



PARAGON BANK PLC

(incorporated with limited liability in England and Wales with registered number: 05390593)

£5 billion

Covered Bond Programme unconditionally and irrevocably guaranteed as to payments of interest and principal by Paragon Covered Bonds LLP

(a limited liability partnership incorporated in England and Wales)

Under the £5 billion covered bond programme described in this Prospectus (the “**Programme**”), Paragon Bank PLC (the “**Issuer**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue bonds (the “**Covered Bonds**”) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below). The price and amount of the Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealers at the time of issue in accordance with prevailing market conditions.

Paragon Covered Bonds LLP (the “**LLP**”) has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Mortgage Portfolio (as defined below) and its other assets. Recourse against the LLP under its guarantee is limited to the Mortgage Portfolio and such assets.

Covered Bonds may be issued in bearer or registered form. The aggregate nominal amount of Covered Bonds outstanding under the Programme will not at any time exceed £5 billion (or the equivalent in other currencies), subject to any increase as provided herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under “*Overview of the Programme*” and any additional Dealer(s) appointed under the Programme from time to time by the Issuer (each, a “**Dealer**” and together, the “**Dealers**”), which appointment may be to a specific issue or on an ongoing basis. References in this Prospectus to the “**relevant Dealers**” shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds.

This Prospectus has been approved as a base prospectus by the Financial Conduct Authority (the “**FCA**”), as competent authority under Regulation (EU) 2017/1129 as amended and as it forms part of the UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”) (the “**UK Prospectus Regulation**”). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the LLP or the quality of the Covered Bonds that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Covered Bonds.

Application has been made to the FCA for Covered Bonds issued under the Programme during the period of 12 months after the date of this Prospectus to be admitted to the Official List of the FCA (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Covered Bonds to be admitted to trading on the main market of the London Stock Exchange which is a “UK regulated market” for the purposes of Regulation (EU) No 600/2014 on markets in financial instruments as amended and as it forms part of the UK domestic law by virtue of the EUWA (“**UK MIFIR**”) (the “**main market of the London Stock Exchange**”). References in this Prospectus to Covered Bonds being “**listed**” (and all related references) shall mean that such Covered Bonds have been admitted to trading on the main market of the London Stock Exchange and have been admitted to the Official List. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “*Terms and Conditions of the Covered Bonds*”) of Covered Bonds will be set out in a separate document containing the Final Terms for that Tranche which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the FCA and the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

This Prospectus is valid for 12 months from its date in relation to Covered Bonds which are to be admitted to trading on a “UK regulated market” for the purposes of UK MIFIR. The obligation to supplement this Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Prospectus is no longer valid.

On 19 February 2025, the Issuer and the Programme were granted admission to the register of regulated covered bonds under the Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended (the “**RCB Regulations**”), and pursuant to the RCB Regulations, will appear on the register within 7 days of that date.

Investing in Covered Bonds issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Covered Bonds are discussed under “*Risk Factors*” below.

The Covered Bonds and the Covered Bond Guarantee (as defined below) have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States and the Covered Bonds in bearer form are subject to U.S. tax law requirements. See “*Form of the Covered Bonds*” for a description of the manner in which Covered Bonds will be issued. Registered Covered Bonds are subject to certain restrictions on transfer, see “*Subscription and Sale*”. The Covered Bonds 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 in certain transactions exempt from the registration requirements of the Securities Act. See “*Subscription and Sale*”.

The Issuer and the LLP may agree with any Dealer and the Bond Trustee that Covered Bonds may be issued in a form not contemplated by the Conditions of the Covered Bonds herein, in which event (in the case of Covered Bonds admitted to the Official List only) a supplementary prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

Each Series of Covered Bonds issued under the Programme will have the rating set out in the applicable Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The credit ratings included and referred to in this Prospectus have been issued by Fitch Ratings Limited (“**Fitch**”) and/or Moody’s Investors Service Ltd (“**Moody’s**”) each of which is a credit rating agency established in the United Kingdom and registered under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the EUWA (the “**UK CRA Regulation**”). Each of Fitch and Moody’s are included in the list of credit rating agencies published by the FCA on its website in accordance with the UK CRA Regulation. The ratings issued by Fitch and Moody’s have been endorsed by Fitch Ratings Ireland Limited and Moody’s Deutschland GmbH respectively in accordance with Regulation (EC) 1060/2009 (as amended) (the “**EU CRA Regulation**”). Each of Moody’s Deutschland GmbH and Fitch Ratings Ireland Limited is established in the European Union and registered under the EU CRA Regulation. As such, each of Moody’s Deutschland GmbH and Fitch Ratings Ireland Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the EU CRA Regulation. In general, European regulated investors are restricted under the EU CRA Regulation from using a rating for regulatory purposes, unless such rating is issued by a credit rating agency established in the EEA and registered under the EU 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-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant non-EEA rating agency is certified in accordance with the EU CRA Regulation (and such endorsement or certification, as the case may be, has not been withdrawn or suspended). Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note that this is subject, in each case, to the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended.

Interest and/or other amounts payable under the Covered Bonds may be calculated by reference to certain reference rates, which may constitute a benchmark under Regulation (EU) 2016/1011 (the “**EU Benchmarks Regulation**”) or the EU Benchmarks Regulation as it forms part of the UK domestic law by virtue of the EUWA (the “**UK Benchmarks Regulation**”). As at the date of this Base Prospectus, the administrator of SONIA (the Bank of England) is not currently required to obtain authorisation or registration under the EU Benchmarks Regulation or the UK Benchmarks Regulation and SONIA does not fall within the scope of the EU Benchmarks Regulation or the UK Benchmarks Regulation by virtue of Article 2 of the EU Benchmarks Regulation or the UK Benchmarks Regulation, as applicable. As at the date of this Prospectus, the administrator of EURIBOR (the European Money Markets Institute) is included in the register of administrators established and maintained by the European Securities and Markets Authority (“**ESMA**”) under the EU Benchmarks Regulation and in the register of administrators established and maintained by the FCA under the UK Benchmarks Regulation.

NEITHER THE PROGRAMME NOR THE COVERED BONDS HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE “SEC”), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF ANY OFFERING OF COVERED BONDS OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

AN INVESTMENT IN THE COVERED BONDS IS NOT SUBJECT TO RESTRICTION UNDER THE U.S. VOLCKER RULE AS AN INVESTMENT IN AN OWNERSHIP INTEREST IN A COVERED FUND.

Arrangers for the Programme

BARCLAYS

BNP PARIBAS

NATWEST

Dealers

BARCLAYS

BNP PARIBAS

NATWEST

24 February 2025

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IMPORTANT NOTICES

Responsibility for this Prospectus

The Issuer and the LLP accept responsibility for the information contained in this Prospectus and any Final Terms (as defined below) and each declares that to the best of the knowledge of each of the Issuer and the LLP the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import. Any information sourced from third parties contained in this Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as each of the Issuer and the LLP are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Final Terms/Drawdown Prospectus

Each Tranche (as defined herein) of Covered Bonds will be issued on the terms set out herein under “*Terms and Conditions of the Covered Bonds*” (the “**Conditions**”) as completed by a document specific to such Tranche called final terms (the “**Final Terms**”) or in a separate prospectus specific to such Tranche (the “**Drawdown Prospectus**”), as described under “*Final Terms and Drawdown Prospectuses*” below.

Copies of each set of Final Terms in relation to Covered Bonds issued pursuant to this Prospectus will be available from the registered office of the Issuer and from the specified office set out below of each of the Paying Agents (as defined below) and will also be published on the website of the London Stock Exchange through a regulatory information service.

Other relevant information

This Prospectus must be read and construed together with any supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Covered Bonds which is the subject of Final Terms, must be read and construed together with the relevant Final Terms. In the case of a Tranche of Covered Bonds which is the subject of a Drawdown Prospectus, each reference in this Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

The Issuer and the LLP have confirmed to the Dealers named under “*Subscription and Sale*” below that this Prospectus contains all information which is (in the context of the Programme and the issue, offering and sale of the Covered Bonds) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that this Prospectus does not omit to state any material fact necessary to make such information (in the context of the Programme and the issue, offering and sale of the Covered Bonds) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

Other than in relation to the documents which are deemed to be incorporated by reference (see “*Information Incorporated by Reference*”), the information on the websites to which this Prospectus refers does not form part of this Prospectus and has not been scrutinised or approved by the FCA.

Unauthorised information

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any information supplied by the Issuer and the LLP and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the LLP, the Arrangers or any Dealer.

None of the Arrangers, the Dealers, the Bond Trustee, the Security Trustee nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty

or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Each Arranger, each Dealer, the Bond Trustee and the Security Trustee accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Prospectus. Neither the delivery of this Prospectus nor any Final Terms nor the offering, sale or delivery of any Covered Bond shall, in any circumstances, create any implication that the information contained in this Prospectus is true subsequent to the date hereof or the date upon which this Prospectus has been most recently supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer or the LLP since the date thereof or, if later, the date upon which this Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Arrangers, the Dealers, the Bond Trustee and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the LLP during the life of the Programme nor to advise any investor or potential investor in the Covered Bonds of any information coming to the attention of any of the Arrangers, the Dealers, the Bond Trustee or the Security Trustee. Investors should review, *inter alia*, the most recent published financial statements of the Issuer, Paragon Banking Group PLC and the LLP when evaluating the Covered Bonds.

RESTRICTIONS ON DISTRIBUTION

The distribution of this Prospectus and any Final Terms, and the offering, sale and delivery of the Covered Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus or any Final Terms comes are required by the Issuer, the LLP, the Arrangers and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Covered Bonds and on the distribution of this Prospectus or any Final Terms and other offering material relating to the Covered Bonds, see “*Subscription and Sale*”.

In particular, the Covered Bonds have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Covered Bonds in bearer form are subject to U.S. tax law requirements. The Covered Bonds 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) except in certain transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act.

UK MiFIR PRODUCT GOVERNANCE/TARGET MARKET – The Final Terms in respect of any Covered Bonds will include a legend entitled “**UK MiFIR Product Governance**” which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise none of the Arrangers, the Dealers and any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

MiFID II PRODUCT GOVERNANCE/TARGET MARKET – The Final Terms in respect of any Covered Bonds may include a legend entitled “**MiFID II Product Governance**” which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are

appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, “**MiFID II**”) is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 as amended (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – Unless the Final Terms in respect of any Covered Bonds specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, the Covered Bonds 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 United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – Unless the Final Terms in respect of any Covered Bonds specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, the Covered Bonds 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 MiFID II; or (ii) a customer within the meaning of (EU) 2016/97 as amended (the “**EU Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**EU PRIIPs Regulation**”) for offering or selling the Covered Bonds or otherwise making the Covered Bonds available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

IMPORTANT NOTICE – SFA NOTIFICATION LEGEND - Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), unless otherwise specified in the Final Terms, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Covered Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

None of this Prospectus, any Final Terms or any document incorporated by reference herein constitutes an offer or an invitation to subscribe for or purchase any Covered Bonds and should not be considered as a recommendation by the Issuer, the LLP, the Arrangers, the Dealers, the Bond Trustee, the Security Trustee or any of them that any recipient of this Prospectus or any Final Terms should subscribe for or purchase any Covered Bonds. Neither this Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation. Each recipient of this Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer and the LLP.

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risk of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;
- (iv) understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Covered Bonds are complex financial instruments and such instruments may be purchased by investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Covered Bonds unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Covered Bonds will perform under changing conditions, the resulting effects on the value of such Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Covered Bonds are legal investments for it; (ii) Covered Bonds can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Covered Bonds. Investors should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

FORWARD-LOOKING STATEMENTS

Certain information contained in this Prospectus and any documents incorporated by reference, including any information as to the Issuer's or the Paragon Banking Group's (as the case may be) strategy, market position, plans or future financial or operating performance, constitutes "forward looking statements". All statements, other than statements of historical fact, are forward looking statements. These forward looking statements may be identified by the use of forward looking terminology, including the terms "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "project", "aim", "estimate", "may", "will",

“could”, “should”, “seeks”, “predicts”, “schedule” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plan, objectives, goals, future events or intentions.

Forward looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Issuer, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward looking statements. Such factors include, but are not limited to: general economic and business conditions in the UK and internationally; inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other central banks; fluctuations in exchange rates, stock markets and currencies; changes to the Issuer’s credit ratings; changing demographic developments, including mortality and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including the Economic and Monetary Union (the “Eurozone”) instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes; natural and other disasters, adverse weather and similar contingencies outside the Issuer’s control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside the Issuer’s control; the policies and actions of governmental or regulatory authorities in the UK, the European Union, the U.S. or elsewhere; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write downs caused by depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and the success of the Issuer in managing the risks of the foregoing.

Investors are cautioned that forward looking statements are not guarantees of future performance. Forward looking statements may, and often do, differ materially from actual results. Any forward looking statements in this Prospectus speak only as of the date they are made, reflect the view of the Issuer’s Board of Directors as of the date they are made with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Issuer’s operations, results of operations, strategy, capital and leverage ratios and the availability of new funding. Investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ before making an investment decision. All of the forward looking statements made in this Prospectus are qualified by these cautionary statements.

Except as required by the Prudential Regulation Authority (the “PRA”), the FCA, the London Stock Exchange or applicable law, the Issuer explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward looking statements in this Prospectus that may occur due to any change in the Issuer’s expectations or to reflect events or circumstances after the date of it.

Certain definitions

In this Prospectus, unless otherwise specified, references to a “**Member State**” are references to a Member State of the EEA, references to “£”, “**GBP**”, “**Sterling**” or “**pounds Sterling**” are to the lawful currency for the time being of the United Kingdom, references to “€”, “**EUR**” or “**euro**” are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

In this Prospectus, references to the “**Group**” are to Paragon Bank PLC and its subsidiaries taken as a whole. Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Stabilisation

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not 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 Tranche of Covered Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

Market, economic and industry data

This Prospectus contains information regarding Issuer’s business and the industry in which they operate and compete, some of which the Issuer has obtained from third-party sources. The Issuer and other institutions operating in the financial services industry make available a wide range of financial and operational information to regulatory and market bodies, including the Bank of England and UK Finance. These bodies use the data supplied to publish market share statistics relating to retail mortgage lending and savings, among other matters. However, no assurance can be made that the information reported to these bodies by different market participants is, in all cases, directly comparable.

In some cases, independently determined industry data is not available. In these cases, any Issuer market share included in this Prospectus is referred to as having been estimated. All such estimates have been made by the Issuer, using its own information and other market information which is publicly available. All such estimations have been made in good faith based on the information available and the Issuer’s knowledge of the market within which it operates.

Where third-party information has been used in this Prospectus, the source of such information has been identified. With respect to such third-party information, this information has been accurately reproduced and so far as the Issuer is aware and able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In the case of the presented economic and statistical information, similar information may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

Where information has not been independently sourced, it is the Issuer’s own information.

No incorporation of website information

The Issuer’s website is <https://www.paragonbank.co.uk/>. The information on this website or any website directly or indirectly linked to this website has not been verified and is not incorporated by reference into this Prospectus and investors should not rely on it.

PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Series of Covered Bonds, the applicable Final Terms.

This Overview constitutes a general description of the Programme for the purposes of Article 25(1) of Commission Delegated Regulation (EU) No 2019/980 as amended and as it forms part of UK domestic law by virtue of the EUWA.

Words and expressions defined in “*Form of the Covered Bonds*” and “*Terms and Conditions of the Covered Bonds*” shall have the same meanings in this overview.

