applicable Final Terms or Drawdown Prospectus;

**Maturity Purchase Price** means, in respect of any Series and Class of Maturity Purchase Notes, the Principal Amount Outstanding of the Maturity Purchase Notes on the Expected Maturity Date (plus any interest accrued from and including the Expected Maturity Date to but excluding the Transfer Date at the Rate of Interest applicable to such Notes on the basis that the Rate of Interest shall not be subject to any downward adjustment (including any reduction to the margin scheduled to apply on any step-up date) on or following the Expected Maturity Date until (and including) the Transfer Date) after taking into account any

principal repayments made by the Master Issuer on or after the Expected Maturity Date to (and including) the Transfer Date minus the Principal Deficiency Losses;

**Maturity Purchaser** means, in respect of any Series and Class of Maturity Purchase Notes, the maturity purchaser specified in the applicable Final Terms or Drawdown Prospectus;

**Maximum Rate of Interest** means, in respect of any Series and Class of Notes, the rate of interest specified as such for such Notes in the applicable Final Terms or Drawdown Prospectus;

**Maximum Reset Margin** means, in respect of any Series and Class of Remarketable Notes, the amount specified as such for such Series and Class of Remarketable Notes in the applicable Final Terms or Drawdown Prospectus;

**Minimum Rate of Interest** means, in respect of any Series and Class of Notes, the rate of interest specified as such for such Notes in the applicable Final Terms or Drawdown Prospectus;

**Money Market Notes** means Notes which will be "Eligible Securities" within the meaning of Rule 2a-7 under the Investment Company Act;

**Monthly Interest Payment Dates** means, in respect of any Money Market Notes, each monthly date specified in the applicable Final Terms or Drawdown Prospectus for the payment of interest and/or principal until the occurrence of a Pass-through Trigger Event and, following such occurrence, the Quarterly Interest Payment Dates as specified in the applicable Final Terms or Drawdown Prospectus for payment of interest and/or principal subject, in each case, to the appropriate Business Day Convention, if any, specified in the applicable Final Terms or Drawdown Prospectus;

**New Zealand Dollar** means the lawful currency for the time being of New Zealand;

**Note Acceleration Notice** has the meaning indicated in **Condition 9.6**;

**Note Determination Date** means the date two Business Days prior to each Interest Payment Date;

**Note Event of Default** means the occurrence of an event of default by the Master Issuer as specified in **Condition 9**;

**Note Principal Payment** has the meaning indicated in **Condition 5.3**;

**Note Trustee** means The Bank of New York Mellon and its successors or any further or other note trustee under the Master Issuer Trust Deed, as trustee for the Noteholders;

**Noteholders** means the Holders for the time being of the Notes;

**Notes** means the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and/or the Class M Notes;

**Pass-Through Trigger Event** means any of the following events:

(a) a Trigger Event;

(b) the service of a Note Acceleration Notice by the Note Trustee on the Master Issuer; or

(c) the service of a Master Intercompany Loan Acceleration Notice by the Funding 2 Security Trustee on Funding 2;

**Paying Agents** means the Principal Paying Agent and the US Paying Agent, together with any further or other paying agents for the time being appointed under the Master Issuer Paying Agent and Agent Bank Agreement;

**Post-Enforcement Call Option Holder** means Permanent PECOH Limited;

**Principal Amount Outstanding** has the meaning indicated in **Condition 5.3**;

**Principal Deficiency Losses** will be, in respect of any Series and Class of Maturity Purchase Notes, the outstanding balance on the Principal Deficiency Ledger attributable to such Maturity Purchase Notes on the relevant Loss Calculation Date;

**Principal Paying Agent** means Citibank, N.A. in its capacity as principal paying agent at its Specified Office or such other person for the time being acting as principal paying agent under the Master Issuer Paying Agent and Agent Bank Agreement;

**Programme Date** means 17 October 2006;

**QIB** means "qualified institutional buyer" as defined in Rule 144A;

**Quarterly Interest Payment Dates** means, in respect of a Series and Class of Notes (other than Money Market Notes), each quarterly date specified in the applicable Final Terms or Drawdown Prospectus for the payment of interest and/or principal, subject to the appropriate Business Day Convention, if any, specified in the applicable Final Terms or Drawdown Prospectus;

**Rate of Interest** and **Rates of Interest** means, in respect of any Series and Class of Notes, the rate or rates (expressed as a percentage per annum) of interest payable in respect of such Notes specified in the applicable Final Terms or Drawdown Prospectus or calculated and determined in accordance with the applicable Final Terms or Drawdown Prospectus;

**Rating Agencies** means Standard & Poor's Rating Services, a division of Standard & Poor's Credit Market Services Europe Limited, Moody's Investors Service Limited and Fitch Ratings Ltd.;

**Reference Banks** has the meaning given to it in the Master Issuer Master Definitions and Construction Schedule;

**Reference Price** means, in respect of any Series and Class of Notes, the price specified as such for such Notes in the applicable Final Terms or Drawdown Prospectus;

**Reference Rate** means, in respect of any Series and Class of Notes, one of LIBOR, USD LIBOR, EURIBOR, SONIA or SOFR, in each case for the relevant period, as specified in the applicable Final Terms or Drawdown Prospectus;

**Reg S** means Regulation S under the Securities Act;

**Reg S Global Notes** means the note certificates representing the Reg S Notes while in global form;

**Reg S Notes** means each Series and Class of Notes that are not US Notes and are not Rule 144A Notes;

**Register** means the register of Noteholders kept by the Registrar and which records the identity of each Noteholder and the number of Notes that each Noteholder owns;

**Registered Uncleared Note Certificates** means the definitive registered note certificates representing any Registered Uncleared Notes;

**Registered Uncleared Notes** means each Series and Class (or sub-class) of Notes which are initially issued in definitive registered form and which are Reg S Notes;

**Registered Uncleared Notice to Purchase** means any notice given by the Master Issuer to a Holder of any Maturity Purchase Note(s) that are Registered Uncleared Notes in accordance with **Condition 5.8(c)**;

**Registrar** means Citibank, N.A. in its capacity as registrar at its Specified Office or such other person for the time being acting as registrar under the Master Issuer Paying Agent and Agent Bank Agreement;

**Relevant Screen** means a page of the Reuters service or Bloomberg service, or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee and has been notified to Noteholders in the manner set out in **Condition 14**;

**Relevant Screen Page** means, in respect of any Series and Class of Notes, the screen page specified as such for such Notes in the applicable Final Terms or Drawdown Prospectus (or such replacement page on the relevant service which displays the information);

**Remarketing Agent** means, in respect of any Series and Class of Remarketable Notes, the Remarketing Agent specified in the applicable Final Terms or Drawdown Prospectus, or such other agent appointed to act as remarketing agent under the terms of the relevant Remarketing Agreement;

**Remarketing Agreement** means, in respect of any Series and Class of Remarketable Notes, the agreement between the Master Issuer and the Remarketing Agent pursuant to which the Remarketing Agent agrees to

use reasonable efforts to identity third party purchasers for such Series and Class of Remarketable Notes on each Mandatory Transfer Date prior to the occurrence of a Mandatory Transfer Termination Event;

**Remarketable Notes** means any Series and Class of Notes identified as such in the applicable Final Terms or Drawdown Prospectus;

**Reset Margin** means, in respect of any Series and Class of Remarketable Notes, (i) for each Reset Period, a percentage not exceeding the Maximum Reset Margin determined by the Remarketing Agent in accordance with the Remarketing Agreement or (ii) if the Remarketing Agreement has been terminated, the Maximum Reset Margin;

**Reset Period** means, in respect of any Series and Class of Remarketable Notes, the period commencing on the first Mandatory Transfer Date specified in the applicable Final Terms or Drawdown Prospectus up to (but excluding) the next Mandatory Transfer Date and thereafter the period from (and including) each Mandatory Transfer Date up to (but excluding) the next Mandatory Transfer Date;

**Rule 144A** means Rule 144A under the Securities Act;

**Rule 144A Global Notes** means the note certificates representing the Rule 144A notes while in global form;

**Rule 144A Notes** means each Series and Class (or sub-class) of Notes which are sold in the United States only to qualified institutional buyers within the meaning of Rule 144A;

**Scheduled Transfer Date** means, in respect of any Series and Class of Maturity Purchase Notes, the date specified as such in the applicable Final Terms or Drawdown Prospectus;

**Securities Act** means the United States Securities Act of 1933, as amended**;**

**Securitisation Tax Regime** means the permanent regime for the taxation of securitisation companies established pursuant to the Finance Act 2005 and the regulations made thereunder, in each case as amended from time to time;

**Series** means, subject to **Condition 15**, in relation to the Notes, all Notes (of any Class) issued on a given day and designated as such;

**Series and Class** means, a particular Class of Notes of a given Series or, where such Class of such Series comprises more than one sub-class, **Series and Class** means any sub-class of such Class;

**Specified Currency** means, in respect of any Series and Class of Notes, the currency or currencies specified as such for such Notes in the applicable Final Terms or Drawdown Prospectus;

**Specified Currency Exchange Rate** means, in relation to a Series and Class of Notes, the exchange rate specified in the Master Issuer Swap Agreement relating to such Series and Class of Notes or, if the Master Issuer Swap Agreement has been terminated, the applicable spot rate;

**Specified Date** has the meaning indicated in **Condition 11.6**;

**Specified Denomination** means, in respect of any Series and Class of Notes, the denomination specified as such for such Notes in the applicable Final Terms or Drawdown Prospectus which shall be a minimum of $250,000 (in the case of each Dollar Note), £100,000 (in the case of each Sterling Note) and €100,000 (in the case of each Euro Note), provided that Notes issued with a maturity of less than one year will be issued in minimum denominations of £100,000 (or such equivalent amount) and provided that no Note shall be issued with a denomination of less than €100,000 (or its equivalent in the relevant currency at the date of issue of such Notes);

**Specified Office** means, as the context may require, in relation to any of the Agents, the office specified against the name of such Agent in the Master Issuer Paying Agent and Agent Bank Agreement or such other specified office as may be notified to the Master Issuer and the Note Trustee pursuant to the Paying Agent and Agency Bank Agreement;

**Step-Up Date** means the Interest Payment Date on which the Rates of Interest on the relevant Series and Class of Notes increases or decreases by a pre-determined amount as specified in the applicable Final Terms or Drawdown Prospectus;

**Sterling**, **Pounds Sterling** or **£** means the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;

**Sterling Notes** means each Series and Class of Notes denominated in Sterling;

**sub-unit** means, with respect to any currency other than Sterling, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Sterling, one pence;

**Swap Rate Modification** has the meaning given to that term in Condition 11.8(b);

**Swap Rate Modification Certificate** has the meaning given to that term in Condition 11.8(b);

**Swiss Franc** means the lawful currency for the time being of Switzerland;

**Tender Instruction** means the instruction to be delivered by the DTC Tender Agent on behalf of any Holder of Maturity Purchase Notes to DTC in accordance with the usual procedures of DTC;

**Transaction Documents** means the Master Issuer Corporate Services Agreement, the Master Intercompany Loan Agreement, the Funding 2 Deed of Charge, the Master Issuer Bank Account Agreement, the Master Issuer Deed of Charge, the Master Issuer Trust Deed, the Master Issuer Paying Agent and Agent Bank Agreement, the Master Issuer Cash Management Agreement, the Master Issuer Post-Enforcement Call Option Agreement, the Master Issuer Swap Agreements, the Master Issuer Master Definitions Schedule, the Mortgages Trustee Guaranteed Investment Contract, the Funding 2 Guaranteed Investment Contract, each Conditional Note Purchase Deed and such other related documents which are referred to in the terms of the above documents;

**Transfer Agent** means Citibank, N.A. in its capacity as transfer agent at its Specified Office or such other person for the time being acting as transfer agent under the Master Issuer Paying Agent and Agent Bank Agreement;

**Transfer Date** means the later of the Scheduled Transfer Date and the Deferred Transfer Date;

**Transfer Instruction** means the electronic transfer and blocking instruction to be delivered by any Holder of Maturity Purchase Notes to Euroclear and Clearstream, Luxembourg, in accordance with the usual procedures of such clearing systems;

**UK Listing Authority** means the Financial Conduct Authority in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, as amended;

**USD LIBOR** means the U.S. Dollar London inter-bank offered rate;

**US Global Notes** means the note certificates representing the US Notes while in global form;

**US Notes** means each Series and Class of Notes which is registered with the United States Securities and Exchange Commission under the Securities Act; and

**US Paying Agent** means Citibank, N.A., acting in its capacity as US paying agent through its New York office or such other person for the time being acting as US paying agent under the Master Issuer Paying Agent and Agent Bank Agreement.

## Form of Final Terms

Set out below is the form of final terms which, subject to any necessary amendment, will be completed for each series and class of notes issued on a particular Closing Date under the below mentioned programme.

**Prohibition of sales to EEA investors** - The Notes are not intended to be offered, sold or otherwise made available to and, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (**MiFID II**); or (ii) a customer within the meaning of Directive (EU) 2016/97, as amended and//or superseded (**IMD**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

**Final Terms dated [●]**

**PERMANENT MASTER ISSUER PLC**

*(Incorporated with limited liability in England and Wales with registered number 05922774)*

**Legal entity identifier (LEI): 213800MVYG7MLQM2LF25**

**Residential Mortgage Backed Note Programme**

**(ultimately backed by the mortgages trust)**

**20[●●]-[●] Issue**

| Series | Class | Interest rate | Initial principal amount | Issue price | Scheduled redemption dates | Final maturity date |
|---|---|---|---|---|---|---|
| [●] | [●] | [●] | [●] | [●]% | [●] | [●] |
| [●] | [●] | [●] | [●] | [●]% | [●] | [●] |
| [●] | [●] | [●] | [●] | [●]% | [●] | [●] |
| [●] | [●] | [●] | [●] | [●]% | [●] | [●] |

Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the base prospectus dated [●] [and the supplemental prospectus[es] dated [●]] ([together,] the **Base Prospectus**) which constitutes a base prospectus for the purposes of Regulation (EU) 2017/1129 (the **Prospectus Regulation**). This document constitutes the final terms (the **Final Terms**) of the series (each a **Series**) and classes (each a **Class**) of notes (together, the **Notes** or the **20[●●]-[●] notes**) of Permanent Master Issuer PLC (the **Master Issuer**) described herein and has been prepared for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus. Full information on the Master Issuer (also referred to as the **issuing entity**) and the offer of the 20[●●]-[●] notes the subject

thereof is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on https://www.lloydsbankinggroup.com/investors/fixed-income-investors/securitisation/#.

[The 20[●●]-[●] notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or the state securities laws of any state or other jurisdiction of the United States and therefore the 20[●●]-[●] notes may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S within the meaning of the Securities Act) except to persons that are Qualified Institutional Buyers within the meaning of Rule 144A of the Securities Act, or in transactions that occur outside the United States to persons other than U.S. persons in accordance with Regulation S or in other transactions exempt from registration under the Securities Act and, in each case, in compliance with any applicable state or local securities laws.]

**Arranger for the programme**

**[●]**

**[Joint] [Lead] [Co-] Managers [(with respect to the [●] notes)]**

[●] [●] [●]

**[Joint] [Lead] [Co-] Managers [(with respect to the [●] notes)]**

[●] [●] [●]

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

| | | |
|---|---|---|
| (1) | Issuer of the Notes: | Permanent Master Issuer PLC<br><br>(Legal Entity Identifier (LEI): [213800MVYG7MLQM2LF25]) |
| (2) | Series and Class: | [●] |
| (3) | Specified Currency or Currencies: | [●] |
| (4) | Initial principal amount: | [●] |
| (5) | (a) Issue price: | [●]% of the initial principal amount [plus accrued interest from [●]] |
| | (b) Gross proceeds: | [●] |
| (6) | Closing Date: | [●] |
| (7) | Final Maturity Date: | Interest Payment Date falling in [or nearest to] [●] |
| (8) | Specified Denominations: | [●] |
| (9) | Interest basis: | [[●]% Fixed Rate]<br><br>[[●]-[month] [LIBOR / EURIBOR / USD LIBOR] / [SONIA] / [SOFR] Floating Rate] [(further particulars specified below under "*Provisions Relating to Interest (if any) Payable*")]<br><br>[Zero Coupon] |
| (10) | Change of interest basis: | [Applicable: [●]/Not Applicable] |
| (11) | Redemption/payment basis: | [Bullet Redemption]<br><br>[Scheduled Redemption]<br><br>[Pass-through] |
| (12) | Change of redemption/payment basis: | [Applicable: [●]/Not Applicable] |
| (13) | Call Option Date: | [Not applicable/Applicable]<br>[Interest Payment Date occurring in [●] [and each subsequent Interest Payment Date thereafter]] |
| (14) | Step-Up Date: | [Not applicable/Interest Payment Date occurring in [●] [and each subsequent Interest Payment Date thereafter]] [(further particulars specified below under "*Provisions Relating to Interest (if any) Payable*")] |
| (15) | Form of Notes: | Registered Notes: [Reg S Global Note registered in the name of [a nominee for a common depositary][a common safekeeper] for Euroclear and Clearstream, Luxembourg] / [Reg S Global Note registered in the name of a nominee of DTC] / [Reg S Registered Uncleared Note Certificate registered in the name of the relevant note purchaser] / [Rule 144A Global Note registered in the name of [a nominee for [DTC][a common depositary for Euroclear and Clearstream, Luxembourg]][a common safekeeper for Euroclear and Clearstream, Luxembourg]] |
| (16) | Expected Ratings (Standard & Poor's/Moody's/Fitch): | [●]/[●]/[●] |
| (17) | Post-enforcement call option/Limited | |

recourse:

| | | | |
|---|---|---|---|
| | (a) | Condition [10.2] (Post-Enforcement Call Option): | [Applicable/Not Applicable] |
| | (b) | Condition [10.3] (Limited Recourse): | [Applicable/Not Applicable] |
| (18) | (a) | Listing and admission to trading: | [Application [has been][will be] made by the Master Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market and listed on the Official List of the UK Listing Authority] |
| | (b) | Estimate of total expenses related to admission to trading: | [For all 20[●●]-[●] notes, an aggregate amount of £[●]]. |
| (19) | (a) | Status of the Notes: | [Direct, secured and unconditional obligation of the Master Issuer] |
| | (b) | Date of [board approval for issuance of the Notes]: | [●] |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | | |
|---|---|---|---|
| (20) | | Interest Commencement Date: | [●] |
| (21) | | **Fixed Rate Note provisions**: | [Applicable/Not Applicable] |
| | (a) | Rate(s) of Interest: | [●]% per annum [payable [annually/semi-annually/quarterly] [in arrear]] |
| | (b) | Interest Payment Date(s): | [15th January, 15th April, 15th July and 15th October in each year up to and including the Final Maturity Date] [The first Interest Payment Date will be [●]] |
| | (c) | Fixed Coupon Amount(s): | [●] per [●] in nominal amount |
| | (d) | Broken Amount(s): | |
| | (e) | Step-Up Date: | [Not Applicable/Interest Payment Date occurring in [●]] |
| | (f) | Step-Up Margin(s): | [[+][-] [●]% per annum] [Investors should note that the Step-Up Margin is lower than the Margin.] |
| | (g) | Day Count Fraction: | [30/360 or Actual/Actual (ICMA) or [●]] |
| | (h) | Determination Date(s): | |
| | (i) | Indication of yield: | [●]<br><br>The yield is calculated at the Closing Date on the basis of the issue price. It is not an indication of future yield. |
| | (j) | Other terms relating to the method of calculating interest for Fixed Rate Notes: | [●] |
| (22) | | **Floating Rate Note provisions**: | [Applicable/Not Applicable] |
| | (a) | Interest Payment Dates: | [15th January, 15th April, 15th July and 15th October in each year up to and including the Final Maturity Date.] [The first Interest Payment Date will be [●]. |
| | (b) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] |

| | | |
|---|---|---|
| (c) | Additional Business Centre(s): | [●] |
| (d) | Manner in which the Rate of Interest and Interest Amount is to be determined: | [Screen Rate Determination/ISDA Determination] |
| (e) | Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent Bank / Calculation Agent): | [●] |
| (f) | Screen Rate Determination: | [Applicable – Term Rate/Applicable – Overnight Rate/Not Applicable] |
| • | Reference Rate: | [[●]-[month] [LIBOR / EURIBOR / USD LIBOR] [SONIA]/[SOFR]] [(or, in respect of the first Interest Period, the linear interpolation of [●] and [●])] |
| • | Calculation Method: | [Weighted Average/Compounded Daily] |
| • | Determination Date(s): | [[●] [TARGET/[●]] Business Days [in [●]] prior to the [●] day in each Interest Period/each Interest Payment Date][[●] Business Days prior to the end of each Interest Period] [●] |
| • | Relevant Screen Page: | [[●]/Not Applicable] |
| • | Observation Method: | [Lag/Lock-out]/[Not Applicable] |
| • | Observation Look-back Period: | [[●]/Not Applicable] |
| • | D | [365/360/[●]]/[Not Applicable] |
| (g) | ISDA Determination: | [Applicable/Not Applicable] |
| • | Floating Rate Option: | [●] |
| • | Designated Maturity: | [●] |
| • | Reset Date: | [●] |
| • | Calculation Agent | [●] |
| (h) | Margin(s): | [+/-] [●]% per annum |
| (i) | Minimum Rate of Interest: | [Not Applicable/[●]% per annum] |
| (j) | Maximum Rate of Interest: | [Not Applicable/[●]% per annum] |
| (k) | Step-Up Date: | [Not Applicable/Interest Payment Date occurring in [●]] |
| (l) | Step-Up Margin(s): | [[+][-] [●]% per annum] [Investors should note that the Step-Up Margin is lower than the Margin.] |
| (m) | Day Count Fraction: | [Actual/365<br>Actual/365 (Fixed)<br>Actual/365 (Sterling)<br>Actual/360<br>30/360 |

| | | | |
|---|---|---|---|
| | | | 30E/360] |
| | (n) | Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes if different from those set out in the Conditions: | [●] |
| (23) | Zero Coupon Note Provisions: | | [Applicable/Not Applicable] |
| | (a) | Accrual Yield: [●] | [●]% per annum |
| | (b) | Reference Price: [●] | [●] |
| | (c) | Day Count Fraction in relation to Redemption Amounts and late payment: [●] | [Condition [5.6] [*Redemption, Purchase and Cancellation – Redemption Amounts*] applies/[●]] |
| (24) | Other special provisions relating to Interest Payment Dates: | | [Not Applicable/[●]] |
| (25) | Talons for future coupons to be attached to Definitive Notes (and dates on which talons mature): | | [Yes][No] |

**PROVISIONS RELATING TO REPAYMENT**

| | | | |
|---|---|---|---|
| (26) | Details relating to bullet redemption notes: | | [Applicable/Not Applicable] |
| | (a) | Redemption amount: | [●] |
| | (b) | Bullet redemption date: | Interest Payment Date occurring in [●] |
| (27) | Details relating to scheduled redemption notes: | | [Applicable/Not Applicable] |
| | (a) | Scheduled redemption dates: | Interest Payment Date[s] occurring in [●] |
| | (b) | Scheduled amortisation instalments: | [●] |
| (28) | Details relating to pass-through notes: | | [Applicable/Not Applicable] |
| | (a) | Pass-through repayment dates: | [Not Applicable] / [To be redeemed in full or in part on each Interest Payment Date falling on or after the Interest Payment Date [in [●]/on which all the [●] Series [●] Class [●] Notes [and the [●] Series [●] Class [●] Notes]] have been redeemed in full])] |
| (29) | Maturity Purchase Notes: | | [Applicable/Not Applicable] |
| | (a) | Maturity Purchaser: | [Lloyds Bank plc] |
| | (b) | Expected Maturity Date: | [●] |
| | (c) | Scheduled Transfer Date | [●] |
| | (d) | Loss Calculation Date | [●] |
| (30) | Redemption Amount: | | [●] [Condition [5.6] applies] |
| (31) | Early redemption amount per | | [●] [Not Applicable] |

| | | |
|---|---|---|
| | Specified Denomination payable on redemption for taxation reasons or an event of default or other early redemption and/or method of calculating the same (if required or if different from that set out in the Conditions): | |
| (32) | Redenomination, renominalisation and reconventioning provisions applicable: | Redenomination [not] applicable |

**PROVISIONS RELATING TO MASTER ISSUER SWAPS**

| | | | |
|---|---|---|---|
| (33) | Master Issuer Swap Provider(s): | | [[●]/Not Applicable] |
| | (a) | Specified Currency Exchange Rate (Sterling/specified currency) specified in the Master Issuer Swap Agreement relating to the Notes: | [GBP 1.00/[●]/Not Applicable] |
| | (b) | Specified fixed/floating interest rate exchange rate specified in the Master Issuer Swap Agreement relating to the Notes: | [[●]/Not Applicable] |
| | (c) | Specified interest rate exchange rate specified in the Master Issuer Swap Agreement relating to the Notes: | [[●]/Not Applicable] |

**PROVISIONS RELATING TO SUBORDINATION/CREDIT ENHANCEMENT AT THE MASTER ISSUER LEVEL**

| | | | |
|---|---|---|---|
| (34) | Issuing entity start-up loan to be advanced on the Closing Date: | | [[●]/Not Applicable] |
| | (a) | Issuing entity start-up loan provider: | Bank of Scotland |
| | (b) | Initial outstanding principal balance: | £[●] |
| | (c) | Interest rate: | [●]/[SONIA plus [●]% per annum] |
| (35) | Aggregate outstanding principal balance of all issuing entity start-up loans (including any issuing entity start-up loan to be advanced on the Closing Date) as at the Closing Date: | | £[●] |
| (36) | Issuing entity subordinated loan to be advanced on the Closing Date: | | [[●]/Not Applicable] |
| | (a) | Issuing entity subordinated loan provider: | Bank of Scotland |
| | (b) | Initial outstanding principal balance: | £[●] |
| | (c) | Interest rate: | [●]/[SONIA plus [●]% per annum] |

| | | | |
|---|---|---|---|
| (37) | Aggregate outstanding principal balance of all issuing entity subordinated loans (including any issuing entity subordinated loans to be advanced on the Closing Date) as at the Closing Date: | | £[●] |

**PROVISIONS RELATING TO SUBORDINATION/CREDIT ENHANCEMENT AT THE FUNDING 2 LEVEL**

| | | | |
|---|---|---|---|
| (38) | Required subordinated loan tranche principal amount outstanding:[1] | | £[●] |
| (39) | Aggregate outstanding principal balance of all subordinated loan tranches (including any subordinated loan tranches to be advanced on the Closing Date) as at the Closing Date: | | £[●] |
| (40) | Funding 2 reserve required amount as at the Closing Date[2]: | | [For all Notes issued by the Master Issuer] £[●] |
| (41) | Funding 2 start-up loan to be advanced on the Closing Date: | | [[●]/Not Applicable] |
| | (a) | Funding 2 start-up loan provider: | Bank of Scotland |
| | (b) | Initial outstanding principal balance: | £[●] |
| | (c) | Interest rate: | [●]/[SONIA plus [●]% per annum]/[(i) in the case of the rate of interest to the Funding 2 Interest Payment Date falling in [●], the linear interpolation of [●] and [●] plus a margin of [●]% per annum and (ii) thereafter, [●] plus [●]% per annum] |
| (42) | Aggregate outstanding principal balance of all Funding 2 start-up loans (including any Funding 2 start-up loans to be advanced on the Closing Date) as at the Closing Date: | | £[●] |
| (43) | Funding 2 Z Loan required amount as at the Closing Date:[3] | | £[●] |
| (44) | Funding 2 Z loan to be advanced on the Closing Date: | | [[●]/Not Applicable] |
| | (a) | Funding 2 Z loan provider: | Bank of Scotland |
| | (b) | Initial outstanding principal balance: | £[●] |
| | (c) | Interest rate: | [●]/[SONIA plus [●]% per annum] |
| (45) | Aggregate outstanding principal balance of all Funding 2 Z loans (including any Funding 2 Z loan to be advanced on the Closing Date and taking into account any repayment of Funding 2 Z loans on | | £[●] |

1 As set out in the base prospectus, this figure may be further adjusted in subsequent final terms or drawdown prospectus.
2 As set out in the base prospectus, this figure may be further adjusted in subsequent final terms or drawdown prospectus.
3 As set out in the base prospectus, this figure may be further adjusted in subsequent final terms or drawdown prospectus.

| | | |
|---|---|---|
| | the Closing Date) as at the Closing Date | |
| (46) | Funding 2 Yield Reserve Notes: | [Applicable/Not Applicable] |
| | (a) Initial principal amount: | £[●] |
| | (b) Interest rate: | [●] |
| | (c) Corresponding Funding 2 yield reserve loan tranches: | [●] |
| (47) | Funding 2 yield reserve required amount:43 | £[●] |
| (48) | Funding 2 yield reserve reduction amount: | £[●] |
| (49) | Funding 2 yield reserve reduction date: | [●] |

**PROVISIONS RELATING TO SELLING RESTRICTIONS AND US TAX**

| | | |
|---|---|---|
| (50) | Additional selling restrictions: | [Not Applicable/Reg S Notes only/Reg S Notes and Rule 144A Notes/Rule 144A Notes only] |
| (51) | U.S. tax treatment: | [Will be debt for United States federal income tax purposes subject to the considerations in "**United States federal income taxation**" in the Base Prospectus/Should be debt for United States federal income tax purposes subject to the considerations in "United States federal income taxation" in the Base Prospectus/Not Applicable (These Notes are not being offered or sold in the United States)] |
| (52) | ERISA eligible: | [Yes, subject to the considerations in "**ERISA considerations**" in the Base Prospectus/No, Benefit Plan Investors will not be permitted to purchase Regulation S Notes] |
| (53) | U.S. Credit Risk Retention: | The seller expects the seller share on the Closing Date to be equal to £[●], representing approximately [●]% of the aggregate outstanding principal balance of all notes issued by the issuing entity as of [●], measured in accordance with the provisions of the U.S. Credit Risk Retention Requirements |

**OPERATIONAL INFORMATION**

| | | |
|---|---|---|
| (54) | Any clearing system(s) other than DTC, Euroclear or Clearstream, Luxembourg and the relevant identification numbers: | [Not Applicable/[●]] |
| (55) | Delivery: | [Rule 144A/Reg S]: Delivery [against/free of payment] |
| (56) | Name and address of initial Paying Agent: | [●] |
| (57) | Names and addresses of additional Paying Agent(s) (if any): | [●]/[Not Applicable] |
| (58) | ISIN: | [Rule 144A/Reg S]: [●] |
| (59) | Common Code: | [Rule 144A/Reg S]: [●] |
| (60) | CUSIP: | [Rule 144A/Reg S]: [●] |
| (61) | CFI: | [Not Applicable/[●]] |

| | | |
|---|---|---|
| (62) | FISN: | [Not Applicable/[●]] |
| (63) | Eurosystem Eligibility: | [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of the common safekeeper)] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.] / [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting such criteria, the Notes may then be deposited with the common safekeeper [(and registered in the name of a nominee of the common safekeeper)]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.] |

**LOAN TRANCHE INFORMATION**

On the Closing Date for the Notes, the Master Issuer will, pursuant to the terms of the master intercompany loan agreement advance to Funding 2 an aggregate amount in sterling equal to the proceeds of the issue of the Notes.

The advance will be made up of separate loan tranches, each tranche will be funded by a separate Class or sub-Class of the Notes and will be identified by reference to that Class or sub-Class of the Notes.

| | | |
|---|---|---|
| (64) | Borrower: | Permanent Funding (No. 2) Limited |
| (65) | The rated loan tranche(s) are as follows: | [●] |
| (66) | Designated rated loan tranche rating: | [●] |
| (67) | Designation of rated loan tranche: | [Bullet Loan Tranche/Scheduled Amortisation Loan Tranche/Pass-through Loan Tranche] |
| (68) | Initial principal amount: | £[●] |
| (69) | Closing Date: | [●] |
| (70) | Interest commencement date: | [●] |
| (71) | Rated loan tranche payment dates: | [The bullet loan tranche repayment date/each scheduled loan tranche repayment date/the pass-through loan tranche repayment dates] |
| (72) | Rated loan tranche rate: | Sum of (a), (g) and (h): |
| | (a) Rated loan reference rate | [SONIA]/[Three month sterling LIBOR] |

| | | | |
|---|---|---|---|
| | (b) | Reuters Screen Page LIBOR01: | [●]/[Not Applicable] |
| | (c) | Calculation Method: | [Weighted Average/Compounded Daily]/[Not Applicable] |
| | (d) | Observation Method: | [Lag/Lock-out]/[Not Applicable] |
| | (e) | Observation Look-back Period: | [[●]]/Not Applicable] |
| | (f) | D | [365/360/[●]]/[Not Applicable] |
| | (g) | Rated loan tranche rate margin: | [+/-] [●]% [per annum] [or [●]% per annum if a Trigger Event occurs prior to the Step-Up Date] [plus, in respect of any Interest Period, if a GBP AV Negative Floating Amount becomes payable by the Master Issuer under the Master Issuer Swap on the related Interest Payment Date in respect of the corresponding Series or Class of Notes (as a consequence of the Floating Amount otherwise payable by the Master Issuer Swap Provider being a negative number), such additional percentage which would cause the interest on the Loan Tranche to be increased so as to equal that liability (where necessary taking into account any costs of currency conversion) of the Master Issuer to pay such GBP AV Negative Floating Amount] |
| | (h) | Funding 2 yield reserve primary revenue margin: | [[●]% per annum][Not Applicable] |
| | (i) | Loan tranche rate of interest subject to a zero floor: | [Applicable/Not Applicable]<br><br>[If applicable, specify the Funding 2 Interest Payment Date from which the zero floor will apply and the date that it will cease to apply.] |
| (73) | Step-Up Date (if any): | | [The Funding 2 Interest Payment Date occurring in [●]/Not Applicable] |
| (74) | Stepped-up loan tranche rate: | | [[+][-] [●]% per annum] [plus, in respect of any Interest Period, if a GBP AV Negative Floating Amount becomes payable by the Master Issuer under the Master Issuer Swap on the related Interest Payment Date in respect of the corresponding Series or Class of Notes (as a consequence of the Floating Amount otherwise payable by the Master Issuer Swap Provider being a negative number), such additional percentage which would cause the interest on the Loan Tranche to be increased so as to equal that liability (where necessary taking into account any costs of currency conversion) of the Master Issuer to pay such GBP AV Negative Floating Amount] |
| (75) | Details relating to bullet loan tranches: | | [Applicable/Not Applicable] |
| | (a) | Bullet repayment date: | The Funding 2 Interest Payment Date occurring in [●] |
| | (b) | Relevant accumulation amount: | [●] |
| (76) | Details relating to scheduled amortisation loan tranches: | | [Applicable/Not Applicable] |
| | (a) | Scheduled loan tranche repayment dates: | The Funding 2 Interest Payment Date occurring in [●] and [●] |

| | | | |
|---|---|---|---|
| | (b) | Relevant accumulation amounts: | [●] |
| (77) | Details relating to pass-through loan tranches: | | [Applicable/Not Applicable] |
| | (a) | Pass-through loan tranche repayment dates: | Pass-through Loan Tranches will be due and payable from, and including, the Funding 2 Interest Payment Dates occurring [on and after repayment in full of the [●]-[●] Series [●] [AAA/AA/A/BBB/BB] loan tranche/or [●] |
| | (b) | Final repayment date: | The Funding 2 Interest Payment Date falling in [●] |
| (78) | Details relating to subordinated loan tranches: | | [Applicable/Not Applicable] |
| | (a) | Initial principal amount: | [●] |
| | (b) | Rate of interest: | [●] |

## OTHER INFORMATION

**Interests of natural and legal persons involved in the issue**:

Save as discussed in [●] [these Final Terms], so far as the issuing entity is aware, no person involved in the offer of the Notes has an interest material to the offer.

**Information relating to other notes issued by the Master Issuer as at the closing date and corresponding loan tranches advanced to Funding 2**

As of the Closing Date, the aggregate principal amount outstanding of all notes issued by the issuing entity (converted, where applicable, into sterling at the applicable specified currency exchange rate), including the issue of the 20[●●]-[●] notes described herein, will be as follows:

[●]

As of the Closing Date, the aggregate outstanding principal balance of rated loan tranches advanced by the issuing entity to Funding 2 under the master intercompany loan agreement, including the rated loan tranches described herein, will be as follows:

[●]

**Information relating to notes issued by Funding 1 issuing entities as at the closing date and corresponding term advances made to Funding 1 issuing entities**

As of the Closing Date, the aggregate principal amount outstanding of notes previously issued by the Funding 1 issuing entities (converted, where applicable, into sterling at the applicable currency exchange rate), will be as follows:

[●]

As of the Closing Date, the aggregate outstanding balance of the term advances previously made by the Funding 1 issuing entities to Funding 1 will be as follows:

[●]

**Information relating to Funding 2 start-up loans**

[The following start-up loans were previously made available to Funding 2 by [Halifax (then in its capacity as the Funding 2 start-up loan provider) or] Bank of Scotland as the Funding 2 start-up loan provider in connection with the issues of notes set out below. [Halifax's rights under the start-up loans made available by it were transferred to Bank of Scotland on 17 September 2007 pursuant to the HBOS Group Reorganisation Act 2006.] [No start-up loan will be advanced to Funding 2 on the closing date.]]

| Issue | Current outstanding principal balance | Interest rate |
|---|---|---|
| [●] | £[●] | [SONIA plus [●]% per annum] |

**Information relating to Funding 2 Z loans**

[The following Funding 2 Z loans were previously made available to Funding 2 by Bank of Scotland as the Funding 2 Z loan provider. [No Funding 2 Z loan will be advanced to Funding 2 on the closing date.]]

| Current outstanding principal balance[4] | Interest rate |
|---|---|
| £[●] | [SONIA plus [●]% per annum] |

**Information relating to Funding 1 start-up loans**

[All previous start-up loans made available to Funding 1 have been repaid and no start-up loan will be advanced to Funding 1 on the closing date.]

**Information relating to Funding 1 Z loans**

[All previous Funding 1 Z loans made available to Funding 1 have been repaid and no Funding 1 Z loan will be advanced to Funding 1 on the closing date.]

**Information relating to issuing entity start-up loans**

[No issuing entity start-up loan has been advanced to the issuing entity as at the date hereof and no issuing entity start-up loan will be advanced to the issuing entity on the closing date.]

**Information relating to issuing entity subordinated loans**

[No issuing entity subordinated loan has been advanced to the issuing entity as at the date hereof and no issuing entity subordinated loan will be advanced to the issuing entity on the closing date.]

**Information relating to the mortgages trust and the portfolio**

Material information with respect to the loans expected to be in the mortgages trust at the Closing Date is set out in "**Statistical information on the portfolio**" below.

In addition:

- the minimum seller share will be [approximately] £[●];
- the Funding 1 share will be [approximately] £[●], representing [approximately] [●] per cent. of the trust property;
- the Funding 2 share will be [approximately] £[●], representing [approximately] [●] per cent. of the trust property; and
- the seller share will be [approximately] £[●], representing [approximately] [●] per cent. of the trust property.

The actual amounts of the [Funding 1 share, the Funding 2 share and the seller share] of the trust property as at the Closing Date will not be determined until the Closing Date, which will be after the date of these Final Terms.

For the purposes of paragraph (d) of the definition of **non-asset trigger event**, the aggregate outstanding balance of loans comprising the trust property [must from the period up to (but excluding) the Interest Payment Date in [●] be at least £[●] and during the period from (and including) the Interest Payment Date falling in [●] to (but excluding) the Interest Payment Date in [●] the aggregate outstanding balance of loans comprising the trust property must be at least][need not be more than] £[●] (the **minimum trust size**). See "**The mortgages trust – Cash management of trust property – distribution of principal receipts to Funding 2**" in the base prospectus.

**Information relating to the mortgage sale agreement and the portfolio as at the closing date**

[4] Including any Funding 2 Z loan to be advanced on the Closing Date and taking into account any repayment of Funding 2 Z loans on the Closing Date.

For the purposes of clause [●] of the mortgage sale agreement, the Minimum Trust Property Yield Margin means [●] per cent.

For the purposes of the representations and warranties of the seller under the mortgage sale agreement:

(a) each loan in the portfolio was made no earlier than 1 February 1996 and no later than [●]; and

(b) the final maturity date of each loan in the portfolio is no later than [●].

## FITCH PORTFOLIO TEST VALUES

For the purposes of the Fitch portfolio tests (see "**Sale of the loans and their related security – Sale of loans and their related security to the mortgages trustee on the sale dates**" in the base prospectus):

(a) the margin by which the original weighted average LTV ratio may exceed that at the Closing Date shall be [●] per cent.[5];

(b) [item (b) of the Fitch portfolio test values is not applicable]/[the percentage limit that the outstanding principal balance of any loans in the portfolio with an original weighted average LTV ratio in excess of [●] per cent. represents of the outstanding principal balance of the loans in the portfolio shall be [●] per cent].[6];

(c) the margin by which the current weighted average LTV ratio may exceed that at the Closing Date shall be [●] per cent.[7];

(d) the margin by which the weighted average debt to income multiple may exceed that at the Closing Date shall be [●][8]; and

(e) the percentage limit that the outstanding principal balance of any loans in the portfolio with an interest only part represents of the outstanding principal balance of the loans in the portfolio shall be [●] per cent.

## USE OF PROCEEDS

The gross proceeds from the issue of the 20[●●]-[●] notes equal approximately £[●] and (after exchanging, where applicable, the proceeds of the 20[●●]-[●] notes for sterling, calculated by reference to the applicable specified currency exchange rate) will be used by the issuing entity to make available rated loan tranches to Funding 2 pursuant to the terms of the master intercompany loan agreement. Funding 2 will use the gross proceeds of each rated loan tranche to [contribute towards the initial purchase price to the seller for the sale of the new portfolio to the mortgages trustee on the Closing Date][pay the purchase price to the seller for the sale of part of its share in the trust property to Funding 2 on the Closing Date][pay the purchase price to Funding 1 for the sale of part of its share in the trust property to Funding 2 on the Closing Date][fund or replenish the Funding 2 general reserve fund and/or the Funding 2 liquidity reserve fund (if any)][make a payment to the issuing entity to refinance an existing loan tranche (which may be a rated loan tranche or a subordinated loan tranche)][make a payment to a new issuing entity to refinance some or all of a new intercompany loan][make a payment to any new funding beneficiary so that it may refinance some or all of a new intercompany loan][towards repayment of the Funding 2 Z loans].