Issuer:	Paragon Bank PLC
Issuer Legal Entity Identifier (LEI):	213800ZD686TR7FEP983
LLP:	Paragon Covered Bonds LLP
Regulated Covered Bonds:	On 19 February 2025, the Issuer and the Programme were granted admission to the register of regulated covered bonds under the RCB Regulations, and pursuant to the RCB Regulations, will appear on the register within 7 days of that date.
Nature of eligible property:	Both newly originated and seasoned buy-to-let residential mortgage loans secured over properties in England and Wales, Substitution Assets up to the prescribed limit and Authorised Investments
Location of eligible residential property underlying Mortgage Loans:	England or Wales
Maximum Current Balance to Indexed Valuation ratio given credit under the Asset Coverage Test:	The lower of (1) 75.0 per cent., (2) the maximum LTV amount applicable to residential mortgage loans specified in the RCB Regulations and (3) the maximum LTV amount applicable to residential mortgage loans specified in Article 129 of the UK CRR.
Maximum Asset Percentage:	92.5 per cent.
Asset Coverage Test:	As set out on page 218.
Statutory minimum over collateralisation:	The eligible property in the asset pool must be more than 108 per cent. of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds.
Amortisation Test:	As set out on page 223.
Extended Maturities:	Available.
Asset Monitor:	Deloitte LLP
Asset Segregation:	Yes
Single/Multi Asset Pool designation:	Single Asset Pool, consisting of buy-to-let mortgage loans and liquid assets.
Substitution Assets:	Asset backed securities are not eligible property and cannot form part of the Asset Pool.

As set out on page 314 Substitution Assets include (a) Sterling gilt-edged securities, (b) Sterling demand or time deposits (subject to certain requirements) and (c) Sterling denominated government and public securities (subject to certain requirements), provided that such Substitution Assets comply with the requirements of Regulation 2(1A) of the RCB Regulations.

INFORMATION INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated in, and to form part of, this Prospectus:

- (a) the Issuer's Annual Report 2024 including the audited unconsolidated annual financial statements of the Issuer for the financial year ended 30 September 2024, together with the independent auditor's report thereon, as set out on pages 50 to 142 and 42 to 49 respectively (the **"2024 Issuer Audited Financial Statements"**);
- (b) the Issuer's Annual Report 2023 including the audited unconsolidated annual financial statements of the Issuer for the financial year ended 30 September 2023, together with the independent auditor's report thereon, as set out on pages 49 to 141 and 41 to 48 respectively (the **"2023 Issuer Audited Financial Statements"**) and together with the 2024 Issuer Audited Financial Statements, the **"Issuer Financial Statements"**);
- (c) the audited consolidated annual financial statements (including the auditors' report thereon and notes thereto) of Paragon Banking Group PLC in respect of the year ended 30 September 2024 (set out on pages 190 to 335 of the 2024 annual report of Paragon Banking Group PLC), the appendices set out on pages 338 to 341 and the strategic report set out on pages 8 to 87 of the 2024 annual report of Paragon Banking Group PLC (the **"2024 Paragon Banking Group Audited Financial Statements"**); and
- (d) the audited consolidated annual financial statements (including the auditors' report thereon and notes thereto) of Paragon Banking Group PLC in respect of the year ended 30 September 2023 (set out on pages 190 to 333 of the 2023 annual report of Paragon Banking Group PLC), the appendices set out on pages 336 to 339 and the strategic report set out on pages 8 to 87 of the 2023 annual report of Paragon Banking Group PLC (the **"2023 Paragon Banking Group Audited Financial Statements"**) and together with the 2024 Paragon Banking Group Audited Financial Statements, the **"Paragon Banking Group Financial Statements"**).

The Issuer is the principal operating entity of the Paragon Banking Group and, together with its subsidiary entities (which include PFPLC, MTL and PML), held approximately 99.7 per cent. of the Paragon Banking Group's total consolidated assets as at 30 September 2024. The Paragon Banking Group Financial Statements are incorporated by reference in this Prospectus to provide additional information on the strategic focus of the Issuer and how each of the entities in which the Issuer invests has performed.

Notwithstanding the incorporation of the Paragon Banking Group Financial Statements, Paragon Banking Group PLC is neither an issuer nor guarantor under the Programme and, as such, the Covered Bondholders will not have any recourse against Paragon Banking Group PLC which has no obligations or liability under the Programme.

The documents listed above are available at <https://www.paragonbankinggroup.co.uk/investors/fixed-income/covered-bond/covered-bond-information>. Copies of the documents specified above as containing information incorporated by reference in this Prospectus may be inspected, free of charge, during normal business hours on weekdays at the registered office of the Issuer at 51 Homer Road, Solihull, West Midlands, B91 3QJ, United Kingdom.

Any information contained in any of the documents specified above which is not incorporated by reference in this Prospectus is either not relevant to investors or is covered elsewhere in this Prospectus.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

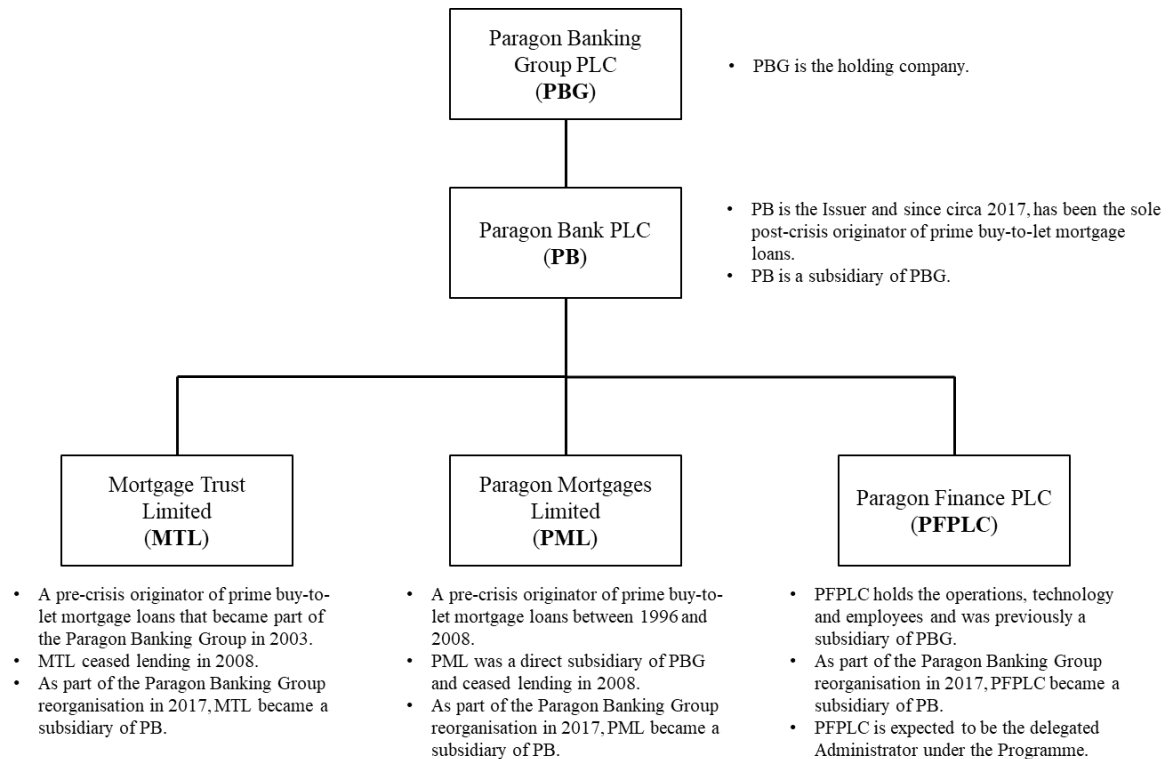
The Issuer and the LLP will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Prospectus for use in connection with any subsequent issue of Covered Bonds. The Issuer and the LLP have each undertaken to the Dealers in the Dealer Agreement (as defined in “*Subscription and Sale*” below) that they will comply with section 81 of the FSMA.

The Issuer’s website is www.paragonbank.co.uk. The information on this website or any website directly or indirectly linked to this website has not been verified and is not incorporated by reference into this Prospectus and investors should not rely on it.

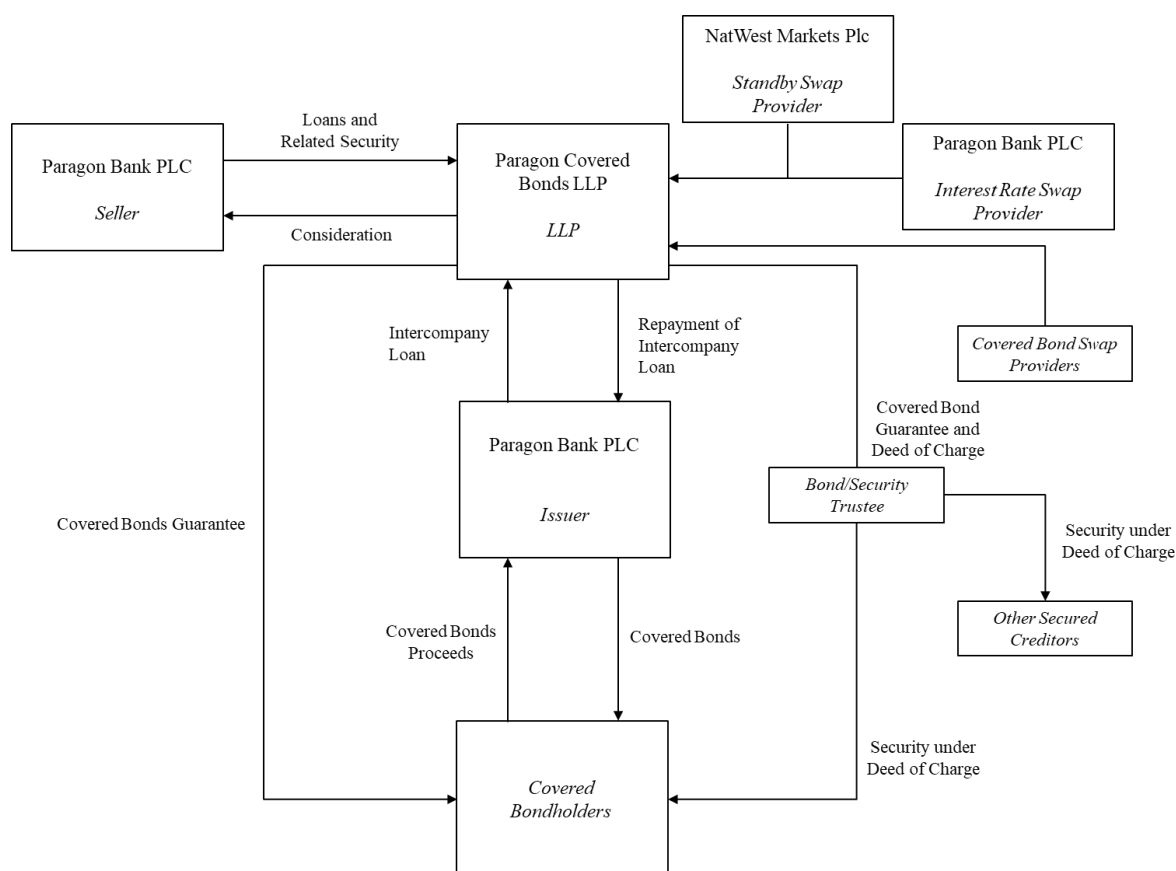
STRUCTURE OVERVIEW

The following Structure Overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this overview. A glossary of certain defined terms is contained at the end of this Prospectus.

Simplified Paragon Banking Group Structure Diagram



Structure Diagram



Structure Overview

1. **Programme:** Under the terms of the Programme, the Issuer will issue Covered Bonds to the Covered Bondholders on each Issue Date. The Covered Bonds will be direct, unconditional, unsecured and unsubordinated obligations of the Issuer.
2. **Intercompany Loan Agreement:** Under the terms of the Intercompany Loan Agreement, the Issuer will make Term Advances to the LLP in an amount equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding on the Issue Date of each Series or, as applicable, Tranche of Covered Bonds. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the LLP pursuant to the Intercompany Loan Agreement. Amounts owed by the LLP under the Intercompany Loan Agreement will be subordinated to any amounts owed by the LLP under the Covered Bond Guarantee.
3. **Covered Bond Guarantee:** Under the terms of the Trust Deed, the LLP has provided a guarantee as to payments of interest and principal under the Covered Bonds. The LLP has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the LLP under the Covered Bond Guarantee constitute direct and (following the service of a Notice to Pay on the LLP or, if earlier, the service on the Issuer and the LLP of an LLP Acceleration Notice) unconditional obligations of the LLP, secured as provided in the Deed of Charge. The Bond Trustee will be required to serve a Notice to Pay on the LLP following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice. An LLP

Acceleration Notice may be served by the Bond Trustee on the Issuer and the LLP following the occurrence of an LLP Event of Default.

If an LLP Acceleration Notice is served, the Covered Bonds will become immediately due and payable as against the Issuer and the LLP's obligations under the Covered Bond Guarantee will be accelerated. Payments made by the LLP under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. The recourse of the Covered Bondholders to the LLP under the Covered Bond Guarantee is limited to the assets of the LLP from time to time.

4. *The proceeds of Term Advances:* The LLP must use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in Sterling, after swapping the same into Sterling under the relevant Covered Bond Swap Agreement):

- (a) to purchase Mortgage Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
- (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit and/or Authorised Investments,

to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test (as described below), and thereafter may be applied by the LLP:

- (i) to purchase Mortgage Loans and Further Advances and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
- (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit and/or Authorised Investments; and/or
- (iii) subject to complying with the Asset Coverage Test, to make a Capital Distribution to the Seller (in its capacity as Member) by way of distribution of that Member's equity in the LLP in an amount equal to the Sterling Equivalent of the Term Advance or any part thereof, which shall be paid to the Member on the relevant Issue Date by telegraphic transfer or as otherwise directed by the Member; and/or
- (iv) if an existing Series or Tranche, or part of an existing Series or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
- (v) to make a deposit of all or part of the proceeds to the Transaction Account.

To protect the value of the Mortgage Portfolio under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) are obliged to ensure that the Asset Coverage Test (as described below) will be satisfied on each Calculation Date.

5. *Consideration:* Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Mortgage Loans and their Related Security to the LLP on any Transfer Date will be a combination of (i) a cash payment paid by the LLP to the Seller and/or (ii) the Seller being treated as having made a Capital Contribution in Kind to the LLP (in an amount up to the difference between the aggregate of the Current Balance and the Amortised Cost Adjustment of the Mortgage Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) paid by the LLP) and (iii) Deferred Consideration.

6. *Security*: To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the LLP has granted security over the Charged Property (which consists principally of the LLP's interest in the portfolio of Mortgage Loans and their Related Security, the Substitution Assets, the Transaction Documents to which it is a party, the LLP Accounts and the Authorised Investments) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Deed of Charge.
7. *Cashflows*: Prior to service of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice on the LLP and/or realisation of the Security and/or the commencement of Winding-Up Proceedings against the LLP, the LLP will:
 - (a) apply Available Revenue Receipts to pay interest due on the Term Advances (the proceeds of which the Issuer may apply to pay interest due on the Covered Bonds) and to pay Deferred Consideration to the Seller in respect of the Mortgage Loans sold by the Seller to the LLP. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, but not limited to, certain expenses and amounts due to any Interest Rate Swap Providers, any Covered Bond Swap Providers and the Standby Swap Provider). For further details of the Pre-Acceleration Revenue Priority of Payments, see "*Cashflows*" below; and
 - (b) apply Available Principal Receipts towards making Capital Distributions to the Members but only after payment of certain items ranking higher in the Pre-Acceleration Principal Priority of Payments (including, but not limited to, acquiring New Mortgage Loans and their Related Security offered by the Seller to the LLP or repaying amounts due to the Issuer under the Intercompany Loan Agreement). For further details of the Pre-Acceleration Principal Priority of Payments, see "*Cashflows*" below.

Following service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked) but prior to service of a Notice to Pay or an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of Winding-Up Proceedings against the LLP, the LLP will continue to apply Available Revenue Receipts and Available Principal Receipts as described above, except that, whilst any Covered Bonds remain outstanding:

- (a) in respect of Available Revenue Receipts, no further amounts will be paid towards any indemnity amount due to the Members pursuant to the LLP Deed or any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, towards any Deferred Consideration or towards any profit for the Members' respective interests in the LLP (but payments will, for the avoidance of doubt, continue to be made under the relevant Swap Agreements); and
- (b) in respect of Available Principal Receipts, payments may only be made to a Covered Bond Swap Provider and must otherwise be retained in the Transaction Account (see "*Cashflows*" below).

Following the occurrence of an Issuer Event of Default and the service on the LLP of a Notice to Pay (but prior to an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of Winding-Up Proceedings against the LLP) the LLP will apply all Available Revenue Receipts and Available Principal Receipts (other than Non-LLP Amounts) to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment subject to paying certain higher ranking obligations of the LLP in the Guarantee Priority of Payments. In such circumstances, the Members of the LLP, including the Seller, will only be entitled to receive any remaining income of the LLP after all amounts due under the Covered Bond Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of Winding-Up Proceedings against the LLP, the Covered Bonds will become immediately due and repayable (if not already due and payable following the occurrence of an Issuer Event of Default) and the Bond Trustee will then have a claim against the LLP under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with accrued interest and any other amounts due under the Covered Bonds other than additional amounts payable by the Issuer under Condition 8 (*Taxation*) and the security created by the LLP over the Charged Property will become enforceable. Any monies received or recovered by the Security Trustee following enforcement of the Security created by the LLP in accordance with the Deed of Charge, realisation of such Security and/or the commencement of Winding-Up Proceedings against the LLP will be distributed according to the Post-Enforcement Priority of Payments as to which, see “*Cashflows*” below.

8. *Interest Accumulation Ledger*: Subject as provided under the heading “*Coupon Payment Ledger*” below, in relation to each Series of Covered Bonds that (a) does not have a Covered Bond Swap in place and (b) does not have monthly Interest Payment Dates (each such Series, an “**Accumulation Series of Covered Bonds**”), the Administrator shall maintain an Interest Accumulation Ledger, to which the LLP Monthly Interest Amount will be credited on each LLP Payment Date. Amounts standing to the credit of the Interest Accumulation Ledger in respect of each such Accumulation Series of Covered Bonds will be applied on the relevant Loan Interest Payment Date or Interest Payment Date, as the case may be, together with Available Revenue Receipts (applied in accordance with the relevant Priorities of Payments), to make payments under the Term Advances or Covered Bonds, as applicable.
9. *Asset Coverage*: The Programme provides that the assets of the LLP are subject to an Asset Coverage Test in respect of the Covered Bonds. The Amortised Cost Adjustment of any Mortgage Loans does not form part of the Asset Coverage Test. For so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date, the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of the immediately preceding Calculation Period, as calculated by the Administrator on each Calculation Date. A breach of the Asset Coverage Test on a Calculation Date which is not remedied on the immediately succeeding Calculation Date will require the Bond Trustee to serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been delivered and has not been revoked:

- (a) the application of Available Revenue Receipts and Available Principal Receipts will be restricted as described under the heading “*Cashflows*” above;
- (b) the LLP will be required to sell Selected Mortgage Loans; and
- (c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances, may be required) to serve an Issuer Acceleration Notice on the Issuer. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP.

10. *Amortisation Test:* In addition, following an Issuer Event of Default and the service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security), for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds from time to time. The Amortisation Test will be tested by the Administrator on each Calculation Date following an Issuer Event of Default and service of a Notice to Pay on the LLP. A breach of the Amortisation Test will constitute an LLP Event of Default, which will entitle the Bond Trustee to serve an LLP Acceleration Notice declaring the Covered Bonds immediately due and repayable and entitle the Security Trustee to enforce the Security over the Charged Property.
11. *Extendable obligations under the Covered Bond Guarantee:* An Extended Due for Payment Date will be specified as applying to each Series of Covered Bonds in the applicable Final Terms. This means that if the Issuer fails to pay the Final Redemption Amount of the relevant series of Covered Bonds on the Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the LLP by the Extension Determination Date (for example because, following the service of a Notice to Pay on the LLP, the LLP has insufficient monies available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds) then payment of the unpaid amount pursuant to the Covered Bond Guarantee shall be automatically deferred (without an LLP Event of Default occurring as a result of such non-payment) and shall be due and payable on the Extended Due for Payment Date (subject to any applicable grace period). However, any amount representing the Final Redemption Amount due and remaining unpaid on the Extension Determination Date will, if available, be paid by the LLP on each Original Due for Payment Date thereafter, up to (and including) the relevant Extended Due for Payment Date. Interest will continue to accrue on any unpaid principal amounts during such extended period and be payable on each Original Due for Payment Date and on the Extended Due for Payment Date in accordance with Condition 5 (*Interest*).
12. *Coupon Payments:* If Paragon Bank PLC is acting as Administrator pursuant to the Administration Agreement and an Administrator Downgrade Event occurs and is continuing and either (i) the Reserve Fund was not, as at the immediately preceding LLP Payment Date, funded to at least the Reserve Fund Required Amount or (ii) the Reserve Fund Required Amount was calculated to be zero as at the immediately preceding Calculation Date, the Seller will (a) within 10 Business Days of the occurrence of the Administrator Downgrade Event and (b) thereafter (i) (in respect of each Term Advance where there is not a Covered Bond Swap in place other than in respect of an Accumulation Series of Covered Bonds) within one Business Day of each Loan Interest Payment Date for each such Term Advance make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Term Advance on the immediately subsequent Loan Interest Payment Date and/or (ii) (in respect of each Term Advance where there is a Covered Bond Swap in place other than in respect of an Accumulation Series of Covered Bonds) within one Business Day of each date a payment is due from the LLP under each Covered Bond Swap make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Covered Bond Swap on the immediately subsequent date(s) a payment is due from the LLP and/or (iii) (in the case of a Term Advance relating to an Accumulation Series of Covered Bonds), within one Business Day of each LLP Payment Date for each such Term Advance relating to an Accumulation Series of Covered Bonds make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Term Advance on the immediately subsequent LLP Payment Date.

If an Administrator Downgrade Event has occurred and is continuing and either (i) the Reserve Fund was not, as at the immediately preceding LLP Payment Date, funded to at least the Reserve Fund Required Amount or (ii) the Reserve Fund Required Amount was calculated to be zero as at the immediately preceding Calculation Date, the LLP will not be required to hold amounts in respect of the LLP Monthly Interest Amount in the relevant Interest Accumulation Ledger in respect of an Accumulation Series of Covered Bonds and may apply the payments that would otherwise have been paid into the relevant Interest Accumulation Ledger in accordance with the relevant Priorities of Payments to make a payment to the Coupon Payment Ledger to fund in whole or in part, the amount to be deposited by the Seller set out above. Any surplus over and above the amount to be deposited as described above will be paid into the Interest Accumulation Ledger.

The LLP will procure that the amount received in respect of such Cash Capital Contribution is promptly paid into the Transaction Account and the Administrator will make a credit to the Coupon Payment Ledger. On the date of the transfer to the Transaction Account, the LLP will, on the direction of the Issuer, deliver an irrevocable payment instruction (specifying the ISIN code in respect of the relevant Series of Covered Bonds) to the Account Bank to pay such amounts (to the extent such amounts have not been paid in whole or in part by the Issuer or (following the occurrence of an Issuer Event of Default and the service of an Issuer Acceleration Notice and a Notice to Pay to the LLP) the LLP (or the Administrator on its behalf) on the relevant dates) to the Principal Paying Agent or the relevant Covered Bond Swap Provider, as applicable on the date of the transfer referred to above.

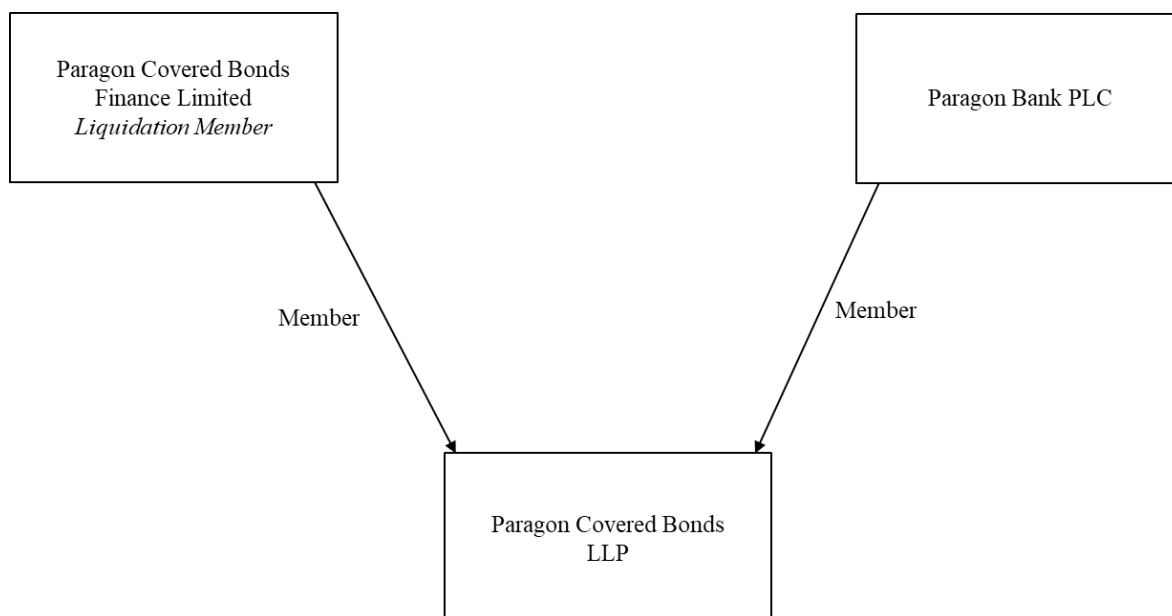
13. *Administration:* In its capacity as Administrator, Paragon Bank PLC has entered into the Administration Agreement with the LLP and the Security Trustee, pursuant to which the Administrator has agreed to provide certain cash administration services and certain services in respect of the Mortgage Loans and their Related Security. The Administrator may in some circumstances delegate or sub-contract some or all of its responsibilities and obligations under the Administration Agreement. It is expected that the Administrator will delegate or sub-contract its obligations to PFPLC.
14. *The RCB Regulations:* Paragon Bank PLC has been admitted to the register of issuers and the Programme has been admitted to the register of regulated covered bonds.
15. *Further Information:* For a more detailed description of the transactions summarised above relating to the Covered Bonds see, amongst other relevant sections of this Prospectus, “*Overview of the Programme*”, “*Terms and Conditions of the Covered Bonds*”, “*Summary of the Principal Documents*”, “*Credit Structure*”, “*Cashflows*” and “*The Mortgage Portfolio*”, below.

OWNERSHIP STRUCTURE OF PARAGON COVERED BONDS LLP

As at the date of this Prospectus, the Members of the LLP are the Seller and the Liquidation Member.

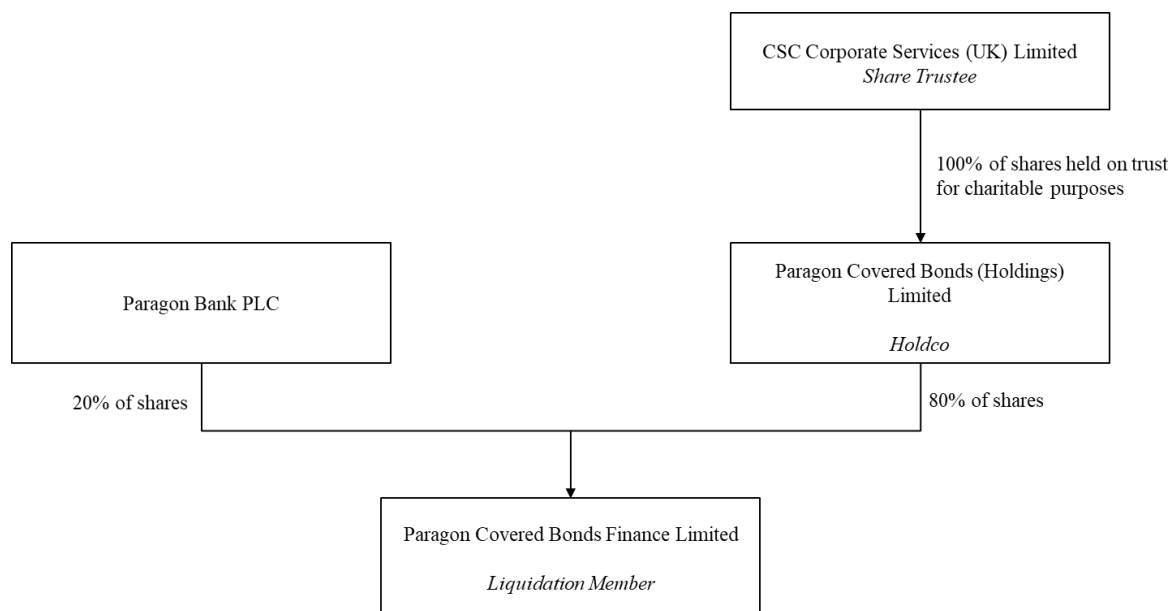
A New Member may be admitted to the LLP, subject to meeting certain conditions precedent including, but not limited to, the consent of the Security Trustee being obtained and the Ratings Condition being satisfied in respect of the admission of the New Member.

Other than in respect of those decisions reserved to the Members, the Management Committee (comprising, as at the date of this Prospectus, directors and/or employees of PFPLC and the Liquidation Member) will manage and conduct the business of the LLP and will have all the rights, power and authority to act at all times for and on behalf of the LLP.



OWNERSHIP STRUCTURE OF THE LIQUIDATION MEMBER

As at the date of this Prospectus, 80 per cent. of the issued share capital of the Liquidation Member is held by HoldCo and 20 per cent. of the issued share capital of the Liquidation Member is held by the Issuer. The entire issued capital of HoldCo is held by CSC Corporate Services (UK) Limited as share trustee on trust for charitable purposes.



OVERVIEW OF THE PROGRAMME

The following overview is a general description of the Programme, must be read as an introduction to this Prospectus, and is qualified in its entirety by the remainder of this Prospectus (and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms or Drawdown Prospectus). Words and expressions defined elsewhere in this Prospectus shall have the same meaning in this overview unless otherwise defined herein.

Issuer:	<p>Paragon Bank PLC, incorporated with limited liability in England and Wales with registered number 05390593.</p> <p>For a more detailed description of the Issuer, see “<i>Information on the Issuer</i>” below.</p>
Issuer Legal Entity Identifier (LEI):	213800ZD686TR7FEP983
The LLP:	<p>Paragon Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (partnership no. OC450708). The Members of the LLP on the date of this Prospectus are Paragon Bank PLC (in its capacity as Seller) and the Liquidation Member. The LLP is a special purpose vehicle whose business is to acquire, <i>inter alia</i>, Mortgage Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and to guarantee certain payments in respect of the Covered Bonds. The LLP will hold the Mortgage Portfolio and the other Charged Property in accordance with the terms of the Transaction Documents.</p> <p>The LLP has provided a guarantee covering all Guaranteed Amounts when the same shall become Due for Payment, but only following an Issuer Event of Default and the service on the LLP of a Notice to Pay or LLP Acceleration Notice. The obligations of the LLP under such guarantee and the other Transaction Documents to which it is a party are secured by the assets from time to time of the LLP and recourse against the LLP is limited to such assets.</p> <p>For a more detailed description of the LLP, see “<i>The LLP</i>” below.</p>
LLP Legal Entity Identifier (LEI):	213800MA6CWDXX7V3F18
Seller:	<p>Paragon Bank PLC, which is in the business of originating and acquiring buy-to-let mortgage loans and conducting other related activities.</p> <p>For a more detailed description of the Seller, see “<i>Information on the Issuer</i>” below.</p>
Legal Title Holders:	Each of the Issuer, PML and MTL.