## MATURITY AND PREPAYMENT CONSIDERATIONS

The average lives of any series and class of the 20[●●]-[●] notes cannot be stated, as the actual rate of repayment of the loans and redemption of the mortgages and a number of other relevant factors are unknown. However, calculations of the possible average lives of each series and class of the 20[●●]-[●] notes can be made based on certain assumptions. The assumptions used to calculate the possible average lives of each series and class of the 20[●●]-[●] notes in the following table include that:

(1) neither the issuing entity security nor the Funding 2 security has been enforced;

(2) the seller is not in breach of the terms of the mortgage sale agreement;

(3) the seller sells no new loans to the mortgages trustee after the Closing Date (except to the extent required to maintain the minimum seller share) and the loans are assumed to amortise in

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5 As set out in the base prospectus, this figure may be further adjusted in subsequent final terms or drawdown prospectus.
6 As set out in the base prospectus, this figure may be further adjusted in subsequent final terms or drawdown prospectus.
7 As set out in the base prospectus, this figure may be further adjusted in subsequent final terms or drawdown prospectus.
8 As set out in the base prospectus, this figure may be further adjusted in subsequent final terms or drawdown prospectus.

accordance with the assumed constant payment rate indicated in the table below (subject to assumption (4) below);

(4) [the seller sells to the mortgages trustee sufficient new loans and their related security (i) in the period up to (but excluding) the Interest Payment Date in [●], such that the aggregate principal amount outstanding of loans in the portfolio at any time is not less than £[●] and (ii) during the period from and including the Interest Payment Date falling in [●] to (but excluding) the Interest Payment Date in [●], such that the aggregate principal amount outstanding of the loans in the portfolio at any time is not less than £[●] or (in each case) such higher amount as may be required to be maintained as a result of any new Funding 1 issuing entities providing new term advances to Funding 1 and/or the issuing entity advancing new rated loan tranches or subordinated loan tranches to Funding 2 which Funding 1 and/or Funding 2, as the case may be, uses to pay to the seller and/or Funding 1 or Funding 2, as the case may be, for an increase in its share of the trust property and/or to pay the seller for the sale of new loans to the mortgages trustee]/[the aggregate principal amount outstanding of loans in the portfolio will not fall below an amount equal to the product of [●] and the principal amount outstanding of all notes of the issuing entity and any other Funding 2 issuing entities at any time after giving effect to principal distributions];

(5) neither an asset trigger event nor a non-asset trigger event occurs;

(6) [no event occurs that would cause payments on scheduled amortisation loan tranches or pass-through loan tranches to be deferred (unless such advances are deferred in accordance with Rule (1) (B) or Rule (1) (C) as set out in "**Cashflows – Distribution of Funding 2 available principal receipts - Rule (1) – Repayment deferrals**" in the base prospectus)]/[no event occurs that would cause payments on the series [●] Notes to be deferred];

(7) the annualised CPR as at the Closing Date is assumed to be the same as the various assumed rates in the table below;

(8) [there is a balance of £[●] in the Funding 2 cash accumulation ledger at the Closing Date and] a balance of £[●] in the Funding 1 cash accumulation ledger at the Closing Date;

(9) [the issuing entity exercises its option to redeem [the 20[●●]-[●]] [all] notes on the Step-Up Date relating to [the 20[●●]-[●]] [such] notes];

(10) [the outstanding principal amount of the 20[●●]-[●] class [●] notes is paid on the Interest Payment Date falling in [●]];

(11) the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller continue to be rated at least "[●]" by Moody's and "[●]" by Standard & Poor's [, the long-term "Issuer Default Rating" of the seller continues to be at least "[●]" by Fitch and the short-term "Issuer Default Rating" of the seller continues to be at least "[●]" by Fitch];

(12) no interest or fees are paid from principal receipts;

(13) the mortgage loans are not subject to any defaults or losses, and no mortgage loan falls into arrears;

(14) all interest payment dates occur on the 15th of each calendar month (adjusted for weekends) and a day count fraction of Act/365 is utilised; and

(15) the Closing Date is [●].

**CPR and possible average lives of each series and class of issue 20[●●]-[●] notes (in years)**

Based upon the foregoing assumptions, the approximate average life in years of each series and class of issue 20[●●]-[●] notes, at various assumed rates of repayment of the loans, would be as follows:

| Constant payment rate[(1)] (per annum) | Series [●] class [●] Notes | Series [●] class [●] Notes | Series [●] class [●] Notes | Series [●] class [●] Notes | Series [●] class [●] Notes | Series [●] class [●] Notes | Series [●] class [●] Notes | Series [●] class [●] Notes |
|---|---|---|---|---|---|---|---|---|
| 5 per cent ..... | [●] | [●] | [●] | [●] | [●] | [●] | [●] | [●] |
| 10 per cent..... | [●] | [●] | [●] | [●] | [●] | [●] | [●] | [●] |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 15 per cent..... | [●] | [●] | [●] | [●] | [●] | [●] | [●] | [●] |
| 20 per cent..... | [●] | [●] | [●] | [●] | [●] | [●] | [●] | [●] |
| 25 per cent..... | [●] | [●] | [●] | [●] | [●] | [●] | [●] | [●] |
| 30 per cent..... | [●] | [●] | [●] | [●] | [●] | [●] | [●] | [●] |
| 35 per cent..... | [●] | [●] | [●] | [●] | [●] | [●] | [●] | [●] |

(1) Includes both scheduled and unscheduled payments.

Assumptions (1), (2), (3), [(4)], (5), (6), [(9)], [10], [11], [12] and [13] relate to circumstances which are not predictable. No assurance can be given that the issuing entity will be in a position to redeem the [●]–[●] notes on the Step-Up Date. If the issuing entity does not so exercise its option to redeem, then the average lives of the then outstanding [●]–[●] notes would be extended.

The average lives of the [●]–[●] notes are subject to factors largely outside the control of the issuing entity and consequently no assurance can be given that these assumptions and estimates will prove in any way to be realistic and they must therefore be viewed with considerable caution. For more information in relation to the risks involved in the use of these estimated average lives, see "**Risk factors – The yield to maturity of your notes may be adversely affected by prepayments or redemptions on the loans**" in the base prospectus.

**[SECURITISATION REGULATION**

[Environmental performance

The administrative records of the seller do not contain any information related to the environmental performance of the property securing the loans.] / [The following sets out information related to the environmental performance of [●] properties securing [●] loans as of [●]:[●].]

[STS Requirements

The seller, as originator, [has]/[has not] procured an STS notification to be submitted to the European Securities and Markets Association (ESMA), in accordance with Article 27 of the Securitisation Regulation, and to the FCA, that the STS requirements have been satisfied with respect to the series [●]-[●] notes. It is expected that the STS notification will be available on the website of ESMA (https://www.esma.europa.eu/policy-activities/securitisation/simple-transparent-and-standardised-sts-securitisation). For the avoidance of doubt, this website and the contents thereof do not form part of this Final Terms.]

[The seller [has not used the services of]/[has used the services of [●] as] an Authorised Verification Agent authorised under Article 28 of the Securitisation Regulation in connection with an assessment of the compliance of the series [●]-[●] notes with the STS requirements and prepare an STS assessment. [It is expected that the STS assessment prepared by the Authorised Verification Agent will be available on the website of such agent ([●]) together with a detailed explanation of its scope at [●]. For the avoidance of doubt, this website and the contents thereof do not form part of this Final Terms.]

The following table shows the correlation between the interest rates indicated for the periods indicated:

| **Interest Rate Correlations for the Period from [●] to [●]** | | | | | | | |
|---|---|---|---|---|---|---|---|
| | SONIA | LIBOR | BBR | HVR1 | HVR2 | HFVMR | HHVR |
| SONIA | [●] | [●] | [●] | [●] | [●] | [●] | [●] |
| LIBOR | [●] | [●] | [●] | [●] | [●] | [●] | [●] |
| BBR | [●] | [●] | [●] | [●] | [●] | [●] | [●] |
| HVR1 | [●] | [●] | [●] | [●] | [●] | [●] | [●] |
| HVR2 | [●] | [●] | [●] | [●] | [●] | [●] | [●] |
| HFVMR | [●] | [●] | [●] | [●] | [●] | [●] | [●] |
| HHVR | [●] | [●] | [●] | [●] | [●] | [●] | [●] |

[1]*Except for HHVR, which is from [●]*
*Source: Bank of Scotland, Bloomberg*

[Verification of data

The seller has caused a sample of the relevant loans to be verified by one or more appropriate and independent third parties. This independent third party has also performed agreed upon procedures in order to verify that the stratification tables disclosed in respect of the relevant loans are accurate. The seller has reviewed the reports of such independent third parties and is of the opinion that there were no significant adverse findings in such reports]

## STATISTICAL INFORMATION ON THE PORTFOLIO

### The cut-off date mortgage portfolio

For the purposes of this section entitled "***Statistical information on the portfolio***", all references to "portfolio", unless the context otherwise requires, include the loans and their related security currently comprising the mortgages trust [and the new loans and their related security expected to be sold to the mortgages trustee on the closing date]. [For the avoidance of doubt, no further loans and their related security will be sold to the mortgages trustee on the closing date.]

The statistical and other information contained in this Base Prospectus has been compiled by reference to the loans in the portfolio as at the cut-off date that, subject as provided, are expected to indirectly secure the 20[19]-[1] notes and all other notes of the issuing entity as at [●] (the **cut-off date**). Columns stating percentage amounts may not add up to 100% due to rounding. [A loan will be removed from any new pool of loans to be sold to the Mortgages Trustee on the Closing Date (which comprises a portion of the portfolio as at the cut-off date) if, in the period from the cut-off date up to (and including) the assignment date relating to such new pool of loans, the loan is repaid in full or if the loan does not comply with the terms of the mortgage sale agreement on or about the applicable assignment date. Once such loans are removed, the seller will then randomly select from the loans remaining in the new portfolio those loans to be assigned on the applicable assignment date once the determination has been made as to the anticipated principal balances of the notes to be issued and the corresponding size of the trust that would be required ultimately to support payments on the notes and all other notes of the issuing entity and the Funding 1 issuing entities.] The loans in the mortgages trust are selected on the basis of the seller's selection criteria for inclusion in the mortgages trust. The material aspects of the seller's lending criteria are described under "**The loans – Underwriting –**" and "**The loans – Lending criteria**" in the base prospectus. Standardised credit scoring is not used in the UK mortgage market. For an indication of the credit quality of borrowers in respect of the loans, investors may refer to such lending criteria and to the historical performance of the loans as set forth in these Final Terms. One significant indicator of obligor credit quality is arrears and losses. The information presented in the table "**Delinquency and loss experience on loans originated by Halifax or by Bank of Scotland under the "Halifax" brand (including loans in the portfolio)**" on page [●] in these Final Terms reflects the arrears and repossession experience for loans in the expected portfolio as at the cut-off date, including loans that were contained in the portfolio since the inception of the mortgages trust [and loans expected to be transferred to the mortgages trust on the Closing Date]. All of the loans in the table were originated by Halifax or by Bank of Scotland under the "Halifax" brand (the **Halifax loans**), but not all of the loans form part of the portfolio. It is not expected that the characteristics of the portfolio as at the Closing Date will differ materially from the characteristics of the portfolio as at the cut-off date. [Except as otherwise indicated,] these tables have been prepared using the current balance as at the cut-off date, which includes all principal and accrued interest for the loans in the portfolio.

The expected portfolio as at the cut-off date consisted of [●] mortgage accounts, comprising loans originated by Halifax or by Bank of Scotland under the "Halifax" brand and secured over properties located in England, Wales and Scotland and having an aggregate outstanding principal balance of £[●] as at that date. The loans in the expected portfolio as at the cut-off date were originated between [●] and [●].

As at [●] 20[●●], HVR 1 was [●]% per annum, HVR 2 was [●]% per annum, HHVR was [●]% per annum and the Halifax flexible variable rate was [●]% per annum.

Approximately [●]% of the aggregate outstanding principal balance of the loans in the portfolio as at the cut-off date were extended to the relevant borrowers in connection with the purchase by those borrowers of properties from local authorities or certain other landlords under the **right-to-buy** schemes governed by the Housing Act 1985 (as amended) or (as applicable) the Housing (Scotland) Act 1987 (as amended).

### Outstanding balances as at the cut-off date

The following table shows the range of outstanding mortgage account balances (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the cut-off date.

| Range of outstanding balances as at the cut-off date* | Aggregate outstanding balance as at the cut-off date (£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| <£25,000 | [●] | [●] | [●] | [●] |
| £25,000 – <£50,000 | [●] | [●] | [●] | [●] |
| £50,000 – <£75,000 | [●] | [●] | [●] | [●] |
| £75,000 – <£100,000 | [●] | [●] | [●] | [●] |
| £100,000 – <£125,000 | [●] | [●] | [●] | [●] |
| £125,000 – <£150,000 | [●] | [●] | [●] | [●] |
| £150,000 – <£175,000 | [●] | [●] | [●] | [●] |
| £175,000 – <£200,000 | [●] | [●] | [●] | [●] |
| £200,000 – <£225,000 | [●] | [●] | [●] | [●] |
| £225,000 – <£250,000 | [●] | [●] | [●] | [●] |
| £250,000 – <£275,000 | [●] | [●] | [●] | [●] |
| £275,000 – <£300,000 | [●] | [●] | [●] | [●] |
| £300,000 – <£350,000 | [●] | [●] | [●] | [●] |
| £350,000 – <£400,000 | [●] | [●] | [●] | [●] |
| £400,000 – <£450,000 | [●] | [●] | [●] | [●] |
| £450,000 – <£500,000 | [●] | [●] | [●] | [●] |
| >=£500,000 | [●] | [●] | [●] | [●] |
| **Total** | **[●]** | **100.00** | **[●]** | **100.00** |

* Including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The largest mortgage account (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) had an outstanding current balance as at the cut-off date of £[●] and the smallest mortgage account had an outstanding current balance as at the cut-off date of £[●]. The weighted average outstanding current balance (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the cut-off date was [approximately] £[●].

The aggregate outstanding principal balance of all loans to a single borrower does not exceed 2.00% of the aggregate outstanding principal balance of all loans as of the cut-off date.

**LTV ratios at origination**

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate of loans in a mortgage account (excluding capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the date of the initial loan origination divided by the value of the property securing the loans in that mortgage account at the same date. The seller has not revalued any of the mortgaged properties since the date of the origination of the related loan other than where an additional lending or certain product transfer has been applied for or granted on an account 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 balance as at the cut-off date (£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|
| 0% – <25% | [●] | [●] | [●] | [●] |

| | | | | |
|---|---|---|---|---|
| 25% – <50% | [●] | [●] | [●] | [●] |
| 50% – <75% | [●] | [●] | [●] | [●] |
| 75% – <80% | [●] | [●] | [●] | [●] |
| 80% – <85% | [●] | [●] | [●] | [●] |
| 85% – <90% | [●] | [●] | [●] | [●] |
| 90% – <95% | [●] | [●] | [●] | [●] |
| 95% – <100% | [●] | [●] | [●] | [●] |
| >=100% | [●] | [●] | [●] | [●] |
| **Total** | **[●]** | **100.00** | **[●]** | **100.00** |

* Excluding capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The weighted average LTV ratio of the mortgage accounts (excluding any capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) at origination was [●]%. The highest LTV ratio of any mortgage account (excluding any capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) at origination was [●]% and the lowest was [●]%.

**Cut-off date LTV ratios**

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate of loans in a mortgage account (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the cut-off date divided by the indexed valuation of the property securing the loans in that mortgage account at the same date.

| Range of LTV Ratios as at the cut-off date* | Aggregate outstanding balance at the cut-off date (£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|
| <25% | [●] | [●] | [●] | [●] |
| 25% – <50% | [●] | [●] | [●] | [●] |
| 50% – <75% | [●] | [●] | [●] | [●] |
| 75% – <80% | [●] | [●] | [●] | [●] |
| 80% – <85% | [●] | [●] | [●] | [●] |
| 85% – <90% | [●] | [●] | [●] | [●] |
| 90% – <95% | [●] | [●] | [●] | [●] |
| 95% – <100% | [●] | [●] | [●] | [●] |
| 100% – <105% | [●] | [●] | [●] | [●] |
| 105% – <110% | [●] | [●] | [●] | [●] |
| 110% – <115% | [●] | [●] | [●] | [●] |
| 115% – <120% | [●] | [●] | [●] | [●] |
| 120% – <125% | [●] | [●] | [●] | [●] |
| >=125% | [●] | [●] | [●] | [●] |
| **Total** | **[●]** | **100.00** | **[●]** | **100.00** |

* Including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The weighted average LTV ratio of the mortgage accounts (including any capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the cut-off date was [●]%. The highest LTV ratio of any mortgage account (including any capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) was [●]% and the lowest was [●]%.

**Geographical distribution**

The following table shows the distribution of properties securing the loans throughout England, Wales and Scotland as at the cut-off date. No such properties are situated outside England, Wales or Scotland' The seller's lending criteria and current credit scoring tests do not take into account the geographical location of the property securing a loan.

| Regions | Aggregate outstanding balance at the cut-off date (£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|
| East Midlands | [●] | [●] | [●] | [●] |
| East of England | [●] | [●] | [●] | [●] |
| London | [●] | [●] | [●] | [●] |
| North East | [●] | [●] | [●] | [●] |
| North West | [●] | [●] | [●] | [●] |
| Scotland | [●] | [●] | [●] | [●] |
| South East | [●] | [●] | [●] | [●] |

| | | | | |
|---|---|---|---|---|
| South West | [●] | [●] | [●] | [●] |
| Wales | [●] | [●] | [●] | [●] |
| West Midlands | [●] | [●] | [●] | [●] |
| Yorkshire & The Humber | [●] | [●] | [●] | [●] |
| Unknown* | [●] | [●] | [●] | [●] |
| **Total** | **[●]** | **100.00** | **[●]** | **100.00** |

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

**Seasoning of loans**

The following table shows the number of months since the date of origination of the initial loan in a mortgage account as at the cut-off date.

| Age of loans in months as at the cut-off date | Aggregate outstanding balance at the cut-off date (£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|
| 0 to <6 | [●] | [●] | [●] | [●] |
| 6 to <12 | [●] | [●] | [●] | [●] |
| 12 to <18 | [●] | [●] | [●] | [●] |
| 18 to <24 | [●] | [●] | [●] | [●] |
| 24 to <30 | [●] | [●] | [●] | [●] |
| 30 to <36 | [●] | [●] | [●] | [●] |
| 36 to <42 | [●] | [●] | [●] | [●] |
| 42 to <48 | [●] | [●] | [●] | [●] |
| 48 to <60 | [●] | [●] | [●] | [●] |
| 60 to <72 | [●] | [●] | [●] | [●] |
| 72 to <84 | [●] | [●] | [●] | [●] |
| 84 to <96 | [●] | [●] | [●] | [●] |
| 96 to <108 | [●] | [●] | [●] | [●] |
| 108 to <120 | [●] | [●] | [●] | [●] |
| >=120 | [●] | [●] | [●] | [●] |
| **Total** | **[●]** | **100.00** | **[●]** | **100.00** |

The maximum, minimum and weighted average seasoning of loans as at the cut-off date is [●], [●] and [●] months, respectively.

**Remaining years to maturity of loans**

The following table shows the number of remaining years of the term of the initial loan in a mortgage account as at the cut-off date.

| Remaining years to maturity | Aggregate outstanding | % of total | Number of | % of total |
|---|---|---|---|---|

| | balance at the cut-off date (£) | | mortgage accounts | |
|---|---|---|---|---|
| <5 | [●] | [●] | [●] | [●] |
| 5 to <10 | [●] | [●] | [●] | [●] |
| 10 to <15 | [●] | [●] | [●] | [●] |
| 15 to <20 | [●] | [●] | [●] | [●] |
| 20 to <25 | [●] | [●] | [●] | [●] |
| 25 to <30 | [●] | [●] | [●] | [●] |
| >=30 | [●] | [●] | [●] | [●] |
| **Total** | **[●]** | **100.00** | **[●]** | **100.00** |

The maximum, minimum and weighted average remaining term of the loans as at the cut-off date was [●], [●] and [●] years, respectively.

**Purpose of loan**

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

| Use of proceeds | Aggregate outstanding balance at the cut-off date (£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|
| Purchase | [●] | [●] | [●] | [●] |
| Remortgage | [●] | [●] | [●] | [●] |
| **Total** | **[●]** | **100.00** | **[●]** | **100.00** |

As at the cut-off date, the weighted average balance of loans used to finance the purchase of a new property was £[●] and the weighted average balance of loans used to remortgage a property already owned by the borrower was £[●].

**Property type**

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

| Property type | Aggregate outstanding balance at the cut-off date (£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|
| Detached house | [●] | [●] | [●] | [●] |
| Semi-detached house | [●] | [●] | [●] | [●] |
| Terraced house | [●] | [●] | [●] | [●] |
| House – detachment type unknown[1] | [●] | [●] | [●] | [●] |
| Flat or maisonette | [●] | [●] | [●] | [●] |
| Bungalow | [●] | [●] | [●] | [●] |
| Unknown[2] | [●] | [●] | [●] | [●] |

| | | | | |
|---|---|---|---|---|
| **Total** | **[●]** | **100.00** | **[●]** | **100.00** |

1 Where the detachment type of the house is not shown in the seller's records.

2 Where the property type is not shown in the seller's records.

As at the cut-off date, the weighted average balance of loans secured by detached houses, semi-detached houses, terraced houses and flats (including maisonettes) was £[●], £[●], £[●] and £[●], respectively.

**Origination channel**

The following table shows the origination channel for the initial loan in a mortgage account.

| Origination channel | Aggregate outstanding balance at the cut-off date (£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|
| Direct | [●] | [●] | [●] | [●] |
| Intermediary / Other | [●] | [●] | [●] | [●] |
| **Total** | **[●]** | **100.00** | **[●]** | **100.00** |

The direct origination includes former Halifax estate agency branches, direct internet applications and telephone sales.

As at the cut-off date, the weighted average balance of loans originated through direct origination and intermediaries or other channels was £[●] and £[●], respectively.

**Repayment terms**

The following table shows the repayment terms for the loans in the mortgage accounts as at the cut-off date. Where any loan in a mortgage account is interest-only, then that entire mortgage account is classified as interest-only.

| Repayment terms | Aggregate outstanding balance at the cut-off date (£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|
| Repayment | [●] | [●] | [●] | [●] |
| Interest Only | [●] | [●] | [●] | [●] |
| **Total** | **[●]** | **100.00** | **[●]** | **100.00** |

As at the cut-off date, the weighted average balance of repayment loans and interest-only loans was £[●] and £[●], respectively.

**Payment methods**

The following table shows the payment methods for the mortgage accounts as at the cut-off date.

| Payment method | Aggregate outstanding balance at the cut-off date (£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|
| Direct debit | [●] | [●] | [●] | [●] |
| Other | [●] | [●] | [●] | [●] |

| | | | | |
|---|---|---|---|---|
| **Total**..... | **[●]** | **100.00** | **[●]** | **100.00** |

* External standing orders, internal standing orders and payments made over the counter at a branch.

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

**Distribution of types of loans**

The following table shows the distribution of types of loans as at the cut-off date.

| Type of loan | Aggregate outstanding balance at the cut-off date(£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|
| Added variable rate loans..... | [●] | [●] | [●] | [●] |
| Discounted variable rate loans ..... | [●] | [●] | [●] | [●] |
| Fixed rate loans ..... | [●] | [●] | [●] | [●] |
| Tracker rate loans..... | [●] | [●] | [●] | [●] |
| Standard variable rate loans ..... | [●] | [●] | [●] | [●] |
| **Total.....** | **[●]** | **100.00** | **[●]** | **100.00** |
| *Of which* Flexible loans | [●] | [●] | [●] | [●] |

**Distribution of fixed rate loans**

The following tables show the distribution of fixed rate loans by their fixed rate of interest as at such date and the year in which the loans cease to bear a fixed rate of interest 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 variable base rate or some other rate as specified in the offer conditions.

| Fixed rate % | Aggregate outstanding balance as at the cut-off date (£) | % of total | Number of mortgage accounts | % of total |
|---|---|---|---|---|
| 0 – <4.00 ..... | [●] | [●] | [●] | [●] |
| 4.00 – <5.00 ..... | [●] | [●] | [●] | [●] |
| 5.00 – <6.00 ..... | [●] | [●] | [●] | [●] |
| 6.00 – <7.00 ..... | [●] | [●] | [●] | [●] |
| >=7.00 ..... | [●] | [●] | [●] | [●] |
| **Total.....** | **[●]** | **100.00** | **[●]** | **100.00** |

| Year in which current fixed rate | Aggregate | % of total | Number of | % of total |
|---|---|---|---|---|

| period ends | outstanding balance at the cut-off date (£) | | mortgage accounts | |
|---|---|---|---|---|
| 2015 | [●] | [●] | [●] | [●] |
| 2016 | [●] | [●] | [●] | [●] |
| 2017 | [●] | [●] | [●] | [●] |
| 2018 | [●] | [●] | [●] | [●] |
| 2019 | [●] | [●] | [●] | [●] |
| 2020 | [●] | [●] | [●] | [●] |
| 2021 | [●] | [●] | [●] | [●] |
| 2022 | [●] | [●] | [●] | [●] |
| >=2023 | [●] | [●] | [●] | [●] |
| **Total** | **[●]** | **100.00** | **[●]** | **100.00** |

**Payment rate analysis**

The following table shows the annualised payment rate for the most recent one-month, three-month and 12-month period for the mortgage accounts in the portfolio.

| As of month-end | one-month annualised | three-month annualised | 12-month annualised |
|---|---|---|---|
| [●] | [●]% | [●]% | [●]% |

In the table above,

- one-month annualised CPR is calculated as 1 – ((1 – R) ^ 12),
- three-month annualised CPR is calculated as the average of the one-month annualised CPR for the most recent three months, and
- 12-month annualised CPR is calculated as the average of the one-month annualised CPR for the most recent 12 months,

where in each case R is (i) total principal receipts received plus the principal balance of loans repurchased by the seller (primarily due to further advances) during the relevant period, divided by (ii) the aggregate outstanding principal balance of the loans in the portfolio as at the start of that period.

**Delinquency and loss experience of the portfolio (including loans which and only whilst they previously formed part of the portfolio)**

Since the establishment of the mortgages trust, total cumulative losses on loans whilst the loan formed part of the portfolio were £[●] as at [●].

The following table summarises loans in arrears and repossession experience for loans in the Bank of Scotland portfolio as at the dates specified in the table. The seller will represent and warrant on the Closing Date that no loan to be transferred to the mortgages trust on the Closing Date will have experienced any arrears in the prior 12 months. All of the loans in the table were originated by Halifax or by Bank of Scotland under the "Halifax" brand. Bank of Scotland services all of the Halifax loans.

Bank of Scotland identifies a loan as being in arrears where an amount equal to or greater than one full month's contractual payment is past its due date. Bank of Scotland does not define a loan as defaulted at any particular delinquency level, but rather at the time it takes the related property into possession. Bank of Scotland does not write off a loan as uncollectible until it disposes of the property relating to that loan following default.

## Delinquency and loss experience on loans originated by Halifax or by Bank of Scotland under the "Halifax" brand (including loans in the portfolio) as at the date shown

| | 31-Dec-14 | 31-Dec-15 | 31-Dec-16 | 31-Dec-17 | 31-Dec-18 |
|---|---|---|---|---|---|
| **Outstanding Balance** | £141,884,118,777.19 | £149,726,905,275.23 | £152,572,671,545.85 | £156,924,152,334.30 | £160,949,948,791.38 |
| **No of loans outstanding** | 1,631,636 | 1,639,358 | 1,606,295 | 1,571,880 | 1,528,228 |
| **Outstanding balance of loans in arrears:** | | | | | |
| **1-2 months** | £1,549,735,897.31 | £1,367,304,182.28 | £1,249,490,734.30 | £1,106,271,276.30 | £1,053,690,628.72 |
| **2-3 months** | £764,209,724.56 | £613,928,585.38 | £576,408,281.12 | £431,819,478.67 | £455,419,115.69 |
| **3-6 months** | £1,135,404,316.37 | £897,845,882.53 | £873,999,709.03 | £759,640,688.23 | £705,094,120.95 |
| **6-12 months** | £752,543,625.13 | £653,834,862.75 | £683,585,554.22 | £627,872,087.74 | £523,601,537.68 |
| **12+ months** | £455,645,824.08 | £554,485,200.52 | £728,225,442.00 | £757,800,770.36 | £745,960,316.65 |
| **Total outstanding balance of loans in arrears** | £4,657,539,387.45 | £4,087,398,713.46 | £4,111,709,720.67 | £3,683,404,301.30 | £3,483,765,719.69 |
| **Total outstanding balance of loans in arrears as a % of outstanding balance** | 3.28% | 2.73% | 2.69% | 2.35% | 2.16% |
| **Outstanding balance of loans in possession** | £78,337,647.88 | £19,533,250.27 | £25,705,153.10 | £33,059,967.21 | £34,981,971.52 |
| **Outstanding balance of loans to properties sold during period** | £369,801,732.26 | £126,667,947.44 | £88,120,260.83 | £80,678,404.44 | £64,581,758.05 |
| **Net loss on all sales of repossessed properties** | £84,079,576.31 | £27,737,411.19 | £18,057,056.30 | £22,232,979.07 | £23,010,317.55 |
| **Ratio of aggregate net losses to aggregate outstanding balance of loans** | 0.000592593 | 0.000185253 | 0.000118350 | 0.000141679 | 0.000142965 |
| | 29 | 35 | 53 | 78 | 67 |
| **Average net loss on all properties sold** | £27,951.99 | £26,670.59 | £23,061.37 | £25,732.61 | £29,844.77 |
| **Number of loans outstanding in arrears:** | | | | | |
| **1-2 months** | 15,353 | 13,804 | 12,932 | 11,132 | 10,540 |
| **2-3 months** | 7,438 | 6,114 | 5,895 | 4,535 | 4,624 |
| **3-6 months** | 10,857 | 8,719 | 8,855 | 7,645 | 7,002 |
| **6-12 months** | 6,963 | 6,314 | 6,690 | 6,267 | 5,231 |
| **12+ months** | 4,066 | 4,877 | 6,288 | 6,568 | 6,418 |
| **Total number of loans in arrears** | 44,677 | 39,828 | 40,660 | 36,147 | 33,815 |
| **Total number of loans in arrears as a % of outstanding no of loans** | 2.74% | 2.43% | 2.53% | 2.30% | 2.21% |
| **Number of properties in possession** | 663 | 175 | 228 | 280 | 299 |
| **Number of properties sold during the period** | 3,008 | 1,040 | 783 | 864 | 771 |

(1) Properties sold may relate to properties taken into possession in prior periods.

(2) Net loss is net of recoveries in the current period on properties sold in prior periods.

* Figures reflect the repurchase of accounts three months or more in arrears.

There can be no assurance that the arrears experience with respect to the loans comprising the portfolio in the future will correspond to the experience of the portfolio as set forth in the foregoing table. If the property market experiences a further decline in property values so that the value of the properties in the portfolio falls or (in the case of properties which are currently below the principal balance of the relevant loan) remains, below the principal balances of the loans, the actual rates of arrears and losses could be significantly higher than those previously experienced, as borrowers may no longer be able to refinance their loans or sell their properties and move to more affordable properties. In addition, other adverse economic conditions, whether or not they affect property values, may nonetheless affect the timely payment by borrowers of principal and interest and, accordingly, the rates of arrears and losses with respect to the loans in the portfolio. Noteholders should observe that the United Kingdom experienced relatively low and stable interest rates during the periods covered in the preceding table. If interest rates were to rise, it is likely that the rate of arrears would rise.

In the late 1980s house prices rose substantially faster than inflation as housing turnover increased to record levels. This was at a time when the economy grew rapidly, which led to falling unemployment and relatively high rates of real income growth. These fed into higher demand for housing, and house prices rose rapidly. Demand was further increased by changes in taxation legislation with regard to tax relief on mortgage payments in 1988. When monetary policy was subsequently tightened (in terms of both “locking in” sterling to the European Exchange Rate Mechanism and higher interest rates), the pace of economic activity first slowed and then turned into recession. Rising unemployment combined with high interest rates led to a fall in housing demand and increased default rates and repossessions. The ability of borrowers to refinance was limited as house prices began to fall and many were in a position of negative equity (borrowings greater than the resale value of the property) in relation to their mortgages.

The level of mortgage arrears on the Halifax loans reduced following the recession in the United Kingdom in the early nineties. The introduction of the scorecard in judging applications – and thus reducing discretion helped to keep the arrears level low, as did a healthy economic climate and low interest rates.

House price inflation has indirectly contributed to the improved arrears situation by enabling borrowers to sell at a profit if they encounter financial hardship.

The dislocation of financial markets in 2007 led to supply issues in the housing finance market while falling house prices and consumer confidence reduced demand for property. This has resulted in some borrowers being unable to sell their property or to refinance their loans due to either a lack of equity, in some instances negative equity, or the lack of available housing finance.

Whilst the economy slowed during 2008 and was in recession for the majority of 2009, during which time unemployment rose, interest rates fell to historically low levels, easing mortgage affordability. This easing of mortgage affordability combined with the use of the scorecard, referred to above, has meant that arrears levels did not rise at this time to the levels experienced in the early nineties. As the economic environment has improved in recent years, the level of arrears has also reduced. In January 2015 and in each month from July 2015, the Seller exercised its option to repurchase accounts three months or more in arrears from the portfolio. The value of loans in arrears has accordingly been reduced relative to where it would otherwise have been.

Bank of Scotland regularly reviews its lending policies in the light of prevailing market conditions and reviews actions so as to mitigate possible problems. The performance of new business and the arrears profiles are continuously monitored in monthly reports. Any deterioration of the arrears level is investigated and the internal procedures are reviewed if necessary.

## CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

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

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

### Industry PPR rates

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

| Quarter | Industry PPR rate for the quarter (%) | 12-month rolling average (%) | Quarter | Industry PPR rate for the quarter (%) | 12-month rolling average (%) |
|---|---|---|---|---|---|
| September 1999 | 4.81% | 15.57% | September 2009 | 3.52% | 13.68% |
| December 1999 | 4.49% | 15.88% | December 2009 | 3.29% | 12.81% |
| March 2000 | 3.67% | 16.21% | March 2010 | 2.59% | 11.94% |
| June 2000 | 4.16% | 16.05% | June 2010 | 2.88% | 11.71% |
| September 2000 | 4.35% | 15.66% | September 2010 | 3.08% | 11.32% |
| December 2000 | 4.27% | 15.47% | December 2010 | 2.98% | 11.03% |
| March 2001 | 4.20% | 15.93% | March 2011 | 2.71% | 11.14% |
| June 2001 | 5.04% | 16.69% | June 2011 | 2.87% | 11.14% |
| September 2001 | 5.65% | 17.80% | September 2011 | 3.25% | 11.29% |
| December 2001 | 5.59% | 18.93% | December 2011 | 3.11% | 11.41% |
| March 2002 | 5.20% | 19.80% | March 2012 | 2.86% | 11.55% |
| June 2002 | 5.91% | 20.54% | June 2012 | 2.95% | 11.62% |
| September 2002 | 6.70% | 21.41% | September 2012 | 3.02% | 11.41% |
| December 2002 | 6.47% | 22.14% | December 2012 | 3.10% | 11.40% |
| March 2003 | 5.96% | 22.78% | March 2013 | 2.98% | 11.50% |
| June 2003 | 6.33% | 23.12% | June 2013 | 3.42% | 11.93% |
| September 2003 | 6.83% | 23.22% | September 2013 | 3.89% | 12.72% |
| December 2003 | 7.09% | 23.73% | December 2013 | 3.97% | 13.50% |
| March 2004 | 5.95% | 23.72% | March 2014 | 3.57% | 14.03% |
| June 2004 | 6.48% | 23.85% | June 2014 | 3.76% | 14.34% |
| September 2004 | 6.91% | 23.92% | September 2014 | 4.03% | 14.46% |
| December 2004 | 5.83% | 22.89% | December 2014 | 3.77% | 14.28% |
| March 2005 | 4.97% | 22.06% | March 2015 | 3.42% | 14.15% |
| June 2005 | 5.99% | 21.65% | June 2015 | 3.70% | 14.10% |
| September 2005 | 6.93% | 21.66% | September 2015 | 4.04% | 14.11% |

| Quarter | Industry PPR rate for the quarter (%) | 12-month rolling average (%) | Quarter | Industry PPR rate for the quarter (%) | 12-month rolling average (%) |
|---|---|---|---|---|---|
| December 2005 | 7.04% | 22.65% | December 2015 | 4.11% | 14.41% |
| March 2006 | 6.31% | 23.78% | March 2016 | 4.01% | 14.93% |
| June 2006 | 6.66% | 24.34% | June 2016 | 4.01% | 15.21% |
| September 2006 | 7.17% | 24.53% | September 2016 | 4.22% | 15.38% |
| December 2006 | 7.14% | 24.61% | December 2016 | 4.08% | 15.35% |
| March 2007 | 6.80% | 25.01% | March 2017 | 3.93% | 15.28% |
| June 2007 | 7.14% | 25.39% | June 2017 | 3.93% | 15.21% |
| September 2007 | 7.35% | 25.54% | September 2017 | 4.27% | 15.25% |
| December 2007 | 6.74% | 25.22% | December 2017 | 4.37% | 15.50% |
| March 2008 | 5.50% | 24.15% | March 2018 | 4.00% | 15.57% |
| June 2008 | 5.92% | 23.15% | June 2018 | 4.08% | 15.69% |
| September 2008 | 5.71% | 21.80% | September 2018 | 4.48% | 15.88% |
| December 2008 | 4.26% | 19.71% | December 2018 | 4.41% | 15.91% |
| March 2009 | 3.56% | 18.02% | March 2019 | 3.88% | 15.81% |
| June 2009 | 3.12% | 15.58% | June 2019 | 3.92% | 15.67% |

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

**Repossession rate**

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

| Year | Repossessions (%) | Year | Repossessions (%) | Year | Repossessions (%) |
|---|---|---|---|---|---|
| 1985 | 0.25 | 1996 | 0.40 | 2007 | 0.22 |
| 1986 | 0.30 | 1997 | 0.31 | 2008 | 0.34 |
| 1987 | 0.32 | 1998 | 0.31 | 2009 | 0.43 |
| 1988 | 0.22 | 1999 | 0.27 | 2010 | 0.34 |
| 1989 | 0.17 | 2000 | 0.20 | 2011 | 0.33 |
| 1990 | 0.47 | 2001 | 0.16 | 2012 | 0.30 |
| 1991 | 0.77 | 2002 | 0.11 | 2013 | 0.26 |
| 1992 | 0.69 | 2003 | 0.07 | 2014 | 0.19 |
| 1993 | 0.58 | 2004 | 0.07 | 2015 | 0.09 |
| 1994 | 0.47 | 2005 | 0.12 | 2016 | 0.07 |
| 1995 | 0.47 | 2006 | 0.18 | 2017 | 0.07 |
| | | | | 2018 | 0.06 |

*Source: Council of Mortgage Lenders*

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**House price to earnings ratio**

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

| Year | Average annual earnings (£) | Average house price(£) | House price to earnings ratio |
|---|---|---|---|
| 1994 | 22,288 | 64,787 | 2.91 |
| 1995 | 23,114 | 65,644 | 2.84 |
| 1996 | 24,740 | 70,626 | 2.85 |
| 1997 | 26,086 | 76,103 | 2.92 |
| 1998 | 27,317 | 81,774 | 2.99 |
| 1999 | 29,864 | 92,521 | 3.10 |
| 2000 | 31,193 | 101,550 | 3.26 |
| 2001 | 33,967 | 112,835 | 3.32 |
| 2002 | 36,277 | 128,265 | 3.54 |
| 2003 | 38,538 | 155,627 | 4.04 |
| 2004 | 39,873 | 180,248 | 4.52 |
| 2005 | 43,690 | 190,760 | 4.37 |
| 2006 | 50,789 | 204,813 | 4.03 |
| 2007 | 53,617 | 223,405 | 4.17 |
| 2008 | 54,527 | 227,765 | 4.18 |
| 2009 | 53,975 | 226,064 | 4.19 |
| 2010 | 57,973 | 251,174 | 4.33 |
| 2011 | 56,957 | 245,319 | 4.31 |
| 2012 | 57,121 | 246,032 | 4.31 |
| 2013 | 58,268 | 250,768 | 4.30 |
| 2014 | 59,808 | 267,132 | 4.47 |
| 2015 | 62,230 | 276,555 | 4.44 |
| 2016 | 61,516 | 282,511 | 4.59 |
| 2017 | 59,426 | 280,304 | 4.72 |
| 2018 | 59,337 | 282,713 | 4.76 |

*Source: Office for National Statistics*

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 31 December 2016 in order to produce a house price to earnings ratio for each region.

| Regions | Average annual earnings (£) | Average house price(£) | House price to earnings ratio |
|---|---|---|---|
| North | £44,148 | £157,597 | 3.57 |
| North West | £49,108 | £195,589 | 3.98 |
| Yorkshire & Humberside | £46,789 | £188,490 | 4.03 |
| East Midlands | £49,139 | £212,954 | 4.33 |
| West Midlands | £50,601 | £223,791 | 4.42 |
| East Anglia | £64,334 | £335,287 | 5.21 |
| London | £100,559 | £549,279 | 5.46 |
| South East | £71,085 | £381,588 | 5.37 |
| South West | £55,418 | £281,519 | 5.08 |
| Wales | £45,249 | £182,397 | 4.03 |
| Scotland | £48,382 | £180,320 | 3.73 |

Source: Office for National Statistics

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

**House price index**

United Kingdom residential property prices, as measured by the Nationwide House Price Index and the Halifax House Price Index (collectively the **Housing Indices**), have generally outperformed the United Kingdom Retail Price Index over the past 25 years. (Nationwide is a United Kingdom building society and Halifax is a brand name of Bank of Scotland, a United Kingdom bank. Markit agreed in March 2015 to acquire the Halifax House Price Index from Lloyds Banking Group.)