Originators	Each of the Issuer, PML, MTL and PM2010.
Administrator:	Pursuant to the terms of the Administration Agreement, Paragon Bank PLC has been appointed to (i) administer, on behalf of the LLP, the Mortgage Loans and Related Security sold to the LLP by the Seller; and (ii) provide cash administration services to the LLP and to monitor compliance by the LLP with the Asset Coverage Test and the Amortisation Test pursuant to the terms of the Administration Agreement. It is expected that the Administrator will delegate or sub-contract its obligations to PFPLC.
Back-Up Administrator Facilitator	CSC Capital Markets UK Limited, which has its office at 10th Floor, 5 Churchill Place, London, England, E14 5HU, has been appointed pursuant to the Administration Agreement as Back-Up Administrator Facilitator.
Principal Paying Agent and Agent Bank:	HSBC Bank plc, acting through its offices at 8 Canada Square, London E14 5HQ, has been appointed pursuant to the Agency Agreement as Principal Paying Agent and Agent Bank.
Transfer Agent:	HSBC Bank plc, acting through its offices at 8 Canada Square, London E14 5HQ, has been appointed pursuant to the Agency Agreement as Transfer Agent.
Paying Agent:	HSBC Bank plc, acting through its offices at 8 Canada Square, London E14 5HQ, has been appointed pursuant to the Agency Agreement as Paying Agent.
Bond Trustee:	HSBC Corporate Trustee Company (UK) Limited, whose registered office is at 8 Canada Square, London E14 5HQ, has been appointed to act as Bond Trustee on behalf of the Covered Bondholders in respect of the Covered Bonds and holds the benefit of, <i>inter alia</i> , the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the Trust Deed.
Registrar:	HSBC Bank plc, acting through its offices at 8 Canada Square, London E14 5HQ, has been appointed pursuant to the Agency Agreement as Registrar.
Security Trustee:	HSBC Corporate Trustee Company (UK) Limited, whose registered office is at 8 Canada Square, London E14 5HQ, has been appointed to act as Security Trustee to hold the benefit of the security granted by the LLP to the Security Trustee (for itself,

the Covered Bondholders and other Secured Creditors) pursuant to the Deed of Charge.

Asset Monitor:

A reputable institution appointed as such pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test when required. The initial Asset Monitor will be Deloitte LLP. The Asset Monitor has also been appointed as the “**Asset Pool Monitor**” (as defined in the RCB Regulations) for the purposes of the RCB Regulations (see “*Description of the UK Regulated Covered Bond Regime*” below).

Covered Bond Swap Providers:

Each swap provider which agrees to act as Covered Bond Swap Provider to the LLP to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Mortgage Loans, the Interest Rate Swaps and (where relevant) the Standby Interest Rate Swaps and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay) and under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay) by entering into the Covered Bond Swaps with the LLP under a Covered Bond Swap Agreement. If the ratings of a Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider may be required to post collateral for its obligations, transfer its obligations to an appropriately rated entity, obtain a guarantee of its obligations from an appropriately rated guarantor and/or take such other action (which may include no action) which will result in the ratings assigned to the Covered Bonds being maintained at or restored to the level at which the Covered Bonds were rated immediately prior to the date on which the relevant downgrade occurred. Each Covered Bond Swap Provider shall satisfy the rating requirements set out in the relevant Covered Bond Swap Agreement, as to which see “*Summary of the Principal Documents – Covered Bond Swap Agreements*” below.

Interest Rate Swap Providers:

Each swap provider which agrees to act as a swap provider to the LLP to hedge possible variances between the rates of interest payable on some or all of the Fixed Rate Mortgage Loans sold by the Seller to the LLP and a compounded daily SONIA rate (which, if a Covered Bond Swap Agreement were in place, would be payable by the LLP in respect of each

affected Series of Covered Bonds and in respect of interest payments on the Term Advances) by entering into the Interest Rate Swaps with the LLP under an Interest Rate Swap Agreement. If the ratings of an Interest Rate Swap Provider fall below specified ratings levels, such Interest Rate Swap Provider may be required to post collateral for its obligations, transfer its obligations to an appropriately rated entity, obtain a guarantee of its obligations from an appropriately rated guarantor and/or take such other action (which may include no action) which will result in the ratings assigned to the Covered Bonds being maintained at or restored to the level at which the Covered Bonds were rated immediately prior to the date on which the relevant downgrade occurred. If a Standby Swap Trigger Event occurs with respect to an Interest Rate Swap Provider under an Interest Rate Swap Agreement, such Interest Rate Swap Agreement shall either be terminated or novated to the Standby Swap Provider and the interest rate hedging will instead be provided to the LLP by the Standby Swap Provider.

Standby Swap Provider:

Each standby swap provider which agrees to act as a standby swap provider to the LLP to hedge possible variances between the rates of interest payable on some or all of the Fixed Rate Mortgage Loans sold by the Seller to the LLP and a compounded daily SONIA rate (which, if a Covered Bond Swap Agreement were in place, would be payable by the LLP in respect of each affected Series of Covered Bonds) in place of the Interest Rate Swap Provider following the occurrence of either a failure to pay or bankruptcy with respect to such Interest Rate Swap Provider (a **“Standby Swap Trigger Event”**) by entering into the Standby Interest Rate Swaps with the LLP under a Standby Swap Agreement. If the ratings of a Standby Swap Provider fall below a specified ratings level after a Standby Swap Trigger Event, such Standby Swap Provider may be required to post collateral for its obligations, transfer its obligations to an appropriately rated entity (including a replacement standby swap provider that is an appropriately rated which is nominated by the LLP), obtain a guarantee of its obligations from an appropriately rated guarantor and/or take such other action (which may include no action) which will result in the ratings assigned to the Covered Bonds being maintained at or restored to the level at which the Covered Bonds

were rated immediately prior to the date on which the relevant downgrade occurred.

Account Bank:

HSBC Bank plc has been appointed as the Account Bank to the LLP pursuant to the terms of the Bank Account Agreement.

Liquidation Member:

Paragon Covered Bonds Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 15427074). As at the date of this Prospectus, 80 per cent. of the issued share capital of the Liquidation Member is held by HoldCo and 20 per cent. of the issued share capital of the Liquidation Member is held by the Issuer.

HoldCo:

Paragon Covered Bonds (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 15427078). All of the shares of HoldCo are held by the Share Trustee on trust for general charitable purposes.

Share Trustee:

CSC Corporate Services (UK) Limited, having its registered office at 10th Floor, 5 Churchill Place, London, E14 5HU.

Corporate Services Provider:

CSC Capital Markets UK Limited, having its registered office at 10th Floor, 5 Churchill Place, London, E14 5HU, has been appointed to provide certain corporate services to the LLP, Liquidation Member and HoldCo, pursuant to the Corporate Services Agreement.

Arrangers:

Barclays Bank PLC, BNP Paribas and NatWest Markets Plc.

Dealers:

Barclays Bank PLC, BNP Paribas and NatWest Markets Plc and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Covered Bonds.

Final Terms or Drawdown Prospectus:

Covered Bonds issued under the Programme may be issued either (1) pursuant to this Prospectus and associated Final Terms or (2) pursuant to a Drawdown Prospectus. The terms and conditions applicable to any particular Tranche of Covered Bonds will be the Conditions as completed by the relevant Final Terms or, as the case may be, as supplemented, amended and/or replaced by the relevant Drawdown Prospectus.

Listing and Trading:	Application will be made to admit Covered Bonds issued under the Programme to the Official List and to admit the Covered Bonds to trading on the main market of the London Stock Exchange.
The RCB Regulations:	On 19 February 2025, the Issuer and the Programme were granted admission to the register of regulated covered bonds under the RCB Regulations, and pursuant to the RCB Regulations, will appear on the register within 7 days of that date.
Initial Programme Amount:	Up to £5 billion (or the equivalent in other currencies) aggregate principal amount of Covered Bonds outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution:	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in “ <i>Subscription and Sale</i> ” below.
Issuance in Series:	Covered Bonds will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Covered Bonds of each Series will be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Covered Bonds of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Covered Bonds of different denominations.
Form of Covered Bonds:	Covered Bonds may be issued in bearer form (“ Bearer Covered Bonds ”) or in registered form (“ Registered Covered Bonds ”) as described in “ <i>Form of the Covered Bonds</i> ”. Bearer Covered Bonds will not be exchangeable for Registered Covered Bonds and Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds. No single Series or Tranche may comprise both Bearer Covered Bonds and Registered Covered Bonds.
Specified Currencies:	Covered Bonds may be denominated in Sterling or euro, as specified in the applicable Final Terms.
Status of Covered Bonds:	The Covered Bonds (and any Coupons relating thereto) will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank <i>pari passu</i> among themselves and <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of

Status of the Covered Bond Guarantee:

the Issuer, (save for such obligations as may be preferred by provisions of law).

Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the LLP. The obligations of the LLP to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that an Issuer Event of Default has occurred, an Issuer Acceleration Notice has been served on the Issuer and a Notice to Pay has been served on the LLP or, if earlier, an LLP Event of Default has occurred and an LLP Acceleration Notice has been served on the LLP. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP upon the service of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee constitute direct and unconditional obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets.

Issue Price:

Covered Bonds may be issued at any price. The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

Maturities:

Such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

Interest:

Covered Bonds may be interest bearing or non-interest bearing or a combination of any of the foregoing. Interest (if any) may accrue at a fixed rate or a floating rate (or a fixed/floating or floating/fixed rate).

Fixed Rate Covered Bonds:

Fixed Rate Covered Bonds will bear interest at the fixed rate(s) of interest specified in the applicable Final Terms. Such interest will be payable in arrears on the Interest Payment Date(s) specified in the applicable Final Terms or determined pursuant to the Conditions.

Fixed/Floating Rate Covered Bonds:

Covered Bonds may be issued which convert from a fixed rate of interest to a floating rate of interest, or

vice versa, as specified in the applicable Final Terms. See further “*Risk Factors – Fixed/Floating Rate Covered Bonds*”.

Floating Rate Covered Bonds:

Floating Rate Covered Bonds will bear interest determined separately for each Series by reference to a reference rate appearing on the agreed screen page of a commercial quotation service, as adjusted for any applicable margin specified in the applicable Final Terms.

Floating Rate Covered Bonds may also have a maximum interest rate, a minimum interest rate, or both.

Zero Coupon Covered Bonds:

Zero Coupon Covered Bonds may be issued at their nominal amount or at a discount to their nominal amount and will not bear interest, subject to confirmation from the Rating Agencies that the then current ratings of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of the Zero Coupon Covered Bonds.

Base Rate Modifications:

The Issuer may, in certain circumstances and subject to certain conditions, make Base Rate Modifications without the need (so long as the Bond Trustee, the Issuer and the Principal Paying Agent (collectively) have not been contacted in writing by Covered Bondholders holding at least 10 per cent. of the aggregate Principal Amount Outstanding of such Series of Covered Bonds stating that such Covered Bondholders do not consent to the proposed Base Rate Modification in the manner set out in Condition 15(b)(iii) (*Base Rate Modifications*)) for the consent of Covered Bondholders of such Series of Covered Bonds. See Condition 15(b)(iii) (*Base Rate Modifications*) for further information.

Redemption:

Unless previously redeemed or purchased and cancelled, Covered Bonds will be redeemed at their Final Redemption Amount (as specified in the relevant Final Terms) on their Final Maturity Date.

Optional Redemption:

Covered Bonds may be redeemed before their Final Maturity Date at the option of the Issuer (as described in Condition 7(c) (*Redemption at the option of the Issuer (Issuer Call)*)), to the extent (if at all) specified in the relevant Final Terms.

Early Redemption:

Except as described in “*Optional Redemption*” above, early redemption will only be permitted for tax reasons, as described in Condition 7(b) (*Redemption for taxation reasons*) and if it becomes

unlawful for any Term Advance to remain outstanding, as described in Condition 7(d) (*Redemption due to Illegality*).

Extendable Obligations under the Covered Bond Guarantee:

The applicable Final Terms will provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) may be deferred until the Extended Due for Payment Date. Such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the LLP by the Extension Determination Date (for example, because the LLP has insufficient monies to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the LLP has received a Notice to Pay in sufficient time and has sufficient monies to pay in part the Final Redemption Amount, such partial payment shall be made by the LLP on any Interest Payment Date up to and including the relevant Extended Due for Payment Date as described in Condition 7(a) (*Final redemption*). Interest will continue to accrue and be payable on the unpaid amount up to the Extended Due for Payment Date in accordance with Condition 5 (*Interest*), and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each relevant Original Due for Payment Date and the Extended Due for Payment Date.

Denominations:

The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) (subject to compliance with all applicable legal and/or regulatory and/or central bank requirements), save that the minimum denomination of each Covered Bond will be €100,000 (or the equivalent in any other currency).

Taxation:

All payments in respect of the Covered Bonds will be made without deduction or withholding for or on

account of United Kingdom taxes, subject as provided in Condition 8 (*Taxation*). If any such deduction or withholding is made the Issuer will, save in the limited circumstances provided in Condition 8 (*Taxation*), be required to pay additional amounts in respect of the amounts so deducted or withheld. Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts that would have been payable by the Issuer under Condition 8 (*Taxation*).

Cross Default:

If an Issuer Acceleration Notice is served in respect of one Series of Covered Bonds, then the Covered Bonds of all Series will accelerate against the Issuer.

If an LLP Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligation of the LLP to pay Guaranteed Amounts in respect of all Series of Covered Bonds outstanding will be accelerated.

Ratings:

Covered Bonds to be issued under the Programme have the ratings specified in the applicable Final Terms on issuance.

Substitution:

The Bond Trustee may in certain circumstances, without the consent of the Covered Bondholders, agree to the substitution of the Issuer, as described in Condition 15(c) (*Substitution of the Issuer*).

Governing Law:

The terms and conditions of the Covered Bonds and any non-contractual obligations arising out of or in connection therewith will be governed by, and construed in accordance with, English law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of Covered Bonds and on the distribution of offering material in the United States, the European Economic Area (which includes the Republic of Italy), the United Kingdom and Singapore, see “*Subscription and Sale*” below.

UK MiFIR Product Governance and MiFID II Product Governance:

The Final Terms in respect of any Covered Bonds will include a legend entitled “*UK MiFIR Product Governance*” and may include a legend entitled “*MiFID II Product Governance*” which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate.

UK PRIIPs Regulation and EU PRIIPs Regulation:

If the Final Terms in respect of any Covered Bonds includes a legend entitled “*Prohibition of Sales to UK Retail Investors*” or “*Prohibition of Sales to EEA Retail Investors*”, the Covered Bonds are not intended

to be, and should not be, offered, sold or otherwise made available to any retail investor in the UK or in the EEA, as applicable, and no key information document under the UK PRIIPs Regulation or the EU PRIIPs Regulation will be prepared.

Risk Factors:

There are certain risks related to any issue of Covered Bonds under the Programme, which investors should ensure they fully understand, a non-exhaustive summary of which is set out under “*Risk Factors*” from page 31 of this Prospectus.

RISK FACTORS

This section describes the principal risk factors associated with an investment in the Covered Bonds.

Any investment in the Covered Bonds is subject to a number of risks. Prior to investing in the Covered Bonds, prospective investors should carefully consider risk factors associated with any investment in the Covered Bonds, the business of the Issuer and the industry in which it operates together with all other information contained in this Prospectus, including, in particular the risk factors described below, before making any investment decision. Words and expressions defined in the “Terms and Conditions of the Covered Bonds” below or elsewhere in this Prospectus have the same meanings in this section.

Prospective investors should note that the following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Covered Bonds. The Issuer has described only those risks relating to its ability to fulfil its obligations under the Covered Bonds that it considers to be material. Additional risks and uncertainties relating to the Issuer that are not currently known to the Issuer, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, financial condition, results of operations and/or prospects of the Issuer and/or the Group and, if any such risk should occur, the price of the Covered Bonds may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Covered Bonds is suitable for them in light of the information in this Prospectus and their particular circumstances.

(A) RISKS RELATING TO THE ISSUER

1 Business Risks

1.1 The Issuer could be materially affected by a downturn or disruption in the UK economy

The majority of the Issuer’s income is derived from activities secured on residential property within the UK. This geographical concentration of credit risk means the Issuer is sensitive to adverse changes in the UK economy, which could reduce demand for the Issuer’s loan products, increase the number of customers that default on their loans and cause security asset values to fall.

A downturn in business conditions or in the UK economy or increased financial market volatility or economic or market disruption could adversely affect the Issuer’s cashflows, revenues and/or profits which could adversely impact the Issuer’s ability to fulfil its obligations under the Covered Bonds.

1.2 The Issuer is reliant on lending to customers investing in the UK private rented sector

Demand for the Group’s buy-to-let mortgages is susceptible to any systemic deterioration in the performance of the UK private rented sector (“**PRS**”), which will be influenced by underlying factors such as house prices, the supply of rental property, demographic changes and government policy including taxation (see the section “*Information relating to the regulation of the Mortgage Loans in the UK – Policy considerations in respect of the UK private rented sector*” below).

Increases in the taxation or reduction of tax relief relating to buy-to-let property investment may adversely affect the private residential rental market the UK in general, or (in the case of the restriction of income tax relief) the ability of individual customers to meet their obligations under their mortgage loans (see the section “*Information relating to the regulation of the Mortgage Loans in the UK – Stamp Duty Land Tax Surcharge, Welsh Land Transaction Tax Surcharge and Capital Gains Tax higher rate on buy-to-let properties*” below).

Increased regulation of buy-to-let mortgages could reduce the choice of mortgage products and properties available to buy-to-let investors, which in turn could reduce demand for buy-to-let mortgages. Demand for buy-to-let mortgages is also susceptible to changes in interest rates, employment levels and

other factors that determine disposable income and rental yields (see the sections “*Information relating to the regulation of the Mortgage Loans in the UK – Regulatory changes affecting buy-to-let lending*” and “*– Regulation of buy-to-let mortgage loans*” below).

Reductions in demand for buy-to-let mortgages and also any decreases in the value of security or the ability of borrowers to meet their obligations under their buy-to-let mortgages could adversely affect the Issuer’s cashflows, revenues and profits which could adversely impact the Issuer’s ability to fulfil its obligations under the Covered Bonds.

1.3 As a lender, the Issuer is exposed to the risk of unexpected material losses in the event of customers being unable to repay their debts

As a lender, the Issuer is inherently exposed to risks arising from changes in the credit quality of customers and the recoverability of amounts due from borrowers. Defaults may occur for a variety of reasons, including 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 taxation, interest rates, inflation, the availability of financing, yields on alternative investments, natural and other disasters including epidemic outbreaks, wars, political developments and government policies, natural disasters and widespread health crises or the fear of such crises (such as coronavirus (including COVID-19), measles, SARS, Ebola, H1N1, Zika, avian influenza, swine flu, or other epidemic diseases).

The UK economy has recently experienced a range of economic shocks including high energy prices, inflation and a cost of living crisis, partly associated with COVID-19 and the war between Russia and Ukraine, with uneven impacts. The United Kingdom has also experienced rising interest rates leading to an increase in the cost of borrowing as well as further discouraging expenditure. Increased borrowing costs could make a borrower’s mortgage unaffordable, leading to an increase in defaults.

A proportion of the Issuer’s loans charge a floating interest rate (either from the date the funds are lent or after an initial fixed rate period) where the interest rate is a fixed margin over Bank of England Base Rate or the Term Sterling Overnight Index Average (“**Term SONIA**”). The rate of interest on these loans has increased recently which can result in increased borrower default risk.

From April 2017, the UK Government implemented a phased reduction in the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest). With effect from 6 April 2020, borrowers have been unable to make any deductions for finance costs from rental income and instead a borrower is only entitled to a tax credit at the basic rate of income tax (20%) for their finance costs. Prior to December 2016, the Originators did not grant mortgage loans based on borrowers’ net tax position but rather on the basis of expected rental income in respect of the property (and in some cases additional income). Since 1 January 2017, the PRA requires all lenders to apply minimum affordability requirements to new buy-to-let mortgage applications, taking into account the impact of tax on rental income, the costs the landlord might incur in letting the property and the impact of future changes in interest rates. Borrowers developed a range of strategies to mitigate the impact of such income tax relief changes, including increasing rents at the end of a tenancy agreement (subject to the market rates applicable to rental properties in the specific location of the property), transferring borrowings to a limited company, reducing the value of their loan, or ultimately selling the property. However, there can be no assurance that the further restrictions on income tax relief may not adversely affect the ability of individual borrowers of buy-to-let mortgage loans to meet their obligations under those mortgage loans.

Other factors in borrowers' personal or financial circumstances may affect the ability of borrowers to repay their mortgage loans. Unemployment, 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 their mortgage loans. In addition, the ability of a borrower to sell a property given as security for a mortgage loan at a price sufficient to repay the amounts outstanding under that mortgage loan will depend upon a number of factors, including the availability of buyers for that property and its condition and the value of that property at the time.

Increased numbers of defaults by the Issuer's customers may reduce the recoverability and value of the Issuer's assets and require an increase in the level of provisions for impairment. Any adverse changes in credit quality and loan recoverability could have a material adverse effect on the Issuer's reputation, business, results from operations, cashflows, profitability or financial condition which could adversely impact the Issuer's ability to fulfil its obligations under the Covered Bonds.

1.4 The Group operates in highly competitive markets and faces strong competition in all of the core areas in which it is active

The UK financial services market is highly competitive and the Group faces competition from the large multi-product high street banks to global banks with digital offerings to small highly specialised operations funded by private equity in all markets in which it operates.

The Issuer targets specialist landlords in the buy-to-let sector. These landlords will typically let out four or more properties or operate with more complex properties. They will generally run their portfolio as a business and have both a strong understanding of their local lettings market and a high level of personal day-to-day involvement. This sector is underserved by many of the larger UK financial institutions and there is a risk that larger financial institutions may enter into the specialist landlord buy-to-let sector, increasing competition and adversely impacting the Issuer's ability to meet its obligations under the Covered Bonds.

1.5 Risks related to climate change

The physical and transition risks of climate change have the potential to pose a significant threat to the Issuer's business.

Businesses' response to the emerging threats of climate change are under increasing scrutiny by governments, regulators and the public alike. These include physical risks resulting from changing climate and weather patterns and extreme weather-related events, as well as transition risks resulting from the process of adjustment towards a lower carbon economy.

Multilateral agreements, in particular the 2015 Paris Agreement, and subsequent UK government commitments to achieving net zero carbon emissions by 2050, will require widespread levels of adjustment across all sectors of the UK economy and markets in which the Issuer operates. The PRA, the Issuer's prudential regulator, has identified climate change risk as a priority issue. The UK government and regulators may introduce increasingly stringent rules and policies designed to achieve targeted outcomes, which could increase compliance costs for the Issuer, drive asset impairments and result in regulatory fines or other action if the Issuer is unable to implement adequate reforms sufficiently quickly.

The impact of regulatory, policy, commercial and technological changes is expected to be highly significant and may be disruptive, especially if such changes do not occur in an orderly or timely manner or are not effective in reducing emissions sufficiently. How the Issuer assesses and responds to these developments and challenges could increase its costs of business, and a failure to identify and adapt its

business to meet new rules or evolving expectations, or any perception that it is under-performing relative to peer lenders, could result in reputational damage and/or risk of legal claims.

The tightening of efficiency standards for domestic properties also has the potential to impact the buy-to-let market and the energy performance of property stock. This could depress the demand for buy-to-let mortgages that are a key part of the Issuer's business model and could also reduce the value of the security the Issuer takes.

If the Issuer does not adequately embed climate risk into its risk framework to appropriately measure, manage and disclose the various financial, transition and physical risks it faces associated with climate change, or fails to adapt its business model to the changing regulatory requirements and market expectations on a timely basis, it may have a material and adverse impact on the Issuer's level of business growth, its competitiveness, profitability, prudential capital requirements, credit ratings, cost of funding, reputation, results of operation and financial condition.

2 Operational Risks

2.1 The Issuer's risk management framework, systems and processes, and related guidelines and policies, may prove inadequate to manage its risks, and any failure to properly assess or manage such risks could harm the Issuer

The Issuer faces a wide range of risks in its core business activities, including credit risk and liquidity risk, conduct risk and interest rate risk. Effective risk management requires, among other things, robust policies, processes and controls for the accurate identification and control of many transactions and events, and the Issuer's risk management policies, processes and controls may not prove to be adequate. The Issuer has a range of techniques, some of which are based on historical market behaviour, designed to identify, assess and manage the various risks which it faces and the Issuer is increasingly relying on internally developed models in order to inform its financial decision making. These methods may be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historical experience. Other methods the Issuer employs for risk management are based on the evaluation of markets, customers and other information that is publicly known or otherwise available to the Issuer. This information may not always be correct, updated or correctly evaluated. Furthermore, whilst the Paragon Banking Group has over 29 years of buy-to-let performance data on its most mature and significant franchise, in respect of certain other products, the Issuer has a limited operating history and, consequently, does not have a long track record on which it can assess the performance of its systems and processes or the analysis of those systems' outputs in respect of those products. As such, it may be difficult to predict changes in economic or market conditions and to anticipate the effects that these changes could have on the Issuer's financial performance and business operations, particularly in periods of unusual or extreme market conditions. The Issuer is also limited by a maximum level of risk that it can assume before breaching constraints determined by regulatory capital and liquidity needs and its regulatory and legal obligations, including, among others, from a conduct and prudential perspective. If the Issuer's risk management policies, processes and controls are ineffective for any reason, this could have a material adverse effect on its business, financial condition, results of operations or prospects.

2.2 The Issuer is exposed to the risk of disruption of its systems and loss or disclosure of sensitive data as a result of cyber-crime, insufficient oversight of third parties or a data security breach

The threat posed by cyber-attacks continues to grow, with artificial intelligence an additional challenge, and the banking industry continues to be subject to multiple cyber-attacks. Activists, nation states, criminal gangs, insiders and opportunists are among those targeting bank operating systems. Given the increasing sophistication and scope of potential cyber-attacks, it is possible that future attacks may lead to significant breaches of security. The occurrence of one or more of such events may jeopardise

confidential and other information processed and stored in the Issuer's computer systems and networks, or otherwise cause interruptions or malfunctions in the Issuer's clients', counterparties' or third parties' operations, which could impact their ability to transact with the Issuer or otherwise result in significant losses or reputational damage.

The Issuer relies on third party providers for several key services including its savings offering and in respect of critical information technology ("IT") services. The oversight of third parties is seen as critical to overall resilience and, if such oversight is not sufficiently robust critical, any failure of the Issuer's IT services could damage its ability to operate effectively.

The Issuer invests in layers of defences to combat risks to its data security using both technical controls and appropriate policy and procedures combined with testing of its defences and staff training programmes. This framework is supported by certification with appropriate internationally defined standards, enabling the Issuer to maintain compliance with UK and EU law and regulations regarding information security. Notwithstanding these measures there is a risk of disruption of the Issuer's systems or loss or disclosure of sensitive data as a result of a cyber-attack or from the actions of a careless or malicious insider, which could result in damage to the reputation of the Issuer, losses from reductions of business volumes or lost contracts, fines from regulators or damages arising as a result of legal action.

Failure to adequately manage cyber-crime risk and continually review and update current processes in response to new threats could adversely affect the Issuer's reputation, operations, financial condition and prospects.

2.3 The Issuer's various activities subject it to operational risks relating to its ability to implement and maintain effective systems to process the large number of transactions it enters into with customers

The Issuer's activities subject it to risks relating to the management and maintenance of IT systems, the migration of data and the processing of transactions. A significant breakdown of the Issuer's IT systems might adversely impact its ability to operate its business effectively, which may in turn have an adverse effect on the Issuer's business, results of operations, profitability or financial condition.

It is important for the Issuer to be able to migrate a large number of assets to its systems at origination or following purchase and to process a large number of transactions efficiently and accurately. Losses in migration or in processing transactions can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisations, failure to comply with regulatory requirements (including rules relating to conduct of business and good customer outcomes), equipment failures, natural disasters, terrorist attacks or the failure of external systems, such as those of the Issuer's clearing banks. Although the Issuer has trained its staff in disaster recovery procedures and has resources dedicated to developing efficient processes, it is not possible to be certain that such procedures will be effective in controlling each of the operational risks faced by the Issuer.

2.4 The Issuer is exposed to the risk that its financial performance and reputation could suffer significantly if it fails to deliver good outcomes for customers

On 27 July 2022, PS22/9, a new Consumer Duty, set out higher and clearer standards of consumer protection across financial services, requiring firms to deliver good outcomes for customers and to consider the needs, characteristics and objectives of the customer and how they behave at every stage of the customer journey in order to deliver good outcomes. As a provider of financial products and services to a broad customer base, which includes retail and small and medium size enterprise customers, the Issuer is exposed to potential conduct risk should it fail to achieve good customer outcomes. This could arise, for example, if certain products fail to meet the needs of customers, if vulnerable customers or

customers in financial difficulties are not treated appropriately or if customer complaints are not handled effectively.

The manner in which financial services companies treat their customers is subject to intense scrutiny from regulatory bodies, the media and government. Whilst the Issuer has established governance frameworks including conduct risk policies, procedures, employee training and oversight to mitigate its potential exposure, there remains a risk that certain aspects of the Issuer's current or historic activities may be determined by the Financial Conduct Authority, other regulatory bodies or the courts as not being consistent with the delivery of good outcomes for customers.

Systemic unfair customer treatment may lead to regulatory censure, fines and significant reputational damage which could result in reductions to the Issuer's income profitability and future growth prospects.

2.5 Failures of regulatory compliance or business ethics could adversely affect the Group's reputation and operations

Maintenance of a strong reputation across all lines of business and operational activities is core to the Group's business model and philosophy. Detrimental reputational impacts may result from the failure to safeguard the integrity of the brand or failing to meet external expectations in conducting business practices.

The Group has an external relations function that aims to ensure the reputation of the Group remains protected at all times, however, there is a risk that this function may not always be able to protect the reputation of the Group.

Despite strict regulatory compliance and business ethics policies, there is a risk of employees, brokers or suppliers engaging in activities that violate the Group's values, breach its code of conduct, or could be perceived as unethical. This could involve corruption or breach legal and regulatory requirements (including money laundering and anti-terrorism financing requirements). There is also a risk that employees or brokers will commit such violations in their interactions with colleagues, customers and others.

Such shortcomings in ethical standards and/or regulatory compliance could result in financial losses, sanctions from supervisory authorities and tarnished reputation. The realisation of such risks could adversely affect the Group's results and financial position.

2.6 The Group is exposed to the risk of failure of wholesale counterparties with which it places deposits and enters into hedging transactions

The Group holds certain amounts of its assets in the form of cash, mainly on short term or overnight deposit with high quality banks or other institutions, which meet defined minimum ratings levels. These investments give rise to the risk of loss for the Group in the event of failure of any of these counterparties ("counterparty credit risk").