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

| | Retail Price Index | | Nationwide House Price Index | | Halifax House Price Index | |
|---|---|---|---|---|---|---|
| Year | Index | % annual change | Index | % annual change | Index | % annual change |
| 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 | 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 |
| 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 | 2.4% | 370.3 | 9.7% | 593.5 | 8.5 |
| 2015 | 258.5 | 1.0% | 386.6 | 4.4% | 648.4 | 9.2 |
| 2016 | 263.1 | 1.8% | 405.7 | 4.9% | 696.7 | 7.5 |
| 2017 | 272.5 | 3.6% | 417.5 | 2.9% | 719.6 | 3.3 |
| 2018 | 281.6 | 3.3% | 426.2 | 2.1% | 739.6 | 2.8 |

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

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

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

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

**Quarterly house price index**

| | Retail Price Index | | Nationwide House Price Index (SA) | | Halifax House Price Index (SA)* | |
|---|---|---|---|---|---|---|
| Quarter | Index | % annual change | Index | % annual change | Index | % annual change |
| March 2007 | 203 | 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% | 367.8 | 6.8% | 638.8 | 5.4 |
| March 2008 | 211.1 | 4.0% | 361.9 | 2.3% | 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 | -14.8% | 534.6 | -16.3 |
| March 2009 | 210.9 | -0.1% | 302.4 | -16.4% | 517.7 | -17.8 |
| June 2009 | 212.6 | -1.3% | 305.0 | -11.8% | 510.6 | -14.6 |
| September 2009 | 214.4 | -1.4% | 317.3 | -3.1% | 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 | 8.9% | 543.6 | 5.0 |
| June 2010 | 223.5 | 5.1% | 333.8 | 9.4% | 543.6 | 6.5 |
| September 2010 | 224.5 | 4.7% | 331.5 | 4.5% | 537.2 | 2.6 |
| December 2010 | 227 | 4.7% | 325.9 | 0.6% | 531.7 | -1.6 |
| March 2011 | 230.9 | 5.3% | 328.2 | -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 | -0.4% | 525.2 | -2.2 |
| December 2011 | 238.6 | 5.1% | 329.7 | 1.2% | 524.0 | -1.5 |
| March 2012 | 239.6 | 3.8% | 328.8 | 0.2% | 523.2 | -0.8 |
| June 2012 | 242.2 | 3.1% | 326.0 | -1.1% | 520.9 | -0.7 |
| September 2012 | 243.1 | 2.9% | 325.0 | -1.6% | 519.1 | -1.2 |
| December 2012 | 246 | 3.1% | 326.1 | -1.1% | 522.9 | -0.2 |
| March 2013 | 247.4 | 3.3% | 329.1 | 0.1% | 529.0 | 1.1 |
| June 2013 | 249.7 | 3.1% | 330.7 | 1.4% | 540.5 | 3.8 |
| September 2013 | 250.9 | 3.2% | 339.1 | 4.4% | 551.0 | 6.1 |
| December 2013 | 252.5 | 2.6% | 349.1 | 7.1% | 562.7 | 7.6 |
| March 2014 | 253.9 | 2.6% | 359.2 | 9.1% | 575.2 | 8.7 |
| June 2014 | 256 | 2.5% | 369.0 | 11.6% | 587.2 | 8.6 |

| | Retail Price Index | | Nationwide House Price Index (SA) | | Halifax House Price Index (SA)* | |
|---|---|---|---|---|---|---|
| **Quarter** | **Index** | **% annual change** | **Index** | **% annual change** | **Index** | **% annual change** |
| September 2014 ..... | 256.9 | 2.4% | 374.7 | 10.5% | 604.3 | 9.7 |
| December 2014 ..... | 257.4 | 1.9% | 378.2 | 8.3% | 607.2 | 7.9 |
| March 2015..... | 256.4 | 1.0% | 379.9 | 5.8% | 622.7 | 8.3 |
| June 2015..... | 258.5 | 1.0% | 384.6 | 4.2% | 643.1 | 9.5 |
| September 2015 ..... | 259.3 | 0.9% | 388.4 | 3.7% | 655.5 | 8.5 |
| December 2015 ..... | 260 | 1.0% | 394.3 | 4.3% | 667.1 | 9.9 |
| March 2016..... | 260 | 1.4% | 399.7 | 5.2% | 685.8 | 10.1 |
| June 2016..... | 262.2 | 1.4% | 404.8 | 5.2% | 695.0 | 8.1 |
| September 2016 ..... | 264.2 | 1.9% | 409.4 | 5.4% | 692.1 | 5.6 |
| December 2016 ..... | 265.8 | 2.2% | 412.0 | 4.5% | 711.2 | 6.6 |
| March 2017..... | 267.7 | 3.0% | 415.8 | 4.0% | 710.6 | 3.6 |
| June 2017..... | 271.5 | 3.5% | 416.6 | 2.9% | 713.1 | 2.6 |
| September 2017 ..... | 274.2 | 3.8% | 419.9 | 2.6% | 720.7 | 4.1 |
| December 2017 ..... | 276.4 | 4.0% | 423.0 | 2.7% | 729.6 | 2.6 |
| March 2018..... | 277.5 | 3.7% | 425.9 | 2.4% | 730.1 | 2.8 |
| June 2018 | 280.6 | 3.4% | 426.0 | 2.3% | 728.8 | 2.2 |
| September 2018 | 283.3 | 3.3% | 428.6 | 2.1% | 740.4 | 2.7 |
| December 2018 | 284.9 | 3.1% | 428.4 | 1.3% | 743.3 | 1.9 |
| March 2019 | 284.4 | 2.5% | 427.6 | 0.4% | 751.4 | 2.9 |
| June 2019 | 289 | 3.0% | 428.9 | 0.7% | 768.0 | 5.4 |

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

** Seasonally adjusted.*

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

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

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Note, however, that the issuing entity has not participated in the preparation of that information nor made any enquiry with respect to that information. Neither the issuing entity nor Nationwide Building Society nor Lloyds Banking Group nor the Arranger nor the [Joint Lead Managers] 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.

## STATIC POOL DATA

This section sets out, to the extent material, certain static pool information with respect to the loans originated by Halifax or by Bank of Scotland under the Halifax brand.

The issuing entity has not included static pool information in this section in respect of prepayments, as this information is not separately identified by the servicer. However, prepayment rates in respect of the mortgage loans in the mortgages trust are set out in the monthly reports to investors that are prepared pursuant to the servicing agreement. To date, prepayment rates in respect of the mortgage loans in the mortgages trust have broadly been in line with the industry PPR data set out on page [●] above.

One of the characteristics of the mortgages trust is that the seller is able to sell more loans to the mortgages trustee over time, whether in connection with an issuance of notes by the issuing entity, any new Funding 2 issuing entity or any Funding 1 issuing entity or in order to maintain the minimum seller share. To aid in understanding changes to the mortgages trust over time, the following table sets out information relating to each sale of loans by the seller to the mortgages trustee pursuant to the mortgage sale agreement.

| Date | Balance of loans substituted or sold | Number of loans substituted or sold | In connection with previous issue by |
|---|---|---|---|
| June 2002 | £10,117,255,819 | 173,505 | Permanent Financing (No. 1) PLC (dissolved) |
| November 2002 | £898,016,408 | 16,209 | N/A |
| January 2003 | £894,475,758 | 16,835 | N/A |
| March 2003 | £10,538,839,220 | 186,140 | Permanent Financing (No. 2) PLC (dissolved) |
| June 2003 | £1,576,963,369 | 25,652 | N/A |
| September 2003 | £1,688,468,552 | 23,426 | N/A |
| October 2003 | £2,735,667,398 | 37,770 | N/A |
| January 2004 | £2,670,143,154 | 35,418 | N/A |
| March 2004 | £9,376,972,811 | 134,716 | Permanent Financing (No. 4) PLC (dissolved) |
| July 2004 | £3,698,396,657 | 48,652 | N/A |
| November 2004 | £9,582,315,930 | 104,569 | Permanent Financing (No. 6) PLC (dissolved) |
| March 2005 | £6,625,343,617 | 70,542 | Permanent Financing (No. 7) PLC (dissolved) |
| June 2005 | £9,483,670,772 | 101,317 | Permanent Financing (No. 8) PLC (dissolved) |
| December 2005 | £5,786,749,656 | 65,460 | N/A |
| March 2006 | £9,637,574,095 | 101,599 | Permanent Financing (No. 9) PLC (dissolved) |
| October 2006 | £8,838,288,141 | 86,769 | Permanent Master Issuer 2006-1 Notes |
| December 2006 | £6,373,073,080 | 60,773 | N/A |
| July 2007 | £5,691,369,649 | 51,310 | N/A |
| November 2007 | £8,686,106,961 | 70,107 | N/A |
| April 2008 | £5,919,444,424 | 45,479 | N/A |
| January 2009 | £2,997,445,751 | 23,102 | N/A |
| September 2009 | £5,004,406,381 | 43,970 | N/A |
| May 2010 | £4,975,100,475 | 44,756 | N/A |
| March 2011 | £2,606,665,774 | 26,244 | N/A |

| | | | |
|---|---|---|---|
| May 2019..... | £1,155,389,683 | 9,111 | N/A |

The sale of new loans by the seller to the mortgages trustee is subject to conditions, including ones required by the rating agencies, designed to maintain certain credit-related and other characteristics of the mortgages trust. These include limits on loans in arrears in the mortgages trust at the time of sale, limits on the aggregate balance of loans sold, limits on changes in the weighted average foreclosure frequency (**WAFF**) and the weighted average loss severity (**WALS**), a minimum yield for the loans in the mortgages trust after the sale, the Fitch portfolio tests and maximum LTV for the loans in the mortgages trust after the sale. See a description of these conditions in "**Sale of the loans and their related security — Sale of loans and their related security to the mortgages trustee on the sale dates**" in the base prospectus.

The following tables show, for loans originated between 2018 and 2018, the distribution of loans in the Bank of Scotland portfolio originated in that year by delinquency category as at each year-end starting in 2014.

**Portfolio arrears by year of origination**

## PORTFOLIO ARREARS BY YEAR OF ORIGINATION

### Loans originated in 2008 as at each specified date

**31 December 2014**

| | Volume | Principal balance (£) | % by volume | % by balance |
|---|---|---|---|---|
| <1 month | 104,499 | 12,057,139,063.29 | 94.97% | 94.13% |
| 1 to <2 months | 2,001 | 264,452,298.85 | 1.82% | 2.06% |
| 2 to <3 months | 910 | 120,340,843.10 | 0.83% | 0.94% |
| 3 to <6 months | 1,266 | 169,946,787.48 | 1.15% | 1.33% |
| 6 to <12 months | 857 | 121,054,682.93 | 0.78% | 0.95% |
| ≥12 months | 500 | 76,402,690.03 | 0.45% | 0.60% |
| **Total** | 110,033 | 12,809,336,365.68 | 100.00% | 100.00% |

**31 December 2015**

| | Volume | Principal balance (£) | % by volume | % by balance |
|---|---|---|---|---|
| <1 month | 94,015 | 10,744,024,743.97 | 95.27% | 94.55% |
| 1 to <2 months | 1,593 | 205,945,533.52 | 1.61% | 1.81% |
| 2 to <3 months | 704 | 96,574,198.52 | 0.71% | 0.85% |
| 3 to <6 months | 1,025 | 132,874,031.11 | 1.04% | 1.17% |
| 6 to <12 months | 759 | 99,844,574.87 | 0.77% | 0.88% |
| ≥12 months | 585 | 84,179,557.99 | 0.59% | 0.74% |
| **Total** | 98,681 | 11,363,442,639.98 | 100.00% | 100.00% |

**31 December 2016**

| | Volume | Principal balance (£) | % by volume | % by balance |
|---|---|---|---|---|
| <1 month | 83,251 | 8,938,294,459.99 | 94.90% | 94.07% |
| 1 to <2 months | 1,429 | 174,172,696.94 | 1.63% | 1.83% |
| 2 to <3 months | 636 | 82,177,937.16 | 0.73% | 0.86% |
| 3 to <6 months | 976 | 116,677,846.04 | 1.11% | 1.23% |
| 6 to <12 months | 692 | 92,417,319.92 | 0.79% | 0.97% |
| ≥12 months | 739 | 98,344,568.89 | 0.84% | 1.03% |
| **Total** | 87,723 | 9,502,084,828.94 | 100.00% | 100.00% |

**31 December 2017**

| | Volume | Principal balance (£) | % by volume | % by balance |
|---|---|---|---|---|
| <1 month | 74,013 | 7,885,466,391.47 | 95.09% | 94.08% |
| 1 to <2 months | 1,187 | 146,500,974.82 | 1.53% | 1.75% |
| 2 to <3 months | 474 | 56,028,006.73 | 0.61% | 0.67% |
| 3 to <6 months | 763 | 98,879,954.35 | 0.98% | 1.18% |
| 6 to <12 months | 646 | 81,836,021.81 | 0.83% | 0.98% |
| ≥12 months | 750 | 113,135,758.98 | 0.96% | 1.35% |
| **Total** | 77,833 | 8,381,847,108.16 | 100.00% | 100.00% |

| 31 December 2018 | | | | |
|---|---|---|---|---|
| | **Volume** | **Principal balance (£)** | **% by volume** | **% by balance** |
| <1 month | 64,049 | 6,738,365,745.36 | 94.89% | 93.99% |
| 1 to <2 months | 989 | 116,156,476.89 | 1.47% | 1.62% |
| 2 to <3 months | 452 | 52,396,258.23 | 0.67% | 0.73% |
| 3 to <6 months | 759 | 96,091,441.82 | 1.12% | 1.34% |
| 6 to <12 months | 515 | 62,637,978.23 | 0.76% | 0.87% |
| ≥12 months | 737 | 103,281,481.26 | 1.09% | 1.44% |
| **Total** | 67,501 | 7,168,929,381.79 | 100.00% | 100.00% |

## Loans originated in 2009 as at each specified date

| 31 December 2014 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 74,932 | 7,132,096,980.81 | 96.26% | 95.70% |
| 1 to <2 months | 1,011 | 108,648,024.78 | 1.30% | 1.46% |
| 2 to <3 months | 469 | 50,447,704.67 | 0.60% | 0.68% |
| 3 to <6 months | 742 | 81,128,863.43 | 0.95% | 1.09% |
| 6 to <12 months | 416 | 43,402,766.29 | 0.53% | 0.58% |
| ≥12 months | 276 | 36,586,099.08 | 0.35% | 0.49% |
| **Total** | 77,846 | 7,452,310,439.06 | 100.00 % | 100.00 % |

| 31 December 2015 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 66,570 | 6,224,013,535.48 | 96.35% | 95.94% |
| 1 to <2 months | 904 | 90,557,282.81 | 1.31% | 1.40% |
| 2 to <3 months | 387 | 38,894,423.96 | 0.56% | 0.60% |
| 3 to <6 months | 522 | 55,975,898.72 | 0.76% | 0.86% |
| 6 to <12 months | 391 | 39,995,428.33 | 0.57% | 0.62% |
| ≥12 months | 316 | 38,255,113.47 | 0.46% | 0.59% |
| **Total** | 69,090 | 6,487,691,682.77 | 100.00 % | 100.00 % |

| 31 December 2016 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 58,334 | 5,130,896,263.10 | 95.99% | 95.35% |
| 1 to <2 months | 782 | 78,034,893.73 | 1.29% | 1.45% |
| 2 to <3 months | 395 | 39,829,305.34 | 0.65% | 0.74% |
| 3 to <6 months | 506 | 51,090,023.97 | 0.83% | 0.95% |
| 6 to <12 months | 401 | 39,290,126.15 | 0.66% | 0.73% |
| ≥12 months | 356 | 41,959,566.75 | 0.59% | 0.78% |
| **Total** | 60,774 | 5,381,100,179.04 | 100.00 % | 100.00 % |

| 31 December 2017 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 51,344 | 4,444,686,002.50 | 96.14% | 95.36% |
| 1 to <2 months | 642 | 63,597,654.98 | 1.20% | 1.36% |
| 2 to <3 months | 253 | 24,628,412.11 | 0.47% | 0.53% |
| 3 to <6 months | 423 | 43,951,071.79 | 0.79% | 0.94% |
| 6 to <12 months | 387 | 42,576,002.81 | 0.72% | 0.91% |
| ≥12 months | 356 | 41,702,843.43 | 0.67% | 0.89% |
| **Total** | 53,405 | 4,661,141,987.62 | 100.00 % | 100.00 % |

| 31 December 2018 | | | | |
|---|---|---|---|---|
| | **Volume** | **Principal balance (£)** | **% by volume** | **% by balance** |
| <1 month | 44,587 | 3,728,036,117.77 | 95.91% | 94.87% |
| 1 to <2 months | 586 | 56,644,020.50 | 1.26% | 1.44% |
| 2 to <3 months | 257 | 26,584,114.54 | 0.55% | 0.68% |
| 3 to <6 months | 366 | 36,635,730.20 | 0.79% | 0.93% |
| 6 to <12 months | 302 | 31,761,544.41 | 0.65% | 0.81% |
| ≥12 months | 388 | 50,133,732.52 | 0.83% | 1.28% |
| **Total** | 46,486 | 3,929,795,259.94 | 100.00% | 100.00% |

## Loans originated in 2010 as at each specified date

| 31 December 2014 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 85,776 | 8,659,202,929.60 | 96.96% | 96.66% |
| 1 to <2 months | 1,038 | 113,234,323.64 | 1.17% | 1.26% |
| 2 to <3 months | 456 | 48,586,554.98 | 0.52% | 0.54% |
| 3 to <6 months | 638 | 71,441,902.23 | 0.72% | 0.80% |
| 6 to <12 months | 390 | 45,068,586.32 | 0.44% | 0.50% |
| ≥12 months | 166 | 20,746,233.47 | 0.19% | 0.23% |
| **Total** | 88,464 | 8,958,280,530.24 | 100.00 % | 100.00 % |

| 31 December 2015 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 75,589 | 7,466,649,082.42 | 97.01% | 96.75% |
| 1 to <2 months | 850 | 90,553,899.35 | 1.09% | 1.17% |
| 2 to <3 months | 376 | 39,237,508.32 | 0.48% | 0.51% |
| 3 to <6 months | 492 | 49,810,597.15 | 0.63% | 0.65% |
| 6 to <12 months | 353 | 38,588,867.65 | 0.45% | 0.50% |
| ≥12 months | 258 | 32,928,694.43 | 0.33% | 0.43% |
| **Total** | 77,918 | 7,717,768,649.32 | 100.00 % | 100.00 % |

| 31 December 2016 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 65,779 | 6,086,820,961.77 | 96.64% | 96.30% |
| 1 to <2 months | 765 | 74,495,021.38 | 1.12% | 1.18% |
| 2 to <3 months | 326 | 33,503,255.76 | 0.48% | 0.53% |
| 3 to <6 months | 528 | 54,598,511.70 | 0.78% | 0.86% |
| 6 to <12 months | 349 | 33,343,588.48 | 0.51% | 0.53% |
| ≥12 months | 322 | 38,069,943.23 | 0.47% | 0.60% |
| **Total** | 68,069 | 6,320,831,282.32 | 100.00 % | 100.00 % |

| 31 December 2017 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 57,445 | 5,214,529,362.43 | 96.52% | 96.13% |
| 1 to <2 months | 662 | 63,485,571.55 | 1.11% | 1.17% |
| 2 to <3 months | 291 | 28,955,022.84 | 0.49% | 0.53% |
| 3 to <6 months | 439 | 45,035,704.05 | 0.74% | 0.83% |
| 6 to <12 months | 351 | 34,116,666.84 | 0.59% | 0.63% |
| ≥12 months | 330 | 38,313,153.61 | 0.55% | 0.71% |
| **Total** | 59,518 | 5,424,435,481.32 | 100.00 % | 100.00 % |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | **Volume** | **Principal balance (£)** | **% by volume** | **% by balance** |
| <1 month | 49,783 | 4,368,034,123.10 | 96.32% | 95.81% |
| 1 to <2 months | 579 | 56,445,756.18 | 1.12% | 1.24% |
| 2 to <3 months | 239 | 23,312,215.50 | 0.46% | 0.51% |
| 3 to <6 months | 417 | 42,053,391.20 | 0.81% | 0.92% |
| 6 to <12 months | 322 | 31,380,523.20 | 0.62% | 0.69% |
| ≥12 months | 344 | 37,794,755.26 | 0.67% | 0.83% |
| **Total** | 51,684 | 4,559,020,764.44 | 100.00% | 100.00% |

## Loans originated in 2011 as at each specified date

| 31 December 2014 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 93,704 | 9,401,752,289.49 | 97.82% | 97.75% |
| 1 to <2 months | 834 | 84,468,303.48 | 0.87% | 0.88% |
| 2 to <3 months | 377 | 38,761,283.64 | 0.39% | 0.40% |
| 3 to <6 months | 502 | 51,282,104.57 | 0.52% | 0.53% |
| 6 to <12 months | 278 | 31,377,788.33 | 0.29% | 0.33% |
| ≥12 months | 97 | 10,933,358.85 | 0.10% | 0.11% |
| **Total** | 95,792 | 9,618,575,128.36 | 100.00 % | 100.00 % |

| 31 December 2015 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 83,032 | 8,100,708,664.50 | 97.79% | 97.73% |
| 1 to <2 months | 697 | 69,042,953.57 | 0.82% | 0.83% |
| 2 to <3 months | 298 | 29,275,002.98 | 0.35% | 0.35% |
| 3 to <6 months | 412 | 41,020,389.54 | 0.49% | 0.49% |
| 6 to <12 months | 278 | 28,042,824.49 | 0.33% | 0.34% |
| ≥12 months | 190 | 20,871,971.55 | 0.22% | 0.25% |
| **Total** | 84,907 | 8,288,961,806.63 | 100.00 % | 100.00 % |

| 31 December 2016 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 71,061 | 6,499,980,521.17 | 97.42% | 97.25% |
| 1 to <2 months | 592 | 56,794,370.61 | 0.81% | 0.85% |
| 2 to <3 months | 295 | 26,358,411.31 | 0.40% | 0.39% |
| 3 to <6 months | 438 | 43,949,835.94 | 0.60% | 0.66% |
| 6 to <12 months | 310 | 30,849,420.49 | 0.42% | 0.46% |
| ≥12 months | 250 | 26,112,404.89 | 0.34% | 0.39% |
| **Total** | 72,946 | 6,684,044,964.41 | 100.00 % | 100.00 % |

| 31 December 2017 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 61,696 | 5,509,922,700.09 | 97.33% | 97.08% |
| 1 to <2 months | 548 | 50,553,620.28 | 0.86% | 0.89% |
| 2 to <3 months | 199 | 19,552,920.51 | 0.31% | 0.34% |
| 3 to <6 months | 342 | 31,689,741.68 | 0.54% | 0.56% |
| 6 to <12 months | 317 | 30,897,038.51 | 0.50% | 0.54% |
| ≥12 months | 287 | 32,993,071.39 | 0.45% | 0.58% |
| **Total** | 63,389 | 5,675,609,092.46 | 100.00 % | 100.00 % |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | **Volume** | **Principal balance (£)** | **% by volume** | **% by balance** |
| <1 month | 52,083 | 4,468,922,993.48 | 96.95% | 96.66% |
| 1 to <2 months | 524 | 45,683,161.33 | 0.98% | 0.99% |
| 2 to <3 months | 201 | 20,688,950.66 | 0.37% | 0.45% |
| 3 to <6 months | 331 | 28,892,066.59 | 0.62% | 0.62% |
| 6 to <12 months | 272 | 25,035,071.66 | 0.51% | 0.54% |
| ≥12 months | 308 | 34,118,427.86 | 0.57% | 0.74% |
| **Total** | 53,719 | 4,623,340,671.58 | 100.00% | 100.00% |

## Loans originated in 2012 as at each specified date

| 31 December 2014 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 102,750 | 10,956,560,789.91 | 98.49% | 98.51% |
| 1 to <2 months | 693 | 71,852,761.07 | 0.66% | 0.65% |
| 2 to <3 months | 287 | 29,132,227.16 | 0.28% | 0.26% |
| 3 to <6 months | 382 | 40,578,804.64 | 0.37% | 0.36% |
| 6 to <12 months | 170 | 18,802,959.62 | 0.16% | 0.17% |
| ≥12 months | 46 | 5,182,998.69 | 0.04% | 0.05% |
| **Total** | 104,328 | 11,122,110,541.09 | 100.00 % | 100.00 % |

| 31 December 2015 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 90,295 | 9,255,694,061.99 | 98.28% | 98.28% |
| 1 to <2 months | 653 | 66,327,652.40 | 0.71% | 0.70% |
| 2 to <3 months | 247 | 24,613,628.43 | 0.27% | 0.26% |
| 3 to <6 months | 330 | 34,584,800.56 | 0.36% | 0.37% |
| 6 to <12 months | 221 | 22,198,244.94 | 0.24% | 0.24% |
| ≥12 months | 126 | 14,183,561.78 | 0.14% | 0.15% |
| **Total** | 91,872 | 9,417,601,950.10 | 100.00 % | 100.00 % |

| 31 December 2016 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 77,793 | 7,538,896,666.90 | 97.93% | 97.90% |
| 1 to <2 months | 606 | 59,210,373.61 | 0.76% | 0.77% |
| 2 to <3 months | 233 | 21,909,936.97 | 0.29% | 0.28% |
| 3 to <6 months | 345 | 34,561,158.61 | 0.43% | 0.45% |
| 6 to <12 months | 252 | 24,230,035.54 | 0.32% | 0.31% |
| ≥12 months | 209 | 21,593,374.38 | 0.26% | 0.28% |
| **Total** | 79,438 | 7,700,401,546.01 | 100.00 % | 100.00 % |

| 31 December 2017 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 65,820 | 6,159,875,008.74 | 97.70% | 97.59% |
| 1 to <2 months | 548 | 53,033,618.36 | 0.81% | 0.84% |
| 2 to <3 months | 193 | 16,869,412.19 | 0.29% | 0.27% |
| 3 to <6 months | 330 | 32,383,504.65 | 0.49% | 0.51% |
| 6 to <12 months | 256 | 26,607,766.15 | 0.38% | 0.42% |
| ≥12 months | 222 | 23,095,556.99 | 0.33% | 0.37% |
| **Total** | 67,369 | 6,311,864,867.08 | 100.00 % | 100.00 % |

| 31 December 2018 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 56,043 | 5,040,911,887.88 | 97.33% | 97.18% |
| 1 to <2 months | 532 | 51,397,159.13 | 0.92% | 0.99% |
| 2 to <3 months | 217 | 20,067,362.67 | 0.38% | 0.39% |
| 3 to <6 months | 315 | 27,462,122.46 | 0.55% | 0.53% |
| 6 to <12 months | 245 | 23,509,553.24 | 0.43% | 0.45% |
| ≥12 months | 231 | 24,073,204.28 | 0.40% | 0.46% |
| **Total** | 57,583 | 5,187,421,289.66 | 100.00% | 100.00% |

## Loans originated in 2013 as at each specified date

| 31 December 2014 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 159,856 | 19,934,837,613.95 | 99.39% | 99.43% |
| 1 to <2 months | 531 | 62,622,827.93 | 0.33% | 0.31% |
| 2 to <3 months | 187 | 23,036,009.29 | 0.12% | 0.11% |
| 3 to <6 months | 206 | 21,989,898.67 | 0.13% | 0.11% |
| 6 to <12 months | 56 | 6,187,349.47 | 0.03% | 0.03% |
| ≥12 months | 9 | 918,599.50 | 0.01% | 0.00% |
| **Total** | 160,845 | 20,049,592,298.81 | 100.00 % | 100.00 % |

| 31 December 2015 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 139,719 | 16,784,859,941.13 | 99.14% | 99.19% |
| 1 to <2 months | 521 | 59,143,985.12 | 0.37% | 0.35% |
| 2 to <3 months | 210 | 23,470,838.10 | 0.15% | 0.14% |
| 3 to <6 months | 270 | 32,075,119.96 | 0.19% | 0.19% |
| 6 to <12 months | 141 | 16,369,701.86 | 0.10% | 0.10% |
| ≥12 months | 67 | 6,691,379.18 | 0.05% | 0.04% |
| **Total** | 140,928 | 16,922,610,965.35 | 100.00 % | 100.00 % |

**31 December 2016**

| | Volume | Principal balance (£) | % by volume | % by balance |
|---|---|---|---|---|
| <1 month | 118,916 | 12,979,797,767.68 | 98.75% | 98.80% |
| 1 to <2 months | 623 | 63,911,871.47 | 0.52% | 0.49% |
| 2 to <3 months | 214 | 21,951,161.44 | 0.18% | 0.17% |
| 3 to <6 months | 299 | 32,473,509.37 | 0.25% | 0.25% |
| 6 to <12 months | 227 | 23,446,716.62 | 0.19% | 0.18% |
| ≥12 months | 147 | 16,083,736.30 | 0.12% | 0.12% |
| **Total** | 120,426 | 13,137,664,762.88 | 100.00 % | 100.00 % |

**31 December 2017**

| | Volume | Principal balance (£) | % by volume | % by balance |
|---|---|---|---|---|
| <1 month | 102,767 | 11,014,694,376.19 | 98.51% | 98.48% |
| 1 to <2 months | 582 | 63,316,947.13 | 0.56% | 0.57% |
| 2 to <3 months | 210 | 22,052,059.21 | 0.20% | 0.20% |
| 3 to <6 months | 332 | 37,975,686.36 | 0.32% | 0.34% |
| 6 to <12 months | 240 | 25,506,376.69 | 0.23% | 0.23% |
| ≥12 months | 187 | 20,929,843.34 | 0.18% | 0.19% |
| **Total** | 104,318 | 11,184,475,288.92 | 100.00 % | 100.00 % |

**31 December 2018**

| | Volume | Principal balance (£) | % by volume | % by balance |
|---|---|---|---|---|
| <1 month | 84,767 | 8,770,173,265.18 | 98.19% | 98.14% |
| 1 to <2 months | 548 | 58,906,715.22 | 0.63% | 0.66% |
| 2 to <3 months | 238 | 25,317,063.76 | 0.28% | 0.28% |
| 3 to <6 months | 319 | 32,685,865.70 | 0.37% | 0.37% |
| 6 to <12 months | 237 | 25,118,618.14 | 0.27% | 0.28% |
| ≥12 months | 222 | 23,974,248.48 | 0.26% | 0.27% |
| **Total** | 86,331 | 8,936,175,776.48 | 100.00% | 100.00% |

## Loans originated in 2014 as at each specified date

| 31 December 2014 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 180,378 | 25,417,258,121.74 | 99.81% | 99.81% |
| 1 to <2 months | 259 | 36,869,055.82 | 0.14% | 0.14% |
| 2 to <3 months | 46 | 5,856,964.19 | 0.03% | 0.02% |
| 3 to <6 months | 41 | 4,883,498.93 | 0.02% | 0.02% |
| 6 to <12 months | 4 | 331,614.70 | 0.00% | 0.00% |
| ≥12 months | 0 | 0.00 | 0.00% | 0.00% |
| **Total** | 180,728 | 25,465,199,255.38 | 100.00 % | 100.00 % |

| 31 December 2015 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 174,392 | 23,903,002,437.13 | 99.51% | 99.54% |
| 1 to <2 months | 459 | 60,845,138.12 | 0.26% | 0.25% |
| 2 to <3 months | 139 | 15,786,695.55 | 0.08% | 0.07% |
| 3 to <6 months | 165 | 24,708,969.66 | 0.09% | 0.10% |
| 6 to <12 months | 73 | 8,427,217.98 | 0.04% | 0.04% |
| ≥12 months | 15 | 1,580,411.12 | 0.01% | 0.01% |
| **Total** | 175,243 | 24,014,350,869.56 | 100.00 % | 100.00 % |

| 31 December 2016 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 137,498 | 17,159,315,439.21 | 99.11% | 99.09% |
| 1 to <2 months | 510 | 64,500,859.87 | 0.37% | 0.37% |
| 2 to <3 months | 196 | 23,767,797.62 | 0.14% | 0.14% |
| 3 to <6 months | 238 | 34,484,145.04 | 0.17% | 0.20% |
| 6 to <12 months | 215 | 25,538,953.25 | 0.15% | 0.15% |
| ≥12 months | 74 | 8,927,017.21 | 0.05% | 0.05% |
| **Total** | 138,731 | 17,316,534,212.20 | 100.00 % | 100.00 % |

| 31 December 2017 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 113,647 | 13,375,362,089.35 | 98.80% | 98.73% |
| 1 to <2 months | 549 | 67,164,215.06 | 0.48% | 0.50% |
| 2 to <3 months | 163 | 19,068,782.59 | 0.14% | 0.14% |
| 3 to <6 months | 292 | 37,751,574.99 | 0.25% | 0.28% |
| 6 to <12 months | 234 | 31,311,897.54 | 0.20% | 0.23% |
| ≥12 months | 147 | 16,594,122.11 | 0.13% | 0.12% |
| **Total** | 115,032 | 13,547,252,681.64 | 100.00 % | 100.00 % |

| 31 December 2018 | | | | |
|---|---|---|---|---|
| | **Volume** | **Principal balance (£)** | **% by volume** | **% by balance** |
| <1 month | 95,572 | 10,771,887,022.78 | 98.50% | 98.39% |
| 1 to <2 months | 544 | 66,982,035.87 | 0.56% | 0.61% |
| 2 to <3 months | 223 | 26,575,269.84 | 0.23% | 0.24% |
| 3 to <6 months | 264 | 32,485,984.03 | 0.27% | 0.30% |
| 6 to <12 months | 216 | 24,263,650.41 | 0.22% | 0.22% |
| ≥12 months | 209 | 25,700,256.93 | 0.22% | 0.23% |
| **Total** | 97,028 | 10,947,894,219.86 | 100.00% | 100.00% |

## Loans originated in 2015 as at each specified date

**31 December 2015**

| | Volume | Principal balance (£) | % by volume | % by balance |
|---|---|---|---|---|
| <1 month | 172,495 | 26,289,888,629.07 | 99.85% | 99.86% |
| 1 to <2 months | 193 | 29,114,742.06 | 0.11% | 0.11% |
| 2 to <3 months | 36 | 4,334,441.73 | 0.02% | 0.02% |
| 3 to <6 months | 20 | 2,362,114.94 | 0.01% | 0.01% |
| 6 to <12 months | 3 | 205,581.89 | 0.00% | 0.00% |
| ≥12 months | 0 | 0.00 | 0.00% | 0.00% |
| **Total** | 172,747 | 26,325,905,509.69 | 100.00% | 100.00% |

**31 December 2016**

| | Volume | Principal balance (£) | % by volume | % by balance |
|---|---|---|---|---|
| <1 month | 166,597 | 24,672,645,424.13 | 99.56% | 99.58% |
| 1 to <2 months | 386 | 54,639,652.23 | 0.23% | 0.22% |
| 2 to <3 months | 125 | 18,413,960.30 | 0.07% | 0.07% |
| 3 to <6 months | 141 | 19,035,557.62 | 0.08% | 0.08% |
| 6 to <12 months | 69 | 9,635,400.97 | 0.04% | 0.04% |
| ≥12 months | 13 | 1,614,949.27 | 0.01% | 0.01% |
| **Total** | 167,331 | 24,775,984,944.52 | 100.00 % | 100.00 % |

**31 December 2017**

| | Volume | Principal balance (£) | % by volume | % by balance |
|---|---|---|---|---|
| <1 month | 130,406 | 18,161,016,252.71 | 99.26% | 99.28% |
| 1 to <2 months | 462 | 63,962,938.18 | 0.35% | 0.35% |
| 2 to <3 months | 131 | 17,228,018.35 | 0.10% | 0.09% |
| 3 to <6 months | 190 | 25,656,509.53 | 0.14% | 0.14% |
| 6 to <12 months | 135 | 18,043,153.16 | 0.10% | 0.10% |
| ≥12 months | 55 | 7,230,160.44 | 0.04% | 0.04% |
| **Total** | 131,379 | 18,293,137,032.37 | 100.00 % | 100.00 % |

**31 December 2018**

| | Volume | Principal balance (£) | % by volume | % by balance |
|---|---|---|---|---|
| <1 month | 112,540 | 15,118,793,375.65 | 98.98% | 99.01% |
| 1 to <2 months | 492 | 64,715,761.13 | 0.43% | 0.42% |
| 2 to <3 months | 169 | 20,241,382.66 | 0.15% | 0.13% |
| 3 to <6 months | 239 | 31,110,353.99 | 0.21% | 0.20% |
| 6 to <12 months | 145 | 19,791,263.96 | 0.13% | 0.13% |
| ≥12 months | 115 | 15,630,256.79 | 0.10% | 0.10% |
| **Total** | 113,700 | 15,270,282,394.18 | 100.00% | 100.00% |

## Loans originated in 2016 as at each specified date

| | 31 December 2016 | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 162,585 | 26,951,658,241.17 | 99.88% | 99.87% | 156,858 | 25,285,911,849.75 | 99.60% | 99.61% |
| 1 to <2 months | 161 | 28,089,826.16 | 0.10% | 0.10% | 345 | 57,105,398.34 | 0.22% | 0.22% |
| 2 to <3 months | 25 | 3,681,436.97 | 0.02% | 0.01% | 117 | 16,475,984.96 | 0.07% | 0.06% |
| 3 to <6 months | 16 | 2,858,275.89 | 0.01% | 0.01% | 117 | 18,799,606.04 | 0.07% | 0.07% |
| 6 to <12 months | 1 | 189,476.26 | 0.00% | 0.00% | 50 | 6,429,661.49 | 0.03% | 0.03% |
| ≥12 months | 0 | 0.00 | 0.00% | 0.00% | 5 | 458,489.89 | 0.00% | 0.00% |
| **Total** | 162,788 | 26,986,477,256.45 | 100.00 % | 100.00 % | 157,492 | 25,385,180,990.47 | 100.00 % | 100.00 % |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 119,192 | 17,836,586,411.66 | 99.19% | 99.20% |
| 1 to <2 months | 480 | 69,056,870.94 | 0.40% | 0.38% |
| 2 to <3 months | 152 | 23,486,433.46 | 0.13% | 0.13% |
| 3 to <6 months | 197 | 29,614,274.36 | 0.16% | 0.16% |
| 6 to <12 months | 110 | 16,865,704.63 | 0.09% | 0.09% |
| ≥12 months | 32 | 4,028,061.51 | 0.03% | 0.02% |
| **Total** | 120,163 | 17,979,637,756.56 | 100.00% | 100.00% |

## Loans originated in 2017 as at each specified date

| 31 December 2017 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 168,029 | 29,020,452,208.80 | 99.86% | 99.86% |
| 1 to <2 months | 173 | 32,180,648.21 | 0.10% | 0.11% |
| 2 to <3 months | 28 | 5,135,143.32 | 0.02% | 0.02% |
| 3 to <6 months | 24 | 3,931,359.42 | 0.01% | 0.01% |
| 6 to <12 months | 4 | 424,517.16 | 0.00% | 0.00% |
| ≥12 months | 0 | 0.00 | 0.00% | 0.00% |
| **Total** | 168,258 | 29,062,123,876.91 | 100.00% | 100.00% |

| 31 December 2018 | | | | |
|---|---|---|---|---|
| | Volume | Principal balance (£) | % by volume | % by balance |
| <1 month | 162,449 | 27,300,243,396.16 | 99.61% | 99.63% |
| 1 to <2 months | 354 | 57,476,421.24 | 0.22% | 0.21% |
| 2 to <3 months | 118 | 18,126,232.15 | 0.07% | 0.07% |
| 3 to <6 months | 120 | 18,392,115.16 | 0.07% | 0.07% |
| 6 to <12 months | 42 | 5,541,237.79 | 0.03% | 0.02% |
| ≥12 months | 7 | 871,273.48 | 0.00% | 0.00% |
| **Total** | 163,090 | 27,400,650,675.98 | 100.00% | 100.00% |

**Loans originated in 2018 as at each specified date**

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | **Volume** | **Principal balance (£)** | **% by volume** | **% by balance** |
| <1 month | 166,063 | 30,344,690,906.80 | 99.86% | 99.87% |
| 1 to <2 months | 190 | 34,044,104.42 | 0.11% | 0.11% |
| 2 to <3 months | 25 | 3,943,651.14 | 0.02% | 0.01% |
| 3 to <6 months | 15 | 2,451,716.91 | 0.01% | 0.01% |
| 6 to <12 months | 1 | 62,219.67 | 0.00% | 0.00% |
| ≥12 months | 0 | 0.00 | 0.00% | 0.00% |
| **Total** | 166,294 | 30,385,192,598.94 | 100.00% | 100.00% |

Signed on behalf of the issuing entity:

By:

_____

*Duly authorised*

[**END OF FINAL TERMS**]

## United Kingdom taxation

*The following is a summary of the issuing entity's understanding of current United Kingdom law and published HM Revenue and Customs (**HMRC**) practice relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of notes. The United Kingdom tax treatment of prospective noteholders depends on their individual circumstances and may be subject to change in the future. Prospective noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.*

Payments of interest on the notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the notes carry a right to interest and 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. Notes 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 VI of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the notes carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the notes will be payable without withholding or deduction on account of United Kingdom tax.

Payments of interest on the notes may also be made without deduction of or withholding on account of United Kingdom tax where the maturity of the notes is less than 365 days and those notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to any available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a noteholder, HMRC can issue a notice to the issuing entity 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 States federal income taxation

### General

The following section discusses the material US federal income tax consequences of the purchase, ownership and disposition of the Rule 144A notes, subject to the qualifications set forth in the applicable final terms or drawdown prospectus. In general, the discussion assumes that a holder acquires the Rule 144A notes at original issuance and holds such notes as capital assets. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Rule 144A notes. In particular, it does not discuss special tax considerations that may apply to certain types of taxpayers, including, without limitation, the following: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, notional principal contracts or currencies; (iv) tax-exempt entities; (v) regulated investment companies; (vi) mutual funds or real estate investment trusts; (vii) persons that will hold the Rule 144A notes as part of a "hedging" or "conversion" transaction or as a position in a "straddle" for US federal income tax purposes; (viii) persons that own (or are deemed to own) 10 per cent. or more of the equity of the issuing entity (by vote or value); (ix) partnerships, pass-through entities or persons who hold Rule 144A notes through partnerships or other pass-through entities treated as a partnership for U.S. federal income tax purposes; (x) United States holders (as defined below) that have a "functional currency" other than the US dollar; and (xi) certain US expatriates and former long-term residents of the United States. This discussion does not address alternative minimum tax or net investment income tax considerations, special tax accounting rules as a result of any item of gross income with respect to the Notes being taken into account on an applicable financial statement, or the indirect effects on the holders of equity interests in a holder of Rule 144A notes, nor does it describe any tax consequences arising under the laws of any taxing jurisdiction other than the US federal government.

This discussion is based on the US Internal Revenue Code of 1986, as amended (the **Code**), US Treasury regulations and judicial and administrative interpretations thereof, in each case as in effect or available on the date hereof. All of the foregoing are subject to change, and any change may apply retroactively and could affect the tax consequences described below.

As described below, upon issuance of the Rule 144A notes, Allen & Overy LLP, US federal income tax advisers to the issuing entity (**US tax counsel**), will deliver an opinion that the mortgages trustee acting as trustee of the mortgages trust, Funding 2 and the issuing entity will not be subject to US federal income tax as a result of their contemplated activities. As described further under "**– Characterisation of the Rule 144A notes**" below, unless otherwise indicated in the accompanying final terms or drawdown prospectus, upon the issuance of the Rule 144A notes US tax counsel will deliver an opinion that, although there is no authority on the treatment of instruments substantially similar to the Rule 144A notes, the class A Rule 144A notes, the class B Rule 144A notes and the class M Rule 144A notes, when issued, will be treated as debt for US federal income tax purposes and the class C Rule 144A notes, when issued, should be treated as debt for US federal income tax purposes. Unless otherwise specified in the applicable final terms or drawdown prospectus, the class D Rule 144A notes will not be treated as debt for US federal income tax purposes.

An opinion of US tax counsel is not binding on the US Internal Revenue Service (the **IRS**) or the courts, no rulings will be sought from the IRS on any of the issues discussed in this section, and there can be no assurance that the IRS or courts will agree with the conclusions expressed herein. **Accordingly, investors are encouraged to consult their own tax advisers as to the US federal income tax consequences to the investor of the purchase, ownership and disposition of the Rule 144A notes, including the possible application of state, local, non-US or other tax laws, and other US tax issues affecting the transaction**.

As used in this section, the term **United States holder** means a beneficial owner of Rule 144A notes that is for US federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or political subdivision thereof (including the District of Columbia); (iii) any estate the income of which is subject to US federal income tax regardless of the source of its income; or (iv) any trust (A)(x) that validly elects to be treated as a US person or (y) if a court within the United States is able to exercise primary supervision over the administration of the trust and (B) one or more US persons have the authority to control all substantial decisions of the trust. A **non-United States holder** is a beneficial owner of Rule 144A notes that is not a United States holder. If an entity treated as a partnership for U.S. federal income tax purposes holds Rule 144A notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership.

Partnerships and partners of partnerships holding Rule 144A notes are encouraged to consult their own tax advisers regarding the personal tax consequences to them.

**Tax status of the issuing entity, Funding 2, mortgages trustee and mortgages trust**

Under the transaction documents, each of the issuing entity, Funding 2 and the mortgages trustee acting in its capacity as trustee of the mortgages trust covenants not to engage in any activities in the United States (directly or through agents), not to derive any income from sources within the United States as determined under US federal income tax principles, and not to hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States as determined under US federal income tax principles. Upon issuance of the notes, US tax counsel will deliver an opinion that, assuming compliance with the transaction documents, none of the issuing entity, Funding 2 or the mortgages trustee acting in its capacity as trustee of the mortgages trust will be subject to US federal income tax. See "**United States federal income taxation – General**" for further information regarding this opinion. No election will be made to treat the issuing entity, Funding 2 or the mortgages trustee or any of their assets as a REMIC (a type of securitisation vehicle having a special tax status under the Code).