The Group undertakes hedging arrangements to mitigate interest rate risk. The majority of these hedges are centrally cleared whilst the remaining hedges have protocols that require collateral to be posted subject to changes in the mark to market value of the hedges. At times the mark-to-market value of these hedging transactions can be material and, notwithstanding the collateral protocols, the Group is exposed to the risk of loss in the event of the failure of a hedging counterparty.

If any counterparty failed this could give rise to a loss which could have an adverse effect on the Group's business, profitability or financial condition.

2.7 The Group is exposed to the risk that it is unable to recruit and retain skilled senior management and key personnel at all levels. Failure to maintain the necessary skills within its workforce could have a material impact on the Group's ability to deliver its business plan and strategic objectives

The success of the business of the Group is dependent on recruiting, retaining and developing appropriately skilled, competent people at all levels of the organisation. If the Group is not able to attract and retain such personnel or ensure that the experience, skills and knowledge of key management and the workforce are not lost from its business over time, it may not be able to maintain its standards of service or continue to grow its business as anticipated.

The loss of such personnel, and more particularly the failure to find suitable replacements in a timely manner, the inability to attract and retain and develop additional appropriately skilled employees, or the failure to plan succession effectively, could have an adverse effect on the Group's business and its ability to deliver business plans and strategic objectives.

2.8 Possible exposure of the Group to fraud

The Group is exposed to possible fraud by borrowers, purported borrowers, their professional advisors such as solicitors, accountants or valuers, as well as by employees. Attempted fraud typically involves borrowers, acting alone or in concert with professional advisors, seeking to obtain funds by adopting a false identity, using inflated property valuations, purporting to own a property (or other asset) or seeking a release of security without redeeming the underlying loan.

The Group has in place processes and procedures to counteract fraud, and insurance in place to provide an indemnity against losses arising from dishonest, fraudulent or malicious acts committed by its staff, outside valuers and outside solicitors. However, it is possible that large scale fraud could adversely affect the Group's revenues and profits which could in turn adversely impact the Issuer's ability to fulfil its obligations under the Covered Bonds.

2.9 The Issuer could be negatively affected by contagion resulting from an actual or perceived deterioration in the soundness of other financial institutions and counterparties

The high level of interdependence between financial institutions exposes the Issuer to the risk of actual or perceived deterioration of the commercial and financial soundness, or perceived soundness, of other financial institutions through contagion. Concerns about, or a default by, an institution could, through contagion, lead to significant liquidity problems, losses or defaults in other institutions because of such interdependencies. Contagion could therefore have a material adverse effect on the Issuer's ability to raise new funding and on its business, financial condition, results of operations and prospects.

3 Regulatory Risks

3.1 Legislative and regulatory changes could require the Group to raise further capital, increase the Group's expenses and/or otherwise have a material adverse effect on its business, financial condition, results of operations and/or prospects

As a business offering financial services, the Group is subject to ongoing regulation by the FCA and the PRA. If the Group fails to comply with any relevant regulations, there is a risk of a material adverse effect on its business due to sanctions, fines, customer redress or other actions.

Regulators and other policy making bodies in the UK and worldwide continue to produce and adopt legislative and regulatory proposals and changes which have and could cause the Group to raise further capital, increase the Group's expenses and/or otherwise have a material adverse effect on its business, financial condition, results of operations and/or prospects. In particular:

- the Senior Managers and Certification Regime aims to increase the accountability of senior managers and promote greater transparency and minimum standards of good practice in the financial services industry. Complying with these regulations imposes costs on the Group's business to implement and maintain policies and procedures, as well as the time and attention of senior management. These rules also provide for a criminal offence for senior managers of causing certain financial institutions to fail, which involves personal criminal liability for making reckless management decisions. Senior managers are subject to pre-approval by the relevant regulator and others who are capable of causing significant harm to the firm or its customers are subject to an ongoing certification regime, under which firms must assess and certify they are fit and proper to perform their role;
- the Group's borrowing costs and capital requirements could be affected by prudential regulatory developments, including UK CRD, which onshored in the UK (as a result of the UK's exit from the EU) the EU CRD, the legislative package implementing the proposals of the Basel Committee (known as "**Basel III**") and subsequent reforms to the package (known as "**Basel 3.1**") and other regulatory developments impacting capital, leverage and liquidity positions (including the imposition of the Liquidity Coverage Ratio ("**LCR**") and the net stable funding ratio). These prudential regulatory requirements may change as a result of further changes to the international framework, legislative changes in the UK or changes to the way in which the PRA interprets and applies these requirements to UK banks;
- the Group's ability to do business could be constrained if it fails to maintain sufficient levels of capital. Further, if the Group fails to meet its minimum regulatory capital requirements, this could result in administrative actions or sanctions against it or it could be subject to the exercise of resolution powers. Any change that limits the Group's ability to manage its balance sheet and capital resources effectively (including any reductions in profits and retained earnings as a result of credit losses, write downs, increases in risk weighted assets, delays in asset disposals or the inability to raise finance through wholesale markets) could have a material adverse effect on its business, financial condition, results of operations and/or prospects;
- in the UK, the Banking Act 2009 as amended (the "**Banking Act**") provides for a package of minimum early intervention and resolution-related tools and powers which the UK resolution authorities may apply in respect of in-scope UK financial institutions, including the Issuer. Further changes could be made to the recovery and resolution framework in the UK;
- the Group is subject to the UK's consumer credit regime in relation to the provision of regulated credit agreements and regulated hire agreements. Failure to comply with certain of those requirements may result in the agreements being unenforceable against the borrower or hirer without an order from the FCA or court (as applicable) and/or the bank as lender or owner being precluded from recovering interest and/or charges from borrowers for the period of non-compliance. For further information, see "*Regulatory Developments – UK and European Banking and Financial Services Reform Initiatives – The Consumer Credit Regime*";
- the Group's business is subject to the Consumer Rights Act 2015 (the "**CRA**"), which consolidated previous consumer protection legislation in the UK and came into force on 26 March 2015. Under the CRA, Group entities which enter into agreements with consumers are required to ensure that its terms with relevant customers are fair. Any breach of these requirements could mean that the unfair terms in question are not binding or enforceable, which may affect the Group's ability to recover monies owed under such agreements;

- the Group is subject to competition law, and regulated by the FCA, PRA and CMA in this respect. The Group may face increasing regulatory scrutiny, compliance costs and competition impact which may affect the Group's ability to generate revenues and achieve its strategic aims. For further information, see "*Regulatory Developments – UK and European Banking and Financial Services Reform Initiatives – Competition Law*";
- the Bank of England and PRA continue to explore climate change's interaction with prudential regulation and capital requirements. The Group may face increasing regulatory scrutiny and compliance costs which may affect the Group's ability to generate revenues. For further information, see "*Regulatory Developments – Prudential Regulation – Prudential Regulation of Climate Change*";
- the Group is subject to the UK operational resilience regime. The Group may face increased compliance costs if regulatory requirements relating to operational resilience change. For further information, see "*Regulatory Developments – UK and European Banking and Financial Services Reform Initiatives – UK Operational Resilience Regime*"; and
- the Group is monitoring the FCA's work in relation to motor finance commissions, and other related developments in that area, in particular the Supreme Court appeal in relation to three motor finance commission cases. The Group has a comparatively small motor finance portfolio, and its expectations of exposure remain low. Accordingly no material provision was identified in the 2024 Paragon Banking Group Audited Financial Statements for potential redress or other costs in relation to this point. There is however significant uncertainty with regard to legal and regulatory interventions around commissions paid in the motor finance market. These processes are far from complete, and therefore the scope and extent of any exposure is unclear. It is also possible that the principles articulated in relation to the motor finance market could have a broader application extending to other types of commission-based lending. However, the full impact cannot be accurately assessed in full until the FCA's proposed approach to such complaints is known and the legal cases in relation to motor finance commission disclosure are resolved. The Issuer continues to manage complaints in line with the regulator's requirements.

In addition, it is possible that regulatory and/or legislative changes could prompt the development of new rules to, among other things, increase competition in the markets in which the Group operates. This could result in a material adverse impact or increased operational and compliance costs to the industry and therefore on the Group. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, structure, costs and/or capital requirements. Accordingly, the Group cannot ensure that the implementation of any of the foregoing matters or any other proposed changes will not have a material adverse effect on its business, financial condition, results of operations and/or prospects.

3.2 The Group is exposed to risk resulting from GDPR

The European Commission's General Data Protection Regulation ("**GDPR**") came into force on 25 May 2018 and provided a single set of rules on data protection, directly applicable in all EU Member States. From 31 December 2020, GDPR has formed part of domestic law of the UK by virtue of section 3 of the EUWA and as amended by relevant UK statutory instruments. The main provisions include a requirement to notify regulators of breaches within 72 hours of identification, increased sanctions including fines of up to four per cent. of an enterprise's annual worldwide turnover and reduced timelines within which firms must respond to subject access requests (within 30 calendar days). In some circumstances, consumers are also able to request deletion of all personal data held by the data controller and third party recipients. This significantly increased the regulatory burden in relation to processing

personal customer, employee and other data in the course of business and ensuring ongoing compliance with the regime.

3.3 The Group is required to pay levies under the Financial Services Compensation Scheme and is exposed to future increases of such levies, which might impact its profits

The UK's Financial Services Compensation Scheme ("FSCS") pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. Based on the Issuer's share of protected deposits, the Issuer pays levies to the FSCS to enable the scheme to meet claims against it. While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants. Any such levies may be significant amounts that may, as a result, have a material effect on the Group's profits. In common with other financial institutions which are subject to the FSCS, the Group also has a potential exposure to future levies resulting from the failure of other financial institutions and claims which arise against the FSCS as a result of such failure. Historically, compensation scheme levies similar to the FSCS have tended to increase over time (especially during and in the aftermath of periods of economic crisis), and there can also be no assurance that there will not be any claims against the FSCS and subsequent increased FSCS levies payable by the Group. Any such increases in the Group's costs and liabilities related to the levy may have a material adverse effect on its results of operations.

Moreover, there can be no assurance that there will be no further actions taken under the Banking Act, or as a result of the Bank Resolution (Recapitalisation) Bill (if and when enacted) that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the Issuer. Any such increases in the Group's costs and liabilities related to the levy may have a material adverse effect on the results of operations of the Group. Further costs and risks may also arise from discussions at governmental levels around the future design of financial services compensation schemes, such as increasing the scope and level of protection and moving to pre-funding of compensation schemes. For further information, see "*Regulatory Developments – Prudential Developments – FSCS and Deposit Guarantee Scheme*".

4 Market Risks

4.1 The Group is exposed to the risk that changes or mismatches in interest rates may adversely affect its net income and profitability

One of the primary components of the Group's revenue and profits is the difference between the rate at which it borrows and the rate at which it lends.

A substantial and sustained increase in the Issuer's cost of funds is likely to result in the Group seeking to preserve its net interest margin, where possible, by increasing the rates it applies to its lending products. An increase in rates available for potential customers could adversely affect the Group's ability to originate loans by weakening demand for its products.

The recalculation and resetting of the interest rates payable by the Group is carried out periodically at intervals which may not coincide with the dates on which the Group is able to change the rates receivable on its loan assets. As a result, its net margin may be adversely affected during such periods where the rates do not match.

A proportion of the Group's loan assets and retail deposits carry a fixed rate of interest. The Group enters into derivative contracts to hedge the risk from the interest rate mismatch between these fixed rate loan assets and fixed rate funding and the corresponding variable rate funding and variable rate assets. There

is a risk that this hedging is not fully effective, which could give rise to financial gains or losses to the Group.

4.2 The Group is exposed to the risk that increases in the cost or reductions in the availability of funding or liquidity could adversely impact its business model and strategic objectives

Funding risk is the risk that the Group is unable to raise funds at a commercially acceptable cost to support the delivery of its strategic plan or sustain lending commitments. Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due. The Group's primary liquidity risk exposure arises through the redemption of customer deposits, such as easy access products, where customers have the ability to withdraw funds with limited or no notice. Exposure also arises from the refinancing of wholesale funding at maturity and the ability to fund new and existing committed lending obligations, including mortgage pipeline.

The Group is predominantly funded by FSCS covered retail deposits, augmented with funding from RMBS securitisations and this covered bond programme. Following its launch in April 2020, the Issuer has also accessed the BoE's "Term Funding Scheme with additional incentives for SMEs" (the "TFSME"), which was established to provide banks with cost-effective funds to support additional lending to the real economy and incentivise lending to SMEs during a period of economic disruption caused by COVID-19. The substantial majority of the Issuer's TFSME funding has a maturity of 21 October 2025.

As part of its funding plan, the Group intends to continue to access the wholesale funding markets. If during periods of acute economic or market disruption there was a reduction in investor appetite for holding its securities, or the wholesale funding markets were to be partially or fully closed, it is likely that wholesale funding would prove more difficult to obtain on commercially acceptable terms. Under such circumstances, the Issuer may incur additional costs and the Group may be unable to successfully deliver its medium-term growth strategy. Profound curtailments of central bank liquidity to the financial markets in connection with other market stresses, though unlikely, might have a material adverse effect on the Issuer's business, financial position and results of operations, depending on its funding position at that time.

Any loss in consumer confidence in the Group could significantly increase the amount of deposit withdrawals that may occur in a short space of time. Should it experience an unusually high and/or unforeseen level of deposit withdrawals, the Group may require greater non-retail or business sources of other funding in the future, which it may be unable to access, which could in turn have a material adverse effect on its business, financial condition, results of operations and prospects.

Initiatives to raise additional deposits through market-leading pricing could have an adverse impact on the Group's net interest income and margin through the cost of both paying higher interest rates to new customers and existing customers switching to these higher-rate products.

Any significant adverse change in the availability or cost of the Group's funding could have a material adverse impact on the Group's business, results of operations, profitability or financial condition which could adversely impact the Issuer's ability to fulfil its obligations under the Covered Bonds.

4.3 A downgrade in credit ratings, particularly below investment grade, may adversely affect the Group

The Group's borrowing costs and access to the debt capital markets may be affected by the Issuer's public credit ratings. Depending on the performance of the Issuer and the Group, the Issuer may be subject to the risk of rating downgrades in the sole judgement of the assigning rating agency. In certain circumstances, such a downgrade could result in a below investment grade rating for the Issuer. Any

such downgrade in the Issuer's credit ratings, particularly below investment grade, may adversely affect the Group's ability to access funding and capital, could result in more stringent covenants and higher interest rates under the terms of any new indebtedness and may also adversely affect the value of any Covered Bonds. If such an event were to occur, it could have a material adverse effect on the Group's business, results of operations and financial condition.

4.4 The Group's pension liabilities may be adversely affected by a range of factors including bond yields, inflation rates, interest rates, changes to pension regulations and demographic factors

The Group operates both a defined benefit and a defined contribution pension scheme in the UK. The defined benefit scheme provides benefits based on final pensionable salary and is closed to new members. Low interest rates and the decline in financial markets, as well as changes in demographic factors could produce actuarial deficits that lead to increased cash contributions for the Group. Adverse movements in bond yields, inflation rates, interest rates, changes to pension regulations and demographic factors amongst others may lead to higher pensions costs, cash contributions and scheme deficits in the future which could adversely affect the Group's financial position and its ability to pay interest and repay principal on the Covered Bonds.

(B) RISKS RELATING TO THE COVERED BONDS

5.1 Finite resources available to the LLP to make payments due under the Covered Bond Guarantee

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice on the Issuer, all amounts payable under the Covered Bonds will be accelerated by the Bond Trustee as against the Issuer, following which a Notice to Pay will be served by the Bond Trustee on the LLP. The LLP's ability to meet its obligations under the Covered Bond Guarantee will depend on: (i) the realisable value of Selected Mortgage Loans and their Related Security in the Mortgage Portfolio; (ii) the amount of Revenue Receipts and Principal Receipts generated by the Mortgage Portfolio and the timing thereof; (iii) amounts received from the Swap Providers; (iv) the realisable value of Substitution Assets and Authorised Investments held by it; and (v) the receipt by it of credit balances and interest on credit balances on the LLP Accounts. Recourse against the LLP under the Covered Bond Guarantee is limited to the aforementioned assets and the LLP will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

If an LLP Event of Default occurs and the Security created by or pursuant to the Deed of Charge is enforced, the Charged Property may not be sufficient to meet the claims of all the Secured Creditors, including the Covered Bondholders.