**Characterisation of the Rule 144A notes**

Although there is no authority regarding the treatment of instruments that are substantially similar to the Rule 144A notes, unless otherwise indicated in the applicable final terms or drawdown prospectus, upon issuance of the notes, US tax counsel will deliver an opinion that the class A Rule 144A notes, the class B Rule 144A notes and the class M Rule 144A notes, when issued, will be treated as debt for US federal income tax purposes and the class C Rule 144A notes, when issued, should be treated as debt for US federal income tax purposes (see "**United States federal income taxation – Alternative characterisation of the Rule 144A notes**" below and see "**United States federal income taxation – General**" above for further information regarding this opinion). Unless otherwise specified in the applicable final terms or drawdown prospectus, the class D Rule 144A notes will not be treated as debt for US federal income tax purposes. The issuing entity intends to treat the Rule 144A notes (other than notes that will not be treated as debt for US federal income tax purposes as indicated in the accompanying final terms or drawdown prospectus) as indebtedness of the issuing entity for all purposes, including US tax purposes.

The Rule 144A notes will not be qualifying real property loans in the hands of domestic savings and loan associations, real estate investment trusts, or REMICs under sections 7701(a)(19)(C), 856(c) or 860G(a)(3) of the Code, respectively.

For purposes of the discussion below, the term **Rule 144A notes** excludes notes that will not be treated as debt for US Federal income tax purposes as indicated in the applicable final terms or drawdown prospectus.

**Taxation of United States holders of the Rule 144A notes**

*Qualified stated interest and original issue discount*

The issuing entity intends to treat interest on the Rule 144A notes as "**qualified stated interest**" under US Treasury regulations relating to original issue discount (hereafter the **OID regulations**). As a consequence, discount on the Rule 144A notes arising from an issuance at less than par will only be required to be accrued under the OID regulations if such discount equals or exceeds a statutorily defined *de minimis* amount. Qualified stated interest, which generally must be unconditionally payable at least annually, is taxed under a holder's normal method of accounting as ordinary interest income. *De minimis* original issue discount (**OID**) is included in income on a *pro rata* basis as principal payments are made on the Rule 144A notes.

If a qualified stated interest payment is denominated in, or determined by reference to, a currency other than the U.S. dollar (a "**foreign currency**"), the amount of income recognised by a cash basis United States holder will be the US dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into US dollars.

An accrual basis United States holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, with respect to an accrual period that spans two taxable years of a United States holder, the part of the period within the taxable year).

Under the second method, the United States holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period

within the taxable year. Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period or taxable year, an electing accrual basis United States holder may instead translate the accrued interest into US dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the United States holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the United States holder, and will be irrevocable without the consent of the IRS.

Upon receipt of the interest payment (including a payment attributable to accrued but unpaid interest upon the sale or other disposition of a Rule 144A note) denominated in, or determined by reference to, a foreign currency, the United States holder will recognise US source exchange gain or loss (taxable as ordinary income or loss) equal to the difference, if any, between the amount received (translated into US dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into US dollars.

A Rule 144A note, other than a Rule 144A note with a term of one year or less, will be treated as issued with OID if the excess of the Rule 144A note's "stated redemption price at maturity" over its issue price is equal to or more than a *de minimis* amount, which is defined as 0.25 per cent. of the Rule 144A note's stated redemption price at maturity multiplied by the number of complete years to its maturity). A Note that provides for the payment of amounts other than qualified stated interest before maturity (an "**instalment obligation**") will be treated as issued with OID if the excess of the Note's stated redemption price at maturity over its issue price is equal to or greater than 0.25 per cent. of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Notes stated redemption price at maturity. Generally, the issue price of a Rule 144A note will be the first price at which a substantial amount of Rule 144A notes included in the issue of which the Rule 144A note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Rule 144A note is the total of all payments provided by the Rule 144A note that are not "payments of "qualified stated interest". Solely for the purposes of determining whether a Rule 144A note has OID, the issuing entity will be deemed to exercise any call option that has the effect of decreasing the yield on the Rule 144A note, and the United States holder will be deemed to exercise any put option that has the effect of increasing the yield on the Rule 144A note.

It is possible that interest on the Rule 144A notes that are class B notes, class M notes or class C notes could be treated as OID (and not "qualified stated interest") because such interest is subject to deferral in certain limited circumstances.

A United States holder of a Rule 144A note issued with OID must include OID in income over the term of such Rule 144A note under a constant yield method that takes into account the compounding of interest. The amount of OID includible in income by a United States holder of a note issued with OID is the sum of the daily portions of OID with respect to the note for each day during the taxable year or portion of the taxable year in which the United States holder holds the note. The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a note issued with OID may be of any length selected by the United States holder and may vary in length over the term of the note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the period of the note's adjusted issue price at the beginning of the accrual period and the note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the note allocable to the accrual period. The "adjusted issue price" of a note at the beginning of any accrual period is the issue price of the note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the note that were not qualified stated interest payments.

Under the Code, OID is calculated and accrued using prepayment assumptions where payments on a debt instrument may be accelerated by reason of prepayments of other obligations securing such debt instrument. Moreover, the legislative history to the provisions provides that the same prepayment assumptions used to price a debt instrument be used to calculate OID, as well as to accrue market discount and amortise premium. Here, prepayment of the loans is not expected to alter the scheduled principal payments on the Rule 144A notes that are class B notes, class M notes or class C notes (or, if treated as debt for US federal income tax purposes, class D notes) and accordingly, the issuing entity intends to assume that such Rule 144A notes will have their principal repaid according to the schedule for purposes of accruing any OID. No

representation is made that the loans will pay on the basis of such prepayment assumption or in accordance with any other prepayment scenario.

Rule 144A notes with a term of one year or less (**short-term obligations**) will be treated as having been issued with OID. In general, United States holders who report income for US federal income tax purposes under the accrual method are required to accrue OID on short-term obligations on a straight-line basis unless an election is made to accrue the OID under a constant yield method (based on daily compounding). A United States holder who is an individual or other cash method holder is not required to accrue such OID unless such holder elects to do so (but may be required to include any stated interest in income as the interest is received). If such an election is not made, any gain recognised by such holder on the sale, exchange or maturity of such short-term obligations will be ordinary income to the extent of the holder's rateable share of OID accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of the sale, exchange or maturity. United States holders who are not required and do not elect to accrue OID on short-term obligations will be required to defer deductions for interest on borrowings allocable to short-term obligations in an amount not exceeding the deferred income until the deferred income is realised upon exchange or maturity.

As an alternative to the above treatments, United States holders may elect to include in gross income all interest with respect to the Rule 144A notes, including stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortisable bond premium or acquisition premium, using the constant yield method described above. This election generally will apply only to the Rule 144A note with respect to which it is made and may not be revoked without the consent of the IRS.

Interest income on the Rule 144A notes will be treated as foreign source income for US federal income tax purposes, which may be relevant in calculating a United States holder's foreign tax credit limitation for US federal income tax purposes. The limitation on foreign taxes eligible for the US foreign tax credit is calculated separately with respect to specific classes of income. The foreign tax credit rules are complex, and United States holders are encouraged to consult their own tax advisers regarding the availability of a foreign tax credit and the application of the limitation in their particular circumstances.

OID for any accrual period on a Rule 144A note that is denominated in, or determined by reference to, a foreign currency will be determined in the foreign currency and then translated into US dollars in the same manner as stated interest accrued by an accrual basis United States holder, as described above under "Qualified stated interest and original issue discount". Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or other disposition of a Rule 144A note), a United States holder will generally recognise exchange gain or loss, which will be ordinary gain or loss measured by the difference between the amount received (translated into US dollars at the exchange rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into US dollars.

*Sales and retirement*

In general, a United States holder of a Rule 144A note will have an adjusted tax basis in such note equal to the cost of such note to such holder, increased by the amount of any OID included in the United States holder's income with respect to such note and reduced by any payments thereon other than payments of qualified stated interest. Upon a sale or exchange of the Rule 144A note, a United States holder will generally recognise gain or loss equal to the difference between the amount realised (less any accrued interest, which would be taxable as such) and the holder's tax basis in the Rule 144A note. Any gain or loss recognised by a United States holder will generally be US source gain or loss for foreign tax credit limitation purposes.

Except to the extent described above under "*—Qualified stated interest and original issue discount*" relating to short-term obligations or attributable to changes in exchange rates (described below), such gain or loss will be capital gain or loss. Capital gains of non-corporate United States holders derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of net capital losses is subject to limitations.

A United States holder's adjusted tax basis in a Rule 144A note denominated in, or determined by reference to, a foreign currency will be determined by reference to the US dollar cost of the Rule 144A notes. The US dollar cost of a Rule 144A note purchased with a foreign currency will generally be the US dollar value of the purchase price on the date of purchase or, in the case of Rule 144A notes traded on an established securities market, as defined in the applicable US Treasury regulations, that are purchased by a cash basis United States holder (or an accrual basis United States holder that so elects), on the settlement date for the purchase. The amount realised on a sale or retirement of a Rule 144A note for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement or, in the case of Rule 144A notes

traded on an established securities market, as defined in the applicable U.S. Treasury Regulations, that are purchased by a cash basis United States holder (or an accrual basis United States holder that so elects), on the settlement date of the sale.

A United States holder will recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Rule 144A note equal to the difference, if any, between the U.S. dollar values of the United States holder's purchase price for the Rule 144A note (i) on the date of sale or retirement and (ii) the date on which the United States holder acquired the Rule 144A note. Any such exchange gain or loss (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest) will be realised only to the extent of total gain or loss realised on the sale or retirement.

**Taxation of non-United States holders of the Rule 144A notes**

Subject to the FATCA and backup withholding rules discussed below, a non-United States holder generally should not be subject to US federal income or withholding tax on any payments on a Rule 144A note and gain from the sale, redemption or other disposition of a Rule 144A note unless: (i) that payment and/or gain is effectively connected with the conduct by that non-United States holder of a trade or business in the United States; (ii) in the case of any gain realised on the sale or exchange of an offered note by an individual non-United States holder, that holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the non-United States holder is subject to tax pursuant to provisions of the Code applicable to certain expatriates. **Non-United States holders are encouraged to consult their own tax advisers regarding the US federal income and other tax consequences to them of owning Rule 144A notes**.

**Alternative characterisation of the Rule 144A notes**

The proper characterisation of the arrangement involving the issuing entity and the holders of the Rule 144A notes is not clear because there is no authority on transactions comparable to that contemplated herein. The issuing entity intends to treat the Rule 144A notes (other than notes that will not be treated as debt for US federal income tax purposes as indicated in the accompanying final terms or drawdown prospectus) as debt for all US federal income tax purposes. Prospective investors are encouraged to consult their own tax advisers regarding the personal tax consequences with respect to the potential impact of an alternative characterisation of the Rule 144A notes for US federal income tax purposes.

One possible alternative characterisation is that the IRS could assert that the class C Rule 144A notes or any other class of Rule 144A notes should be treated as equity in the issuing entity for US federal income tax purposes because the issuing entity may not have substantial equity. If the class C Rule 144A notes or any other class of notes were treated as equity, United States holders of such Rule 144A notes would be treated as owning equity in a passive foreign investment company (**PFIC**) which, depending on the level of ownership of such United States holders and certain other factors, might also constitute an interest in a controlled foreign corporation (**CFC**) for such United States holder. A Rule 144A note that is treated as an equity interest in a PFIC or CFC rather than a debt instrument for US federal income tax purposes would have certain timing and character consequences to a United States holder and could require certain elections and disclosures that would need to be made shortly after acquisition to mitigate potentially adverse US tax consequences. A United States holder of such a Rule 144A note may also be required to file certain information with the IRS.

If a United States holder were treated as owning an equity interest in a PFIC, unless a United States holder makes a **QEF election** or **mark to market election**, a United States holder will be subject to a special tax regime (i) in respect of gains realised on the sale or other disposition of the relevant notes, and (ii) in respect of distributions on the relevant notes held for more than one taxable year to the extent those distributions constitute "**excess distributions**". Although not free from doubt, the PFIC rules should not apply to gain realised in respect of any notes disposed of during the same taxable year in which such notes are acquired. An excess distribution generally includes dividends or other distributions received from a PFIC in any taxable year to the extent the amount of such distributions exceeds 125 per cent. of the average distributions for the three preceding years (or, if shorter, the investor's holding period). For Rule 144A notes that pay interest at a floating rate, it is possible that a United States holder will receive "**excess distributions**" as a result of fluctuations in the rate of USD-LIBOR over the term of Rule 144A notes. In general, under the PFIC rules, a United States holder will be required to allocate such excess distributions and any gain realised on a sale of its notes to each day during the United States holder's holding period for the Rule 144A notes, and such distribution or gain will be taxable at the highest rate of taxation applicable to the notes for the year to which the excess distribution or gain is allocable (without regard to the United States holder's other items of income and loss for such taxable year) (the **deferred tax**). The deferred tax (other than the tax on amounts allocable to the year of disposition or receipt of the distribution) will then be increased by an interest charge computed by reference to the rate generally applicable to underpayments of tax (which interest charge generally will be a

non-deductible interest expense for individual taxpayers). The issuing entity does not intend to provide information that would enable a holder of a note to make a QEF election, and the mark to market election will only be available during any period in which the notes are traded on a qualifying exchange or market and certain other trading requirements are met. The issuing entity encourages persons considering the purchase or ownership of 10 per cent., or more of any class of Rule 144A notes (or combination of classes) that is treated as equity for US federal income tax purposes to consult their own tax advisors regarding the US federal income tax consequences resulting from such an acquisition under the special rules applicable to CFCs under the Code.

**Backup withholding and information reporting**

Backup withholding and information reporting requirements may apply to certain payments on the Rule 144A notes and proceeds of the sale or redemption of the Rule 144A notes to United States holders. The issuing entity, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the United States holder fails to furnish the United States holder's taxpayer identification number (usually on IRS Form W-9), to certify that such United States holder is not subject to backup withholding, or to otherwise comply with the applicable requirements of the backup withholding rules. Certain United States holders are not subject to the backup withholding and information reporting requirements. Non-United States holders may be required to comply with applicable certification procedures (usually on IRS Form W-8BEN or IRS Form W-8BEN-E) to establish that they are not United States holders in order to avoid the application of such information reporting requirements and backup withholding.

Payments of principal or interest made to or through a non-U.S. office of a custodian, nominee or other agent acting on behalf of a beneficial owner of a Rule 144A note generally will not be subject to backup withholding. However, if such custodian, nominee or other agent is (i) a United States person (as defined in section 7701(a)(30) of the Code), (ii) a CFC, (iii) a foreign person 50 per cent. or more of whose gross income is effectively connected with a US trade or business for a specified three-year period, or (iv) a foreign partnership if (A) at any time during its tax year, one or more of its partners are United States persons (as defined in applicable Treasury regulations) who in the aggregate hold more than 50 per cent. of the income or capital interest in the partnership or (B) at any time during its taxable year, it is engaged in a US trade or business (each of (i) through (iv), a **US connected holder**), such custodian, nominee or other agent may be subject to certain information reporting requirements with respect to such payment unless it has in its records documentary evidence that the beneficial owner is not a United States holder and certain conditions are met or the beneficial owner otherwise establishes an exemption. Principal and interest paid by the US office of a custodian, nominee or agent will be subject to both backup withholding and information reporting unless the beneficial owner certifies its non-US status under penalties of perjury or otherwise establishes an exemption. Payments of proceeds on the sale of a note made to or through a foreign office of a broker will not be subject to backup withholding. However, if such broker is a US connected holder, information reporting will be required unless the broker has in its records documentary evidence that the beneficial owner is not a United States holder and certain conditions are met or the beneficial owner otherwise establishes an exemption. Payments of proceeds on the sale of a note made to or through the US office of a broker will be subject to backup withholding and information reporting unless the beneficial owner certifies, under penalties of perjury, that it is not a United States holder or otherwise establishes an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the United States holder's US federal income tax liability, provided that the required information is furnished to the IRS. **Holders of Rule 144A notes are encouraged to consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption**.

**Base Rate Modification**

The issuing entity may in certain circumstances modify the base rate that applies to the issuing entity notes to change the relevant reference rate to an alternative base rate (such change a Base Rate Modification). It is possible that a Base Rate Modification will be treated as a deemed exchange of old issuing entity notes for new issuing entity notes, which may be taxable to United States holders. United States holders should consult with their own tax advisers regarding the potential consequences of a Base Rate Modification.

**Foreign financial asset reporting**

U.S. taxpayers that own certain foreign financial assets, including debt of non-U.S. entities, that meet certain U.S. dollar value thresholds may be required to file an information report with respect to such assets with their tax returns. The Rule 144A notes are expected to constitute foreign financial assets subject to these

requirements unless the Rule 144A notes are held in an account at a financial institution (in which case the amount may be reportable if maintained by a non-U.S. financial institution). United States holders should consult with tax advisers regarding the application of the rules relating to foreign financial asset reporting.

**IRS disclosure reporting requirements**

US Treasury Regulations (the **disclosure regulations** ) meant to require the reporting of certain tax shelter transactions (**reportable transaction**) could be interpreted to cover transactions generally not regarded as tax shelters. Under the disclosure regulations it may be possible that certain transactions with respect to the Rule 144A notes may be characterised as reportable transactions requiring a United States holder to disclose such transactions, such as sales, exchanges, retirements or other taxable dispositions of Rule 144A notes that result in losses that exceed certain thresholds and other specified conditions are met.

**Investors are encouraged to consult with their own tax advisers to determine the tax return obligations, if any with respect to an investment in the Rule 144A notes, including any requirement to file IRS Form 8886 (Reportable Transaction Statement**).

## Foreign Account Tax Compliance Act

Pursuant to certain provisions of the Code, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The issuing entity may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the notes, such withholding would not apply prior to two years after the date on which final regulations defining "foreign passthru payments" are published in the U.S. Federal Register, and notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are published in the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the notes, no person will be required to pay additional amounts as a result of the withholding. If FATCA withholding is required, the provisions of Condition 5.5 (**Optional Redemption for Tax and other Reasons**) may apply and the issuing entity may redeem the notes as more fully set out in Condition 5.5.

## ERISA considerations

Except as noted below, the Rule 144A notes are eligible for purchase by employee benefit plans and other plans subject to the US Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and/or the provisions of section 4975 of the Code and by governmental, church and non-US plans that are subject to any US or non-US federal, state or local law or regulation that is substantially similar to the provisions of section 406 of ERISA or section 4975 of the Code, subject to consideration of the issues described in this section. ERISA imposes certain requirements on **employee benefit plans** (as defined in section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, **ERISA Plans**) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under "**Risk factors**" above and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the Rule 144A notes.

Section 406 of ERISA and section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and certain persons (referred to as **parties in interest** or **disqualified persons**) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The seller, the issuing entity, the servicer, the mortgages trustee, Funding 2 or any other party to the transactions contemplated by the transaction documents may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of section 406 of ERISA or section 4975 of the Code may arise if any of the Rule 144A notes is acquired or held by a Plan with respect to which the issuing entity, the servicer, the mortgages trustee, Funding 2 or any other party to such transactions is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of section 406 of ERISA and section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any such notes and the circumstances under which such decision is made. Included among these exemptions are section 408(b)(17) of ERISA and section 4975(d)(20) of the Code (relating to certain transactions between a plan and a non-fiduciary service provider), Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). Prospective investors should consult with their advisors regarding these statutory or class exemptions. There can be no assurance that any of these statutory or class exemptions or any other exemption will be available with respect to any particular transaction involving any such notes.

Non-US plans (as described in section 4(b)(4) of ERISA), governmental plans (as defined in section 3(32) of ERISA) and certain church plans (as defined in section 3(33) of ERISA), while not subject to the prohibited transaction provisions of section 406 of ERISA or section 4975 of the Code, may nevertheless be subject to US or non-US federal, state or local laws or regulations that are substantially similar to the foregoing provisions of ERISA and the Code (**similar laws**).

Each purchaser and subsequent transferee of any Rule 144A note excluding the class C notes (unless otherwise indicated in the applicable final terms or drawdown prospectus) and the class D notes will be deemed by such purchase or acquisition of any such note (or any interest therein) to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such note (or any interest therein) through and including the date on which the purchaser or transferee disposes of such note (or any interest therein), either that (A) it is not and will not be, and will not be acting on behalf of, or using the assets of, a Plan or an entity whose underlying assets include the assets of any Plan or a governmental, church or non-US plan which is subject to any similar laws or (B) its acquisition, holding and disposition of such note (or any interest therein) will not constitute or result in a prohibited transaction under section 406 of ERISA or section 4975 of the Code for which an exemption is not available (or, in the case of a governmental, church or non-US plan, a violation of any similar laws).

Reg S notes may not be purchased or held by any Benefit Plan Investor (as defined below). Accordingly, each purchaser and subsequent transferee of any Reg S note or of any Rule 144A note that is not an ERISA-eligible note will be deemed by such purchase or acquisition of any such (or any interest therein) note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such note (or any interest therein) through and including the date on which the purchaser or transferee disposes of such note(or any interest therein), that (A) it is not and will not be, and will not be acting on behalf of, or using the assets of, a Benefit Plan Investor and (B) it is not a governmental, church or non-U.S. plan subject to any similar laws unless its acquisition, holding and disposition of such note (or any interest therein) will not constitute or result in a violation of any similar laws.

In addition, the US Department of Labor has promulgated a regulation, 29 C.F.R. Section 2510.3-101, as modified by section 3(42) of ERISA (the **Plan Asset Regulation**), describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA, section 406 of ERISA and section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an equity interest of an entity that is neither a publicly-offered security nor a security issued by an investment company registered under the United States Investment Company Act of 1940, as amended, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless one of the exceptions to such treatment described in the Plan Asset Regulation applies. Under the Plan Asset Regulation, a security which is in debt form may be considered an equity interest if it has substantial equity features. If the issuing entity were deemed under the Plan Asset Regulation to hold plan assets by reason of a Plan's investment in any of the Rule 144A notes, such plan assets would include an undivided interest in the assets held by the issuing entity and transactions by the issuing entity would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and section 4975 of the Code. The Plan Asset Regulation provides, however, that if equity participation in any entity by **Benefit Plan Investors** is not significant, then the “look-through” rule will not apply to such entity. The term “Benefit Plan Investors” is defined in section 3(42) of ERISA to include (1) any employee benefit plan (as defined in section 3(3) of ERISA), subject to Title I of ERISA, (2) any plan described in section 4975(e)(1) of the Code and subject to section 4975 of the Code, and (3) any entity whose underlying assets include “plan assets” by reason of any such employee benefit plan or plan's investment in the entity. Equity participation by Benefit Plan Investors in any entity is significant if, immediately after the most recent acquisition of any equity interest in the entity, 25% or more of the total value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, as discussed below) are held by Benefit Plan Investors. The look-through rule will not apply to the underlying assets of the issuing entity if less than 25% of the total value of each class of its equity interests are held by Benefit Plan Investors. Several rules apply in calculating this percentage under the Plan Asset Regulation. First, a proportionate rule applies to investments by one entity in another entity. Under this rule, if 25% or more of the total value of any class of an investor's equity interests are held by Benefit Plan Investors, only a proportionate amount of its investment counts towards the 25% threshold (but if less than 25% of the total value of each class of an investor's equity interests are held by Benefit Plan Investors, none of the investor's investment counts towards the 25% threshold). Second, an entity must determine whether the 25% threshold has been reached each time an investor acquires an equity interest in the entity. The Department of Labor has taken the position in this regard that a redemption of an equity interest by an investor constitutes the acquisition of an equity interest by the remaining investors (through an increase in their percentage ownership of the remaining equity interests). Third, for this purpose, the value of any equity interests held by a person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of an entity or any person who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such a person, is disregarded.

There is little pertinent authority in this area. Fiduciaries of Plans considering the purchase of notes should consult their counsel in this regard. As noted above, unless otherwise indicated in the applicable final terms or drawdown prospectus, it is expected that the class A notes, the class B notes and the class M notes, when issued, will be treated as debt for US federal income tax purposes and, thus, will not constitute “equity interests” and such Rule 144A notes will be ERISA-eligible. There is less certainty that the class C notes will be treated as debt for U.S. federal income tax purposes and, therefore, unless the applicable final terms or drawdown prospectus provide otherwise, the class C notes will not be ERISA-eligible.

Depending upon whether the class C notes are specified as ERISA-eligible in the applicable final terms or drawdown prospectus, each purchaser and subsequent transferee of any class C notes (or any interest therein) will be deemed by such purchase or acquisition to have represented and warranted, on each day from the date on which the purchaser or transferee acquires the class C notes (or any interest therein) through and including the date on which the purchaser or transferee disposes of such class C notes (or any interest therein),

the same representation and warranty provided above with respect to Rule 144A notes that are ERISA-eligible, or provided below with respect to the class D notes if not ERISA-eligible.

Although issued in the form of debt, the class D notes would likely be considered to have substantial equity features under the Plan Asset Regulation and, accordingly, the class D notes will not be ERISA-eligible and may not be acquired by any Benefit Plan Investor. Each purchaser and subsequent transferee of any class D notes (or any interest therein) will be deemed by such purchase or acquisition to have represented and warranted, on each day from the date on which the purchaser or transferee acquires the class D notes (or any interest therein) through and including the date on which the purchaser or transferee disposes of such class D notes (or any interest therein), that (i) it is not and will not be, and will not be acting on behalf of, or using the assets of, a Benefit Plan Investor and (ii) it is not a governmental, church or non-US plan subject to any similar laws unless its acquisition, holding and disposition of the class D notes (or any interests therein will not constitute or result in a violation of any similar laws.

Any insurance company proposing to purchase any of the Rule 144A notes using the assets of its general account should consider the extent to which such investment would be subject to the requirements of ERISA in light of the US Supreme Court's decision in John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank and under any subsequent guidance that may become available relating to that decision. In particular, such an insurance company should consider the retroactive and prospective exemptive relief granted by the Department of Labor for transactions involving insurance company general accounts in PTCE 95-60, 60 Fed. Reg. 35925 (12 July 1995), the enactment of section 401(c) of ERISA by the Small Business Job Protection Act of 1996 (including, without limitation, the expiration of any relief granted thereunder) and the Insurance Company General Account Regulations, 65 Fed. Reg. No. 3 (5 January 2000) (codified at 29 C.F.R. pt. 2550) that became generally applicable on 5 July 2001.

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the Rule 144A notes should determine whether, under the documents and instruments governing the Plan, an investment in such notes is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio and liquidity needs in view of the Plan's benefit obligations. Any Plan, governmental, church or non-US plan proposing to invest in such notes should consult with its counsel to confirm that such investment will not constitute or result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental, church or non-US plan, any similar laws).

The sale of any Rule 144A notes to a Plan is in no respect a representation by the seller, the issuing entity, the servicer, the mortgages trustee, Funding 2 or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

## United States legal investment considerations

None of the notes will constitute “mortgage related securities” under the United States Secondary Mortgage Market Enhancement Act of 1984, as amended.

No representation is made as to the proper characterisation of the notes for legal investment purposes, financial institutional regulatory purposes, or other purposes, or as to the ability of particular investors to purchase the notes under applicable legal investment restrictions. These uncertainties may adversely affect the liquidity of the notes. Accordingly, all institutions whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult with their legal advisors in determining whether and to what extent the notes constitute legal investments or are subject to investment, capital or other restrictions.

## Legal matters

An opinion with respect to English law regarding the notes, including matters relating to the validity of the issuance of the notes, will be provided to the issuing entity, the note trustee, the arranger and the dealers by Allen & Overy LLP. An opinion with respect to United States law regarding the notes, including matters of United States federal income tax law with respect to the Rule 144A notes, will be provided to the issuing entity, the note trustee, the arranger and the dealers by Allen & Overy LLP.

## Subscription and sale

Lloyds Bank Corporate Markets plc and any other dealers appointed from time to time (together, the **dealers**) in accordance with the programme agreement dated the programme date (as amended from time to time), a subscription agreement in relation to the Reg S notes dated on or about the Closing Date (the **subscription agreement**) or a purchase agreement in relation to the Rule 144A notes dated on or about the Closing Date (the **purchase agreement**) (as applicable) have agreed with the issuing entity a basis upon which such dealers or any of them may from time to time agree to purchase Reg S notes under the subscription agreement or Rule 144A notes under the purchase agreement. The issuing entity may pay the dealers a selling commission and/or a management and underwriting fee from time to time in connection with the sale of any Reg S notes or Rule 144A notes. In the programme agreement (in relation to the Reg S notes) and the purchase agreement (in relation to the Rule 144A notes), the issuing entity has agreed to reimburse and indemnify the dealers for certain of their expenses and liabilities in connection with the issue of the Reg S notes or the Rule 144A notes (as applicable). The dealers are entitled to be released and discharged from their obligations in relation to any agreement to subscribe for or purchase Reg S notes under the subscription agreement or Rule 144A notes under the purchase agreement (as applicable) in certain circumstances prior to the payment to the issuing entity.

### Retail Investor Restriction

Each dealer has represented and agreed, and each further dealer appointed under the subscription agreement or the purchase agreement (as applicable) will be required to represent and agree, that it has not made the notes available, or sold the notes, to a retail investor and that it will not make the notes available, or sell the notes, to a retail investor. The notes are not intended to, and should not, be offered, sold or otherwise made available to any retail investor in the European Economic Area (EEA). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of IMD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by the PRIIPs Regulation for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

### United Kingdom

Each dealer has represented and agreed, and each further dealer appointed under the subscription agreement or the purchase agreement (as applicable) will be required to represent and agree, that:

(a) in relation to any notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the notes would otherwise constitute a contravention of section 19 of the FSMA by the issuing entity;

(b) 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 issuing entity; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

### United States

Each dealer has acknowledged, and each further dealer appointed under the subscription agreement or the purchase agreement (as applicable) will be required to acknowledge, that the Reg S notes and the Rule 144A notes, have not been and will not be registered under the Securities Act, or the securities laws of any state of the United States or any other relevant jurisdiction, and may not be offered or sold, directly or indirectly, within the United States or to, or for the account or benefit of, US persons except, in the case of Reg S notes to non-US persons, in accordance with Regulation S under the Securities Act or, in the case of Rule 144A notes, to QIBs pursuant to Rule 144A, or pursuant to another exemption from the registration requirements of the Securities Act and applicable state securities laws. In addition, the Reg S notes and the

Rule 144A notes cannot be resold in the United States or to US persons unless they are subsequently registered or an exemption from registration is available. Each dealer has agreed, and each further dealer appointed under the subscription agreement will be required to agree, that with respect to the relevant Reg S notes for which it has subscribed it will not offer, sell or deliver the Reg S notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering of the Reg S notes and the relevant closing date (the **distribution compliance period**) within the United States or to, or for the account or benefit of, US persons except in accordance with Regulation S and that it will have sent to each distributor, dealer or person receiving a selling commission, fee or other remuneration that purchases Reg S notes from it during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on offers and sales of the Reg S notes within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The purchase agreement provides that the dealers, through their respective registered U.S. broker-dealer affiliates in the United States, may offer, sell or resell the Rule 144A notes in the United States to QIBs pursuant to Rule 144A. Any dealers appointed under the purchase agreement that are not U.S. registered broker-dealers will agree that they will offer and sell the Rule 144A notes within the United States through U.S. registered broker-dealers.

The Reg S notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. In addition, until the expiration of 40 days after the commencement of the offering of any series and class of notes, an offer or sale of notes within the United States by any dealer, whether or not participating in the offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in compliance with Rule 144A or pursuant to another exemption from the registration requirements under the Securities Act.

This base prospectus has been prepared by the issuing entity for use in connection with the offer and sale of the Rule 144A notes to QIBs in the United States. The issuing entity and the dealers reserve the right to reject any offer to purchase the Rule 144A notes, in whole or in part, for any reason. This base prospectus does not constitute an offer to any person in the United States or to any U.S. person, other than any QIB within the meaning of Rule 144A to whom an offer has been made directly by one of the dealers or its U.S. broker-dealer affiliate. Distribution of this base prospectus to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the issuing entity of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

Each dealer has acknowledged that the Reg S notes and any Rule 144A notes that are not ERISA-eligible notes are not designed for, and may not be purchased or held by, any "Benefit Plan Investor" (as defined in "**ERISA considerations**") and each purchaser of such note will be deemed to have represented, warranted and agreed that it is not and will not be, and will not be acting on behalf of, or using the assets of, such a "Benefit Plan Investor".

**Norway**

Where applicable, each dealer has represented and agreed, and each further dealer appointed under the subscription agreement or purchase agreement (as applicable) will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Kingdom of Norway any notes with a maturity of two years or more if any discount on the issue price of the notes has the effect of giving rise to an effective interest rate equal to or less than 10 per cent. per annum until maturity or until the first interest rate adjustment.

**Republic of Italy**

Unless it is specified within the relevant final terms or drawdown prospectus that a non-exempt offer may be made in Italy, the offering of the notes has not been registered with the Commissione Nazionale per le Società e la Borsa (**CONSOB**) pursuant to Italian securities legislation and, accordingly, notes may not be offered, sold or delivered, nor may copies of this base prospectus or of any other document relating to the notes be distributed in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Italian Financial Services Act**) and Article 34-*ter*, first paragraph, letter (b) of Regulation No. 11971 of 14 May 1999, as amended from time to time (Regulation No. 11971).

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Services Act and Article 34-*ter* of Regulation No. 11971.

Any offer, sale or delivery of the notes or distribution of copies of this base prospectus or any other document relating to the notes in the Republic of Italy under (a) or (b) above must be:

(ii) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Italian Financial Services Act, Regulation No. 16190 of 23 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Italian Banking Act**);

(iii) in compliance with Article 129 of the Italian Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; or

(iv) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

**Sweden**

Where applicable, each dealer has confirmed and agreed, and each further dealer appointed under the subscription agreement or the purchase agreement (as applicable) will be required to confirm and agree, that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy notes or distribute any draft or definite document in relation to any such offer, invitation or sale except in circumstances that will not result in a requirement to prepare a prospectus or an offer to the public pursuant to the provisions of the Swedish Financial Instruments Trading Act (*lag (1991: 980) om handel med finansiella instrument*) as amended or in a requirement for a key information document pursuant to Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26 November on key information documents for packaged retail and insurance-based investment products (**PRIIPs**).

**Hong Kong**

Where applicable, each dealer has represented and agreed, and each further dealer appointed under the subscription agreement or the purchase agreement (as applicable) will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any notes other than (i) to persons whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent), or (ii) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance and any rules made under that Ordinance.

**Japan**

The notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No.25 of 1948, as amended, the **FIEA**). Where applicable, each dealer has represented, warranted and agreed, and each further dealer appointed under the subscription agreement or the purchase agreement (as applicable) will be required to represent, warrant and agree, that it has not offered or sold and will not offer or sell any notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan and as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

**People's Republic of China**

Where applicable, each dealer has represented and agreed, and each further dealer appointed under the subscription agreement or the purchase agreement (as applicable) will be required to represent and agree, that neither it nor any of its affiliates has offered or sold or will offer or sell any of the notes in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the **PRC**) as part of the initial distribution of the notes.

This base prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC to any person to whom it is unlawful to make the offer or solicitation in the PRC.

The issuing entity does not represent that this base prospectus may be lawfully distributed, or that any notes may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the issuing entity which would permit a public offering of any of the notes, or distribution of this document in the PRC. Accordingly, the notes are not being offered or sold within the PRC by means of this base prospectus or any other document. Neither this base prospectus nor any advertisement or other offering material may be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

**Singapore**

This base prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, and the notes will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**). Accordingly, the notes may not be offered or sold or made the subject of an invitation for subscription or purchase, nor may this base prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor pursuant to section 274 of the SFA, (ii) to a relevant person under section 275(1) of the SFA or any person pursuant to section 275(1A) of the SFA and in accordance with the conditions specified in section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities (as defined in section 2 (1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the notes pursuant to an offer under section 275 of the SFA except:

(i) to an institutional investor or to a relevant person a relevant person defined in section 275(2) of the SFA or any person arising from an offer referred to in section 275(1A) or section 276(4)(i)(B) of the SFA; or

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law; or

(iv) pursuant to section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

**General**

Except for the listing of the listed notes during a period of 12 months from the date of this base prospectus on the Official List of the UK Listing Authority and the admission to trading of the listed notes on the London Stock Exchange's Regulated Market, no action is being taken by the issuing entity or the dealers in any jurisdiction which would or is intended to permit a public offering of the notes or the possession, circulation or

distribution of this base prospectus or any other material relating to the issuing entity or the notes in any country or jurisdiction where action for that purpose is required.

This base prospectus does not constitute, and may not be used for the purposes of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised. Accordingly, notes may not be offered or sold, directly or indirectly, and neither this base prospectus nor any other prospectus, form of application, advertisement or other offering material in connection with the notes may be distributed in or from or published in any country or jurisdiction except under circumstances which will result in compliance with applicable laws and regulations of any such country or jurisdiction.

The dealers have represented and agreed, and each dealer appointed under the subscription agreement or the purchase agreement (as applicable) will be required to represent and agree, that they have complied, and will comply, with all applicable securities laws and regulations in force in any jurisdiction in which they purchase, offer, sell or deliver the notes or possess them or distribute this base prospectus or any part thereof, and the issuing entity shall have no responsibility for such activities by the dealers. Furthermore, the dealers, and each dealer appointed under the subscription agreement or the purchase agreement (as applicable), will not directly or indirectly offer, sell or deliver any of the notes or distribute or publish this base prospectus or any prospectus, form of application, offering document, advertisement or other offering material in connection with the notes except under circumstances that will, to the best of their knowledge and belief, result in compliance with all applicable laws and regulations, and all offers, sales and deliveries of the notes by them will be made on the same terms.

Neither the issuing entity nor the dealers represent that the notes may at any time lawfully be sold in compliance with any application, registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assume any responsibility for facilitating such sale.

With regard to the issue of each series and class of notes, the relevant dealers will be required to comply with such other additional or modified restrictions (if any) as the issuing entity and the dealers shall agree.

The dealers will, unless prohibited by applicable law, furnish to each person to whom they offer or sell notes, a copy of this base prospectus (or similar document) as then amended or supplemented or, unless delivery of this base prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The dealers are not authorised to give any information or to make any representation not contained in this base prospectus in connection with the offer and sale of notes to which this base prospectus relates.

This base prospectus may be used by the dealers for offers and sales related to market making transactions in the notes. All or any one of the dealers may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the dealers has any obligation to make a market in the notes, and any market making may be discontinued at any time without notice.

## Transfer restrictions and investor representations

### Offers and sales by the initial purchasers

The Reg S notes and the Rule 144A notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or other jurisdiction, and may not be offered, sold or delivered in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an effective registration statement or in accordance with an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. Accordingly, the Reg S notes and the Rule 144A notes (and any beneficial interests therein) are being offered and sold (i) in the case of the Rule 144A notes, in the United States only to QIBs acting for their own account, or for the account or benefit of one or more QIBS, in reliance on Rule 144A or another exemption from registration under the Securities Act and in accordance with any applicable state or local securities law and (ii) in the case of the Reg S notes, outside the United States to non-U.S. persons pursuant to, and in compliance with, Regulation S and any applicable securities laws in each jurisdiction in which the securities are offered.

On or prior to the end of the distribution compliance period, ownership of interests in a Regulation S global note will be limited to persons who have accounts with Euroclear or Clearstream, Luxembourg, or persons who hold interests through Euroclear or Clearstream, Luxembourg and any sale or transfer of such interests to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A as provided below. Rule 144A global notes held through DTC may be transferred only to another custodian for DTC or DTC's nominee. Rule 144A global notes held through Euroclear and Clearstream, Luxembourg may be transferred only to another common depositary or common safekeeper for Euroclear and Clearstream, Luxembourg.

### Investors' representations and restrictions on resale for Reg S notes and Rule 144A notes

Each purchaser of the Reg S notes and the Rule 144A notes (which term for the purposes of this section will be deemed to include any purchaser of beneficial interests in the notes, including interests represented by a global certificate and book-entry interests) will be deemed to have represented and agreed as follows:

(a) the notes are only being offered in a transaction that does not require registration under the Securities Act and the notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction and accordingly, may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons except in accordance with the restrictions described below;

(b) (A) in the case of the Rule 144A notes it is a QIB and is acquiring such notes for its own account or as a fiduciary or agent for others (which others must also be QIBs) for investment purposes and not for distribution in violation of the Securities Act, and it is able to bear the economic risk of an investment in the notes and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of purchasing the notes and it is aware, and each beneficial owner of the notes has been advised, that the sale of such notes is being made in reliance on Rule 144A; or (B) in the case of the Reg S notes, it is not a U.S person (within the meaning of Regulation S) or an affiliate of the issuing entity or a person acting on behalf of such an affiliate and is acquiring such notes for its own account or as a fiduciary or agent for other non-U.S. persons in an offshore transaction (as defined in Regulation S, an offshore transaction) pursuant to an exemption provided by Regulation S;

(c) it understands that the issuing entity has not been registered under the Investment Company Act;

(d) if such purchaser is a dealer of the type described in paragraph (a)(1)(ii) of Rule 144A, it owns and invests on a discretionary basis not less than $10,000,000 in securities of issuers that are not affiliated with it;

(e) it understands that the Reg S notes and the Rule 144A notes are being offered only in a transaction that does not require registration under the Securities Act and, if it decides to resell or otherwise transfer Rule 144A notes, then it agrees that it will resell or transfer such notes only: (A) so long as such notes are eligible for resale pursuant to Rule 144A, to a person whom the seller reasonably believes is a QIB acquiring the Rule 144A notes for its own account or as a fiduciary or agent for others (which others must also be QIBs) to whom notice is given that the resale or other transfer is being made in reliance on Rule 144A; (B) pursuant to an exemption from registration provided by Rule 144 under the Securities Act (if available); (C) to a non-U.S. person acquiring the notes in an offshore

transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S; (D) pursuant to another available exemption from the registration requirements of the Securities Act; or (E) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any State or other jurisdiction of the United States; provided that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;

(f) each purchaser and subsequent transferee of any Rule 144A note that is an ERISA-eligible note will be deemed by such purchase or acquisition of any such ERISA-eligible note (or any interest therein) to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such ERISA-eligible note (or any interest therein) through and including the date on which the purchaser or transferee disposes of such ERISA-eligible note (or any interest therein), either that (A) it is not and will not be, and will not be acting on behalf of, or using the assets of, a "Benefit Plan Investor" (as defined in "**ERISA considerations**") or a governmental, church or non-US plan which is subject to any non-US or US federal, state or local law or regulation that is substantially similar to the provisions of section 406 of ERISA or section 4975 of the Code or (B) its acquisition, holding and disposition of such ERISA-eligible note (or any interest therein) will not constitute or result in a prohibited transaction under section 406 of ERISA or section 4975 of the Code for which an exemption is not available (or, in the case of a governmental, church or non-US plan, a violation of any such substantially similar non-US or US federal, state or local or regulation); Each purchaser and subsequent transferee of any Reg S note or Rule 144A note that is not ERISA-eligible (or any interest therein) will be deemed by such purchase or acquisition to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such notes (or any interest therein) through and including the date on which the purchaser or transferee disposes of such note (or any interest therein), that (i) it is not and will not be, and will not be acting on behalf of, or using the assets of, a Benefit Plan Investor, and (ii) it is not a governmental, church or non-US plan subject to any non-US or US federal, state or local law or regulation that is substantially similar to the provisions of section 406 of ERISA or section 4975 of the Code unless its acquisition, holding and disposition of such note (or any interest therein) will not constitute or result in a violation of any such substantially similar non-US or US federal, state or local law or regulation;

(g) it understands that the issuing entity, the registrar, the dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Reg S notes or Rule 144A notes for the account of another, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

(h) if purchasing a Rule 144A note, it understands that notes offered in reliance on Rule 144A will be represented by the Rule 144A global notes. Before any interest in the Rule 144A global note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Reg S global note, it will be required to provide a transfer agent with a written certification (in the form provided in the note trust deed) as to compliance with applicable securities laws; and

(i) if purchasing a Reg S note, it understands that the notes offered in reliance on Reg S will be represented by the Reg S global notes. Prior to the expiration of the distribution compliance period, before any interest in the Reg S global note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A global note, it will be required to provide a transfer agent with a written certification (in the form provided in the note trust deed) as to compliance with applicable securities laws.

Reg S global notes sold outside the United States to purchasers that are not U.S. persons in compliance with Regulation S will bear a legend to the following effect:

"THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE ISSUING ENTITY HAS NOT BEEN REGISTERED AND DOES NOT INTEND TO REGISTER AS AN “INVESTMENT COMPANY” UNDER THE

UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED. THIS NOTE IS BEING OFFERED FOR SALE OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.

PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE CLOSING OF THE OFFERING OF THE NOTES, ANY TRANSFER OF THE NOTES MAY ONLY BE MADE: (A) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT (**REGULATION S**) OR (B) TO OR FOR THE ACCOUNT OR BENEFIT OF PERSONS WHO ARE QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**). ANY PURPORTED TRANSFER OF THIS NOTE THAT DOES NOT COMPLY WITH THE FOREGOING REQUIREMENTS SHALL BE NULL AND VOID *AB INITIO.*

THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUING ENTITY AND THE RELEVANT DEALERS THAT IT IS NOT AND WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF, OR USING THE ASSETS OF, ANY EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), ANY OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE (OR ARE DEEMED TO INCLUDE) PLAN ASSETS BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT'S INVESTMENT IN SUCH ENTITY, OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY NON-US OR U.S. FEDERAL, STATE OR LOCAL LAW OR REGULATION THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE UNLESS, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY SUCH SUBSTANTIALLY SIMILAR NON-U.S. OR U.S. FEDERAL, STATE OR LOCAL LAW OR REGULATION."

Set out below is a form of notice which may be used to notify the transferees of the foregoing restrictions on transfer. Such notice will be set out in the form of a legend on each Rule 144A global note. Additional copies of such notice may be obtained from the principal paying agent, the registrar or the transfer agent.

"THE NOTE REPRESENTED HEREBY HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (**THE SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND, MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. THE ISSUING ENTITY HAS NOT BEEN REGISTERED AND DOES NOT INTEND TO REGISTER AS AN “INVESTMENT COMPANY” UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED.

THIS NOTE MAY BE TRANSFERRED ONLY IN INITIAL PRINCIPAL AMOUNTS OF $250,000 AND INTEGRAL MULTIPLES OF $1,000 IN EXCESS THEREOF (OR ITS EQUIVALENT IN ANY OTHER CURRENCY AS AT THE DATE OF ISSUE OF SUCH NOTES).

THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUING ENTITY AND THE DEALERS OF THE OFFERING OF THE NOTES OUTSIDE THE UNITED STATES THAT IT WILL OFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE, ONLY (A) (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, AS DEFINED IN RULE 144A (A **QUALIFIED INSTITUTIONAL BUYER**), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST BE QUALIFIED INSTITUTIONAL BUYERS) TO WHOM NOTICE IS GIVEN THAT

THE RESALE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (3) TO A NON-U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), AND WHO IS NOT ACQUIRING THE NOTE FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON, IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND (B) WITH RESPECT TO THE NOTES SPECIFIED IN THE APPLICABLE FINAL TERMS OR DRAWDOWN PROSPECTUS TO BE ERISA ELIGIBLE, TO A PURCHASER THAT (X) IS NOT AND WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF, OR USING THE ASSETS OF, ANY EMPLOYEE BENEFIT PLAN AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), ANY OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE (OR ARE DEEMED TO INCLUDE) PLAN ASSETS BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT'S INVESTMENT IN SUCH ENTITY (EACH OF THE FOREGOING, A **BENEFIT PLAN INVESTOR**), OR A GOVERNMENTAL, CHURCH OR NON-US PLAN SUBJECT TO NON-U.S. OR U.S. FEDERAL, STATE OR LOCAL LAW OR REGULATION THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (**SIMILAR LAW**) OR (Y) IT IS OR IS ACTING ON BEHALF OF, OR USING THE ASSETS OF A BENEFIT PLAN INVESTOR, OR A GOVERNMENTAL, CHURCH OR NON-US PLAN SUBJECT TO SIMILAR LAW IF AND ONLY IF ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH AN EXEMPTION IS NOT AVAILABLE (OR IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A VIOLATION OF ANY SIMILAR LAW). THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, AGREES FOR THE BENEFIT OF THE ISSUING ENTITY AND THE RELEVANT DEALERS THAT (A) IT IS NOT AND WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF, OR USING THE ASSETS OF ANY BENEFIT PLAN INVESTOR, OR A GOVERNMENTAL, CHURCH OR NON-US PLAN WHICH IS SUBJECT TO ANY SIMILAR LAW OR (B) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH AN EXEMPTION IS NOT AVAILABLE (OR WITH RESPECT TO A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A VIOLATION OF ANY SIMILAR LAW). THIS NOTE AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES UNDERTAKEN OR REPRESENTED BY THE HOLDER, FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OR RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE AND ANY BENEFICIAL OWNER OF ANY INTEREST THEREIN SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY NOTES ISSUED IN EXCHANGE OR SUBSTITUTION HEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON) AND AGREES TO TRANSFER THIS NOTE ONLY IN ACCORDANCE WITH ANY SUCH AMENDMENT OR SUPPLEMENT IN ACCORDANCE WITH APPLICABLE LAW IN EFFECT AT THE DATE OF SUCH TRANSFER. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE."

Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Because of the foregoing restrictions, purchasers of notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of any note.

## Certain relationships

There are no business relationships, agreements, arrangements, transactions or understandings that are entered into outside the ordinary course of business or are on terms other than would be 'obtained in an arm's length transaction with an unrelated third party between the sponsor, Funding 2 or the issuing entity on the one hand and the servicer, the note trustee, the Funding 2 security trustee, the issuing entity security trustee, the mortgages trustee, the seller, the Funding 2 Z loan provider, the Funding 2 swap provider, any issuing entity swap provider, Funding 1 or any affiliates of such parties, that currently exist or that existed during the past two years and that would be material to the notes.

Pursuant to the transaction documents, there are numerous relationships involving or relating to the notes or the portfolio between the sponsor (who is also the seller, the servicer, the cash manager, the issuing entity cash manager, the account bank, the issuing entity account bank, the Funding 2 Z loan provider, the issuing entity subordinated loan provider and the issuing entity start-up loan provider), Funding 2 or the issuing entity (see "**The servicing agreement**", "**Cash management for the issuing entity**", "**The bank account agreements**" and "**Funding 2 Z loan agreement**" above), the note trustee, the Funding 2 security trustee and the issuing entity security trustee (see "**Description of the issuing entity trust deed**", "**Security for Funding 2's obligations – Appointment, powers, responsibilities and liabilities of the Funding 2 security trustee**" and "**Security for the issuing entity's obligations – Appointment, powers, responsibilities and liabilities of the issuing entity security trustee**" above), the mortgages trustee (see "**The mortgages trust deed**" above), the seller (see "**Sale of the loans and their related security**" above), the Funding 2 swap provider (see "**The swap agreements – The Funding 2 swaps**" above), each issuing entity swap provider (see "**The swap agreements – The issuing entity currency swaps**" and "**The swap agreements – The issuing entity interest rate swaps**" above), Funding 1 (see "**The mortgages trust**" above) or any affiliates of such parties, that currently exists or that existed during the past two years and that would be material to the notes. The material terms of these relationships are disclosed in the sections referred to above. See "**Transaction Overview - Fees**" above for a summary of fee amounts relating to certain of the foregoing relationships.

## Listing and general information

### Legal entity identifier

The legal entity identifier (LEI) of the issuing entity is: 213800MVYG7MLQM2LF25

### Authorisation

The initial issuance of notes under the programme was authorised by resolution of the board of directors of the issuing entity passed on 25 September 2006.

### Listing of notes

Application has been made to the UK Listing Authority for the notes issued during the period of 12 months from the date of this base prospectus to be admitted to the Official List maintained by the UK Listing Authority. Application will also be made to the London Stock Exchange for such notes to be admitted to trading on the London Stock Exchange's Regulated Market. Admission to the Official List together with admission to the London Stock Exchange's Regulated Market (being a regulated market for the purposes of the Markets in Financial Instruments Directive) constitute official listing on the London Stock Exchange.

It is expected that each series and class of notes which is to be admitted to the Official List and to trading on the London Stock Exchange's Regulated Market will be admitted separately, as and when issued, subject only to the issue of a global note or notes initially representing the notes of each series and class and to making the applicable final terms or drawdown prospectus relating to the series and class of notes available to the public in accordance with the Prospectus Regulation and associated UK and EU implementing legislation. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules.

This base prospectus has been prepared in compliance with the Prospectus Rules.

The issuing entity accepts responsibility for the information contained in this base prospectus. To the best of the knowledge of the issuing entity the information contained in this base prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The seller accepts responsibility for the section entitled "**Certain Regulatory Requirements**" and declares that the information in such section, to the best of its knowledge, is in accordance with the facts and contains no omission likely to affect its import.

Where information has been sourced from any other third party, the Issuer confirms that this information has been accurately reproduced and that 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 representation or warranty is made or implied by the arranger, the dealers, the managers or any of their respective affiliates, advisers, directors or group companies, and neither the arranger, the managers, the dealers nor any of their respective affiliates, advisers, directors or group companies makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this base prospectus.

The arranger, the dealers and the managers do not accept any responsibility for compliance of the issuing entity, the mortgages trustee, Funding 2 or the seller (as applicable) with the requirements of the Securitisation Regulation and has not assisted or advised the issuing entity, the mortgages trustee, Funding 2 or the seller (as applicable) with its compliance with the requirements of the Securitisation Regulation or the seller with its compliance with the requirements of the U.S. Credit Risk Retention Requirements.

### Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuing entity is aware) during the 12 months preceding the date of this base prospectus, which may have or have had in the recent past, a significant effect on the financial position or profitability of the issuing entity, Funding 2, Holdings, the post-enforcement call option holder, PECOH Holdings or the mortgages trustee.

**Accounts**

Statutory accounts to 31 December 2018 within the meaning of the Companies Act 2006 (as amended) have been prepared by the issuing entity and Funding 2. So long as the notes are listed on the Official List of the UK Listing Authority and are trading on the London Stock Exchange's Regulated Market, the most recently published audited annual accounts of the issuing entity and Funding 2 from time to time shall be available at the specified office of the principal paying agent in London. The issuing entity and Funding 2 do not publish interim accounts.

The audited financial statements of the issuing entity and Funding 2 are prepared in accordance with IFRS as adopted for use in the European Union.

The auditor of the issuing entity and Funding 2 is PricewaterhouseCoopers LLP, members of the Institute of Chartered Accountants in England and Wales, whose address is 7 More London Riverside, London, SE1 2RT.

Since the date of its incorporation, the issuing entity and Funding 2 have not entered into any contracts or arrangements not being in the ordinary course of business.

**Significant or material change**

Since 31 December 2018 (being the date of the last published financial statements), there has been (1) no material adverse change in the prospects of the issuing entity, PECOH Holdings, Funding 2, Holdings, the post-enforcement call option holder or the mortgages trustee and (2) no significant change in the financial position or financial performance of the issuing entity, PECOH Holdings, Funding 2, Holdings, the post-enforcement call option holder or the mortgages trustee.

**Documents available**

From the date of this base prospectus and for so long as any series and class of notes issued by the issuing entity is listed on the London Stock Exchange's Regulated Market, copies of the following documents may, when published, be inspected at the registered office of the issuing entity and from the specified office of the principal paying agent during usual business hours, on any weekday (public holidays excepted):

(A) the memorandum and articles of association of each of the issuing entity, Funding 2, Holdings, the mortgages trustee, the post-enforcement call option holder and PECOH Holdings;

(B) a copy of the base prospectus and the applicable final terms or drawdown prospectus;

(C) any future offering circulars, prospectuses, final terms, drawdown prospectuses, information memoranda and supplements including final terms (as applicable) to the base prospectus and any other documents incorporated therein or therein by reference;

(D) each of the following documents:

- the bank account agreement;
- the cash management agreement;
- the controlling beneficiary deed;
- the corporate services agreement;
- each deed of accession to the Funding 2 deed of charge;
- each deed of accession to the issuing entity deed of charge;
- the Funding 2 deed of charge;
- the Funding 2 guaranteed investment contract;
- each Funding 2 start-up loan agreement;
- the Funding 2 swap agreement;
- each Funding 2 Z loan agreement;
- each collateral security agreement;

- each eligible custody agreement;
- the issuing entity deed of charge;
- the master definitions and construction schedule;
- the issuing entity bank account agreement;
- the issuing entity cash management agreement;
- the issuing entity corporate services agreement;
- the issuing entity master definitions and constructions schedule;
- each issuing entity start-up loan agreement;
- each issuing entity subordinated loan agreement;
- each issuing entity swap agreement;
- the master intercompany loan agreement;
- the mortgage sale agreement;
- the mortgages trust deed;
- the mortgages trustee corporate services agreement;
- the mortgages trustee guaranteed investment contract;
- the post-enforcement call option holder corporate services agreement;
- the issuing entity paying agent and agent bank agreement;
- the issuing entity post-enforcement call option agreement;
- each Scottish declaration of trust;
- the seller mortgages trust assignment agreement;
- the servicing agreement;
- the issuing entity trust deed;
- any other deeds of accession or supplemental deeds relating to any such documents; and
- any other transaction document entered into from time to time; and

(E) audited annual accounts of the issuing entity and Funding 2 for the years ended 31 December 2015, 31 December 2016, 31 December 2017, and 31 December 2018 and the auditors reports thereon.

From the date of this base prospectus and for so long as any series and class (or sub-class) of notes issued by the issuing entity may be admitted to the Official List, copies of the documents referred to in (A) to (D) above are available on a website (which can be accessed via the dedicated website of the seller at the following URL http://www.lloydsbankinggroup.com/Investors/debt-investors/securitisation/). Such website and the contents thereof do not form part of this base prospectus.

The issuing entity confirms that the assets backing the issue of notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the notes. Investors are advised that this confirmation is based on the information available to the issuing entity on the date of this base prospectus and may be affected by the future performance of such assets backing the issue of the notes. Investors are advised to review carefully any disclosure in this base prospectus and the accompanying final terms or drawdown prospectus together with any amendments and supplements thereto.

Bank of Scotland (part of the Lloyds Banking Group) endorses and supports the implementation of the 'European Securitisation Forum RMBS Issuer Principles for Transparency and Disclosure' (the **principles**) in respect of any new issuance out of the Permanent Master Issuer PLC programme. It is also the intention of Bank of Scotland to take appropriate steps to ensure, if possible, that existing mortgage programmes where

they relate to publicly distributed transactions, comply with these principles. All new own originated RMBS transactions post 31 December 2009, where it is deemed to be appropriate and possible, will also comply with these principles. Bank of Scotland is committed to the principles in order to enhance the comparability and transparency RMBS transactions.

Electronic copies of the base prospectus and (for so long as any series and class of notes issued by the issuing entity remain outstanding) monthly reports (containing a glossary of any defined terms used therein and certain statistical information on the loans in the portfolio) are available for viewing on http://www.lloydsbankinggroup.com/Investors/debt-investors/securitisation/permanent/ by any noteholder, potential investor in the notes and any firms that generally provide services to investors. Such website and the contents thereof do not form part of this base prospectus.

**Investor reports and information**

The issuing entity will provide post-issuance transaction information from the date of this base prospectus as long as any series and class (or sub-class) of notes issued by the issuing entity remains outstanding (including during the period while the base prospectus is valid and the notes are admitted to the Official List). Monthly reports, which will include information on the loans and payments in arrears and which are prepared by the issuer cash manager in relation to the issuing entity, will be published on the website of the seller (http://www.lloydsbankinggroup.com/Investors/debt-investors/securitisation). Such reports may be issued more frequently at the discretion of the issuer cash manager. Such reports are not incorporated by reference into this base prospectus.

All defined terms used in the monthly investor reports have the meanings given to them in the glossary set out in this base prospectus, unless otherwise defined in such monthly investor reports.

*Reporting under the Securitisation Regulations*

The issuing entity will procure (by the servicer pursuant to the terms of the servicing agreement, and by the issuing entity cash manager pursuant to the terms of the issuing entity cash management agreement) the publication of the following Information, which shall be made available to investors, potential investors and the relevant competent authorities in accordance with Article 7(1) of the Securitisation Regulation:

(a) simultaneously, at least each quarter and within one month of the relevant Funding 2 interest payment date, ongoing information in relation to the loans in the mortgages trust and the transaction in accordance with the requirements of Articles 7(1)(a) and (e) of the Securitisation Regulation (subject to Article 43(8) of the Securitisation Regulation and any published guidance of the relevant regulatory or competition authorities) and, in relation to STS securitisations, Article 22(5) of the Securitisation Regulation;

(b) prior to the pricing of any series of notes issued after 1 January 2019 in relation to STS securitisations, information in relation to the loans in the mortgages trust in accordance with the requirements of Articles 7(1)(a) and Article 22(5) of the Securitisation Regulation;

(c) without delay, any information required to be reported pursuant to Articles 7(1)(f) or 7(1)(g) (as applicable) of the Securitisation Regulation; and

(d) copies of the documents, (in draft form, if applicable) prior to the pricing of any series of notes issued after 1 January 2019 (and in final form, if applicable, at the latest 15 days after the closing of any series of notes), required to be published in accordance with Articles 7(1)(b) and, where applicable, (d) of the Securitisation Regulation and, in relation to STS securitisations, Article 22(5) of the Securitisation Regulation,

by means of a securitisation repository or (where no securitisation repository is registered in accordance with Article 10 of the Securitisation Regulation) by means of a website (expected to be https://editor.eurodw.eu/ecb/info?edcode=RMBMUK000209100520063) which conforms to the requirements set out in Article 7(2) of the Securitisation Regulation, or any other website which may be notified by the issuing entity from time to time provided that such replacement or additional website conforms to the requirements set out in Article 7(2) of the Securitisation Regulation. For the avoidance of doubt, this website and the contents thereof do not form part of this base prospectus.

The issuing entity will make the information referred to above available to the holders of any of the notes, relevant competent authorities and, upon request, to potential investors in the notes. Any documents provided in draft form are subject to amendment and completion without notice.

Following the cessation of the interim reporting regime under Article 43(8) of the Securitisation Regulation, taking into account any transitional provisions, the issuing entity shall use commercially reasonable efforts to amend the form of investor reports to comply with the requirements of Articles 7(1)(a) and (e) of the Securitisation Regulation.

*Verification of data*

Prior to the issuance of any notes, the seller may cause a sample of the loans included in the portfolio (including the data disclosed in the applicable final terms in respect of the loans as at the relevant cut-off date) to be subject to external verification by one or more appropriate and independent third parties (such as a review of a representative sample of loans based on agreed upon procedures and/or a verification of the stratification tables set out in the applicable final terms) for the purposes of Article 22(2) of the Securitisation Regulation. Where such a report has been obtained, the seller will review the report of the independent third parties and state in the Final Terms/Drawdown Prospectus whether it is of the opinion that there were no significant adverse findings in the report.

*Liability cashflow model*

As long as any series and class of notes remains outstanding, a cash flow model will be made available to investors, either directly or indirectly through one or more entities who provide such cash flow models to investors generally.

*Bank of England information*

In order to comply with the Bank of England's Market Notice dated 30 November 2010 in respect of its eligibility requirements for residential mortgage backed securities, the following information in respect of the programme is made available to investors, potential investors and certain other market professionals acting on their behalf on a secure website (which can be accessed via: http://www.lloydsbankinggroup.com/Investors/debt-investors/securitisation). Such website and the contents thereof do not form part of this base prospectus:

- anonymised loan-level data (provided at least quarterly);
- transaction summary listing key features of the programme;
- a link to all material transaction documents; and
- a liability only cash flow model.

Such information will be made available, in each case, prior to or shortly after the closing date of a series and class (or sub-class) of notes issued after the date of this base prospectus and, once made available, such information will be updated on a periodic basis and will continue to be available for as long as such series and class (or sub-class) of notes remain outstanding.

## Glossary

Principal terms used in this base prospectus are defined as follows:

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| **$, US$, US dollars and dollars** | the lawful currency of the United States of America |
| **€, euro and Euro** | the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time |
| **£, pounds and sterling** | the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland |
| **1999 Regulations** | the Unfair Terms in Consumer Contracts Regulations 1999, as amended |
| **AAA Funding 1 principal deficiency sub-ledger** | a sub-ledger on the Funding 1 principal deficiency ledger which specifically records any principal deficiency in respect of any term AAA advances |
| **AAA loan tranches** | the loan tranches made by the issuing entity to Funding 2 under the master intercompany loan agreement from the proceeds of issue of any series of class A notes |
| **AAA principal deficiency sub-ledger** | a sub-ledger on the Funding 2 principal deficiency ledger which specifically records any principal deficiency in respect of any AAA loan tranches |
| **AA Funding 1 principal deficiency sub-ledger** | a sub-ledger on the Funding 1 principal deficiency ledger which specifically records any principal deficiency in respect of any term AA advances |
| **AA loan tranches** | the loan tranches made by the issuing entity to Funding 2 under the master intercompany loan agreement from the proceeds of issue of any series of class B notes |
| **AA principal deficiency sub-ledger** | a sub-ledger on the Funding 2 principal deficiency ledger which specifically records any principal deficiency in respect of any AA loan tranches |
| **A Funding 1 principal deficiency sub-ledger** | a sub-ledger on the Funding 1 principal deficiency ledger which specifically records any principal deficiency in respect of any term A advances |
| **A loan tranches** | the loan tranches made by the issuing entity to Funding 2 under the master intercompany loan agreement from the proceeds of issue of any series of class M notes |
| **A principal deficiency sub-ledger** | a sub-ledger on the Funding 2 principal deficiency ledger which specifically records any principal deficiency in respect of any A loan tranches |
| **accession undertaking** | the deed of accession to the Funding 1 deed of charge substantially in the form set out in the Funding 1 deed of charge or the deed of accession to the Funding 2 deed of charge substantially in the form set out in the Funding 2 deed of charge, as applicable |
| **account bank** | the bank at which the mortgages trustee GIC account, the Funding 1 bank accounts and/or the Funding 2 bank accounts are maintained from time to time, being as of the date of this base prospectus, Bank of Scotland plc, incorporated in Scotland and registered as a public company under the Companies Act 1985, acting through its offices at 116 Wellington Street, Leeds LS1 4LT |

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| **accrued interest** | in respect of loans on a given date, the interest which has accrued from the last payment date up to that date, but which is not currently payable |
| **adjusted Funding 1 general reserve fund level** | the sum of:<br>(a) the amount standing to the credit of the Funding 1 general reserve fund; and<br>(b) the amount (if any) then outstanding in accordance with item (B) of the relevant Funding 1 pre-enforcement principal priority of payments |
| **adjusted Funding 2 general reserve fund level** | the sum of:<br>(a) the amount standing to the credit of the Funding 2 general reserve fund; and<br>(b) the amount (if any) then credited in accordance with item (A) of the relevant Funding 2 pre-enforcement principal priority of payments |
| **advance date** | in relation to an issuing entity subordinated loan, the date on which such issuing entity subordinated loan is advanced by the issuing entity subordinated loan provider |
| **agent account bank** | the eligible bank designated as such with which Funding 2 instructs the cash manager to open a Funding 2 eligible bank GIC account pursuant to the bank account agreement |
| **agent bank** | Citibank, N.A. |
| **alternative insurance recommendations** | the recommendations contained in the offer conditions provided by the seller to borrowers who elect to arrange independent buildings insurance for their properties |
| **annualised CPR** | the result of the calculation 1-((1-M)^12)<br>where **M** is expressed as a percentage and determined as at the most recent normal calculation date as indicated in the definition of "anticipated cash accumulation period" (see "**The mortgages trust – Cash management of trust property – distribution of principal receipts to Funding 2**" above) |
| **anticipated cash accumulation period** | on any calculation date, the anticipated number of months required to accumulate sufficient principal receipts to pay the relevant accumulation amount in relation to the relevant cash accumulation advance, as described further in "**The mortgages trust – Cash management of trust property – distribution of principal receipts to Funding 2**" above |
| **arrears of interest** | in respect of a given date, interest, principal (if applicable) and expenses which are due and payable and remain unpaid on that date |
| **asset trigger event** | an asset trigger event will occur when an amount is debited to the principal deficiency sub-ledger in relation to the term AAA advance of any Funding 1 issuing entity or to the AAA principal deficiency sub-ledger of Funding 2, unless such debit is made when (a) (i) in the case of principal deficiency sub-ledger in relation to the term AAA advance of a Funding 1 issuing entity, the aggregate principal amount outstanding of each of the term AA advances, the term A advances, the term BBB advances and the term BB advances of the Funding 1 issuing entity is equal to zero or (ii) in the case of the AAA principal deficiency sub-ledger of Funding 2, the aggregate principal amount outstanding of each of the AA loan tranches, the A loan tranches, the BBB loan tranches and the BB loan tranches is equal to |

zero; and (b) (i) in the case of principal deficiency sub-ledger in relation to the term AAA advance of a Funding 1 issuing entity, the sum of the amount standing to the credit of Funding 1 general reserve ledger, the Funding 1 liquidity reserve ledger (if any) and the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, is greater than the amount necessary to eliminate the debit balance on the principal deficiency ledger in relation to the term AAA advance of the Funding 1 issuing entity and pay amounts ranking in priority to such item under the Funding 1 pre-enforcement revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made or (ii) in the case of the AAA principal deficiency sub-ledger of Funding 2, the sum of the amount standing to the credit of Funding 2 general reserve ledger, the Funding 2 liquidity reserve ledger (if any) and the Funding 2 revenue ledger together with amounts determined and due to be credited to the Funding 2 revenue ledger prior to the immediately following Funding 2 interest payment date after such debit is made, is greater than the amount necessary to pay the items in paragraphs (A) to (E) of the Funding 2 pre-enforcement revenue priority of payments on the immediately following Funding 2 interest payment date after such debit is made.

**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 base prospectus that they are defined as such (provided, for the avoidance of doubt, that any such fund must hold an AAAm money market fund rating from S&P and an Aaa-mf money market fund rating from Moody's), or money market funds that hold AAAm and Aaa-mf money market fund ratings from S&P and 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 90 days or less and mature on or before the next following interest payment date for the notes (in relation to any master issuer bank account), Funding 1 interest payment date or Funding 2 interest payment date, as applicable (in relation to any Funding 1 bank account or Funding 2 bank account, as applicable) or distribution date (in relation to the mortgages trustee GIC account) and provided further that with respect to securities and deposit investments specified under items (b) and (c) above:

(i) 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) short-term or long-term unsecured, unguaranteed and unsubordinated debt obligations of at least A-1 and A (or if no short-term rating, A+ long-term) (respectively) by S&P, (B) "Issuer Default Ratings" of at least F1 short-term or A long-term by Fitch, and (C) 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 (in relation to any master issuer bank

account or the mortgages trustee GIC account) A2 or (in relation to any Funding 1 bank account or Funding 2 bank account, as applicable) A1 by Moody's; and

(ii) with respect to investments with a maturity date of greater than or equal to 30 days but less than 60 days, the issuing or guaranteeing entity or the entity with which the demand or (in relation to any master issuer bank account and the mortgages trustee GIC account only) time deposits are made (being an authorised person under the FSMA) has (A) short-term and long-term unsecured, unguaranteed and unsubordinated debt obligations of at least A-1 and A (or if no short-term rating, A+ long-term) (respectively) by S&P, (B) "Issuer Default Ratings" of at least F1+ short-term or AA- long-term by Fitch, and (C) 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 (in relation to any master issuer bank account or the mortgages trustee GIC account) A2 or (in relation to any Funding 1 bank account or Funding 2 bank account, as applicable) A1 by Moody's; and

(iii) with respect to investments with a maturity date of greater than or equal to 60 days but less than three months, the issuing or guaranteeing entity or the entity with which the demand or (in relation to any master issuer bank account and the mortgages trustee GIC account only) time deposits are made (being an authorised person under the FSMA) has (A) short-term or long-term unsecured, unguaranteed and unsubordinated debt obligations of at least A-1+ or AA- (respectively) by S&P, (B) "Issuer Default Ratings" of at least F1+ short-term or AA- long-term by Fitch, and (C) 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 (in relation to any master issuer bank account or mortgages trustee GIC account) A2 or (in relation to any Funding 1 bank account or Funding 2 bank account, as applicable) A1 by Moody's; or

(iv) in each case, which are otherwise acceptable to the rating agencies to maintain the then current ratings of the notes,

save that where such investments would result in the recharacterisation of the programme, the notes or any transaction under the transaction documents as a "re-securitisation" or a "synthetic securitisation" as defined in Articles 4(63) and 242(11), respectively, of Regulation (EU) No 575/2013 (as amended and/or supplemented from time to time), such investments shall not qualify as authorised investments

**bank account agreement** — the agreement entered into on the initial closing date, as amended from time to time, between (among others) the account bank, the mortgages trustee, Funding 1 and Funding 2, which governs (among other things) the operation of the mortgages trustee GIC account, the Funding 2 GIC account, the Funding 2 transaction account, the Funding 2 eligible bank GIC account and the Funding 2 collateralised GIC account and any other bank account agreements entered into by Funding 2 in respect of the bank accounts

**Bank of Scotland** — Bank of Scotland plc, incorporated in Scotland, which was, prior to its registration under the Companies Act 1985 on the reorganisation date in accordance with the HBOS Group Reorganisation Act 2006, The Governor and Company of the Bank of Scotland

**Bank of Scotland Group** — Bank of Scotland and each of its subsidiaries and affiliates

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| **base rate modification reference date** | 8 June 2018 |
| **basic terms modification** | the modification of (certain) terms and conditions of the notes, including altering the amount, rate or timing of payments on a series and class of notes, the currency of payment, the issuing entity priority of payments or the quorum or majority required in relation to any resolution |
| **BBB Funding 1 principal deficiency sub-ledger** | a sub-ledger on the Funding 1 principal deficiency ledger which specifically records any principal deficiency in respect of any term BBB advances |
| **BBB loan tranches** | the loan tranches made by the issuing entity to Funding 2 under the master intercompany loan agreement from the proceeds of issue of any series of class C notes |
| **BBB principal deficiency sub-ledger** | a sub-ledger on the Funding 2 principal deficiency ledger which specifically records any principal deficiency in respect of any BBB loan tranches |
| **BB Funding 1 principal deficiency sub-ledger** | a sub-ledger on the Funding 1 principal deficiency ledger which specifically records any principal deficiency in respect of any term BB advances |
| **BB loan tranches** | the loan tranches made by the issuing entity to Funding 2 under the master intercompany loan agreement from the proceeds of issue of any series of class D notes |
| **BB principal deficiency sub-ledger** | a sub-ledger on the Funding 2 principal deficiency ledger which specifically records any principal deficiency in respect of any BB loan tranches |
| **beneficiaries** | Funding 1, Funding 2, the seller and any other Funding beneficiary as beneficiaries of the mortgages trust |
| **booking fee** | a fee payable by the borrower in respect of applications for certain types of loans |
| **borrower** | in relation to a loan, the individual or individuals specified as such in the relevant mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such loan or any part of it |
| **building policies** | (a) all buildings insurance policies relating to freehold or heritable properties which have been taken out in the name of the relevant borrower (and, in the case of the Halifax policies, the seller) in accordance with the applicable mortgage terms or the alternative insurance recommendations; and<br>(b) all landlord's buildings insurance policies relating to leasehold properties including properties in Scotland held under a long lease |
| **bullet accumulation liability** | on any Funding 2 interest payment date prior to any payment under item (C) of the Funding 2 pre-enforcement principal priority of payments described in "**Cashflows – Distribution of Funding 2 available principal receipts**" above the aggregate of each relevant accumulation amount at that time of each bullet loan tranche which is within a cash accumulation period |
| **bullet accumulation shortfall** | at any time, that the cash accumulation ledger amount is less than the bullet accumulation liability |
| **bullet loan tranche** | any rated loan tranche which is scheduled to be repaid in full in one instalment on one Funding 2 interest payment date, namely those loan tranches designated as a "bullet loan tranches" in the accompanying final terms or drawdown prospectus |

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| | The bullet loan tranches will be deemed to be pass-through loan tranches on the earlier to occur of a pass-through trigger event and the step-up date (if any) in relation to such loan tranche |
| **bullet redemption date** | the bullet redemption date for any series and class of bullet redemption notes will be the interest payment date specified as such for such series and class of notes in the applicable final terms or drawdown prospectus, subject to the terms and conditions of the notes |
| **bullet redemption notes** | any series and class of notes which is scheduled to be repaid in full on one bullet redemption date. Bullet redemption notes will be deemed to be pass-through notes in certain circumstances |
| **bullet repayment date** | the Funding 2 interest payment date specified as such for such loan tranche in the applicable loan tranche supplement |
| **bullet term advance** | any term advance which is scheduled to be repaid in full on one Funding 1 interest payment date, namely those term advances of any Funding 1 issuing entity designated as a bullet term advance.<br><br>The bullet term advances made by a Funding 1 issuing entity will be deemed to be **pass-through term advances** if:<br><br>• a trigger event occurs;<br><br>• the security granted by a Funding 1 issuing entity is enforced; or<br><br>• the security granted by Funding 1 is enforced |
| **business day** | a day that is a London business day, a New York business day and a TARGET2 business day and (in the case of the notes) the meaning given to such term in Condition 4.2(a) under **"Terms and conditions of the notes"** |
| **calculation date** | the first day of each month or, if not a London business day, the next succeeding London business day or the date on which Funding 1 and/or Funding 2 acquires a further interest in the trust property and/or the mortgages trustee acquires new loans from the seller and the date on which the mortgages trust is terminated |
| **calculation period** | the period from (and including) one calculation date, to (but excluding) the next calculation date |
| **calendar year** | a year from the beginning of 1 January to the end of 31 December |
| **call option date** | in respect of any series and class of notes, the date specified as such in the applicable final terms or drawdown prospectus, being the interest payment date on which the issuing entity is entitled to redeem such notes pursuant to Condition 5.4 under "**Terms and conditions of the notes**" |
| **Capital Requirements Regulation** | Regulation (EU) No. 575/2013 (as amended by the CRR Amendment Regulation) |
| **capitalised** | means, in respect of a fee or other amount, added to the principal balance of a loan |
| **capitalised arrears** | In relation to a loan 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:<br><br>(a) the seller has, by arrangement with the relevant borrower, agreed to capitalise such arrears of interest; and<br><br>(b) such arrears of interest have been capitalised and added, in the accounts of the seller (or, if the determination date occurs after the initial closing date, the mortgages trustee), to the principal amount |

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| | outstanding in respect of such loan |
| **capitalised expenses** | in relation to a loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any arrears of interest) capitalised and added to the principal amount outstanding in respect of such Loan in accordance with the relevant mortgage terms (including for the avoidance of doubt, any high loan-to-value fee) |
| **capitalised interest** | if a borrower takes a payment holiday (as permitted under the terms of the loan), then the outstanding principal balance of the loan will increase by the amount of interest that would have been paid on the relevant loan if not for such payment holiday |
| **cash accumulation advance** | a bullet term tranche, a bullet loan tranche or scheduled amortisation instalment which is within a cash accumulation period |
| **cash accumulation ledger** | as the context requires, either (a) the Funding 1 cash accumulation ledger or (b) the Funding 2 cash accumulation ledger |
| **cash accumulation ledger amount** | at any time the amount standing to the credit of the Funding 2 cash accumulation ledger at that time immediately prior to any drawing to be applied on that Funding 2 interest payment date and prior to any payment under item (H) of the Funding 2 pre-enforcement principal priority of payments described in "**Cashflows – Distribution of Funding 2 available principal receipts**" above |
| **cash accumulation liability** | means on any Funding 2 interest payment date prior to any payment under item (C) of the Funding 2 pre-enforcement principal priority of payments described in "**Cashflows – Distribution of Funding 2 available principal receipts**" above, the sum of:<br>• the bullet accumulation liability at that time; and<br>• the aggregate of each relevant accumulation amount at that time of each scheduled amortisation instalment which is within a cash accumulation period |
| **cash accumulation period** | the period beginning on the earlier of:<br>• the commencement of the anticipated cash accumulation period relating to the relevant accumulation amount; and<br>• unless otherwise specified in the accompanying final terms or drawdown prospectus, in respect of an original bullet loan tranche, six months prior to the scheduled repayment date of that original bullet loan tranche and, in respect of an original scheduled amortisation instalment, three months prior to the scheduled repayment date of that original scheduled amortisation instalment,<br>and ending when Funding 2 has fully repaid that original bullet loan tranche or scheduled amortisation instalment, as applicable |
| **cash accumulation shortfall** | at any time, the amount that the cash accumulation ledger amount is less than the cash accumulation liability |
| **cash management agreement** | the cash management agreement entered into on the initial closing date, as amended from time to time, between the cash manager, the mortgages trustee, Funding 1, Funding 2 and the Funding security trustees, as described further in "**Cash management for the mortgages trustee, Funding 1 and Funding 2**" above |
| **cash manager** | initially Halifax and since the reorganisation date Bank of Scotland acting, pursuant to the cash management agreement, as agent for (among others) the mortgages trustee, Funding 2 and the Funding 2 security trustee, among others, to manage all cash transactions and maintain certain ledgers on behalf of the mortgages trustee, Funding 2 and the |

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| **cashback** | the agreement by the seller to pay an amount to the relevant borrower on the completion of the relevant loan |
| **CCA** | the Consumer Credit Act 1974, as amended |
| **CCA 2006** | the Consumer Credit Act 2006, as amended |
| **certificate of title** | a solicitor's, licensed conveyancer's or (in Scotland) qualified conveyancer's report or certificate of title obtained by or on behalf of the seller in respect of each property substantially in the form of the pro-forma set out in the standard documentation |
| **class** | each single class of the class A notes, the class B notes, the class M notes, the class C notes and the class D notes or their respective holders thereof as the context requires and except where otherwise specified |
| **class A funding 2 yield reserve notes** | the class A notes of a series designated as having the benefit of the Funding 2 yield reserve fund (or a sub-class of such) in the applicable final terms or drawdown prospectus |
| **class A noteholders** | the holders of the class A notes |
| **class A notes** | the notes of a series designated as such (or a sub-class of such) in the applicable final terms or drawdown prospectus |
| **class B funding 2 yield reserve notes** | the class B notes of a series designated as having the benefit of the Funding 2 yield reserve fund (or a sub-class of such) in the applicable final terms or drawdown prospectus |
| **class B noteholders** | the holders of the class B notes |
| **class B notes** | the notes of a series designated as such (or a sub-class of such) in the applicable final terms or drawdown prospectus |
| **class C funding 2 yield reserve notes** | the class C notes of a series designated as having the benefit of the Funding 2 yield reserve fund (or a sub-class of such) in the applicable final terms or drawdown prospectus |
| **class C noteholders** | the holders of the class C notes |
| **class C notes** | the notes of a series designated as such (or a sub-class of such) in the applicable final terms or drawdown prospectus |
| **class D funding 2 yield reserve notes** | the class D notes of a series designated as having the benefit of the Funding 2 yield reserve fund (or a sub-class of such) in the applicable final terms or drawdown prospectus |
| **class D noteholders** | the holders of the class D notes |
| **class D notes** | the notes of a series designated as such (or a sub-class of such) in the applicable final terms or drawdown prospectus |
| **class M funding 2 yield reserve notes** | the class M notes of a series designated as having the benefit of the Funding 2 yield reserve fund (or a sub-class of such) in the applicable final terms or drawdown prospectus |
| **class M noteholders** | the holders of the class M notes |
| **class M notes** | the notes of a series designated as such (or a sub-class of such) in the applicable final terms or drawdown prospectus |
| **clearing agency** | an agency registered under the provisions of section 17A of the Exchange Act |

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| **clearing corporation** | a corporation within the meaning of the New York Uniform Commercial Code |
| **Clearstream, Luxembourg** | Clearstream Banking, société anonyme |
| **closing date** | the closing date for the relevant issuance comprising one or more series and classes of notes as specified in the applicable final terms or drawdown prospectus |
| **CML** | Council of Mortgage Lenders |
| **Code** | United States Internal Revenue Code of 1986, as amended |
| **collateral test** | means the assessment of whether the amount of eligible collateral secured by Bank of Scotland (in its capacity as Funding 2 collateralised GIC account bank) under the Funding 2 collateral security agreement in favour of Funding 2 (being the amount of eligible collateral held by the eligible GIC custodian under the eligible custody agreement) equals, exceeds or is less than the required posted collateral amount; the collateral test will be passed if the amount of eligible collateral (after application of the applicable valuation percentage) held by the eligible GIC custodian under the eligible custody agreement equals or exceeds the required posted collateral amount. The collateral test will be failed if (i) the amount of eligible collateral (after application of the applicable valuation percentage) held by the eligible GIC custodian under the eligible custody agreement is less than the required posted collateral amount, or (ii) an insolvency event occurs in respect of the eligible GIC custodian. |
| **collection account** | the collection account in the name of the servicer which is from time to time used for the purpose of collecting, directly or indirectly, monies due in respect of the loans and/or the related security forming part of the trust property |
| **common depositary** | a common depository for Euroclear and Clearstream, Luxembourg |
| **common safekeeper** | a common safekeeper for Euroclear and Clearstream, Luxembourg |
| **conditional purchaser** | in respect of any series and class of remarketable notes, the conditional purchaser specified in the applicable final terms or drawdown prospectus |
| **conditional purchaser confirmation** | in respect of any series and class of remarketable notes, the confirmation given by the remarketing agent or the tender agent to the issuing entity and the principal paying agent that the conditional purchaser has purchased an interest in or has had transferred to it or on its behalf an interest in all such remarketable notes |
| **Consumer Credit Directive** | Directive 2008/48/EC of the European Parliament and the Council adopted in April 2008 |
| **controlling beneficiary deed** | the controlling beneficiary deed entered into on or about the programme date, as amended from time to time, between (amongst others) Funding 1, Funding 2, the Funding security trustees and the seller |
| **controlling directions** | has the meaning given under "**The mortgages trust – The controlling beneficiary deed**" above |
| **corporate services agreement** | an agreement entered into on the initial closing date, as amended from time to time, between (among others) Holdings, Funding 1, Funding 2, Halifax, the corporate services provider, the share trustee and the Funding 2 security trustee, to which Bank of Scotland became party to in place of Halifax on the reorganisation date pursuant to the HBOS Group Reorganisation Act 2006 and which governs the provision of corporate services by the corporate services provider to Funding 1, Funding 2 and Holdings |

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| **corporate services provider** | in respect of Funding 1, Funding 2, Holdings, the post-enforcement call option holder and PECOH Holdings, means Intertrust Management Limited or such other person or persons for the time being acting as corporate services provider to (i) Funding 1, Funding 2 and Holdings under the corporate services agreement and (ii) the post-enforcement call option holder and PECOH Holdings under the post-enforcement call option holder corporate services agreement |
| **CPUTR** | the Consumer Protection from Unfair Trading Regulations 2008 |
| **credit impaired loan** | a loan which, so far as the seller is aware, having made all reasonable enquiries, is a loan to a borrower who is a (i) "credit-impaired obligor" as described in Article 13(2)(j) of 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 any such enacted version of such Commission Delegated Regulation) or (ii) a "credit-impaired debtor" as described in Article 20(11) of the Securitisation Regulation, and in each case in accordance with any official guidance issued in relation thereto |
| **crystallise** | when a floating charge becomes a fixed charge |
| **dealers** | the dealers appointed from time to time under the programme agreement or any subscription agreement and the initial purchasers and/or dealers appointed from time to time under any note purchase agreement |
| **deedstore loan** | a type of loan facility that gives the borrower the option to leave a small balance owing on the loan account so that the relevant title deeds can continue to be lodged with the seller |
| **deed of consent** | 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** | 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 |
| **delayed cashback** | in relation to any loan, the agreement by the seller to pay an amount to the relevant borrower after a specified period of time following completion of the relevant loan |
| **detached** | a house not joined to another house |
| **determination date** | in respect of a series and class of notes, the date(s) specified as such in the applicable final terms or drawdown prospectus |
| **determination period** | the period from the most recent determination date for such fixed rate notes to (but excluding) the relevant determination date |
| **diligence** | the process (under Scots law) by which a creditor attaches the property of a debtor to implement or secure a court decree or judgment |
| **distribution date** | the date which is two London business days after each calculation date, being the date that the mortgages trustee will distribute mortgages trust available principal receipts and mortgages trust available revenue receipts to Funding 1, Funding 2 and the seller |
| **drawdown prospectus** | in relation to a series of notes, the drawdown prospectus issued in relation to such series of notes as a supplement to the conditions and giving details of, *inter alia*, the amount and price of such series of notes and which forms a part of the base prospectus in relation to such series of |

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| | notes |
| **DTC** | The Depository Trust Company |
| **early repayment charge or early repayment fee** | any fee (other than a redemption fee) which a borrower is required to pay in the event that he or she is in default or his or her loan becomes repayable for any other mandatory reason or he or she repays all or any part of the relevant loan before a specified date |
| **eighth issuer** | Permanent Financing (No. 8) PLC (registered number 5434519), a public limited company incorporated under the laws of England and Wales, whose registered office is at 43-45 Portman Square, London W1H 6LY (this company is now dissolved) |
| **eighth issuer closing date** | 22 June 2005 |
| **eighth issuer intercompany loan agreement** | the eighth issuer intercompany loan confirmation and the intercompany loan terms and conditions together entered into on the eighth issuer closing date by the eighth issuer, Funding 1 and the security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **eighth start-up loan** | the start-up loan that the eighth start-up loan provider made available to Funding 1 pursuant to the eighth start-up loan agreement |
| **eighth start-up loan agreement** | the agreement entered into on the eighth issuer closing date between Funding 1, the eighth start-up loan provider and the security trustee relating to the provision of the eighth start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **eighth start-up loan provider** | initially Halifax and as of the reorganisation date, Bank of Scotland, in its capacity as provider of the eighth start-up loan |
| **eleventh start-up loan** | the start-up loan that the eleventh start-up loan provider made available to Funding 1 pursuant to the eleventh start-up loan agreement |
| **eleventh start-up loan agreement** | the agreement entered into on 2 February 2010 between Funding 1, the eleventh start-up loan provider and the security trustee relating to the provision of the eleventh start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **eleventh start-up loan provider** | Bank of Scotland in its capacity as provider of the eleventh start-up loan |
| **eligible bank** | (i) an authorised financial institution under FSMA whose (1) short-term and long-term unsubordinated unguaranteed and unsecured debt obligations are rated at least P-1 and A2 (respectively) by Moody's, (2) A-1 short-term and A long-term (or, if not rated at least A-1 short-term, at least A+ long-term) by S&P and (3) short-term and long-term "Issuer Default Ratings" are at least F1 and A (respectively) by Fitch and, in each case, not subject to any reduction, qualification or withdrawal of such ratings, (ii) not to trigger any of the termination events applicable to the Agent Account Bank under sub-clause 10.1 of the Bank Account Agreement, (iii) to enter into a Panel Bank Account Agreement with the Agent Account Bank, (iv) to be an institution incorporated in the United Kingdom or that is the United Kingdom branch of a foreign bank, and (v) to make all deposits under the Panel Bank Guidelines in pounds sterling (GBP) |
| **eligible custody agreement** | any custody agreement satisfactory to the cash manager which (i) is entered into by, amongst others, Funding 2, the Funding 2 security trustee, Bank of Scotland as collateral provider and an eligible GIC custodian, (ii) requires such eligible GIC custodian to (itself or through) an agent liquidate the related collateral within five business days of being provided notice by the cash manager of the occurrence of a Funding 2 |

collateralised GIC enforcement event and to account for the proceeds to Funding 2, (iii) provides that the eligible collateral will be ring-fenced from the custodian's assets, and (v) does not contain any terms which would result in the downgrade, withdrawal or qualification of the then current ratings of the notes

**eligible GIC custodian**

The Bank of New York Mellon or such other third party custodian that is not the cash manager or Bank of Scotland

**eligible general reserve fund principal repayments**

(a) prior to the occurrence of a trigger event:

(i) repayments of principal which are then due and payable in respect of the original bullet term advances; and

(ii) repayments of principal in respect of original scheduled amortisation term advances on their respective final maturity dates only; and

(b) on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event, repayments of principal in respect of original bullet term advances and original scheduled amortisation term advances on their respective final maturity dates only,

in each case prior to the service of an intercompany loan acceleration notice on Funding 1 and taking into account any allocation of principal to meet any deficiency in Funding 1 available revenue receipts

**eligible liquidity facility principal repayments**

(a) prior to the occurrence of a trigger event:

(i) repayments of principal which are then due and payable in respect of the original bullet term advances; and

(ii) repayments of principal in respect of original scheduled amortisation term advances on their respective final repayment dates only; and

(b) on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event, repayments of principal in respect of original bullet term advances and original scheduled amortisation term advances on their respective final repayment dates only,

in each case prior to the service of an intercompany loan acceleration notice on Funding 1 and taking into account any allocation of principal to meet any deficiency in Funding 1 available revenue receipts.