If, following enforcement of the Security constituted by or pursuant to the Deed of Charge, the Secured Creditors have not received the full amount due to them pursuant to the terms of the Transaction Documents, then they may still have an unsecured claim against the Issuer for the shortfall. There is no guarantee that the Issuer will have sufficient funds to pay that shortfall.

Covered Bondholders should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate Loan Amount is equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there ever being a shortfall (although there is no assurance of this – in particular, the sale of further Mortgage Loans and Related Security by the Seller to the LLP may be required to avoid or remedy a breach of the Asset Coverage Test). The LLP and the Seller (in its capacity as Member) must ensure that following the occurrence of an Issuer Event of Default, the Amortisation Test is met on each Calculation Date and a breach of the Amortisation Test will constitute an LLP Event of Default and will entitle the Bond Trustee to serve an LLP Acceleration Notice on the LLP (see

“Summary of the Principal Documents – LLP Deed – Asset Coverage Test” and “Credit Structure – Asset Coverage Test”). The Asset Coverage Test, the Amortisation Test and the Yield Shortfall Test have in the aggregate been structured to ensure that the Asset Pool is sufficient to pay amounts due on the Covered Bonds and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. However, no assurance can be given that the Asset Pool will yield sufficient amounts for such purpose.

5.2 Differences in timings of obligations of the LLP and the Covered Bond Swap Providers under the Covered Bond Swaps

With respect to the Covered Bond Swaps, the LLP will pay a monthly amount on each LLP Payment Date to each Covered Bond Swap Provider, based on a compounded daily SONIA rate over the relevant Covered Bond Swap Observation Period. Each Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the LLP under a Covered Bond Swap for up to 12 months until amounts are due and payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay or LLP Acceleration Notice on the LLP) or are Due for Payment under the Covered Bond Guarantee (after the service of a Notice to Pay or LLP Acceleration Notice on the LLP). If a Covered Bond Swap Provider does not meet its payment obligations to the LLP under the relevant Covered Bond Swap and such Covered Bond Swap Provider does not make a termination payment that has become due from it to the LLP, the LLP may have a larger shortfall in funds with which to make payments under the Covered Bond Guarantee or Intercompany Loan Agreement with respect to the Covered Bonds than if the Covered Bond Swap Provider’s payment obligations coincided with LLP’s payment obligations under the Covered Bond Guarantee or Intercompany Loan Agreement. Hence, any difference in timing between the obligations of the LLP and the Covered Bond Swap Providers under the Covered Bond Swaps may affect the LLP’s ability to make payments under the Covered Bond Guarantee or Intercompany Loan Agreement with respect to the Covered Bonds.

5.3 Excess Proceeds received by the Bond Trustee

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may receive Excess Proceeds. The Excess Proceeds will be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and will be held by the LLP in the LLP Accounts and the Excess Proceeds will thereafter form part of the Security and will be used by the LLP in the same manner as all other monies from time to time standing to the credit of the LLP Accounts. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds and Coupons (subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the LLP). However, the obligations of the LLP under the Covered Bond Guarantee are unconditional and irrevocable (following service on the LLP of a Notice to Pay) and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any such obligations.

By subscribing for Covered Bond(s), each Covered Bondholder will be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

5.4 Risks relating to Covered Bonds which are linked to benchmarks

Interest rates or other types of rates and indices which are deemed to be “benchmarks” are the subject of ongoing national and international regulatory review and reform, with further changes anticipated. These reforms may cause such benchmarks to perform differently than in the past, a benchmark could be eliminated entirely, or there could be other consequences that cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds linked to such a benchmark.

The UK Benchmarks Regulation and EU Benchmarks Regulation apply to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the UK and the EU, respectively. These regulations could have a material impact on any Covered Bonds linked to or referencing a benchmark, in particular if the methodology or other terms of the benchmark are changed in order to comply with the requirements of any such regulation. In each case, such changes could have the effect of reducing or increasing the rate or level, or affect the volatility of, the published rate or level of the benchmark.

More broadly, any of the international or national reforms, or the general increase in regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain benchmarks, trigger changes in the rules or methodologies used in certain benchmarks or lead to the discontinuation or unavailability of quotes of certain benchmarks.

For Covered Bonds which are linked to any affected benchmark, uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to such benchmark may adversely affect such benchmark rates during the term of such Covered Bonds and the return on, value of and the trading market for such Covered Bonds.

In particular, prospective investors should be aware that:

- (a) any of these reforms or pressures described above or any other changes to a relevant interest rate benchmark (including EURIBOR and SONIA) could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be;
- (b) if EURIBOR is discontinued or is otherwise unavailable and an amendment as described in paragraph (d) below has not been made, then the rate of interest on the relevant Floating Rate Covered Bonds will be determined for a period by the fall-back provisions provided for under Condition 5(b)(ii)(A) (*Screen Rate Determination for Floating Rate Covered Bonds referencing EURIBOR*) of the Conditions of the Covered Bonds, although such fall-back provisions may result in EURIBOR being substituted for a rate recommended as the replacement for EURIBOR by the ECB (or any successor thereof) or any other relevant committee or other body established, sponsored or approved by the ECB (or any successor thereof) for the purpose of recommending a replacement for EURIBOR. If no such recommendation has been made, it may result in the effective application of a fixed rate based on the rate which applied in the previous period when EURIBOR was available;
- (c) if SONIA is discontinued or otherwise unavailable and an amendment as described in paragraph (d) below has not been made, then the rate of interest on the relevant Floating Rate Covered Bonds will be determined for a period by the fall-back provisions provided for under Condition 5(b)(ii)(B) (*Screen Rate Determination for Floating Rate Covered Bonds referencing Compounded Daily SONIA*) of the Conditions of the Covered Bonds. Such provisions may result in the effective application of a fixed rate based on the rate which applied in the previous period when SONIA was available;
- (d) while an amendment may be made under Condition 15(b)(iii) (*Base Rate Modifications*) of the Conditions of the Covered Bonds to change EURIBOR, SONIA or any other benchmark rate (as applicable) on the relevant Floating Rate Covered Bonds to an alternative base rate under certain circumstances broadly related to dysfunction, disruption or discontinuation of the original reference rate and subject to certain conditions there can be no assurance that any such amendment will be made or, if made, that it (i) will fully or effectively mitigate interest rate risks

or result in an equivalent methodology for determining the interest rates on the relevant Floating Rate Covered Bonds or (ii) will be made prior to any date on which any of the risks described in this risk factor may become relevant; and

- (e) if EURIBOR, SONIA or any other relevant benchmark is discontinued, and whether or not an amendment is made under Condition 15(b)(iii) (*Base Rate Modifications*) to change EURIBOR, SONIA or other benchmark rate (as applicable) on the relevant Floating Rate Covered Bonds as described in paragraph (d) above or in any associated swap or other arrangements under the Transaction Documents, there can be no assurance that the applicable fall-back provisions under the Swap Agreements would operate so as to ensure that the base floating interest rate used to determine payments under the Swap Agreements is the same as that used to determine interest payments under the Covered Bonds, or that any such amendment made under Condition 15(b)(iii) (*Base Rate Modifications*) would allow the conditions under the Swap Agreements to effectively mitigate interest rate and currency risks on the Covered Bonds.

Investors should note the various circumstances under which a Base Rate Modification may be made, which are specified in sub-paragraphs (1) to (7) of Condition 15(b)(iii)(A). As noted above these events broadly relate to dysfunction, disruption or discontinuation of the relevant Reference Rate, but also include, *inter alia*, any public statements by the relevant administrator or its supervisor to that effect, and a Base Rate Modification may also be made if the Issuer reasonably expects any of these events to occur within six months of the proposed effective date of such Base Rate Modification. Investors should also note the various options permitted as an Alternative Base Rate as set out in sub-paragraphs (1) to (7) of Condition 15(b)(iii)(B), which include, *inter alia*, a base rate utilised in a material number of publicly-listed new issues of floating rate covered bonds or floating rate senior unsecured notes (and for these purposes, unless agreed otherwise by the Bond Trustee, five (5) such issues shall be considered material). Investors should also note the negative consent requirements in relation to a Base Rate Modification (as to which see “*Risk Factors – Covered Bondholders will be deemed to have consented to certain modifications to the Transaction Documents so long as holders of at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds have not contacted the Bond Trustee, the Issuer and the Principal Paying Agent (collectively) in writing*” below).

In addition, it should be noted that broadly divergent interest rate calculation methodologies may develop and apply as between Mortgage Loans, the Covered Bonds and/or the Swap Agreements due to applicable fall-back provisions or other matters and the effects of these are uncertain but could include a reduction in the amounts available to the Issuer to meet its payment obligations in respect of the Covered Bonds.

Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Covered Bonds linked to a benchmark or could have a material adverse effect on the value or liquidity of, and the amount payable under such Covered Bonds.

Investors should also consult their own independent advisers and make their own assessment about the potential risks imposed by the UK Benchmarks Regulation, the EU Benchmarks Regulation and any other regulations relating to benchmarks and/or any possible cessation or reform of certain reference rates with respect to the Covered Bonds.

5.5 The market continues to develop in relation to Covered Bonds that reference SONIA

The use of risk-free rates, such as SONIA, as a reference rate in the capital markets continues to develop. This relates not only to the substance of the calculation and the development and adoption of market

infrastructure for the issuance and trading of bonds referencing such rates, but also how widely such rates and methodologies might be adopted.

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 Covered Bonds that reference a SONIA rate issued under this Programme. The Issuer may in the future also issue Covered Bonds referencing SONIA or a SONIA compounded index that differ materially in terms of interest determination when compared with any previous SONIA referenced Covered Bonds issued by the Issuer under this Programme. The development of Compounded Daily SONIA as an interest reference rate for the Eurobond markets, as well as continued development of SONIA-based rates for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA-referenced Covered Bonds issued under this Programme from time to time.

In addition, the manner of adoption or application of the SONIA reference rate in the Eurobond markets may differ materially compared with the application and adoption of SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of the SONIA reference rate across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Covered Bonds referencing SONIA.

In particular, investors should be aware that several different methodologies have been used in covered bonds and notes linked to SONIA issued to date and no assurance can be given that any particular methodology, including the compounding formula in the terms and conditions of the Covered Bonds, will gain widespread market acceptance. In addition, the methodology for determining SONIA used to determine the Rate of Interest in respect of certain Covered Bonds could change during the life of such Covered Bonds see *“Risk Factors – The administrator of SONIA may make changes that could change the value of SONIA or discontinue SONIA or any related index”* below.

Investors should consider these matters when making their investment decision with respect to any Covered Bonds which reference SONIA.

5.6 Risk-free rates, such as Compounded Daily SONIA, differ from interbank offered rates in a number of material respects and have a limited history

Compounded Daily SONIA is a risk-free rate. Risk-free rates may differ from interbank offered rates in a number of material respects. These include (without limitation) being backwards-looking, in most cases, calculated on a compounded or weighted average basis, risk-free, overnight rates, whereas interbank offered rates are generally expressed on the basis of a forward-looking term and include a risk-element based on interbank lending. As such, investors should be aware that Compounded Daily SONIA as a risk-free rate may behave materially differently to interbank offered rates as interest reference rates for the Covered Bonds.

Risk-free rates offered as alternatives to interbank offered rates also have a limited history. For that reason, future performance of such rates may be difficult to predict based on their limited historical performance. The level of SONIA during the term of the Covered Bonds may bear little or no relation to historical levels. Prior observed patterns, if any, in the behaviour of market variables and their relation to SONIA such as correlations, may change in the future. Investors should not rely on historical performance data as an indicator of the future performance of such risk-free rates nor should they rely on any hypothetical data.

Furthermore, interest on the Covered Bonds which reference SONIA is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Covered

Bonds which reference SONIA to reliably estimate the amount of interest which will be payable on such Covered Bonds, and some investors may be unable or unwilling to trade such Covered Bonds without changes to their IT systems, both of which could adversely impact the liquidity of such Covered Bonds. Further, in contrast to Covered Bonds linked to interbank offered rates, if the Covered Bonds referencing SONIA become due and payable under Condition 10 (*Events of Default and Enforcement*), or are otherwise redeemed early on a date which is not an Interest Payment Date, the rate of interest payable for the final Interest Period in respect of such Covered Bonds shall only be determined immediately prior to the date on which the Covered Bonds become due and payable or are scheduled for redemption.

5.7 The administrator of SONIA may make changes that could change the value of SONIA or discontinue SONIA or any related index

The Bank of England, as the administrator of SONIA, may make methodological or other changes that could change the value of SONIA, including changes related to the method by which SONIA is calculated, eligibility criteria applicable to the transactions used to calculate SONIA, or timing related to the publication of SONIA. In addition, the Bank of England may alter, discontinue or suspend calculation or dissemination of SONIA, in which case a fallback method of determining the interest rate on the Covered Bonds will apply in accordance with the Conditions (see “*Risk Factors – Risks relating to Covered Bonds which are linked to benchmarks*”). The Bank of England has no obligation to consider the interests of Covered Bondholders when calculating, adjusting, converting, revising or discontinuing SONIA.

5.8 Market Disruption

In accordance with Condition 5(b)(ii) (*Rate of Interest*), the Rate of Interest in respect of Floating Rate Covered Bonds is determined by reference to market information sources. Such market information sources might become unavailable for various reasons, including suspensions or limitations on trading, events which affect or impair the ability of market participants in general, or early closure of market institutions. These could be caused by, amongst other things, physical threats to the publishers of the market information sources, market institutions or market participants in general, or unusual trading, or matters such as currency changes.

In respect of a Floating Rate Covered Bond where the Rate of Interest is to be determined by reference to EURIBOR, if EURIBOR (as defined in the Conditions) does not appear on the Relevant Screen Page or if the Relevant Screen Page is not available for any reason, the Rate of Interest shall be determined by the Agent Bank by reference to a rate recommended as the replacement for EURIBOR by the ECB (or any successor thereof) or any relevant committee or other body established, sponsored or approved by the ECB (or any successor thereof) for the purpose of recommending a replacement for EURIBOR. However, if no recommendation has been made, it may result in the effective application of a fixed rate based on the rate which applied in the previous period when EURIBOR was available as further detailed in Condition 5(b)(ii) (*Rate of Interest*).

In respect of a Floating Rate Covered Bond where the Rate of Interest is to be determined by reference to SONIA, if SONIA does not appear on the Relevant Screen Page or if the Relevant Screen Page is not available for any reason, the Agent Bank shall calculate a SONIA rate by reference to existing guidance published by the Bank of England for calculating SONIA in such circumstances or, if no such guidance exists, to the Bank of England’s Bank Rate and the mean of the spread of the SONIA rate to the Bank Rate over the previous five days on which a SONIA rate has been published. Condition 5(b)(ii) (*Rate of Interest*) sets out fallback provisions if the rate of interest cannot be determined in accordance with the foregoing sentence.

In either case, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Covered Bonds based on the rate which applied in the previous period when SONIA or EURIBOR (as applicable) was available which could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Covered Bonds which reference EURIBOR or SONIA.

5.9 Fixed/Floating Rate Covered Bonds

Fixed/Floating Rate Covered Bonds may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Covered Bonds may be less favourable than the prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the then prevailing rates on its other Covered Bonds.