Following the occurrence of an asset trigger event, the Funding 1 liquidity facility will not be available to repay principal in respect of original bullet term advances or original scheduled term advances

**eligible liquidity reserve fund principal repayments**

(a) prior to the occurrence of a trigger event:

(i) repayments of principal which are then due and payable in respect of the original bullet term advances; and

(ii) repayments of principal in respect of original scheduled amortisation term advances on their respective final repayment dates only; and

(b) on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event, repayments of principal in respect of original bullet term advances and original scheduled

amortisation term advances on their respective final repayment dates only,

in each case prior to the service of an intercompany loan acceleration notice on Funding 1 and taking into account any allocation of principal to meet any deficiency in Funding 1 available revenue receipts

**EMIR** has the meaning given to it under "**Risk factors – European Market Infrastructure Regulation**" above

**enforcement procedures** the procedures for the enforcement of mortgages undertaken by the servicer from time to time in accordance with the seller's policy

**English loan** a loan secured by an English mortgage

**English mortgage** a mortgage secured over a property in England or Wales

**English mortgage conditions** the mortgage conditions applicable to English loans

**Enterprise Act** the Enterprise Act 2002

**ERISA** the US Employee Retirement Income Security Act of 1974, as amended

**EURIBOR** the Euro-Zone Interbank offered rate

**Euroclear** Euroclear Bank S.A./N.V.

**excess swap collateral** (i) in respect of an issuing entity swap agreement, an amount (which will be transferred directly to the relevant issuing entity swap provider) equal to the value of the swap collateral (or the applicable part of any swap collateral) provided by an issuing entity swap provider to the issuing entity in respect of that issuing entity swap provider's obligations to transfer collateral to the issuing entity under the relevant issuing entity swap agreement which is in excess of that issuing entity swap provider's liability under the relevant issuing entity swap agreement as at the date of termination of the relevant issuing entity swap agreement or which it is otherwise entitled to have returned to it under the terms of the relevant issuing entity swap agreement; (ii) in respect of the Funding 1 swap agreement, an amount (which will be transferred directly to the Funding 1 swap provider in accordance with the Funding 1 swap agreement) equal to the value of the collateral (or the applicable part of any collateral) provided by the Funding 1 swap provider to Funding 1, which is in excess of the liability of the Funding 1 swap provider under the Funding 1 swap agreement as at the date of termination of the Funding 1 swap agreement or which the Funding 1 swap provider is otherwise entitled to have returned to it under the terms of the Funding 1 swap agreement; and (iii) in respect of the Funding 2 swap agreement, an amount (which will be transferred directly to the Funding 2 swap provider in accordance with the Funding 2 swap agreement) equal to the value of the swap collateral (or the applicable part of any swap collateral) provided by the Funding 2 swap provider to Funding 2, which is in excess of the liability of the Funding 2 swap provider under the Funding 2 swap agreement as at the date of termination of the Funding 2 swap agreement or which the Funding 2 swap provider is otherwise entitled to have returned to it under the terms of the Funding 2 swap agreement

**Exchange Act** The United States Exchange Act of 1934, as amended

**FATCA** has the meaning given to it under "**Risk factors – U.S. Foreign Account Tax Compliance withholding may affect payments on the notes**" above

**FCA** the UK Financial Conduct Authority

**FFI** has the meaning given to it under "**Risk factors – U.S. Foreign Account Tax Compliance withholding may affect payments on the notes**"

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| | above |
| **fifth issuer** | Permanent Financing (No. 5) PLC (registered number 5114399), a public limited company incorporated under the laws of England and Wales, whose registered office is at 43-45 Portman Square, London W1H 6LY (this company is now dissolved) |
| **fifth issuer closing date** | 22 July 2004 |
| **fifth issuer intercompany loan agreement** | the fifth issuer intercompany loan confirmation and the intercompany loan terms and conditions together entered into on the fifth issuer closing date by the fifth issuer, Funding 1 and the security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **fifth start-up loan** | the start-up loan that the fifth start-up loan provider made available to Funding 1 pursuant to the fifth start-up loan agreement |
| **fifth start-up loan agreement** | the agreement entered into on the fifth issuer closing date between Funding 1, the fifth start-up loan provider and the security trustee relating to the provision of the fifth start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **fifth start-up loan provider** | initially Halifax and as of the reorganisation date, Bank of Scotland, in its capacity as provider of the fifth start-up loan |
| **final maturity date** | in respect of a series and class of notes means the interest payment date falling in the month indicated for such class in the applicable final terms or drawdown prospectus |
| **final repayment date** | in relation to a loan tranche, the date specified as such in the related loan tranche supplement and applicable final terms or drawdown prospectus and, in relation to any new term advance, the date specified as such in the intercompany loan agreement |
| **final terms** | in relation to a series of notes, the final terms issued in relation to such series of notes as a supplement to the conditions and giving details of, *inter alia*, the amount and price of such series of notes and which forms a part of the base prospectus in relation to such series of notes |
| **first closing date after the reorganisation date** | 23 April 2008 |
| **first issuer** | Permanent Financing (No. 1) PLC (registered number 4416192), a public limited company incorporated under the laws of England and Wales, whose registered office is at 43-45 Portman Square, London W1H 6LY (this company is now dissolved) |
| **first issuer closing date** or **initial closing date** | 14 June 2002 |
| **first issuer intercompany loan agreement** | the first issuer intercompany loan confirmation and the intercompany loan terms and conditions together entered into on the first issuer closing date by the first issuer, Funding 1 and the security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **first start-up loan** | the start-up loan that the first start-up loan provider made available to Funding 1 pursuant to the first start-up loan agreement |
| **first start-up loan agreement** | the agreement entered into on the initial closing date between Funding 1, the first start-up loan provider and the security trustee relating to the provision of the first start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |

**first start-up loan provider** — initially Halifax and as of the reorganisation date, Bank of Scotland, in its capacity as provider of the first start-up loan

**Fitch** — Fitch Ratings Limited and any successor to its ratings business

**Fitch portfolio test value** — each of the percentages set out in paragraphs (a) to (e) inclusive in the definition of Fitch portfolio tests, as such percentages may be amended from time to time by agreement between the servicer and Fitch and published in the most recent final terms or drawdown prospectus

**Fitch portfolio tests** — the following tests which satisfy each of the following conditions on the relevant sale date:

(a) the original weighted average LTV ratio (calculated in the manner agreed with Fitch from time to time) of the loans in the portfolio (including any new portfolio to be sold to the mortgages trustee on the relevant sale date) does not exceed that calculated at the latest closing date plus two per cent.;

(b) the outstanding principal balance of any loans in the portfolio (including any new portfolio to be sold to the mortgages trustee on the relevant sale date) with an original weighted average LTV ratio (calculated in the manner agreed with Fitch from time to time) in excess of 80 per cent. does not exceed 40 per cent. of the outstanding principal balance of the loans in the portfolio;

(c) the current weighted average LTV ratio (calculated in the manner agreed with Fitch from time to time) of the loans in the portfolio (including any new portfolio to be sold to the mortgages trustee on the relevant sale date) does not exceed that calculated at the latest closing date plus two per cent.;

(d) the weighted average debt to income multiple of the loans in the portfolio (including any new portfolio to be sold to the mortgages trustee on the relevant sale date) (calculated in the manner agreed with Fitch from time to time) does not exceed that calculated at the latest closing date plus 0.35; and

(e) the outstanding principal balance of any loans in the portfolio (including any new portfolio to be sold to the mortgages trustee on the relevant sale date) with an interest only part does not exceed 50 per cent. of the outstanding principal balance of the loans in the portfolio,

as such conditions may be amended from time to time by agreement between the servicer and Fitch

**fixed rate note** — a note, the interest basis of which is specified in the applicable final terms or drawdown prospectus as being fixed rate

**fixed security** — a form of security which means that the chargor is not allowed to deal with the assets subject to the charge without the consent of the chargee

**flexible loan** — a type of loan product that typically incorporates features that give the borrower options to, among other things, make further drawings on the loan account and/or to overpay or underpay interest and principal in a given month

**flexible loan drawing** — any further drawing of monies made by a borrower under a flexible loan other than the initial advance

**floating charge** — a form of charge which is not attached to specific assets but which “floats” over a class of them and which allows the chargor to deal with those assets in the every day course of its business, up until the point that the floating security is enforced, at which point it crystallises into a fixed

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| | security |
| **floating rate note** | a note, the interest basis of which is specified in the applicable final terms or drawdown prospectus as being floating rate |
| **fourth issuer** | Permanent Financing (No. 4) PLC (registered number 4988201), a public limited company incorporated under the laws of England and Wales, whose registered office is at 43-45 Portman Square, London W1H 6LY (this company is now dissolved) |
| **fourth issuer closing date** | 12 March 2004 |
| **fourth issuer intercompany loan agreement** | the fourth issuer intercompany loan confirmation and the intercompany loan terms and conditions together entered into on the fourth issuer closing date by the fourth issuer, Funding 1 and the security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **fourth start-up loan** | the start-up loan that the fourth start-up loan provider made available to Funding 1 pursuant to the fourth start-up loan agreement |
| **fourth start-up loan agreement** | the agreement entered into on the fourth issuer closing date between Funding 1, the fourth start-up loan provider and the security trustee relating to the provision of the fourth start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **fourth start-up loan provider** | initially Halifax and as of the reorganisation date, Bank of Scotland, in its capacity as provider of the fourth start-up loan |
| **Framework** | the regulatory capital framework described in the Basel Committee on Banking Supervision's publication, *International Convergence of Capital Measurement and Capital Standards: a Revised Framework (Comprehensive Version)* |
| **FSA** | the UK Financial Services Authority |
| **FSCS** | has the meaning given to it under "**Risk factors – Risks relating to the Banking Act 2009**" above |
| **FSMA** | the Financial Services and Markets Act 2000, as amended |
| **funding date** | in relation to any Funding 1 Z loan or Funding 2 Z loan has the meaning given to it in the Funding 1 Z loan agreement or the Funding 2 Z loan agreement (as the case may be) |
| **Funding 1** | Permanent Funding (No. 1) Limited |
| **Funding 1 agreements** | each of the transaction documents to which Funding 1 is a party (as the same may be amended, varied and/or supplemented from time to time) |
| **Funding 1 available principal receipts** | on the day falling four business days prior to each Funding 1 interest payment date, an amount equal to the aggregate of:<br>(a) all Funding 1 principal receipts received by Funding 1 during the interest period ending on the relevant Funding 1 interest payment date;<br>(b) all other Funding 1 principal receipts standing to the credit of the cash accumulation ledger which are to be applied on the next Funding 1 interest payment date to repay a bullet term advance and/or, subject to rule 1 as set out in paragraph 2.2(a) of part 2 of schedule 3 to the Funding 1 deed of charge, a scheduled amortisation instalment, or to make a payment under items (a), (b) or (c) of the Funding 1 pre-enforcement principal priority of payments and, if such Funding 1 interest payment date occurs on or after a trigger event, the remainder of such receipts standing to |

the credit of the cash accumulation ledger;

(c) the amounts (if any) to be credited to the Funding 1 principal deficiency ledger pursuant to the Funding 1 pre-enforcement revenue priority of payments on the relevant Funding 1 interest payment date;

(d) in so far as available for and needed to make eligible liquidity facility principal repayments, any amounts available to be drawn under the Funding 1 liquidity facility (but less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in paragraphs (a) to (f) inclusive, (h), (j) and (l) of the Funding 1 pre-enforcement revenue priority of payments plus any amounts which will be repaid to the Funding 1 liquidity facility provider under item (a) of the relevant priority of payments (relating to the allocation of Funding 1 available principal receipts) on the next Funding 1 interest payment date (i.e. occurring at the end of such period of four business days) to the extent that such repayment is available to be redrawn on that Funding 1 interest payment date);

(e) in so far as available for and needed to make eligible general reserve fund principal repayments, the amount that would then be standing to the credit of the general reserve ledger (but less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in paragraphs (a) to (n) (inclusive) of the Funding 1 pre-enforcement revenue priority of payments) plus any amounts which will be credited to the general reserve ledger under item (b) of the relevant priority of payments (relating to the allocation of Funding 1 available principal receipts) on the next Funding 1 interest payment date (i.e. occurring at the end of such period of four business days);

(f) in so far as available for and needed to make eligible liquidity reserve fund principal repayments, the amount that would then be standing to the credit of the liquidity reserve ledger (but less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in paragraphs (a) to (f) (inclusive), (h), (j) and (l) of the Funding 1 pre-enforcement revenue priority of payments plus) any amounts which will be credited to the liquidity reserve ledger under item (c) of the relevant priority of payments (relating to the allocation of Funding 1 available principal receipts) on the next Funding 1 interest payment date (i.e. occurring at the end of such period of four business days);

Less

(g) the amounts to be applied on the relevant Funding 1 interest payment date to pay the items in paragraphs (a) to (f) (inclusive), (h), (j) and (l) of the Funding 1 pre-enforcement revenue priority of payments

**Funding 1 available revenue receipts**

an amount calculated for each Funding 1 interest payment date on the day falling four business days prior to such Funding 1 interest payment date, and equal to the aggregate of:

(a) all mortgages trust available revenue receipts distributed or to be distributed to Funding 1 during the then current interest period;

(b) any amounts paid or to be paid by the seller to Funding 1 during the then current interest period in consideration of the seller acquiring a further interest in the trust property;

(c) other net income of Funding 1 including all amounts of interest received on the Funding 1 GIC account, the Funding 1 transaction account and/or authorised investments and amounts received by Funding 1 under the Funding 1 swap agreement (excluding (without double counting) (i) any early termination amount received by Funding 1 under the Funding 1 swap agreement, which is to be applied in acquiring a replacement swap agreement for the Funding 1 swap agreement and (ii) any excess swap collateral or swap collateral relating to the Funding 1 swap agreement, except to the extent that the value of such collateral has been applied, pursuant to the provisions of the Funding 1 swap agreement, to reduce the amount that would otherwise be payable by the Funding 1 swap provider to Funding 1 on early termination of the Funding 1 swap and, to the extent so applied in reduction of the amount otherwise payable by the Funding 1 swap provider, such collateral is not to be applied in acquiring a replacement swap agreement for the Funding 1 swap agreement (each such excluded amount, to the extent due and payable under the terms of the Funding 1 swap agreement, to be paid directly to the Funding 1 swap provider without regard to the Funding 1 priority of payments and in accordance with the terms of the Funding 1 deed of charge), in each case to be received during the then current interest period;

(d) the amounts then standing to the credit of the Funding 1 general reserve ledger;

(e) if a liquidity reserve fund rating event has occurred and is continuing, and there are no amounts standing to the credit of the Funding 1 general reserve ledger, the amounts then standing to the credit of the Funding 1 general reserve ledger and available to be drawn, to the extent necessary to pay the items in paragraphs (a) to (f) (inclusive), (h), (j) and (l) of the Funding 1 pre-enforcement revenue priority of payments;

(f) if a liquidity reserve fund rating event has occurred but is no longer continuing due to an increase in the seller's rating since the preceding Funding 1 interest payment date, and Funding 1 elects to terminate the liquidity reserve fund, all amounts standing to the credit of the liquidity reserve ledger;

(g) any amounts standing to the credit of the liquidity reserve ledger in excess of the liquidity reserve fund required amount as a result of a reduction in the liquidity reserve fund required amount; and

(h) any amount standing to the credit of the Funding 1 transaction account to the extent equal to the principal amount advanced to Funding 1 by the first start-up loan provider by way of a Funding 1 start-up loan, the second start-up loan provider by way of a Funding 1 start-up loan, the third start-up loan provider by way of a Funding 1 start-up loan, the fourth start-up loan provider by way of a Funding 1 start-up loan, the fifth start-up loan provider by way of a Funding 1 start-up loan, the sixth start-up loan provider by way of a Funding 1 start-up loan, the seventh start-up loan provider by way of a Funding 1 start-up loan, the eighth start-up loan provider by way of a Funding 1 start-up loan and the ninth start-up loan provider by way of a Funding 1 start-up loan, and not required by Funding 1 to meet its costs and expenses,

and, for the avoidance of doubt, Funding 1 available revenue receipts does not include:

(i) any payment made by the seller to Funding 1 during the then

current interest period of the amount outstanding under a master intercompany loan; and

(ii) the proceeds of any new intercompany loan received by Funding 1 during the then current interest period

**Funding 1 cash accumulation ledger** — a ledger maintained by the cash manager to record the amount accumulated by Funding 1 from time to time to pay Funding 1's relevant accumulation amounts

**Funding 1 deed of charge** — the deed of charge entered into on the initial closing date, as amended from time to time

**Funding 1 general reserve fund** — the fund established from the proceeds of the first start up loan, the second start-up loan, the third start-up loan, the fourth start-up loan, the fifth start-up loan, the seventh start-up loan, the eighth start-up loan, the ninth start-up loan, the tenth start-up loan, the eleventh start-up loan, the twelfth start-up loan and any new start-up loan provided to Funding 1 (with respect to a Funding 1 issuing entity) to meet any deficit in revenue receipts or principal receipts

**Funding 1 general reserve fund threshold** — the lesser of:

(a) the Funding 1 reserve required amount; and

(b) the highest amount which the adjusted Funding 1 general reserve fund level has been at since the first Funding 1 interest payment date upon which interest is due and payable in respect of term advances made upon the closing date relating to the then most recent issue of Funding 1 notes

**Funding 1 general reserve ledger** — the ledger maintained by the cash manager to record the amount credited to the Funding 1 general reserve fund from proceeds of any start-up loan made to Funding 1, and other withdrawals and deposits in respect of the Funding 1 general reserve fund

**Funding 1 GIC account** — the account in the name of Funding 1 held at Bank of Scotland and maintained subject to the terms of (among others) the bank account agreement and the Funding 1 deed of charge, or such additional or replacement bank account as may for the time being be in place

**Funding 1 intercompany loan** — the loan made available to Funding 1 pursuant to each Funding 1 intercompany loan agreement

**Funding 1 intercompany loan agreement** — each intercompany loan agreement entered into or to be entered into by Funding 1, the relevant Funding 1 issuing entity and the Funding 1 security trustee

**Funding 1 interest payment date** — the 10th day of March, June, September and December in each year (or, if such a day is not a business day, the next succeeding business day)

**Funding 1 interest period** — the period from (and including) the applicable Funding 1 interest payment date to (but excluding) the next following Funding 1 interest payment date

**Funding 1 issuing entities** — each of the first issuer, the second issuer, the third issuer, the fourth issuer, the fifth issuer, the sixth issuer, the seventh issuer, the eighth issuer and the ninth issuer so long as each such entity has Funding 1 notes outstanding and any other issuing entities issuing Funding 1 notes and entering into intercompany loan agreements with Funding 1 from time to time

**Funding 1 issuing entities security trustee** — The Bank of New York Mellon

**Funding 1 liquidity facility** — the sterling advances facility made in respect of certain of the payment

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| | obligations of Funding 1 arising out of the first issuer intercompany loan agreement and/or the second issuer intercompany loan agreement and/or the third issuer intercompany loan agreement and/or the fourth issuer intercompany loan agreement and/or the fifth issuer intercompany loan agreement and/or the sixth issuer intercompany loan agreement and/or the seventh issuer intercompany loan agreement and/or the eighth issuer intercompany loan agreement and/or the ninth issuer intercompany loan agreement |
| **Funding 1 liquidity facility agreement** | the liquidity facility agreement made on the initial closing date as amended and restated on the second issuer closing date, the third issuer closing date, the fourth issuer closing date, the fifth issuer closing date, the sixth issuer closing date, the seventh issuer closing date, the eighth issuer closing date and as further amended and restated on the ninth issuer closing date and from time to time between Funding 1, the Funding 1 liquidity facility provider, the cash manager and the security trustee pursuant to which the Funding 1 liquidity facility provider agreed to provide Funding 1, from time to time during the Funding 1 liquidity facility commitment period, with advances for the purposes specified therein, subject to and in accordance with the terms thereof (as the same may be further amended, restated, supplemented, replaced and/or novated from time to time) |
| **Funding 1 liquidity facility commitment period** | subject to the Funding 1 liquidity facility agreement, the period from and including the initial closing date up to and excluding the Funding 1 liquidity facility commitment termination date |
| **Funding 1 liquidity facility commitment termination date** | subject to being extended in accordance with of the Funding 1 liquidity facility agreement, the date falling 364 days after the initial closing date or, if such date is not a business day, the preceding business day or, if earlier, the date on which the Funding 1 liquidity facility commitment is reduced to zero pursuant to the provisions of the Funding 1 liquidity facility agreement |
| **Funding 1 liquidity facility drawing** | a drawing made under the Funding 1 liquidity facility agreement |
| **Funding 1 liquidity facility provider** | JPMorgan Chase Bank, N.A. acting through its office at 25 Bank Street, London E14 5JP and/or such other bank or banks with at least the requisite ratings which agrees to provide a liquidity facility to Funding 1 on substantially similar terms to the Funding 1 liquidity facility agreement |
| **Funding 1 liquidity facility stand-by drawing** | a drawing made under the Funding 1 liquidity facility agreement |
| **Funding 1 liquidity reserve fund** | the fund established pursuant to the Funding 1 deed of charge in the event that a liquidity reserve fund rating event in respect of Funding 1 occurs |
| **Funding 1 liquidity reserve ledger** | the ledger to be maintained by the cash manager pursuant to the cash management agreement relating to the Funding 1 liquidity reserve fund |
| **Funding 1 noteholders** | the holders of the Funding 1 notes |
| **Funding 1 note trustees** | The Bank of New York Mellon |
| **Funding 1 notes** | notes issued by Funding 1 issuing entities, the proceeds of which were advanced to Funding 1 pursuant to the Funding 1 intercompany loan agreements |
| **Funding 1 pre-enforcement principal priority of payments** | the order of priority in which, prior to enforcement of the Funding 1 security, the cash manager will apply the Funding 1 available principal receipts on each Funding 1 interest payment date |
| **Funding 1 pre-enforcement revenue priority of payments** | the order in which, prior to service of an acceleration notice on Funding 1 under a Funding 1 intercompany loan, the cash manager will apply available revenue receipts of Funding 1 on each Funding 1 interest |

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| | payment date |
| **Funding 1 principal deficiency ledger** | the ledger of such name maintained by the cash manager, comprising various sub-ledgers and which records any deficiency of principal (following a loss on a loan or the application of principal receipts to meet any deficiency in Funding 1 available revenue receipts) in respect of payments due under a Funding 1 intercompany loan |
| **Funding 1 principal deficiency sub-ledger** | singly or together (as the context may require) the AAA Funding 1 principal deficiency sub-ledger, the AA Funding 1 principal deficiency sub-ledger, the A Funding 1 principal deficiency sub-ledger, the BBB Funding 1 principal deficiency sub-ledger, the BB Funding 1 principal deficiency sub-ledger, the Funding 1 Z loan principal deficiency sub-ledger and/or such additional principal deficiency sub-ledgers that may be established in connection with Funding 1 from time to time after the initial closing date |
| **Funding 1 principal receipts** | the Funding 1 share of principal receipts received by Funding 1 from the mortgages trustee on each distribution date |
| **Funding 1 reserve required amount** | (i) as at the restructuring date, an amount equal to £84,200,000; (ii) thereafter until the interest payment date on which all Funding 1 notes are fully repaid, such lesser amount which the rating agencies have confirmed will not cause the ratings of the notes of any Funding 1 issuing entity to be reduced, withdrawn or qualified, and which is notified to Funding 1 noteholders in the monthly investor report and (iii) on the interest payment date on which all Funding 1 notes are fully repaid, zero |
| **Funding 1 revenue ledger** | a ledger maintained by the cash manager to record all amounts received by Funding 1 from the mortgages trustee on each distribution date (other than principal receipts) together with interest received by Funding 1 on its authorised investments or pursuant to the bank account agreement |
| **Funding 1 secured creditors** | any entity (other than Funding 1) which is a party to the Funding 1 deed of charge and any other entity that accedes to the terms of the Funding 1 deed of charge from time to time |
| **Funding 1 security** | the security granted by Funding 1 to the Funding 1 security trustee under and pursuant to the terms of the Funding 1 deed of charge |
| **Funding 1 security trustee** | The Bank of New York Mellon |
| **Funding 1 share** | the Funding 1 share of the trust property from time to time, as calculated on each calculation date |
| **Funding 1 share percentage** | the Funding 1 share percentage of the trust property from time to time as calculated on each calculation date |
| **Funding 1 swap** | the swap documented under the Funding 1 swap agreement which enables Funding 1 to hedge against possible variance between the mortgages trustee variable base rate payable on the variable rate loans, the fixed rates of interest on the fixed rate loans and the rates of interest payable on tracker rate loans and a LIBOR-based rate for three-month sterling deposits |
| **Funding 1 swap agreement** | the ISDA master agreement and schedule thereto entered into on or about 14 June 2002, as amended from time to time, between Funding 1, the Funding 1 swap provider and the Funding 1 security trustee and any confirmation documented thereunder from time to time between Funding 1, the Funding 1 swap provider and the Funding 1 security trustee (as each of the same may be amended, restated, novated or supplemented from time to time) |
| **Funding 1 swap collateral accounts** | the Funding 1 swap collateral cash accounts and the Funding 1 swap collateral securities accounts |
| **Funding 1 swap collateral cash** | any account or accounts held in the name of Funding 1 for the purposes of |

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| **account** | holding swap collateral in the form of cash |
| **Funding 1 swap collateral securities account** | any account held in the name of Funding 1 for the purposes of holding swap collateral in the form of securities (including for the avoidance of doubt any associated cash account) |
| **Funding 1 swap provider** | initially Halifax and as of the reorganisation date, Bank of Scotland acting in its capacity as the Funding 1 swap provider pursuant to the Funding 1 swap agreement and thereafter such other person to whom the Funding 1 swap is novated or who assumes the obligations of the Funding 1 swap provider under the Funding 1 swap agreement |
| **Funding 1 transaction account** | the account in the name of Funding 1 held at the account bank and maintained subject to the terms of the bank account agreement, or such other additional or replacement bank account as may for the time being be in place with the prior consent of the Funding 1 security trustee and the rating agencies |
| **Funding 1 transaction documents** | all documents entered into in connection with the Funding 1 notes |
| **Funding 1 Z loan agreement** | the agreement entered into on the restructuring date between Funding 1, Bank of Scotland as the Funding 1 Z loan provider and the Funding 1 security trustee (as the same may be amended, restated, varied, novated, replaced, or supplemented from time to time) or a new Funding 1 Z loan agreement |
| **Funding 1 Z loan provider** | Bank of Scotland or a new Funding 1 Z loan provider under the relevant new Funding 1 Z loan agreement |
| **Funding 1 Z loan principal deficiency sub-ledger** | the sub-ledger of the Funding 1 principal deficiency ledger corresponding to the Funding 1 Z loans which will be established and maintained pursuant to the cash management agreement |
| **Funding 1 Z loan required amount** | (i) as at the restructuring date £1,081,100,000; (ii) on and from the Funding 1 interest payment date falling in September 2011, subject to the sixth issuer series 5 class A1 notes, the sixth issuer series 5 class A2 notes, the sixth issuer series 5 class B notes and the sixth issuer series 5 class C notes having been fully repaid on that date, £806,500,000; (iii) on and from the Funding 1 interest payment date falling in December 2011, subject to the seventh issuer series 5 class A notes, the eighth issuer series 5 class A1 notes, the eighth issuer series 5 class A2 notes and the eighth issuer series 5 class A3 notes being fully repaid on that date £356,800,000; and on the interest payment date on which all remaining Funding 1 notes are fully repaid, zero |
| **Funding 1 Z loans** | each Funding 1 Z loan that the Funding 1 Z loan provider will make available to Funding 1 pursuant to clause 2 of the Funding 1 Z loan agreement and each new Funding 1 Z loan that a new Funding 1 Z loan provider will make available to Funding 1 pursuant to a new Funding 1 Z loan agreement |
| **Funding 2** | Permanent Funding (No. 2) Limited |
| **Funding 2 available principal receipts** | has the meaning given to it under "**Cashflows – Distribution of Funding 2 available principal receipts**" above |
| **Funding 2 available revenue receipts** | has the meaning given to it under "**Cashflows – Definition of Funding 2 available revenue receipts**" above |
| **Funding 2 bank account** | the Funding 2 GIC account, the Funding 2 transaction account, the Funding 2 swap collateral accounts, the Funding 2 collateralised GIC account, any Funding 2 eligible bank GIC account and any additional or replacement bank accounts held in the name of Funding 2 from time to time with the prior written consent of the security trustee |

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| **Funding 2 cash accumulation ledger** | a ledger maintained by the cash manager to record the amount accumulated by Funding 2 from time to time to pay the relevant accumulation amounts |
| **Funding 2 collateralised GIC account** | the account in the name of Funding 2 maintained with the account bank pursuant to the terms of the bank account agreement and maintained subject to the Funding 2 guaranteed investment contract and certain collateralisation requirements, or such additional or replacement account as may for the time being be in place |
| **Funding 2 collateralised GIC account bank** | Bank of Scotland |
| **Funding 2 collateral security agreement** | the security agreement entered into by Funding 2 and Bank of Scotland in respect of the obligations of Bank of Scotland, as account bank, in respect of the Funding 2 collateralised GIC account |
| **Funding 2 deed of charge** | the deed of charge entered into on or about the programme date between Funding 2, the Funding 2 security trustee and the Funding 2 secured creditors on such date, as amended from time to time, including any deeds of accession or supplements thereto in connection with the issuance of notes and/or the advance of a subordinated loan and/or the advance of a Funding 2 Z loan |
| **Funding 2 deposit non-reserved amounts** | as of any date of determination, all amounts whatsoever received by or on behalf of Funding 2 other than the sum of (i) all amounts (including, if applicable estimates of any amounts) required to pay items (a) to (n) of the Funding 2 Pre-Enforcement Revenue Priority of Payments on the next upcoming Funding 1 payment date, (ii) any amount being accumulated in respect of any bullet term advance where a failure to pay the amounts accumulated in respect of such bullet term advance at the end of the cash accumulation period would be an event of default in respect of that bullet term advance and (iii) amounts standing to the credit of the Funding 2 swap collateral cash account; provided that, in calculating any estimates of amounts as set forth under (i) above, such estimates will be based on the higher of (1) the cash manager's best estimates, acting reasonably and (2) either (at the cash manager's discretion, acting reasonably, based on market fluctuations) (A) the equivalent amounts paid in respect of such items on the immediately preceding Funding 2 payment date, or (B) the product of the equivalent amounts paid in respect of such item on the immediately preceding Funding 2 payment date multiplied by 1.5 (in the cause of (A) and (B), the amounts to be used for any such calculation shall be the corresponding amounts as evidenced by the most recent applicable investor report) |
| **Funding 2 eligible bank GIC account** | a sterling account opened pursuant to the bank account agreement in the name of Funding 2 and to be held with the agent account bank in accordance with the bank account agreement or such other bank account agreement entered into by Funding 2 with the agent account bank pursuant to the bank account agreement and the Funding 2 deed of charge and/or such additional or replacement account as may for the time being be in place with the prior consent of the Funding 2 security trustee |
| **Funding 2 excess margin interest amount** | in respect of a Funding 2 yield reserve loan tranche and each Funding 2 interest payment date, the total amount of interest due and payable on that Funding 2 yield reserve loan tranche on that Funding 2 interest payment date less the Funding 2 yield reserve loan primary interest amount due on that Funding 2 yield reserve loan tranche on such date |
| **Funding 2 general reserve fund** | at any time the amount standing to the credit of the Funding 2 general reserve ledger at that time, which may be used in certain circumstances by Funding 2 to meet any deficit in revenue or to repay certain amounts of principal, as described further in "***Credit* structure – Funding 2 general** |

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| | **reserve fund**" above |
| **Funding 2 general reserve fund required amount** | (a) prior to the restructuring date, the amount specified as such in the most recent final terms or drawdown prospectus<br>(b) as at the restructuring date, £363,900,000, and<br>(c) thereafter, the amount specified as such in the most recent final terms or drawdown prospectus |
| **Funding 2 general reserve fund threshold** | the lesser of:<br>(a) the Funding 2 reserve required amount; and<br>(b) the highest amount which the adjusted Funding 2 general reserve fund level has been at since the first Funding 2 interest payment date upon which interest is due and payable in respect of loan tranches made upon the relevant closing date relating to the most recent issue of notes |
| **Funding 2 general reserve ledger** | a ledger maintained by the cash manager to record the amount credited to the Funding 2 general reserve fund from the proceeds of a portion of each Funding 2 start-up loan, and other withdrawals and deposits in respect of the Funding 2 general reserve fund |
| **Funding 2 GIC account** | the account in the name of Funding 2 maintained with the account bank pursuant to the terms of the bank account agreement and maintained subject to the Funding 2 guaranteed investment contract, or such additional or replacement account as may for the time being be in place |
| **Funding 2 GIC provider** | Bank of Scotland |
| **Funding 2 guaranteed investment contract** | the guaranteed investment contract entered into on or about the programme date, as amended from time to time, between Funding 2, the cash manager, the Funding 2 security trustee and the Funding 2 GIC provider under which the Funding 2 GIC provider agrees to pay Funding 2 a guaranteed rate of interest on the balance of the Funding 2 GIC account, as described further in "***Credit* structure – Mortgages trustee GIC account/Funding 2 GIC account**" above |
| **Funding 2 income deficit** | the amount of the shortfall between Funding 2 available revenue receipts and the amounts required to pay the items in paragraph (a) to (d) (inclusive), (f), (h), (j) and (l) of the Funding 2 pre-enforcement revenue priority of payments |
| **Funding 2 intercompany loan** | the loan made available to Funding 2 pursuant to each Funding 2 intercompany loan agreement, and includes (where the context requires) the master intercompany loan |
| **Funding 2 intercompany loan agreement** | each intercompany loan agreement entered into or to be entered into by Funding 2, the relevant Funding 2 issuing entity and the Funding 2 security trustee, and includes (where the context requires) the master intercompany loan agreement |
| **Funding 2 intercompany loan ledger** | the ledger on which the cash manager will record payments of interest and repayments of principal made under any Funding 2 intercompany loan |
| **Funding 2 interest payment date** | the 15th day of January, April, July and October of each year or, if such day is not a business day, the next succeeding business day |
| **Funding 2 issuing entities** | (as the context may require) Permanent Master Issuer PLC and/or any other issuing entities issuing notes and entering into intercompany loan agreements with Funding 2 from time to time |
| **Funding 2 ledgers** | the Funding 2 principal ledger, the Funding 2 revenue ledger, the Funding 2 general reserve ledger, the Funding 2 liquidity reserve ledger, the start- |

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| | up loan revenue contribution ledger, the Funding 2 principal deficiency ledger, the Funding 2 yield reserve ledger, the Funding 2 intercompany loan ledger, the Funding 2 cash accumulation ledger, the Funding 2 swap collateral ledger and the panel bank ledger |
| **Funding 2 liquidity reserve fund** | a liquidity reserve fund established on the occurrence of a liquidity reserve fund rating event in respect of Funding 2 to meet interest and principal shortfalls (in limited circumstances) on the rated loan tranches |
| **Funding 2 liquidity reserve fund required amount** | on any Funding 2 interest payment date, an amount equal to the excess (if any) of 3 per cent. of the aggregate outstanding balance of the notes on that Funding 2 interest payment date (taking into account any principal repayments to be made by the issuing entity on that date) over the aggregate of amounts standing to the credit of the Funding 2 general reserve fund on that Funding 2 interest payment date (taking into account any amount credited to the Funding 2 general reserve ledger on that date) |
| **Funding 2 liquidity reserve ledger** | a ledger maintained by the cash manager to record the withdrawals and deposits in respect of the Funding 2 liquidity reserve fund |
| **Funding 2 notes** | the notes issued by any Funding 2 issuing entities, and includes (where the context requires) the notes of the issuing entity |
| **Funding 2 post-enforcement priority of payments** | the order in which, following service of a master intercompany loan acceleration notice, the Funding 2 security trustee will apply the amounts received following service of a master intercompany loan acceleration notice (other than monies standing to the credit of the Funding 2 Yield Reserve Fund), as set out in "**Cashflows – Distribution of Funding 2 principal receipts and Funding 2 revenue receipts following master intercompany loan acceleration**" above |
| **Funding 2 pre-enforcement principal priority of payments** | the order in which, prior to service of a master intercompany loan acceleration notice the cash manager will apply the Funding 2 available principal receipts as set out in "**Cashflows – Distribution of Funding 2 available principal receipts**" above |
| **Funding 2 pre-enforcement revenue priority of payments** | the order in which, prior to service of a master intercompany loan acceleration notice, the cash manager will apply the Funding 2 available revenue receipts as set out in "**Cashflows – Distribution of Funding 2 available revenue receipts before master intercompany loan acceleration**" above |
| **Funding 2 principal deficiency ledger** | the ledger of such name established and maintained by the cash manager, comprising the AAA principal deficiency sub-ledger, the AA principal deficiency sub-ledger, the A principal deficiency sub-ledger, the BBB principal deficiency sub-ledger, the BB principal deficiency sub-ledger, the Funding 2 Z loan principal deficiency sub-ledger and the subordinated loan principal deficiency sub-ledger and which records any deficiency of principal (following a loss on a loan or the application of principal receipts to meet any deficiency in Funding 2 available revenue receipts or to fund the Funding 2 liquidity reserve fund up to the Funding 2 liquidity reserve fund required amount) in respect of payments due under the master intercompany loan agreement |
| **Funding 2 principal ledger** | a ledger maintained by the cash manager to record the amount of principal receipts received by Funding 2 from the mortgages trustee on each distribution date |
| **Funding 2 principal receipts** | the principal receipts paid by the mortgages trustee to Funding 2 on each distribution date |
| **Funding 2 priority of payments** | as the context requires, any of the Funding 2 pre-enforcement revenue priority of payments, the Funding 2 pre-enforcement principal priority of payments or the Funding 2 post-enforcement priority of payments |

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| **Funding 2 reserve funds** | the Funding 2 general reserve fund and the Funding 2 liquidity reserve fund |
| **Funding 2 reserve principal payment** | (i) prior to the occurrence of a trigger event;<br>(a) repayments of principal which are then due and payable in respect of the original bullet loan tranches; and<br>(b) repayments of principal in respect of original scheduled amortisation loan tranches on their respective final repayment dates only; and<br>(ii) on or after the occurrence of a trigger event, repayments of principal in respect of original bullet loan tranches and original scheduled amortisation loan tranches on their respective final repayment dates only,<br>in each case prior to the service of a master intercompany loan acceleration notice on Funding 2 |
| **Funding 2 reserve required amount** | the Funding 2 general reserve fund required amount |
| **Funding 2 revenue ledger** | a ledger maintained by the cash manager to record all amounts received by Funding 2 from the mortgages trustee on each distribution date other than principal receipts, together with interest received by Funding 2 on its authorised investments or pursuant to the bank account agreement |
| **Funding 2 secured creditors** | the Funding 2 security trustee, any receiver appointed by it, the Funding 2 swap provider, the cash manager, the account bank, the seller, the corporate services provider, each Funding 2 start-up loan provider, each Funding 2 Z Loan provider, the Funding 2 GIC Provider, the issuing entity and any other entity that accedes to the terms of the Funding 2 deed of charge from time to time |
| **Funding 2 security** | the security created under the Funding 2 deed of charge |
| **Funding 2 security trustee** | The Bank of New York Mellon |
| **Funding 2 share** | the Funding 2 share of the trust property from time to time, as calculated on each calculation date as described further in "**The mortgages trust – Funding 2 share of trust property**" above |
| **Funding 2 share percentage** | the Funding 2 share percentage of the trust property from time to time as calculated on each calculation date as described further in "**The mortgages trust – Funding 2 share of trust property**" above |
| **Funding 2 start-up loan agreements** | the Funding 2 start-up loan agreement entered into on or about the programme date and any other Funding 2 start-up loan agreement entered into in connection with the issuance of notes, in each case as amended from time to time |
| **Funding 2 start-up loan provider** | initially Halifax and since the reorganisation date Bank of Scotland, in its capacity as provider of each Funding 2 start-up loan and/or any other entity that provides a Funding 2 start-up loan to Funding 2 in the future |
| **Funding 2 start-up loans** | each loan made by a Funding 2 start-up loan provider under a Funding 2 start-up loan agreement in connection with the issuance of a series |
| **Funding 2 swap** | each swap documented under a Funding 2 swap agreement which enables Funding 2 to hedge against the possible variance between the mortgages trustee variable base rate payable on the variable rate loans, the fixed rates of interest payable on the fixed rate loans and the rates of interest payable on the tracker rate loans and either: (i) the LIBOR rate; or (ii) the weighted average of the compounded daily SONIA rates (as |

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| | applicable) for sterling deposits payable in respect of any outstanding loan tranches under the master intercompany loan agreement and in respect of any Funding 2 Z loans, as described further in "**The swap agreements – The Funding 2 swaps**" above |
| **Funding 2 swap agreement** | each ISDA master agreement and schedule thereto entered into on or about the programme date, as amended from time to time, between Funding 2, the Funding 2 swap provider and the Funding 2 security trustee and any confirmation documented thereunder from time to time between Funding 2, the Funding 2 swap provider and the Funding 2 security trustee (as each of the same may be amended, restated, novated or supplemented from time to time) |
| **Funding 2 swap collateral accounts** | the Funding 2 Swap collateral cash accounts and the Funding 2 swap collateral securities accounts |
| **Funding 2 swap collateral cash account** | means any account or accounts held in the name of Funding 2 for the purposes of holding swap collateral in the form of cash |
| **Funding 2 swap collateral ledger** | the ledgers maintained by the cash manager to record the swap collateral posted under the Funding 2 swap agreement and payments, transfers and receipts of the same, in accordance with the cash management agreement |
| **Funding 2 swap collateral securities account** | any account held in the name of Funding 2 for the purposes of holding swap collateral in the form of securities (including for the avoidance of doubt any associated cash account) |
| **Funding 2 swap excluded termination amount** | in relation to the Funding 2 swap agreement an amount equal to:<br>(a) the amount of any termination payment due and payable to the Funding 2 swap provider as a result of a Funding 2 swap provider default or following a Funding 2 swap provider downgrade termination event;<br>Less<br>(b) the amount, if any, received by Funding 2 from a replacement swap provider upon entry by Funding 2 into an agreement with such replacement swap provider to replace the Funding 2 swap which has terminated as a result of such Funding 2 swap provider default or following the occurrence of such Funding 2 swap provider downgrade termination event, provided that such amount has been paid by Funding 2 direct to the Funding 2 swap provider |
| **Funding 2 swap provider** | initially Halifax and, since the reorganisation date, Bank of Scotland, pursuant to the Funding 2 swap agreement and thereafter such other person to whom the Funding 2 swaps are novated or who assumes the obligations of the Funding 2 swap provider under the Funding 2 swap agreement |
| **Funding 2 swap provider default** | the occurrence of an event of default (as defined in the Funding 2 swap agreement) where the Funding 2 swap provider is the defaulting party (as defined in the Funding 2 swap agreement) |
| **Funding 2 swap provider downgrade termination event** | the occurrence of an additional termination event following the failure by the Funding 2 swap provider to comply with the requirements of the ratings downgrade provisions set out in the Funding 2 swap agreement |
| **Funding 2 transaction account** | the account in the name of Funding 2 maintained with the account bank pursuant to the bank account agreement or such additional or replacement account as may for the time being be in place |

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| **Funding 2 transaction documents** | the documents listed in paragraph (D) in "**Listing and general information**" above and any additional documents entered into in connection therewith |
| **Funding 2 yield reserve A loan tranches** | the A loan tranches which correspond to the class M Funding 2 yield reserve notes of any series to fund such A loan tranches |
| **Funding 2 yield reserve A sub-ledger** | a sub-ledger for all classes (or sub-classes) of class M Funding 2 yield reserve notes and, in each case, its corresponding Funding 2 yield reserve A loan tranche |
| **Funding 2 yield reserve AA loan tranches** | the AA loan tranches which correspond to the class B Funding 2 yield reserve notes of any series to fund such AA loan tranches |
| **Funding 2 yield reserve AA sub-ledger** | a sub-ledger for all classes (or sub-classes) of class B Funding 2 yield reserve notes and, in each case, its corresponding Funding 2 yield reserve AA loan tranche |
| **Funding 2 yield reserve AAA loan tranches** | the AAA loan tranches which correspond to the class A Funding 2 yield reserve notes of any series to fund such AAA loan tranches |
| **Funding 2 yield reserve AAA sub-ledger** | a sub-ledger for all classes (or sub-classes) of class A Funding 2 yield reserve notes and, in each case, its corresponding Funding 2 yield reserve AAA loan tranche |
| **Funding 2 yield reserve BB loan tranches** | the BB loan tranches which correspond to the class D Funding 2 yield reserve notes of any series to fund such BB loan tranches |
| **Funding 2 yield reserve BB sub-ledger** | a sub-ledger for all classes (or sub-classes) of class D Funding 2 yield reserve notes and, in each case, its corresponding Funding 2 yield reserve BB loan tranche |
| **Funding 2 yield reserve BBB loan tranches** | the BBB loan tranches which correspond to the class C Funding 2 yield reserve notes of any series to fund such BBB loan tranches |
| **Funding 2 yield reserve BBB sub-ledger** | a sub-ledger for all classes (or sub-classes) of class C Funding 2 yield reserve notes and, in each case, its corresponding Funding 2 yield reserve BBB loan tranche |
| **Funding 2 yield reserve fund** | the fund established from the proceeds of a Funding 2 start-up loan and any new Funding 2 start-up loan with respect to a Funding 2 issuer and standing to the credit of the Funding 2 yield reserve ledger |
| **Funding 2 yield reserve ledger** | the ledger (which comprises the Funding 2 yield reserve sub-ledgers) maintained by the cash manager to record (i) on each relevant closing date on which any Funding 2 yield reserve notes are issued, (a) an amount drawn down on such closing date by Funding 2 pursuant to a start-up loan agreement for the purposes of funding the Funding 2 yield reserve fund (or any other similar reserve fund) or (b) an amount received by Funding 2 from another source of funds for the purposes of funding the Funding 2 yield reserve fund (or any other similar reserve fund) and (ii) drawings made under the Funding 2 yield reserve fund |
| **Funding 2 yield reserve loan primary interest amount** | in respect of each Funding 2 interest payment date, the aggregate of the amount, in respect of each Funding 2 yield reserve loan tranche, equal to the product of (a) the principal amount outstanding of the Funding 2 yield reserve loan tranche (b) a rate of interest equal to a rate of three month LIBOR plus the Funding 2 yield reserve primary revenue margin and (c) (i) in relation to a Funding 2 yield reserve loan tranche that corresponds to notes, other than fixed rate notes, denominated in GBP, the actual days elapsed in the relevant loan tranche interest period divided by 365 (or, if any portion of that interest period falls in a leap year, the sum of (A) the actual number of days in that portion of the interest period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the interest period falling in a non-leap year divided by 365) or (ii) in |

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| | relation to a Funding 2 yield reserve loan tranche that corresponds to any fixed rate notes or any notes denominated in a currency other than GBP, the actual days elapsed in the relevant interest period divided by 365 |
| **Funding 2 yield reserve loan tranche** | any loan tranche corresponding to a class of Funding 2 yield reserve notes used to fund such loan tranche on the relevant closing date of that loan tranche |
| **Funding 2 yield reserve notes** | any series and class of notes with respect to a Funding 2 issuing entity which are specified in the applicable final terms or drawdown prospectus as having the benefit of the Funding 2 yield reserve fund |
| **Funding 2 yield reserve priority of payments** | the order in which, prior to service of a master intercompany loan acceleration notice on Funding 2, the cash manager or (following service of a master intercompany loan acceleration notice on Funding 2) the Funding 2 security trustee will apply the amounts standing to the credit of the Funding 2 yield reserve fund, as set out in "**Cashflows – Distribution of amounts standing to the credit of the Funding 2 yield reserve fund before and after master intercompany loan acceleration**" above |
| **Funding 2 yield reserve primary revenue margin** | in respect of:<br>(a) the 2011-2 series 3 class A Funding 2 yield reserve loan tranches, from the issue date up to and excluding the step-up date 1.45 per cent. per annum, thereafter 1.2 per cent per annum; or<br>(b) in respect of any other Funding 2 yield reserve loan tranche, the amount specified in the applicable final terms |
| **Funding 2 yield reserve reduction amount** | the amount specified as such in the applicable final terms for each series and class (or sub-class) of Funding 2 yield reserve notes |
| **Funding 2 yield reserve reduction date** | the Funding 2 interest payment date specified as such in the applicable final terms or drawdown prospectus for each series and class (or sub-class) of Funding 2 yield reserve notes |
| **Funding 2 yield reserve required amount** | (a) as at the restructuring date, £107,510,000, and<br>(b) thereafter, the amount specified as such in the most recent final terms or drawdown prospectus |
| **Funding 2 yield reserve sub-ledgers** | singly or together (as the context requires) the Funding 2 yield reserve AAA sub-ledger, the Funding 2 yield reserve AA sub-ledger, the Funding 2 yield reserve A sub-ledger, the Funding 2 yield reserve BBB sub-ledger and the Funding 2 yield reserve BB sub-ledger |
| **Funding 2 Z loan agreement** | the agreement entered into on the restructuring date between Funding 2, Bank of Scotland as the Funding 2 Z loan provider and the Funding 2 security trustee (as the same may be amended, restated, varied, novated, replaced or supplemented from time to time) or a new Funding 2 Z loan agreement |
| **Funding 2 Z loan principal deficiency sub-ledger** | the sub-ledger of the Funding 2 principal deficiency ledger corresponding to the Funding 2 Z loans which will be established and maintained pursuant to the cash management agreement |
| **Funding 2 Z loan provider** | Bank of Scotland or a new Funding 2 Z loan provider under the relevant new Funding 2 Z loan agreement |
| **Funding 2 Z loan required amount** | (a) as at the restructuring date, means £1,820,900,000 and<br>(b) thereafter, has the meaning given to such term in the most recent final terms or drawdown prospectus |

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| **Funding 2 Z loans** | each Funding 2 Z loan that the Funding 2 Z loan provider will make available to Funding 2 pursuant to the Funding 2 Z loan agreement and each new Funding 2 Z loan that a new Funding 2 Z loan provider will make available to Funding 2 pursuant to new Funding 2 Z loan agreement |
| **Funding account bank required ratings** | (a) unsecured, unsubordinated and unguaranteed debt obligations rated at least A-1 short term and A long term (or if not at least A-1 short term, A+ long term) by S&P (the **Funding S&P required ratings**);<br>(b) short term unsecured, unsubordinated and unguaranteed debt obligations rated at least P-1 by Moody's (the **Funding Moody's required ratings**); and<br>(c) unsecured, unsubordinated and unguaranteed debt obligations rated at least F1 short term and A long term by Fitch (the **Funding Fitch required ratings**) |
| **Funding beneficiary** | Funding 1 or Funding 2 (as the case may be) |
| **Funding security trustees** | the Funding 1 security trustee and the Funding 2 security trustee |
| **further advance** | in relation to a loan, an advance made following a request from an existing borrower for a further amount to be lent to him or her under his or her mortgage, where the seller has a discretion as to whether to accept that request, which does not include a drawing under a flexible loan or a retention drawing or a delayed cashback or a home cash reserve drawing |
| **general reserve fund** | the Funding 1 General Reserve Fund |
| **general reserve ledger** | as the context requires, either (a) the Funding 1 general reserve ledger or (b) the Funding 2 general reserve ledger |
| **GIC collateral custody account** | the securities account listed in the eligible custody agreement, maintained by the eligible GIC custodian for the account of Bank of Scotland (as Funding 2 collateralised GIC account bank), and any successor or replacement securities account maintained by the eligible GIC custodian for the account of Bank of Scotland (as the Funding 2 collateralised GIC account bank) under the eligible custody agreement and notified to Funding 2 and the Funding 2 security trustee |
| **global notes** | the notes in global form |
| **Halifax** | Halifax plc, whose business was transferred to Bank of Scotland in accordance with the HBOS Group Reorganisation Act 2006 on the reorganisation date (see "**Bank of Scotland plc**" above) |
| **Halifax flexible variable rate** | the variable rate applicable to flexible loans originated by Halifax or by Bank of Scotland under the Halifax brand |
| **Halifax intermediary** | Halifax General Insurance Services Limited and/or such other person as may be authorised to issue buildings policies to borrowers on behalf of the Halifax policies insurer |
| **Halifax policies** | those of the buildings policies which are issued to borrowers by the seller and/or a Halifax intermediary on behalf of the Halifax policies insurer |
| **Halifax policies insurer** | in relation to policies issued before 1 January 2004 Royal & Sun Alliance Insurance plc and in relation to policies or renewals issued on and after 1 January 2004, St Andrew's Insurance and/or any other insurer who agrees with the seller to issue buildings insurance policies to borrowers from time to time as a consequence of an introduction or intermediation by a Halifax intermediary |
| **HBOS Group** | HBOS plc and each of its subsidiaries and affiliates |

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| **HHVR** | a variable mortgage rate set by the seller which applies to certain loans originated from 4 January 2011 beneficially owned by the seller on the seller's residential mortgage book |
| **high loan-to-value fee or high LTV fee** | a fee incurred by a borrower as a result of taking out a loan with an LTV ratio in excess of a certain percentage specified in the offer conditions |
| **Holdings** | Permanent Holdings Limited |
| **home cash reserve** | a further advance product which is linked to a borrower's mortgage whereby a borrower may draw additional funds from time to time |
| **home cash reserve drawing** | a drawing in full or in part by the borrower under a home cash reserve |
| **HVR 1** | a variable mortgage rate set by the seller which applies to certain loans originated from 1 February 2002 until 3 January 2011 beneficially owned by the seller on the seller's residential mortgage book |
| **HVR 2** | a second variable rate that was made available to borrowers between 1 March 2001 and 1 February 2002 |
| **in arrears** | in respect of a mortgage account, occurs when one or more monthly payments in respect of a mortgage account have become due and unpaid by a borrower |
| **industry CPR** | a constant repayment rate which is calculated by dividing the amount of scheduled and unscheduled repayments of mortgages made by building societies in a quarter by the quarterly balance of mortgages outstanding for building societies in the United Kingdom |
| **initial advance** | in relation to a 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 and does not include any (a) high loan-to-value fee, (b) further advance, (c) flexible loan drawing, (d) home cash reserve drawing and (e) early repayment fee |
| **initial closing date** | 14 June 2002 |
| **initial loans** | the loans sold by the seller to the mortgages trustee on the initial closing date pursuant to the terms of the mortgage sale agreement |
| **Insolvency Act** | the Insolvency Act 1986 (as amended) |
| **insolvency event** | in respect of the seller, the servicer, the cash manager or the issuing entity cash manager (each, for the purposes of this definition, a **relevant entity**) means:<br>(a) an order is made or an effective resolution passed for the winding up of the relevant entity;<br>(b) the relevant entity ceases or threatens to cease to carry on its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of section 123(i)(a), (b), (c) or (d) of the Insolvency Act or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent; or<br>(c) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the relevant entity under any applicable liquidation, administration reorganisation (other than a reorganisation where the relevant entity is solvent) or other similar laws, save where |

such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or any substantial part of the undertaking or assets of the relevant entity or the appointment of an administrator takes effect; or a distress, execution or diligence or other process is enforced upon the whole or any substantial part of the undertaking or assets of the relevant entity and in any of the foregoing cases it is not discharged within 15 London business days; or if the relevant entity initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness

**intercompany loan** — the aggregate of the outstanding principal balance of the term advances made by a Funding 1 issuing entity to Funding 1 under an intercompany loan agreement

**intercompany loan acceleration notice** — a notice served by the Funding 1 security trustee on Funding 1 following the occurrence of an intercompany loan event of default, pursuant to clause 14.10 of the intercompany loan terms and conditions

**intercompany loan agreements** — the first issuer intercompany loan agreement, second issuer intercompany loan agreement, third issuer intercompany loan agreement, fourth issuer intercompany loan agreement, fifth issuer intercompany loan agreement, sixth issuer intercompany loan agreement, seventh issuer intercompany loan agreement, eighth issuer intercompany loan agreement, ninth issuer intercompany loan agreement and any new intercompany loan agreement and **intercompany loan agreement** means any one of them

**intercompany loan confirmation** — a document substantially in the form set out in schedule 3 to the intercompany loan terms and conditions confirming the principal terms of each intercompany loan agreement

**intercompany loan event of default** — the occurrence of an event of default as specified in clause 14 of the intercompany loan terms and conditions with respect to Funding 1

**intercompany loan terms and conditions** — the standard terms and conditions incorporated into each intercompany loan agreement, as amended and restated from time to time

**interest commencement date**

(a) in relation to a series and class of notes, the relevant closing date of such series and class of notes or such other date as may be specified as such in the applicable final terms or drawdown prospectus;

(b) in relation to an issuing entity subordinated loan or an issuing entity start-up loan (as applicable), the relevant advance date of such issuing entity subordinated loan or issuing entity start-up loan (as applicable) or such other date as may be specified as such on the applicable issuing entity subordinated loan agreement or issuing entity start-up loan agreement (as applicable); and

(c) respect of a loan tranche, the relevant closing date of the related series and class of notes or the relevant advance date of the related issuing entity subordinated loan or issuing entity start-up loan (as applicable) or such other date as may be specified as such in the applicable loan tranche supplement

**interest payment date** — as the context requires, (a) the Funding 1 interest payment date, (b) the Funding 2 interest payment date and (c) in respect of a series and class of notes or an issuing entity subordinated loan or an issuing entity start-up loan (other than money market notes), the quarterly interest payment dates and (in the case of the money market notes) the monthly interest

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| | payment dates, subject (in each case) to the terms and conditions of the notes |
| **interest period** | (a) in relation to a series and class of notes or an issuing entity subordinated loan or an issuing entity start-up loan (i) with respect to the first interest payment date, the period from (and including) the applicable interest commencement date to (but excluding) such first interest payment date, and (ii) thereafter, with respect to each interest payment date, the period from and including the preceding interest payment date to (but excluding) that interest payment date;<br>(b) in respect of a loan tranche, (i) with respect to the first Funding 2 interest payment date, the period from (and including) the applicable interest commencement date to (but excluding) such first Funding 2 interest payment date, and (ii) thereafter, the period from and including the preceding Funding 2 interest payment date to (but excluding) that Funding 2 interest payment date;<br>(c) in relation to an issuing entity subordinated loan or an issuing entity start-up loan, the period from (and including) the applicable interest commencement date to (but excluding) such first interest payment date, and thereafter, with respect to each interest payment date, the period from and including the preceding interest payment date to (but excluding) that interest payment date;<br>(d) in respect of Funding 1, the period from (and including) a Funding 1 interest payment date to (but excluding) the next following Funding 1 interest payment date; and<br>(e) in respect of a Funding 1 Z loan or a Funding 2 Z loan (i) with respect to the first interest payment date to fall after a funding date, the period from (and including) the applicable funding date to (but excluding) the interest payment date immediately following such funding date and (ii) thereafter, the period from (and including) the preceding interest payment date to (but excluding) that interest payment date |
| **investment plan** | in respect of an interest-only loan, a repayment mechanism selected by the borrower and intended to provide sufficient funds to redeem the full principal of a loan at maturity |
| **IRS** | has the meaning given to it under "**Risk factors – U.S. Foreign Account Tax Compliance withholding may affect payments on the notes**" above |
| **ISA** | an individual savings account within the Individual Savings Account Regulations 1998 (as amended) and which shelters investments in the account from income tax and capital gains tax |
| **issuer account bank** | the first issuer account bank, the second issuer account bank, the third issuer account bank, the fourth issuer account bank, the fifth issuer account bank, the sixth issuer account bank, the seventh issuer account bank, the eighth issuer account bank, the ninth issuer account bank and/or, as the context may require, the bank at which the accounts of any new issuer are maintained and/or the master issuer account bank |
| **issuer agreements** | those agreements to which any issuer is party |
| **issuing entity** | Permanent Master Issuer PLC |
| **issuing entities** | the issuing entity, the Funding 1 issuing entities and other Funding 2 issuing entities (if applicable) |
| **issuing entity account bank** | Bank of Scotland or such other issuing entity account bank as may be |

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| | appointed from time to time |
| **issuing entity account bank required ratings** | (a) unsecured, unsubordinated and unguaranteed debt obligations rated at least A-1 short term and A long term (or if not at least A-1 short term, A+ long term) by S&P (the **issuing entity account bank S&P required ratings**);<br>(b) unsecured, unsubordinated and unguaranteed debt obligations rated at least P-1 short term by Moody's (the **issuing entity account bank Moody's required ratings**); and<br>(c) unsecured, unsubordinated and unguaranteed debt obligations rated at least F1 short term and A long term by Fitch (the **issuing entity account bank Fitch required ratings**) |
| **issuing entity bank account agreement** | the agreement entered into on or about the programme date, as amended from time to time, between the issuing entity account bank, the issuing entity, the issuing entity cash manager and the issuing entity security trustee which governs the operation of issuing entity bank accounts |
| **issuing entity bank accounts** | the issuing entity transaction account and, with prior written consent of the issuing entity security trustee, any other account opened and maintained by the issuing entity from time to time with the issuing entity account bank pursuant to the transaction documents |
| **issuing entity cash management agreement** | the issuing entity cash management agreement entered into on or about the programme date, as amended from time to time, between the issuing entity cash manager, the issuing entity and the issuing entity security trustee, as described further in "**Cash management for the issuing entity**" above |
| **issuing entity cash manager** | initially Halifax and, since the reorganisation date, Bank of Scotland acting, pursuant to the issuing entity cash management agreement, as agent for the issuing entity and the issuing entity security trustee to manage all cash transactions and maintain certain ledgers on behalf of the issuing entity |
| **issuing entity corporate services agreement** | the agreement entered into on or about the programme date, as amended from time to time, between Holdings, the issuing entity, Halifax, the issuing entity corporate services provider, the note trustee and the issuing entity security trustee, to which Bank of Scotland became a party in place of Halifax on the reorganisation date pursuant to the HBOS Group Reorganisation Act 2006 and which governs the provision of corporate services by the issuing entity corporate services provider to the issuing entity |
| **issuing entity corporate services provider or master issuer corporate services provider** | Intertrust Management Limited or such other person or persons for the time being acting as corporate services provider to the issuing entity under the issuing entity corporate services agreement |
| **issuing entity deed of charge** | the deed of charge entered into on or about the programme date, as amended from time to time, between, among others, the issuing entity and the issuing entity security trustee, under which the issuing entity charges the issuing entity security in favour of the issuing entity security trustee for the benefit of the issuing entity secured creditors, as described further in "**Security for the issuing entity's obligations**" above |
| **issuing entity expense ledger** | a ledger which records payments of certain fees received from Funding 2 under the master intercompany loan agreement and payments out in accordance with the issuing entity pre-enforcement revenue priority of payments |
| **issuing entity paying agent and agent bank agreement** | the agreement entered into on or about the programme date, as amended from time to time, which sets out the appointment by the issuing entity and the note trustee of the paying agents, the registrar, the transfer agent and |

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| | the agent bank for the notes |
| **issuing entity post-enforcement call option agreement** | the agreement entered into on or about the programme date, as amended from time to time, under which the note trustee agrees on behalf of the holders of the notes, that following enforcement of the issuing entity security, the post-enforcement call option holder may call for the notes |
| **issuing entity post-enforcement priority of payments** | the order in which, following service of a note acceleration notice on the issuing entity and the service of a master intercompany loan acceleration notice on Funding 2, the issuing entity security trustee will apply the amounts received or recovered by the issuing entity security trustee, as set out in "**Cashflows – Distribution of issuing entity principal receipts and issuing entity revenue receipts following note acceleration and master intercompany loan acceleration**" above |
| **issuing entity pre-enforcement principal priority of payments** | the order in which, prior to service of a note acceleration notice on the issuing entity, the issuing entity cash manager will apply the issuing entity principal receipts on each quarterly interest payment date, as set out in "**Cashflows – Distribution of issuing entity principal receipts before note acceleration**" above |
| **issuing entity pre-enforcement revenue priority of payments** | the order in which, prior to service of a note acceleration notice on the issuing entity, the issuing entity cash manager will apply the issuing entity revenue receipts on each quarterly interest payment date, as set out in "**Cashflows – Distribution of issuing entity revenue receipts before note acceleration**" above |
| **issuing entity principal ledger** | a ledger maintained by the issuing entity cash manager to record all Funding 2 available principal receipts received by the issuing entity from Funding 2 constituting principal repayments on a loan tranche (other than a start-up loan tranche) |
| **issuing entity principal receipts** | has the meaning given to it under "**Cashflows – Definition of issuing entity principal receipts**" above |
| **issuing entity priority of payments** | the issuing entity pre-enforcement revenue priority of payments, the issuing entity pre-enforcement principal priority of payments or the issuing entity post-enforcement priority of payments, as the case may be |
| **issuing entity revenue ledger** | a ledger maintained by the issuing entity cash manager to record issuing entity revenue receipts (excluding certain fees to be paid by Funding 2 on each Funding 2 interest payment date under the terms of the master intercompany loan agreement (other than in respect of any non-subordinated termination payment due by the issuing entity in respect of any issuing entity swap), which will be credited to the issuing entity expense ledger, but including principal repayments to be made by Funding 2 of any start-up loan tranche) received and paid out by the issuing entity |
| **issuing entity revenue receipts** | has the meaning given to it under **"Cashflows – Definition of issuing entity revenue receipts"** above |
| **issuing entity secured creditors** | the issuing entity security trustee, any receiver appointed by it, noteholders, the issuing entity swap providers, the note trustee, the issuing entity account bank, the paying agents, the registrar, the transfer agent, the agent bank, the issuing entity corporate services provider, the issuing entity cash manager, the issuing entity subordinated loan provider, the issuing entity start-up loan provider and any new issuing entity secured creditor who accedes to the issuing entity deed of charge from time to time under a deed of accession or a supplemental deed |
| **issuing entity security** | security created by the issuing entity pursuant to the issuing entity deed of charge in favour of the issuing entity secured creditors |
| **issuing entity security trustee** | The Bank of New York Mellon |

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| **issuing entity start-up loan or master issuer start-up loan** | a loan which may be advanced by the issuing entity start-up loan provider to the issuing entity on any closing date following the reorganisation date pursuant to an issuing entity start-up loan agreement dated such closing date |
| **issuing entity start-up loan agreements** | an agreement which may be entered into on any closing date following the reorganisation date between, among others, the issuing entity and the issuing entity start-up loan provider pursuant to which the issuing entity start-up loan provider will advance an issuing entity start-up loan to the issuing entity on such closing date |
| **issuing entity start-up loan provider** | Bank of Scotland, in its capacity as provider of any issuing entity start-up loans it may advance to the issuing entity on closing dates following the reorganisation date |
| **issuing entity subordinated loan or issuing entity subordinated loan** | the loan to be advanced by the issuing entity subordinated loan provider or a new issuing entity subordinated loan provider to the issuing entity pursuant to an issuing entity subordinated loan agreement |
| **issuing entity subordinated loan agreement** | an agreement to be entered into on or following the first closing date following the reorganisation date or any subsequent closing date between, among others, the issuing entity and the issuing entity subordinated loan provider pursuant to which the issuing entity subordinated loan provider will advance an issuing entity subordinated loan to the issuing entity on such closing date |
| **issuing entity subordinated loan provider** | Bank of Scotland, in its capacity as provider of an issuing entity subordinated loan to be advanced to the issuing entity on or following the first closing date following the reorganisation date on such closing dates |
| **issuing entity swap agreements** | in respect of a series and class of notes, the ISDA Master Agreement, schedules and confirmations relating to the relevant issuing entity swaps entered into or to be entered into on or before the relevant closing date in respect of such series between the issuing entity, the relevant issuing entity swap provider and the issuing entity security trustee and (if applicable) the note trustee (as amended, restated, supplemented, replaced and/or novated from time to time) |
| **issuing entity swap excluded termination amount** | in relation to an issuing entity swap agreement an amount equal to:<br>(a) the amount of any termination payment due and payable to the relevant issuing entity swap provider as a result of an issuing entity swap provider default or following an issuing entity swap provider downgrade termination event, less<br>(b) the amount, if any, received by issuing entity from a replacement swap provider upon entry by issuing entity into an agreement with such replacement swap provider to replace such issuing entity swap agreement which has been terminated as a result of such issuing entity swap provider default or following the occurrence of such issuing entity swap provider downgrade termination event, provided that such amount has been paid by the issuing entity direct to the relevant issuing entity swap provider |
| **issuing entity swap provider** | in respect of a series and class of notes, any swap provider identified in the applicable final terms or drawdown prospectus |
| **issuing entity swap provider default** | the occurrence of an event of default (as defined in the relevant issuing entity swap agreement) where the relevant issuing entity swap provider is the defaulting party (as defined in the relevant issuing entity swap agreement) |
| **issuing entity swap provider** | the occurrence of an additional termination event (as defined in the |

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| **downgrade termination event** | relevant issuing entity swap agreement) following the failure by any of the issuing entity swap providers to comply with the requirements of the ratings downgrade provisions set out in the relevant issuing entity swap agreement |
| **issuing entity swaps** | in respect of a series and class of notes, the currency and/or interest rate swaps entered into by the issuing entity from time to time under the issuing entity swap agreements, as identified in the applicable final terms or drawdown prospectus |
| **issuing entity transaction account** | the day to day bank account of the issuing entity, held with the issuing entity account bank since the programme date pursuant to the terms of the issuing entity bank account agreement |
| **issuing entity trust deed** | the trust deed entered into on or about the programme date, as amended from time to time, governing the notes, as further described in "**Description of the issuing entity trust deed**" above |
| **LCR Regulation** | Regulation (EU) 575/2013 of the European Parliament and the Council with regard to the liquidity coverage requirement for Credit Institutions as supplemented by the European Commission adopted text of the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 supplementing (or, if different, the equivalent provisions in such approved version of such Commission Delegated Regulation). |
| **lending criteria** | the criteria applicable to the granting of an offer of a mortgage to a borrower, as may be amended from time to time and as further described in "**The loans – Underwriting**" above or such other criteria as would be acceptable to a reasonable, prudent mortgage lender |
| **LIBOR** | the London Interbank Offered Rate for deposits in the relevant currency |
| **liquidity reserve fund** | the Funding 1 liquidity reserve fund |
| **liquidity reserve fund rating event** | the seller's long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated below A- by S&P, A3 by Moody's or A by Fitch or the seller's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated below F1 by Fitch (unless the relevant rating agency confirms that its then current ratings of the notes will not be reduced, withdrawn or qualified as a consequence of such rating of the seller) |
| **liquidity reserve fund required amount** | on any interest payment date, an amount equal to 3% of the aggregate outstanding balance of the notes issued by the ninth issuer on such date |
| **liquidity reserve ledger** | the Funding 1 liquidity reserve ledger |
| **Lloyds Banking Group** | Lloyds Banking Group plc (formerly Lloyds TSB Group plc) and each of its subsidiaries and affiliates |
| **Lloyds Bank Loans** | each loan originated by Lloyds Bank plc |
| **loan** | each loan referenced by its loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including all further advances, flexible loan drawings, home cash reserve drawings and retention drawings) due or owing with respect to that loan under the relevant mortgage conditions by a borrower on the security of a mortgage from time to time outstanding or, as the context may require, the borrower's obligations in respect of the same |
| **loan tranches** | the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches, the subordinated loan tranches and the start-up loan tranches and such other loan tranches as shall be introduced from time to time (subject to certain conditions), being the advances made by the issuing entity to Funding 2 pursuant to the master intercompany loan agreement, each being funded from proceeds received by the issuing entity from the issue of a series and class of notes, the |

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| | borrowing by the issuing entity of an issuing entity subordinated loan or, as applicable, the borrowing by the issuing entity of an issuing entity start-up loan |
| **loan tranche supplement** | in relation to any loan tranche, the document between, amongst others, Funding 2 and the issuing entity recording the principal terms of such loan tranche |
| **London business day** | a day (other than a Saturday or Sunday) on which banks are generally open for in London |
| **London Stock Exchange** | London Stock Exchange plc |
| **loss amount** | the amount of any costs, expenses, losses or other claims suffered or incurred by, or required to be paid by, as applicable, any Funding 2 issuing entity, any Funding 1 issuing entity, the mortgages trustee and/or Funding 1 and/or Funding 2 (including pursuant to any fee amount payable by Funding 1 and/or Funding 2 to the issuing entity or the Funding 1 issuing entities under the intercompany loans) in connection with any recovery of interest on the loans to which the seller, the mortgages trustee, Funding 1 or Funding 2 was not entitled or was not entitled to enforce or could not enforce as a result of any determination by any court or other competent authority or any ombudsman in respect of any loan and its related security that:<br>• any term which relates to the recovery of interest under the standard documentation applicable to that loan and its related security is unfair; or<br>• the interest payable under any loan is to be set by reference to any variable base rate (and not a rate set by the seller's successors or assigns or those deriving title from them); or<br>• the variable margin above the Bank of England repo rate under any tracker rate loan must be set by the seller (rather than by its successors or assigns or those deriving title from them) and such rate is lower than the rate set by the seller's successors or assigns or those deriving title from them; or<br>• the interest payable under any loan is to be set by reference to an interest rate other than that set or purported to be set by either the servicer or the mortgages trustee as a result of the seller having more than one variable mortgage rate |
| **losses** | the realised losses experienced on the loans in the portfolio |
| **losses ledger** | the ledger of such name created and maintained by the cash manager pursuant to the cash management agreement to record the losses on the portfolio |
| **LTV ratio or loan-to-value ratio** | the ratio of the outstanding balance of a loan to the value of the mortgaged property securing that loan |
| **LTV test** | a test which assigns a credit enhancement value to each loan in the portfolio based on its current loan-to-value ratio from which the weighted average credit enhancement value for the portfolio is then determined |
| **managers** | the managers listed as such in the relevant final terms or drawdown prospectus |
| **mandatory transfer date** | in respect of any series and class of remarketable notes, the interest payment date specified as such for such remarketable notes in the applicable final terms or drawdown prospectus |
| **mandatory transfer price** | in respect of any series and class of remarketable notes, the principal amount outstanding of such remarketable notes on the relevant mandatory |

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| | transfer date following the application of note principal payments on such date |
| **mandatory transfer termination event** | shall occur in respect of any series and class of remarketable notes if the conditional purchaser has purchased an interest in all such remarketable notes |
| **master definitions and construction schedule** | the master definitions and construction schedule, as amended from time to time, containing definitions used in the transaction documents |
| **master intercompany loan** | the loan made available to Funding 2 pursuant to the master intercompany loan agreement |
| **master intercompany loan acceleration notice** | an acceleration notice served by the Funding 2 security trustee on Funding 2 following a master intercompany loan event of default |
| **master intercompany loan agreement** | the master intercompany loan agreement entered into on or about the programme date, as amended from time to time, between (among others) Funding 2, the issuing entity and the Funding 2 security trustee |
| **master intercompany loan event of default** | an event of default under the master intercompany loan agreement |
| **master intercompany loan ledger** | a ledger maintained by the cash manager on behalf of Funding 2 to record payments of interest and repayments of principal made on each of the loan tranches under the master intercompany loan agreement |
| **master issuer** | Permanent Master Issuer PLC |
| **master issuer account bank** | the issuing entity account bank |
| **master issuer accounts** | the issuing entity accounts |
| **master issuer bank account agreement** | has the meaning given to such term in Condition 19 under "**Terms and conditions of the notes**" above |
| **maturity purchaser** | (if any) the entity named as such in the applicable final terms or drawdown prospectus |
| **maximum reset margin** | in respect of any series and class of remarketable notes, the amount specified as such for such remarketable notes in the applicable final terms or drawdown prospectus |
| **MCOB** | the FCA Mortgages and Home Finance: Conduct of Business sourcebook, as the same may be amended, revised or supplemented from time to time |
| **MHA documentation** | 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 |
| **MIG policies** | the mortgage indemnity guarantee policies written by General Accident Fire and Life Assurance Corporation PLC, GE Capital Mortgage (UK) Limited, Royal & Sun Alliance Insurance plc and Halifax Mortgage Re Limited in favour of the seller, or any other mortgage indemnity guarantee policy as may be effected from time to time to cover the seller in respect of new loans and their related security, such other mortgage indemnity guarantee policy to provide such level of cover as would be acceptable to a reasonable, prudent mortgage lender as at the date of such other policy |
| **minimum seller share** | an amount included in the current seller share which is calculated in accordance with the mortgages trust deed as further described under "**The mortgages trust**" above |
| **minimum trust property yield margin** | (a) as at the restructuring date, 1.50 per cent., and |

(b) thereafter has the meaning given to such term in the most recent final terms or drawdown prospectus (and subsequently identified in the monthly investor report)

**money market notes** has the meaning given to it under "**Overview of the notes – Money market notes**" above

**monthly interest payment date** means, in respect of any money market notes, each monthly date specified in the applicable final terms or drawdown prospectus for the payment of interest and/or principal until the occurrence of a pass-through trigger event and, following such occurrence, the quarterly interest payment dates as specified in the applicable final terms or drawdown prospectus for payment of interest and/or principal subject, in each case, to the appropriate Business Day Convention, if any, specified in the applicable final terms or drawdown prospectus

**monthly investor report** the monthly investor report the form of which is set out in the servicing agreement

**Moody's** Moody's Investors Service Limited and any successor to its ratings business

**mortgage** the legal charge or standard security securing a loan

**mortgage account** all loans secured on the same property will be incorporated in the same mortgage account

**Mortgage Code** The Mortgage Code issued by the CML

**mortgage conditions** the terms and conditions applicable to the loans as contained in the seller's Mortgage Conditions booklets for England and Wales or Scotland applicable from time to time

**mortgage related securities** as defined in the United States Secondary Mortgage Market Enhancement Act 1984, as amended

**mortgage sale agreement** the mortgage sale agreement entered into on the initial closing date, as amended from time to time, among the seller, the mortgages trustee, Funding 1, Funding 2 and the Funding security trustees in relation to the sale of loans to the mortgages trustee from time to time including any new mortgage sale agreement entered into from time to time between any new seller, Funding 1, Funding 2, the mortgages trustee, the Funding 1 security trustee and the Funding 2 security trustee, as further described in "**Sale of the loans and their related security**" above

**mortgage terms** all the terms and conditions applicable to a loan, including without limitation the applicable mortgage conditions and offer conditions

**mortgages trust** the bare trust of the trust property held by the mortgages trustee as to both capital and income on trust absolutely for Funding 1 (as to the Funding 1 share of the trust property), Funding 2 (as to the Funding 2 share of the trust property) and the seller (as to the seller share of the trust property), so that each has an undivided beneficial interest in the trust property

**mortgages trust available principal receipts** the amount standing to the credit of the principal ledger on the relevant calculation date

**mortgages trust available revenue receipts** an amount equal to:

(a) revenue receipts on the loans (but excluding principal receipts);

(b) plus interest payable to the mortgages trustee on the mortgages trustee GIC account;

(c) less third party amounts

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| | as described further in "**The mortgages trust – Cash management of trust property – Revenue receipts**" above |
| **mortgages trust deed** | the mortgages trust deed dated 13 June 2002, as amended from time to time (including on the programme date and the restructuring date), between (among others) the mortgages trustee, Funding 1, Funding 2 and the seller as further described in "**The mortgages trust**" above |
| **mortgages trustee** | Permanent Mortgages Trustee Limited |
| **mortgages trustee account bank required ratings** | (a) long-term, unsecured, unsubordinated and unguaranteed debt obligations of Account Bank of at least BBB- by Fitch; or<br>(b) (i) unsecured, unsubordinated and unguaranteed debt obligations rated at least A-1 short term and A long term by S&P; (ii) "Issuer Default Rating" of at least F1 short term and A long term by Fitch; and (iii) unsecured, unsubordinated and unguaranteed debt obligations rated at least P-1 short term by Moody's, unless, within 60 calendar days of a failure to maintain such ratings, an account is opened with a stand-by account bank with these ratings |
| **mortgages trustee corporate services agreement** | the agreement entered into on the initial closing date, as amended from time to time, between the mortgages trustee corporate services provider, the mortgages trustee, the Funding 1 security trustee and the Funding 2 security trustee, which governs the provision of corporate services by the mortgages trustee corporate services provider |
| **mortgages trustee corporate services provider** | Intertrust Management Limited or such other person or persons for the time being acting as corporate services provider to the mortgages trustee under the mortgages trustee corporate services agreement |
| **mortgages trustee GIC account** | the account in the name of the mortgages trustee maintained with the account bank pursuant to the terms of the bank account agreement and maintained subject to the mortgages trustee guaranteed investment contract or such additional or replacement account as may for the time being be in place |
| **mortgages trustee GIC provider** | Bank of Scotland acting pursuant to the mortgages trustee guaranteed investment contract and/or such other person for the time being acting as provider of a guaranteed investment contract to the mortgages trustee |
| **mortgages trustee guaranteed investment contract** | the guaranteed investment contract entered into on the initial closing date between the mortgages trustee and the mortgages trustee GIC provider under which the mortgages trustee GIC provider agrees to pay the mortgages trustee a guaranteed rate of interest on the balance of the mortgages trustee GIC account (as the same may be amended, restated, varied or supplemented from time to time), as described further in "***Credit* structure – Mortgages trustee GIC account/Funding 2 GIC account/Funding 2 eligible bank GIC account/Funding 2 collateralised GIC account**" above |
| **mortgages trustee variable base rate** | the variable base rates which apply to the variable rate loans in the portfolio as set, other than in limited circumstances, by the servicer, as described further in "**The servicing agreement**" above |
| **new funding beneficiary** | an entity that has acceded to the mortgages trust deed as a beneficiary of the mortgages trust |
| **new Funding 1 Z loan** | each Funding 1 Z loan that a new Funding 1 Z loan provider will make available to Funding 1 pursuant to the relevant new Funding 1 Z loan agreement |
| **new Funding 1 Z loan agreement** | an agreement entered into between Funding 1, a new Funding 1 Z loan provider and the Funding 1 security trustee (as the same may be amended, restated, varied, novated, replaced or supplemented from time |

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| | to time) |
| **new Funding 1 Z loan provider** | the provider of a new Funding 1 Z loan to Funding 1 under the relevant new Funding 1 Z loan agreement |
| **new Funding 2 start-up loan** | a loan issued to Funding 2 under a new start-up loan agreement |
| **new Funding 2 Z loan** | each Funding 2 Z loan that a new Funding 2 Z loan provider will make available to Funding 2 pursuant to the relevant new Funding 2 Z loan agreement |
| **new Funding 2 Z loan agreement** | an agreement entered into between Funding 2, a new Funding 2 Z loan provider and the Funding 2 security trustee (as the same may be amended, restated, varied, novated, replaced or supplemented from time to time) |
| **new Funding 2 Z loan provider** | the provider of a new Funding 2 Z loan to Funding 2 under the relevant new Funding 2 Z loan agreement |
| **new intercompany loan** | a loan under a new intercompany loan agreement |
| **new intercompany loan agreement** | a new intercompany loan agreement entered into between Funding 1 or Funding 2 and a new issuer in relation to a new intercompany loan |
| **new issuer** | a new wholly-owned subsidiary of Holdings, which may be established to issue new notes and to make a new intercompany loan to, as the context requires, Funding 1 or Funding 2 |
| **new issuing entity** | an entity that issues securities and lends the proceeds thereof to Funding 1, Funding 2 or a new funding beneficiary |
| **new loan tranche** | Any loan tranche entered into between a Funding 2 issuing entity and Funding 2 pursuant to a new intercompany loan agreement |
| **new loans** | loans which the seller may sell from time to time to the mortgages trustee pursuant to the terms of the mortgage sale agreement, other than the initial loans sold on the initial closing date |
| **new mortgage sale agreement** | any new mortgage sale agreement entered into between any new seller, the mortgages trustee, Funding 1 and the Funding 1 security trustee, which shall be substantially in the same form and contain substantially the same provisions (provided that the Funding 1 security trustee may agree variations to the representations and warranties in relation to the relevant Lloyds Bank Loans and their related security) as the mortgage sale agreement |
| **new notes** | the notes issued and/or to be issued by the new issuers to investors |
| **new portfolio** | the portfolio of loans and their related security (other than any loan and its related security which has been redeemed in full on or before the sale date), particulars of which are set out in the relevant new portfolio notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the seller in and to:<br>(a) all payments of principal and interest (including, for the avoidance of doubt, all accrued interest, arrears of interest, capitalised expenses and capitalised arrears) and other sums due or to become due in respect of such loans and their related security including, without limitation, the right to demand, sue for, recover and give receipts for all principal monies, interest and costs and the right to sue on all covenants and any undertakings made or expressed to be made in favour of the seller (or to which the seller is entitled) under the applicable mortgage terms;<br>(b) subject where applicable to the subsisting rights of redemption of borrowers, all deeds of consent, deeds of postponement, MHA |

documentation and all third party guarantees and any other collateral security for the repayment of the relevant new loans secured by the relevant new mortgages;

(c) the right to exercise all the powers of the seller in relation thereto;

(d) all the estate and interest in the relevant properties vested in the seller or heritable interest in respect of which the seller is the uninfeft proprietor;

(e) each relevant certificate of title and valuation report and any right of action of the seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer, registrar or registry or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given or received in connection with all or part of any loan and its related security or affecting the decision of the seller to make or offer to make all or part of the relevant loan;

(f) all right, title and interest of the seller (including, without limitation, the proceeds of all claims) to which the seller is entitled under the buildings policies and the properties in possession cover;

(g) the MIG policies, so far as they relate to the new loans comprised in the relevant portfolio of loans and their related security, including the right to receive the proceeds of any claims; and

(h) all proceeds from the enforcement of such loans and their related security

**new portfolio notice** — a notice substantially in the form set out in the mortgage sale agreement served in accordance with the terms of the mortgage sale agreement

**new seller** — Lloyds Bank plc (and any successor to the business thereof) who accedes to the relevant transaction documents and sells Lloyds Bank Loans and their related security to the mortgages trustee in the future pursuant to a new mortgage sale agreement

**new start-up loan** — the new start-up loan which the start-up loan provider or a new start-up loan provider shall provide to Funding 1 or Funding 2 under the new start-up loan agreement

**new start-up loan agreement** — a loan agreement under which the start-up loan provider or a new start-up loan provider shall provide Funding 1 or Funding 2 with a new start-up loan for the purposes of meeting the costs of the issue of new notes and/or further funding the reserve fund, if required and/or establishing a Funding 2 yield reserve fund

**new start-up loan provider** — as the context requires, (a) an entity who shall supply a new start-up loan to Funding 1 or (b) an entity who shall supply a new start-up loan to Funding 2

**New York business day** — a day (other than a Saturday or a Sunday) on which banks are generally open for business in the city of New York

**ninth issuer** — Permanent Financing (No. 9) PLC (registered number 5711074), 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 (this company is now dissolved).

**ninth issuer closing date** — 22 March 2006

**ninth issuer intercompany loan agreement** — the ninth issuer intercompany loan confirmation and the intercompany loan terms and conditions together entered into on the ninth issuer closing date by the ninth issuer, Funding 1 and the security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time

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| | to time) |
| **ninth start-up loan** | the start-up loan that the ninth start-up loan provider made available to Funding 1 pursuant to the ninth start-up loan agreement |
| **ninth start-up loan agreement** | the agreement entered into on the ninth issuer closing date between Funding 1, the ninth start-up loan provider and the security trustee relating to the provision of the ninth start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **ninth start-up loan provider** | initially Halifax and as of the reorganisation date, Bank of Scotland, in its capacity as provider of the fourth start-up loan |
| **N(M)** | 31 October 2004, being the date on which mortgage lending in the United Kingdom became a regulated activity under FSMA |
| **non-asset trigger event** | has the meaning given to it under **"The mortgages trust – Definitions"** above |
| **non-compliant loan** | a loan to a borrower that does not comply with the LCR Regulation, the Solvency II Regulation, and/or the Securitisation Regulation |
| **normal calculation date** | the first day (or, if not a London business day, the next succeeding London business day) of each month |
| **note acceleration notice** | has the meaning given to it in Condition 9.6 under **"Terms and conditions of the Notes"** above |
| **note event of default** | an event of default under the provisions of Condition 9 under "**Terms and conditions of the notes**" above |
| **note principal payment** | the amount of each principal payment payable on each note of each series and class |
| **note purchase agreement** | a purchase agreement between, amongst others, the issuing entity and the relevant dealer(s) and/or any new dealer(s) in respect of the purchase and sale of Rule 144A notes |
| **note trustee** | The Bank of New York Mellon |
| **noteholders** | the holders of the class A notes, the class B notes, the class M notes, the class C notes and the class D notes |
| **notes** | all of the class A notes, the class B notes, the class M notes, the class C notes and the class D notes |
| **offer conditions** | the terms and conditions applicable to a specific loan as set out in the relevant offer letter to the borrower |
| **OFT** | the UK Office of Fair Trading |
| **Ombudsman** | Financial Ombudsman Service |
| **original bullet loan tranche** | a rated loan tranche which at any time has been a bullet loan tranche (even if such bullet loan tranche has subsequently become a pass-through loan tranche) |
| **original bullet term advance** | as the context requires, (a) in respect of Funding 1, a term advance which at any time has been a bullet term advance (even if such term advance has subsequently become a pass-through term advance) or (b) in respect of Funding 2, a rated loan tranche which at any time has been a bullet loan tranche (even if such loan tranche has subsequently become a pass-through loan tranche) |
| **original pass-through loan tranche** | a rated loan tranche which at the time it was advanced was a pass-through loan tranche |

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| **original scheduled amortisation instalment** | that part of a rated loan tranche which at any time has been a scheduled amortisation instalment (even if that part of that rated loan tranche has subsequently become a pass-through loan tranche) |
| **original scheduled amortisation loan tranche** | a rated loan tranche or term advance which at any time has been a scheduled amortisation loan tranche (even if such rated loan tranche has subsequently become a pass-through loan tranche) |
| **original scheduled amortisation term advance** | as the context requires, (a) a term advance which at any time has been a scheduled amortisation term advance (even if such term advance has subsequently become a pass-through term advance) or (b) a loan tranche which at any time has been a scheduled amortisation loan tranche (even if such loan tranche has subsequently become a pass-through loan tranche) |
| **outstanding amount** | following enforcement of a loan, the amount outstanding on the payment of that loan after deducting money received under the applicable mortgage indemnity guarantee policy |
| **outstanding principal balance** | (a) in relation to a loan at any date (the **determination date**), means the aggregate principal balance of the loan at such date (but avoiding double counting) including:<br>(i) the initial advance;<br>(ii) capitalised expenses;<br>(iii) capitalised arrears; and<br>(iv) an increase in the principal amount due under that loan due to the borrower making flexible loan drawings, home cash reserve drawings and/or taking payment holidays or making underpayments,<br>in each case relating to such loan less any prepayment, repayment or payment of the foregoing made on or prior to the determination date;<br>(b) in relation to an intercompany loan at any date, means the unpaid principal balance of that intercompany loan at that date (including any capitalised arrears) or, as the context so requires, (i) of a term advance made under that intercompany loan or (ii) of a loan tranche made under that intercompany loan; and<br>(c) in relation to any notes at any date, means the unpaid principal balance of those notes, or, as the context so requires, any series and/or class of such notes as at that date |
| **overpayment** | a payment made by a borrower in an amount greater than the monthly payment then due on the loan |
| **panel bank** | for the purpose of receiving any deposits from the Funding 2 transaction account pursuant to instructions from the cash manager to the agent account bank, a panel bank is required to be an eligible bank |
| **panel bank guidelines** | the guidelines for the agent account bank and each panel bank described under "**Cash management for the mortgages trustee, Funding 1 and Funding 2**" |
| **panel bank ledger** | a ledger established and maintained by the cash manager in the books of Funding 2 for the purpose of recording amounts deposited with panel banks from time to time |
| **pass-through loan tranche** | a rated loan tranche which has no scheduled repayment date other than the final repayment date, namely those loan tranches designated as 'pass-through' loan tranches in the applicable final terms or drawdown prospectus |

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| | If an event specified for a bullet loan tranche or a scheduled repayment loan tranche in the applicable loan tranche supplement occurs or if a step-up date (if any) in relation to such loan tranche occurs or if a pass-through trigger event occurs, then that loan tranche will be deemed to be a pass-through loan tranche |
| **pass-through notes** | any series and class of notes which has no specified redemption dates other than the final maturity date. In addition, on the earlier to occur of a pass-through trigger event and the step-up date (if any) in relation to any series and class of bullet redemption notes or scheduled redemption notes, such notes will be deemed to be pass-through notes |
| **pass-through repayment restrictions** | has the meaning given to it under "**Cashflows – Distribution of Funding 2 available principal receipts**" above |
| **pass-through trigger event** | any of the following events:<br>(a) the occurrence of a trigger event;<br>(b) the service of a note acceleration notice by the note trustee on the issuing entity; or<br>(c) the service of a master intercompany loan acceleration notice by the Funding 2 security trustee on Funding 2 |
| **paying agents** | the principal paying agent and the US paying agent |
| **payment holiday** | a period of time during which a borrower may suspend payments under a loan without penalty as permitted by the terms of the borrower's loan |
| **PECOH Holdings** | Permanent PECOH Holdings Limited |
| **permitted redemption dates** | in respect of a series and class of notes, the interest payment date on which those notes may be redeemed by the issuing entity, subject to the terms and conditions of the notes |
| **portfolio** | at any time the loans and their related security sold to the mortgages trustee and held by the mortgages trustee on trust for the beneficiaries |
| **post-enforcement call option** | the call option granted to Permanent PECOH Limited in respect of the notes under the post-enforcement call option agreement |
| **post-enforcement call option holder** | Permanent PECOH Limited |
| **post-enforcement call option holder corporate services agreement** | the agreement entered into on or about the programme date, as amended from time to time, between (among others) the post-enforcement call option holder, PECOH Holdings, the corporate services provider, Funding 1, Funding 2, the Funding 1 security trustee and the Funding 2 security trustee, as amended from time to time, which governs the provision of corporate services by the corporate services provider to the post-enforcement call option holder and PECOH Holdings |
| **PRA** | the UK Prudential Regulation Authority |
| **pre-enforcement principal priority of payments** | the Funding 1 pre-enforcement principal priority of payments or the Funding 2 pre-enforcement principal priority of payments, as applicable |
| **principal deficiency** | any losses arising in relation to a loan in the portfolio which causes a shortfall in the amount available to pay principal on the term advances or loan tranches, as applicable |
| **principal deficiency ledger** | as the context requires, (a) the Funding 1 principal deficiency ledger in respect of Funding 1 or (b) the Funding 2 principal deficiency ledger in respect of Funding 2, as applicable |

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| **principal deficiency sub-ledger** | the AAA principal deficiency sub-ledger, the AA principal deficiency sub-ledger, the A principal deficiency sub-ledger, the BBB principal deficiency sub-ledger, the BB principal deficiency sub-ledger, the subordinated loan principal deficiency sub-ledger or the Funding 2 Z loan principal deficiency sub-ledger, as the case may be |
| **principal ledger** | the ledger of such name maintained by the cash manager on behalf of the mortgages trustee pursuant to the cash management agreement to record principal receipts on the loans and payments of principal from the mortgages trustee GIC account to Funding 1, Funding 2 and the seller on each distribution date. Together the principal ledger and the revenue ledger reflect the aggregate of all amounts of cash standing to the credit of the mortgages trustee GIC account |
| **principal paying agent** | Citibank, N.A. |
| **principal receipts** | any payment in respect of principal received in respect of any loan (including payments pursuant to any insurance policies), whether as all or part of a monthly payment in respect of such loan, on redemption (including partial redemption) of such loan, on enforcement of such loan (including the proceeds of sale of the relevant property) or on the disposal of such loan, plus on any monthly payment date an amount equal to the amount (if any) by which arrears in respect of the loans comprised in the portfolio on the relevant closing date exceeds such arrears on such monthly payment date (without double counting but including principal received or treated as received after completion of the enforcement procedures) |
| **product switch** | has the meaning given to it under **"Sale of the loans and their related security – Product switch"** above |
| **programme** | (a) in relation to Funding 2, the master issuer mortgage backed note programme dated the programme date and<br>(b) in relation to Funding 1, the transactions contemplated by the Funding 1 agreements and the issuer agreements |
| **programme agreement** | the agreement entered into on or about the programme date, as amended from time to time, between, amongst others, the issuing entity, Funding 2 and the dealers named therein (or deemed named therein) |
| **programme date** | 17 October 2006 |
| **properties in possession cover** | in relation to policies issued before 1 January 2004, the properties in possession cover written by Royal & Sun Alliance Insurance plc and in relation to policies or renewals issued on or after 1 January 2004, the properties in possession cover written by St Andrew's Insurance, in favour of the seller and any endorsements or extensions thereto as issued from time to time, or any such similar alternative or replacement policy or policies as may in future be issued in favour of the seller |
| **property** | a freehold, heritable or leasehold property (or in Scotland a property held under a long lease) which is subject to a mortgage |
| **Prospectus Rules** | the prospectus rules made under Part VI of the FSMA |
| **purpose-built** | in respect of a residential dwelling, built or made for such a residential purpose (as opposed to converted) |
| **quarterly CPR** | on any date means the average of the three most recent CPRs, where CPR is, on any normal calculation date, the annualised principal repayment rate of all the loans comprised in the trust property during the previous calculation period calculated as follows:<br>$1 - ((1 - \mathrm{R})\text{^}12)$ |

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| | where **R** equals the result (expressed as a percentage) of the total principal receipts received during the period of one month ending on that normal calculation date divided by the aggregate outstanding principal balance of the loans comprised in the trust property as at the first day of that period |
| **quarterly interest payment date** | means, in respect of a series and class of notes (other than money market notes), each quarterly date specified in the applicable final terms or drawdown prospectus for the payment of interest and/or principal subject to the appropriate Business Day Convention, if any, specified in the applicable final terms or drawdown prospectus |
| **rated loan tranche** | a loan tranche that corresponds to a series and class of notes |
| **rating** | rating assigned by the rating agencies to the notes |
| **rating agencies** | each of Moody's, Standard & Poor's and Fitch |
| **rating agency criteria** | the rating criteria of the applicable rating agency |
| **reasonable, prudent mortgage lender** | a reasonably prudent prime 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** | a receiver appointed (and any additional person or persons appointed or substituted) by the issuing entity security trustee or the Funding 2 security trustee (as applicable) pursuant to the issuing entity deed of charge or the Funding 2 deed of charge (as applicable) |
| **redemption amount** | has the meaning given to it in Condition 5 under the "**Terms and conditions of the notes**" above |
| **registrar** | Citibank, N.A. |
| **regulated mortgage contract** | has the meaning given to it under "**Risk factors – Failure by the seller or any broker to hold authorisation under the FSMA may have an adverse effect on enforceability of mortgage contracts**" above |
| **reinstatement** | in relation to a property that has been damaged, repairing or rebuilding that property to the condition that it was in prior to the occurrence of the damage |
| **related security** | in relation to a loan, the security for the repayment of that loan including the relevant mortgage and all other matters applicable thereto acquired as part of the portfolio sold to the mortgages trustee |
| **relevant accumulation amount** | the amount of funds to be accumulated over a cash accumulation period in order to repay a bullet loan tranche or a scheduled amortisation instalment on its scheduled repayment date |
| **relevant closing date** | in respect of a series and class of notes, the closing date specified in the applicable final terms or drawdown prospectus |
| **relevant share calculation date** | the calculation date at the start of the most recently completed calculation period |
| **remarketing agent** | in respect of any series and class of remarketable notes, the remarketing agent specified in the applicable final terms or drawdown prospectus, or such other agent appointed to act as remarketing agent under the terms of the relevant remarketing agreement |
| **remarketing agreement** | in respect of any series and class of remarketable notes, the agreement between the issuing entity and the remarketing agent pursuant to which the remarketing agent agrees to use reasonable efforts to identify third party purchasers for such remarketable notes on each mandatory transfer date prior to the occurrence of a mandatory transfer termination event |

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| **remarketable notes** | any series and class of notes identified as such in the applicable final terms or drawdown prospectus |
| **reorganisation date** | 17 September 2007 |
| **repayment tests** | Rules 1 and 2 under "**Cashflows – Distribution of Funding 2 available principal receipts**" above |
| **required posted collateral amount** | the amount of eligible collateral required to be secured in favour of Funding 2 pursuant to the terms of the eligible custody agreement by Bank of Scotland (as Funding 2 collateralised GIC account bank) pursuant to the Funding 2 collateral security agreement in respect of the amounts deposited in the Funding 2 collateralised GIC account. |
| **required subordinated loan tranche principal amount outstanding** | the amount specified as such in the most recent final terms or drawdown prospectus |
| **requisite ratings** | in respect of the Funding 1 liquidity facility provider as provider of the Funding 1 liquidity facility, ratings of P-1 by Moody's, F1 by Fitch and A+ by S&P |
| **reserve funds** | as the context requires, (a) the Funding 2 general reserve fund and Funding 2 liquidity reserve fund or (b) the general reserve fund and the liquidity reserve fund, as applicable |
| **reset margin** | in respect of any series and class of remarketable notes (i) for each reset period, a percentage not exceeding the maximum reset margin determined by the remarketing agent in accordance with the remarketing agreement or (ii) if the remarketing agreement has been terminated, the maximum reset margin |
| **reset period** | in respect of any series and class of remarketable notes, the period commencing on the first mandatory transfer date specified in the applicable final terms or drawdown prospectus up to (but excluding) the next mandatory transfer date and thereafter the period from (and including) each mandatory transfer date up to (but excluding) the next mandatory transfer date |
| **restructuring date** | 15 July 2011 |
| **retention** | an amount of the original advance or a further advance that is retained by the seller until certain conditions (such as repairs or construction) are completed, and which the seller is obliged to release to the borrower provided such conditions have been met |
| **retention drawing** | a drawdown in full or in part by the borrower under a retention loan |
| **retention loan** | a loan subject to a retention |
| **revenue ledger** | the ledger(s) of such name created and maintained by the cash manager on behalf of the mortgages trustee pursuant to the cash management agreement to record revenue receipts on the loans and interest from the mortgages trustee GIC account and payments of revenue receipts from the mortgages trustee GIC account to Funding 1, Funding 2 and the seller on each distribution date. The revenue ledger and the principal ledger together reflect the aggregate of all amounts of cash standing to the credit of the mortgages trustee GIC account |
| **revenue receipts** | amounts received by the mortgages trustee in the mortgages trustee GIC account in respect of the loans other than principal receipts |
| **RTB loan** | loans made to borrowers in connection with the purchase by those borrowers of properties from local authorities or certain other landlords under the right-to-buy schemes |

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| **sale date** | the date on which any new loans are sold to the mortgages trustee in accordance with clause 4 of the mortgage sale agreement |
| **scheduled amortisation instalment** | in respect of each rated loan tranche that is a scheduled amortisation loan tranche and in respect of the corresponding series and class of scheduled redemption notes, the instalment amounts specified as applying to such loan tranche and related series and class of notes in the applicable final terms or drawdown prospectus |
| **scheduled amortisation loan tranche** | any rated loan tranche that is scheduled to be repaid in more than one instalment on more than one Funding 2 interest payment date, namely those rated loan tranches designated as a "**scheduled amortisation**" loan tranches in the applicable final terms or drawdown prospectus<br><br>the scheduled amortisation loan tranches will be deemed to be pass-through loan tranches on the earlier to occur of a pass-through trigger event and the step-up date (if any) in relation to such rated loan tranche |
| **scheduled amortisation repayment restrictions** | has the meaning given to it under "**Cashflows – Distribution of Funding 2 available principal receipts**" above |
| **scheduled amortisation term advance** | any term advance that is scheduled to be repaid in instalments on more than one Funding 1 interest payment date, namely those term advances of any Funding 1 issuing entity designated as a "scheduled amortisation" term advance |
| **scheduled redemption dates** | in respect of a series and class of notes, the interest payment date, if any, specified in the applicable final terms or drawdown prospectus, for the payment of principal, subject to the terms and conditions of the notes |
| **scheduled redemption notes** | any series and class of notes scheduled to be repaid in full in two or more instalments on scheduled redemption dates. Scheduled redemption notes will be deemed to be pass-through notes in certain circumstances |
| **scheduled repayment dates** | in respect of a loan tranche, the Funding 2 interest payment date(s) specified in the applicable final terms or drawdown prospectus, for the repayment of principal |
| **scheme date** | 16 January 2009 |
| **Scottish declarations of trust** | the declarations of trust granted and to be granted by the seller in favour of the mortgages trustee pursuant to the mortgage sale agreement transferring the beneficial interest in Scottish loans to the mortgages trustee |
| **Scottish loan** | a loan secured by a Scottish mortgage |
| **Scottish mortgage** | a mortgage secured over a property in Scotland |
| **Scottish mortgage conditions** | the mortgage conditions applicable to Scottish loans |
| **SEC** | The United States Securities and Exchange Commission |
| **second home loan** | a loan to a borrower that is, to the best of the seller's knowledge, for the purchase of a second home which is not the main residence of the relevant borrower |
| **second issuer** | Permanent Financing (No. 2) PLC (registered number 4623188), a public limited company incorporated under the laws of England and Wales, whose registered office is at 43-45 Portman Square, London W1H 6LY (this company is now dissolved) |
| **second issuer closing date** | 6 March 2003 |
| **second issuer intercompany loan agreement** | the second issuer intercompany loan confirmation and the intercompany loan terms and conditions together entered into on the second issuer |

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| | closing date by the second issuer, Funding 1 and the security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **second start-up loan** | the start-up loan that the second start-up loan provider made available to Funding 1 pursuant to the second start-up loan agreement |
| **second start-up loan agreement** | the agreement entered into on the second issuer closing date between Funding 1, the second start-up loan provider and the security trustee relating to the provision of the second start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **second start-up loan provider** | initially Halifax and as of the reorganisation date, Bank of Scotland, in its capacity as provider of the second start-up loan |
| **Securities Act** | United States Securities Act of 1933, as amended |
| **Securitisation Regulation** | Regulation (EU) 2017/2402 together with any relevant regulatory and/or implementing technical standards adopted by the European Commission in relation thereto, any relevant regulatory and/or implementing technical standards applicable in relation thereto pursuant to any transitional arrangements made pursuant to Regulation (EU) 2017/2402, and, in each case, any relevant guidance published by the European Banking Authority, the European Securities and Markets Authority (or, in either case, any predecessor authority), the European Commission and by the Financial Conduct Authority |
| **securitisation tax regime** | the permanent regime for the taxation of securitisation companies established pursuant to the Finance Act 2005 and the regulations made thereunder, in each case as amended from time to time |
| **seller** | initially Halifax and as of the reorganisation date Bank of Scotland |
| **seller's policy** | the originating, underwriting, administration, arrears and enforcement policy applied by the seller from time to time to loans and their related security owned solely by the seller |
| **seller rating downgrade** | means the seller's long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated below A3 by Moody's or A- by Fitch (unless the relevant rating agency confirms that its then current ratings of the notes will not be reduced, withdrawn or qualified as a consequence of such rating of the seller) |
| **seller share** | the seller share of the trust property from time to time as calculated on each calculation date |
| **seller share percentage** | the seller share percentage of the trust property from time to time as calculated on each calculation date |
| **seller mortgages trust assignment agreement** | the agreement entered into on or about the programme date, as amended from time to time, between (among others) Funding 2, the mortgages trustee and the seller, under which the seller assigns a portion of its beneficial interest in the mortgages trust to Funding 2 |
| **semi-detached** | a house joined to another house on one side only |
| **senior fee** | the fee (exclusive of VAT, if any) paid by Funding 2 to the issuing entity prior to the enforcement of the Funding 2 security on each Funding 2 interest payment date or otherwise when required in accordance with the master intercompany loan agreement |
| **series** | all classes of notes issued on a given day and any class of notes issued on any other day which: (a) is expressed to be consolidated; and (b) is identical in all respects (including as to listing) except for closing date, interest commencement date and issue price with any class of notes |

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| | issued on such given day |
| **series ledgers** | ledgers maintained by the issuing entity cash manager to record payments of interest and repayments of principal on each series and class of notes and payments of fees in respect of any early termination payment due by the issuing entity in respect of a corresponding issuing entity swap and payments of interest and repayments of principal on each issuing entity subordinated loan and on each issuing entity start-up loan |
| **servicer** | initially Halifax and since the reorganisation date Bank of Scotland or such other person as may from time to time be appointed as servicer of the portfolio pursuant to the servicing agreement |
| **servicing agreement** | the agreement entered into on the initial closing date (as amended, restated, supplemented, replaced and/or novated from time to time) between the servicer, the mortgages trustee, the seller, the Funding security trustees, Funding 1 and Funding 2 under which the servicer agrees to administer the loans and their related security comprised in the portfolio, as described further in "**The servicing agreement**" above |
| **seventh issuer** | Permanent Financing (No. 7) PLC (registered number 5330776), a public limited company incorporated under the laws of England and Wales, whose registered office is at 43-45 Portman Square, London W1H 6LY (this company is now dissolved) |
| **seventh issuer closing date** | 23 March 2005 |
| **seventh issuer intercompany loan agreement** | the seventh issuer intercompany loan confirmation and the intercompany loan terms and conditions together entered into on the seventh issuer closing date by the seventh issuer, Funding 1 and the security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **seventh start-up loan** | the start-up loan that the seventh start-up loan provider made available to Funding 1 pursuant to the seventh start-up loan agreement |
| **seventh start-up loan agreement** | the agreement entered into on the seventh issuer closing date between Funding 1, the seventh start-up loan provider and the security trustee relating to the provision of the seventh start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **seventh start-up loan provider** | initially Halifax and as of the reorganisation date, Bank of Scotland, in its capacity as provider of the seventh start-up loan |
| **shortfall** | (a) in the case of Funding 2, the deficiency of Funding 2 available revenue receipts on a Funding 2 interest payment date over the amounts due by Funding 2 under the Funding 2 pre-enforcement revenue priority of payments; and<br><br>(b) in the case of Funding 1, the deficiency of Funding 1 available revenue receipts on a Funding 1 interest payment date over the amounts due by Funding 1 under the Funding 1 pre-enforcement revenue priority of payments |
| **sixth issuer** | Permanent Financing (No. 6) PLC (registered number 5232464), a public limited company incorporated under the laws of England and Wales, whose registered office is at 43-45 Portman Square, London W1H 6LY (this company is now dissolved) |
| **sixth issuer closing date** | 18 November 2004 |

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| **sixth issuer intercompany loan agreement** | the sixth issuer intercompany loan confirmation and the intercompany loan terms and conditions together entered into on the sixth issuer closing date by the sixth issuer, Funding 1 and the security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **sixth start-up loan** | the start-up loan that the sixth start-up loan provider made available to Funding 1 pursuant to the sixth start-up loan agreement |
| **sixth start-up loan agreement** | the agreement entered into on the sixth issuer closing date between Funding 1, the sixth start-up loan provider and the security trustee relating to the provision of the sixth start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **sixth start-up loan provider** | initially Halifax and as of the reorganisation date, Bank of Scotland, in its capacity as provider of the sixth start-up loan |
| **SME** | any legal entity which has two or more of (1) an average of fewer than 250 employees during the last financial year; (2) a total balance sheet of €43,000,000 or less; and (3) an annual net turnover of €50,000,000 or less, as shown in its last annual or consolidated accounts |
| **Solvency II Regulation** | Article 254 of Regulation (EU) No 2015/35 |
| **SOFR** | in respect of any Business Day, a reference rate equal to the daily Secured Overnight Financing Rate as provided by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator of such rate) on the New York Fed's Website, in each case on or about 5:00p.m. (New York City Time) on the Business Day immediately following such Business Day |
| **SONIA** | in respect of any Business Day, a reference rate equal to the daily Sterling Overnight Index Average rate for such Business Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors in each case on the Business Day immediately following such Business Day |
| **sponsor** | initially Halifax and since the reorganisation date Bank of Scotland |
| **Standard & Poor's or S&P** | Standard & Poor's Rating Services, a division of Standard & Poor's Credit Market Services Europe Limited and any successor to its ratings business |
| **standard documentation** | the standard documentation, a list of which is set out in the exhibit to the original mortgage sale agreement and copies of which have been initialled on behalf of the parties thereto for the purposes of identification, or any update or replacement therefor as the seller may from time to time introduce acting in accordance with the standards of a reasonable, prudent mortgage lender |
| **start-up loan agreements** | the first start-up loan agreement, the second start-up loan agreement, the third start-up loan agreement, the fourth start-up loan agreement, the fifth start-up loan agreement, the sixth start-up loan agreement, the seventh start-up loan agreement, the eighth start-up loan agreement, the ninth start-up loan agreement, the tenth start-up loan agreement, the eleventh start-up loan agreement, the twelfth start-up loan agreement, the Funding 2 start-up loan agreements and, as the context requires, any new start-up loan agreement and **start-up loan agreement** means any of them |
| **start-up loan providers** | the first start-up loan provider, the second start-up loan provider, the third start-up loan provider, the fourth start-up loan provider, the fifth start-up loan provider, the sixth start-up loan provider, the seventh start-up loan provider, the eighth start-up loan provider, the ninth start-up loan provider, |

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| | the tenth start-up loan provider, the eleventh start-up loan provider, the twelfth start-up loan provider, the Funding 2 start-up loan provider and as the context requires, any new start-up loan provider and **start-up loan provider** means any of them |
| **start-up loan revenue contribution ledger** | the ledger of such name established and maintained by the cash manager on behalf of Funding 2 pursuant to clause 4.4 of the cash management agreement |
| **start-up loan tranche** | a loan tranche made by the issuing entity to Funding 2 under the master intercompany loan agreement from the proceeds of the advance by the issuing entity start-up loan provider or a new issuing entity start-up loan provider to the issuing entity of an issuing entity start-up loan |
| **St Andrew's Insurance** | St Andrew's Insurance plc, a non-life insurance company incorporated on 15 September 2003, whose office is at St Andrew's House, Portsmouth Road, Esher, Surrey KT10 9SA |
| **step-up date** | (i) in relation to a rated loan tranche, the Funding 2 interest payment date on which the interest rate on the relevant loan tranche under the master intercompany loan agreement increases or decreases by a pre-determined amount, (ii) in relation to the notes and the Funding 1 notes, the interest payment date on which the interest rate payable on the relevant notes or Funding 1 notes increases or decreases by a pre-determined amount as specified in the applicable final terms or drawdown prospectus and (iii) in relation to any intercompany loan, the Funding 1 interest payment date on which the interest rate payable on the relevant term advances made thereunder increases or decreases by a pre-determined amount |
| **subordinated loan principal deficiency sub-ledger** | a sub-ledger on the Funding 2 principal deficiency ledger which specifically records any principal deficiency in respect of the subordinated loan tranches |
| **subordinated loan tranche** | a loan tranche made by the issuing entity to Funding 2 under the master intercompany loan agreement from the proceeds of the advance by the issuing entity subordinated loan provider or a new issuing entity subordinated loan provider to the issuing entity of an issuing entity subordinated loan |
| **subscription agreement** | an agreement supplemental to the programme agreement in or substantially in the form set out in the programme agreement or such other form as may be agreed between the issuing entity and the relevant dealer(s) and/or any new dealer(s) appointed to the programme and/or in respect of the notes (other than the Rule 144A notes) |
| **swap agreements** | the Funding 2 swap agreement and the issuing entity swap agreements and a **swap agreement** means any one of them |
| **swap collateral** | (i) in respect of an issuer swap agreement, an amount equal to the value of the collateral (other than excess swap collateral) provided by an issuing entity swap provider to the issuing entity in respect of that issuing entity swap provider's obligations to transfer collateral to the issuing entity under the relevant issuing entity swap agreement, including any interest and distributions in respect thereof; (ii) in respect of the Funding 1 swap agreement, any asset (including, without limitation, cash and/or securities) which is paid or transferred by the Funding 1 swap provider to Funding 1 as collateral in respect of the Funding 1 swap provider's obligations under the Funding 1 swap agreement together with any income or distribution received in respect of such asset pursuant to the terms of the Funding 1 swap agreement; and (iii) in respect of the Funding 2 swap agreement, any asset (including, without limitation, cash and/or securities) which is paid or transferred by the Funding 2 swap provider to Funding 2 as collateral in respect of the Funding 2 swap provider's obligations under the |

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| | Funding 2 swap agreement together with any income or distribution received in respect of such asset pursuant to the terms of the Funding 2 swap agreement |
| **swap early termination event** | a circumstance in which a swap agreement can be terminated prior to its scheduled termination date |
| **swap providers** | the Funding 1 swap provider, the Funding 2 swap provider, the 2a-7 swap provider and the issuing entity swap providers and a **swap provider** means any one of them |
| **TARGET2 business day** | a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET2) System (launched on 19 November 2007) is open |
| **tender agent** | in respect of any series and class of remarketable notes, the tender agent (if any) specified in the applicable final terms or drawdown prospectus. |
| **tenth start-up loan** | the start-up loan that the tenth start-up loan provider made available to Funding 1 pursuant to the tenth start-up loan agreement |
| **tenth start-up loan agreement** | the agreement entered into on 29 September 2009 between Funding 1, the tenth start-up loan provider and the security trustee relating to the provision of the tenth start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **tenth start-up loan provider** | Bank of Scotland, in its capacity as provider of the tenth start-up loan |
| **term advance** | the term AAA advances, the term AA advances, the term A advances and the term BBB advances being advances made or to be made by a Funding 1 issuing entity pursuant to a Funding 1 intercompany loan agreement, each being funded from proceeds received by the relevant Funding 1 issuing entity from an issuance of Funding 1 notes |
| **term A advance** | any term advance made by a Funding 1 issuing entity to Funding 1 and designated a term A advance |
| **term AA advance** | any term advance made by a Funding 1 issuing entity to Funding 1 and designated a term AA advance |
| **term AAA advance** | any term advance made by a Funding 1 issuing entity to Funding 1 and designated a term AAA advance |
| **term BB advance** | any term advance made by a Funding 1 issuing entity to Funding 1 and designated a term BB advance |
| **term BBB advance** | any term advance made by a Funding 1 issuing entity to Funding 1 and designated a term BBB advance |
| **terraced** | a house in a row of houses built in one block in a uniform style |
| **third issuer** | Permanent Financing (No. 3) PLC (registered number 4907355), a public limited company incorporated under the laws of England and Wales, whose registered office is at 43-45 Portman Square, London W1H 6LY (this company is now dissolved) |
| **third issuer closing date** | 25 November 2003 |
| **third issuer intercompany loan agreement** | the third issuer intercompany loan confirmation and the intercompany loan terms and conditions together entered into on the third issuer closing date by the third issuer, Funding 1 and the security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **third party amounts** | includes: |

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| | (a) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup that amount itself from its customer's account;<br><br>(b) payments by borrowers of any fees and other charges which are due to the seller; or<br><br>Recoveries in respect of amounts deducted from loans as described in paragraphs (1) to (4) in "**The mortgages trust – Funding 2 share of trust property**" above, which shall belong to and be paid to Funding 1 and/or Funding 2 and/or the seller as described therein |
| **third start-up loan** | the start-up loan that the third start-up loan provider made available to Funding 1 pursuant to the third start-up loan agreement |
| **third start-up loan agreement** | the agreement entered into on the third issuer closing date between Funding 1, the third start-up loan provider and the security trustee relating to the provision of the third start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **third start-up loan provider** | initially Halifax and as of the reorganisation date, Bank of Scotland, in its capacity as provider of the third start-up loan |
| **tracker rate** | the rate of interest applicable to a tracker rate loan (before applying any cap or minimum rate) |
| **tracker rate loan** | a loan where interest is linked to a variable interest rate other than the variable base rates. The rate on tracker rate loans is currently set at a margin by reference to rates set by the Bank of England |
| **transaction documents** | the Funding 1 transaction documents and/or the Funding 2 transaction documents (as the context requires) |
| **transfer agent** | Citibank, N.A. |
| **trigger event** | an asset trigger event and/or a non-asset trigger event |
| **trust property** | has the meaning given to it under **"The mortgages trust – General legal structure"** above |
| **twelfth start-up loan** | the start-up loan that the twelfth start-up loan provider made available to Funding 1 pursuant to the twelfth start-up loan agreement |
| **twelfth start-up loan agreement** | the agreement entered into on 1 June 2010 between Funding 1, the twelfth start-up loan provider and the security trustee relating to the provision of the twelfth start-up loan to Funding 1 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) |
| **twelfth start-up loan provider** | Bank of Scotland, in its capacity as provider of the twelfth start-up loan |
| **UK Listing Authority** | the FCA in its capacity as competent authority under Part VI of the FSMA |
| **underpayment** | a payment made by a borrower in an amount less than the monthly payment then due on the loan being a sum not exceeding the aggregate of any previous overpayments, other than in relation to flexible loans where an **underpayment** has the meaning given to it in "**The loans – Characteristics of the loans**" above |
| **Unfair Terms Directive** | Directive (2005/29/EC) on unfair commercial practices |
| **United States holder** | a beneficial owner of Rule 144A notes who is for US federal income tax purposes:<br><br>(a) a citizen or resident of the United States; |

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| | (b) a corporation (or other entity treated as a corporation) or partnership created or organised in or under the laws of the United States or any state thereof (including the District of Columbia);<br><br>(c) any estate, the income of which is subject to US federal income tax regardless of the source of its income; or<br><br>(d) any trust if: (i) a court within the United States is able to exercise primary supervision over the administration of the trust; and (ii) one or more US persons have the authority to control all substantial decisions of the trust |
| **US paying agent** | Citibank, N.A. |
| **UTCCR** | the Unfair Terms in Consumer Contracts Regulations 1999 as amended together with (insofar as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 |
| **valuation** | a methodology for determining the value of a property which would meet the standards of a reasonable, prudent mortgage lender |
| **valuation fee** | a fee incurred by borrowers as a result of the seller or servicer obtaining a valuation of the property |
| **valuation percentage** | the valuation percentages as set out in the Funding 2 collateral security agreement |
| **valuation report** | the valuation report or reports for mortgage purposes, in the form of the pro-forma contained in the standard documentation, obtained by the seller from a valuer in respect of each property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a reasonable, prudent mortgage lender and which has been approved by the director of group property and survey of the seller (or his successor) |
| **valuer** | an associate or fellow of the Royal Institution of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers who was at the relevant times either a member of a firm which was on the list of valuers approved by or on behalf of the seller from time to time or an associate or fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers employed in-house by the seller acting for the seller in respect of the valuation of a property |
| **variable base rates** | HVR 1, HVR 2, HHVR, Halifax flexible variable rate or the mortgages trustee variable base rate, as applicable |
| **variable mortgage rate** | the rate of interest which determines the amount of interest payable each month on a variable rate loan |
| **variable rate loan** | a loan where the interest rate payable by the borrower varies in accordance with a specified variable mortgage rate |
| **VAT** | (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax as amended (EC Directive 2006/112); and<br><br>(b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere |

**Index of principal terms**

**ISSUING ENTITY**

**Permanent Master Issuer PLC**

35 Great St. Helen's

London EC3A 6AP

**DEPOSITOR**

**Permanent Funding (No. 2) Limited**

35 Great St. Helen's

London EC3A 6AP

**SERVICER**

**Bank of Scotland plc**

The Mound

Edinburgh

EH1 1YZ

**AGENT BANK, PRINCIPAL PAYING AGENT, REGISTRAR AND TRANSFER AGENT**

**Citibank, N.A.**

Citigroup Centre

Canada Square

Canary Wharf

London E14 5LB

**US PAYING AGENT**

**Citibank, N.A.**

14th Floor

388 Greenwich Street

New York, New York 10013

**NOTE TRUSTEE**

**The Bank of New York Mellon**

One Canada Square

London E14 5AL

**FUNDING 2 SECURITY TRUSTEE AND ISSUING ENTITY SECURITY TRUSTEE**

**The Bank of New York Mellon**

One Canada Square

London E14 5AL

**LEGAL ADVISERS TO THE ISSUING ENTITY AND THE SERVICER**

*as to English law and US law*

**Allen & Overy LLP**

One Bishops Square

London E1 6AD

*as to Scots law*

**Shepherd and Wedderburn LLP**

1 Exchange Crescent

Conference Square

Edinburgh EH3 8UL

**LEGAL ADVISERS TO THE DEALERS**

*as to English law and US law*

**Weil Gotshal & Manges (London) LLP**

110 Fetter Lane

London EC4A 1AY

**LEGAL ADVISERS TO THE NOTE TRUSTEE, THE FUNDING 2 SECURITY TRUSTEE AND THE ISSUING ENTITY SECURITY TRUSTEE**

*as to English law*

**Clifford Chance LLP**

10 Upper Bank Street

London E14 5JJ