5.10 The value of Fixed Rate Covered Bonds may be adversely affected by movements in market interest rates

Investment in Fixed Rate Covered Bonds involves the risk that if market interest rates subsequently increase, this may adversely affect the value of the Fixed Rate Covered Bonds.

5.11 Covered Bonds where denominations involve integral multiples

In relation to any issue of Covered Bonds which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a Covered Bondholder who (as a result of trading such amounts) holds an amount which is less than the minimum Specified Denomination in their account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Covered Bonds at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a Covered Bondholder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in their account with the relevant clearing system at the relevant time may not receive a definitive Covered Bond in respect of such holding (should definitive Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds at or in excess of the minimum Specified Denomination such that this holding amounts to a Specified Denomination.

If definitive Covered Bonds are issued, Covered Bondholders should be aware that definitive Covered Bonds that have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

5.12 A downgrade of the credit rating assigned by any credit rating agency to the Issuer or, if applicable, to the Covered Bonds could adversely affect the liquidity, market value or index eligibility of the Covered Bonds. Credit ratings downgrades could occur as a result of, among other causes, changes in the ratings methodologies used by credit rating agencies

Tranches of Covered Bonds issued under the Programme may be rated by credit rating agencies and may in the future be rated by additional credit rating agencies (be they solicited or unsolicited), although the

Issuer is under no obligation to ensure that any Covered Bonds issued by it under the Programme are rated by any credit rating agency. Credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in these Risk Factors and other factors that may affect the liquidity or market value of the Covered Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be assigned, revised, suspended or withdrawn by the credit rating agency at any time.

Any rating assigned to the Issuer and/or, if applicable, the Covered Bonds may be withdrawn entirely by a credit rating agency, may be suspended or may be lowered, if, in that credit rating agency's judgment, circumstances relating to the basis of the rating so warrant. Ratings may be impacted by a number of factors which can change over time, including the credit rating agency's assessment of: the Issuer's strategy and management's capability; the Issuer's financial condition including in respect of capital, funding and liquidity; competitive and economic conditions in the Issuer's key markets; the level of political support for the sectors in which the Issuer operates; and legal and regulatory frameworks affecting the Issuer's legal structure, business activities and the rights of its creditors. The credit rating agencies may also revise the ratings methodologies applicable to an issuer within a particular industry or political or economic region. If credit rating agencies perceive there to be adverse changes in the factors affecting an issuer's credit rating, including by virtue of change to applicable ratings methodologies, the credit rating agencies may downgrade, suspend or withdraw the ratings assigned to an issuer and/or its securities. Revisions to ratings methodologies and actions on the Issuer's ratings by the credit rating agencies may occur in the future.

If the Issuer determines to no longer maintain one or more ratings, or if any credit rating agency withdraws, suspends or downgrades the credit ratings of the Issuer or the Covered Bonds, or if such a withdrawal, suspension or downgrade is anticipated (or any credit rating agency places the credit ratings of the Issuer or, if applicable, the Covered Bonds on "credit watch" status in contemplation of a downgrade, suspension or withdrawal), whether as a result of the factors described above or otherwise, such event could adversely affect the liquidity or market value or index eligibility of the Covered Bonds (whether or not the Covered Bonds had an assigned rating prior to such event). Moreover, any decision by a credit rating agency to assign a new rating to the Issuer and/or, if applicable, the Covered Bonds (be it solicited or unsolicited), may adversely affect the liquidity, market value or index eligibility of the Covered Bonds (whether or not the Covered Bonds had an assigned rating prior to such event).

Furthermore, as a result of the UK CRA Regulation, if the status of a rating agency rating the Covered Bonds changes or the rating is not endorsed by a credit rating agency registered under the UK CRA Regulation, UK regulated investors may no longer be able to use the rating for regulatory purposes. Similarly, and as a result of the EU CRA Regulation, if the status of a rating agency rating the Covered Bonds changes or the rating is not endorsed by a credit rating agency registered under the EU CRA Regulation, EU regulated investors may no longer be able to use a rating for regulatory purposes. In both cases, any such change could cause the Covered Bonds to be subject to different regulatory treatment. This may result in such UK regulated investors or European regulated investors, as applicable, selling the Covered Bonds, which may impact the value of the Covered Bonds and any secondary market.

5.13 Extendable obligations under the Covered Bond Guarantee

Following a failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on its Final Maturity Date (subject to applicable grace periods) and if, following the service of a Notice to Pay on the LLP (by no later than the date which falls one Business Day prior to the Extension Determination Date), payment of the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of the Covered Bonds are not paid in full by the Extension Determination Date, then the payment of such Guaranteed Amounts will be automatically deferred

(provided that no LLP Event of Default has occurred). The Issuer is not required to notify Covered Bondholders of such deferral.

To the extent that the LLP has received a Notice to Pay in sufficient time and has sufficient monies available to pay in part the Guaranteed Amounts corresponding to the relevant Final Redemption Amount in respect of the relevant Series of Covered Bonds, the LLP shall make such payment on the Extension Determination Date. If the LLP has not received a Notice to Pay in sufficient time and/or does not have sufficient monies available to pay the Guaranteed Amounts corresponding to the relevant Final Redemption Amount in respect of the relevant Series of Covered Bonds, the LLP shall make such partial payment in accordance with the Guarantee Priority of Payments and as described in Condition 7(a) (*Final redemption*) on any Interest Payment Date up to and including the relevant Extended Due for Payment Date. Payment of the unpaid amount shall be deferred automatically until the applicable Extended Due for Payment Date. The Extended Due for Payment Date will be specified in the relevant Final Terms, and interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 5 (*Interest*), and the LLP will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and on the Extended Due for Payment Date. In these circumstances, except where the LLP has failed to apply money in accordance with the Guarantee Priority of Payments, failure by the LLP to make payment in respect of the Final Redemption Amount on the Final Maturity Date (or such later date within any applicable grace period) shall not constitute an LLP Event of Default. However, failure by the LLP to pay Guaranteed Amounts corresponding to the Final Redemption Amount or the balance thereof, as the case may be, on the Extended Due for Payment Date and/or pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date or the Extended Due for Payment Date will (subject to any applicable grace period) be an LLP Event of Default.

5.14 Covered Bonds subject to Optional Redemption by the Issuer

If an Issuer Call is specified in the applicable Final Terms, the Issuer may elect to redeem all or some of the Covered Bonds at the Optional Redemption Amount (specified in the applicable Final Terms) plus accrued interest due under the Covered Bonds. An optional redemption feature of Covered Bonds is likely to limit the market value of such Covered Bonds. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

Where an Issuer Call is specified in the applicable Final Terms, the Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

5.15 Ratings confirmation in relation to the Covered Bonds in respect of certain actions

The terms of certain of the Conditions and certain of the Transaction Documents require, in respect of a proposed action or step under or in connection with the Conditions or Transaction Document, that:

- (i) the Issuer obtains from each Rating Agency written confirmation that such action or step would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the relevant Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent) and delivers a copy of each such confirmation to the Bond Trustee and the Security Trustee; or

- (ii) the Issuer provides a certificate signed by a director of the Issuer certifying to the Bond Trustee and the Security Trustee that it has notified each Rating Agency of the proposed action or step and, in its opinion, formed on the basis of (i) due consideration of any oral or other confirmation from an appropriately authorised person at such Rating Agency or (ii) the lack of contrary indication from that Rating Agency, such action or step would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent),

paragraphs (i) and (ii) above, each a “**Ratings Confirmation**”.

A Ratings Confirmation that any action proposed to be taken by the Issuer or the Bond Trustee will not have an adverse effect on the then current rating of the Covered Bonds does not, for example, confirm that such action (i) is permitted by the terms of the Transaction Documents or (ii) is in the best interests of, or not prejudicial to, the Covered Bondholders. While each of the Secured Creditors (including the Covered Bondholders), the Issuer, the LLP or the Bond Trustee (as applicable) are entitled to have regard to the fact that each Rating Agency has confirmed that the then current rating of the relevant class of Covered Bonds would not be adversely affected (in accordance with limb (i) of the definition of Ratings Confirmation), a Ratings Confirmation does not impose or extend any actual or contingent liability on any Rating Agency to the Secured Creditors (including the Covered Bondholders), the Issuer, the LLP, the Bond Trustee or any other person or create any legal relationship between each Rating Agency and the Secured Creditors (including the Covered Bondholders), the Issuer, the LLP, the Bond Trustee or any other person whether by way of contract or otherwise.

Any Ratings Confirmation (in accordance with limb (i) of the definition thereof) may or may not be given at the sole discretion of each Rating Agency and certain Rating Agencies (including Fitch) have indicated that they will no longer systematically provide a Ratings Confirmation as a matter of policy. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Ratings Confirmation (in accordance with limb (i) of the definition thereof) in the time available or at all, and the Rating Agency should not be responsible for the consequences thereof. A Ratings Confirmation, if given by a Rating Agency, will be given on the basis of the facts and circumstances prevailing at the relevant time and in the context of cumulative changes to the transaction of which the securities form part since the most recent date on which ratings were assigned to the Covered Bonds issued under the Programme. A Ratings Confirmation, where given by a Rating Agency, represents only a restatement of the opinions given as at the date of the most recent rating of the Covered Bonds and cannot be construed as advice for the benefit of any parties to the transaction. Investors should be aware of the risk of the relevant Rating Agency not being able to provide a Ratings Confirmation in the time required or at all, which may have an adverse effect on the Covered Bonds.

5.16 Issuer liable to make payments when due on the Covered Bonds

The Issuer is liable to make payments when due on the Covered Bonds. The obligations of the Issuer under the Covered Bonds are direct, unconditional, unsecured, and unsubordinated obligations, at all times ranking *pari passu* amongst themselves and *pari passu* with all present and future unsecured and unsubordinated obligations of the Issuer (save for such obligations as may be preferred by provisions of law).

The LLP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP

Event of Default, service by the Bond Trustee of an LLP Acceleration Notice. The occurrence of an Issuer Event of Default does not constitute an LLP Event of Default. However, failure by the LLP to pay amounts when Due for Payment under the Covered Bond Guarantee would constitute an LLP Event of Default which would entitle the Bond Trustee to accelerate the obligations of the Issuer under the Covered Bonds (if they have not already become due and payable) and the obligations of the LLP under the Covered Bond Guarantee and the Security Trustee to enforce the Security.

5.17 LLP only obliged to pay Guaranteed Amounts when the same are Due for Payment

Following service of an Issuer Acceleration Notice on the Issuer, a Notice to Pay will be served by the Bond Trustee on the LLP. Subsequent to a failure by the Issuer to make a payment in respect of one or more Series of Covered Bonds, the Bond Trustee may at its discretion (and will be obliged to if requested or directed by the holders of at least 25 per cent. of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding as if they were a single Series or if so directed by an Extraordinary Resolution of all the Covered Bondholders) serve an Issuer Acceleration Notice in accordance with Condition 10(a) (*Issuer Events of Default*). Following service of a Notice to Pay on the LLP, under the terms of the Covered Bond Guarantee the LLP will be obliged to pay Guaranteed Amounts as and when the same are Due for Payment. In these circumstances, the LLP will not be obliged to pay any other amounts which become payable for any other reason.

Payments by the LLP will be made subject to any applicable withholding or deduction and the LLP will not be obliged to pay any additional amounts as a consequence. The attention of potential Covered Bondholders is drawn to the paragraph headed “*Payments by the LLP*” in the United Kingdom taxation section below. Prior to service on the LLP of an LLP Acceleration Notice, the LLP will not be obliged to make any payments in respect of broken funding indemnities, penalties, premiums, default interest or interest on interest which may accrue on or in respect of the Covered Bonds. In addition, the LLP will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 8 (*Taxation*).

Subject to any grace period, if the LLP fails to make a payment when Due for Payment under the Covered Bond Guarantee or any other LLP Event of Default occurs, then the Bond Trustee may accelerate the obligations of the LLP under the Covered Bond Guarantee by service of an LLP Acceleration Notice on the LLP, whereupon the Bond Trustee will have a claim under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount of each Covered Bond, together with accrued interest and all other amounts then due under the Covered Bonds (other than additional amounts payable under Condition 8 (*Taxation*)), although in such circumstances the LLP will not be obliged to gross up in respect of any withholding which may be required in respect of any payment. Following service of an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP, the Security Trustee may enforce the Security over the Charged Property. The proceeds of enforcement and realisation of the Security shall be applied by the Security Trustee in accordance with the Post-Enforcement Priority of Payments in the Deed of Charge, and the Covered Bondholders will receive amounts from the LLP on an accelerated basis.

5.18 Covered Bonds issued under the Programme

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms from an existing Series of Covered Bonds (in which case they will constitute a new Series).

All Covered Bonds issued from time to time under the Programme will, following service of an LLP Acceleration Notice and enforcement of the security, rank *pari passu* with each other in all respects and will share in the security granted by the LLP under the Deed of Charge. As a result, holders of Covered

Bonds issued pursuant to this Prospectus should be aware that they will rank *pari passu* and share in the security granted by the LLP over, *inter alia*, the Mortgage Portfolio, with holders of Covered Bonds which may be issued by the Issuer in a manner other than pursuant to this Prospectus.

If an Issuer Event of Default occurs in respect of a particular Series of Covered Bonds, the Covered Bonds of all Series outstanding will accelerate at the same time against the Issuer (following service of an Issuer Acceleration Notice) but will be subject to, and have the benefit of, payments made by the LLP under the Covered Bond Guarantee (following service of a Notice to Pay). If an LLP Event of Default occurs, following service of an LLP Acceleration Notice, the Covered Bonds of all Series outstanding will accelerate against the Issuer (if not already accelerated following an Issuer Event of Default) and the obligations of the LLP under the Covered Bond Guarantee will accelerate.

In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect the existing Covered Bondholders:

1. the Issuer will be obliged to apply the proceeds of any issue of Covered Bonds to make a Term Advance to the LLP. The LLP will use the proceeds of such Term Advance (after swapping the same into Sterling if necessary):
 - (a) to purchase Mortgage Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
 - (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit and/or Authorised Investments,
to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test (as described below), and thereafter may be applied by the LLP:
 - (i) to purchase Mortgage Loans and Further Advances and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
 - (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit and/or Authorised Investments; and/or
 - (iii) subject to complying with the Asset Coverage Test, to make a Capital Distribution to the Seller (in its capacity as Member) by way of distribution of that Member's equity in the LLP in an amount equal to the Sterling Equivalent of the Term Advance or any part thereof, which shall be paid to the Member on the relevant Issue Date by telegraphic transfer or as otherwise directed by the Member; and/or
 - (iv) if an existing Series or Tranche, or part of an existing Series or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
 - (v) to make a deposit of all or part of the proceeds to the Transaction Account.
2. the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and
3. on or prior to the date of issue of any further Covered Bonds which are Zero Coupon Covered Bonds, the Issuer will be obliged to obtain written confirmation from each of the Rating Agencies (addressed to the Issuer, the Bond Trustee and the Security Trustee) that such further issue would not adversely affect the then current ratings of the existing Covered Bonds.

5.19 Investors to rely on the procedures of Euroclear and Clearstream Luxembourg for transfer, payment and communication with the Issuer

Covered Bonds issued under the Programme may be represented by one or more Global Covered Bonds which may be deposited with a common depositary for Euroclear and Clearstream Luxembourg (each a “**Clearing System**”). Except in the circumstances described in the relevant Global Covered Bonds, investors will not be entitled to receive definitive Covered Bonds. The relevant Clearing System will maintain records of the beneficial interests in the Global Covered Bonds. While the Covered Bonds are represented by one or more Global Covered Bonds, investors will be able to trade their beneficial interests only through the relevant Clearing System.

While the Covered Bonds are represented by one or more Global Covered Bonds, the Issuer will discharge its payment obligations under the Covered Bonds by making payments to the common depositary for distribution to their account holders. A holder of a beneficial interest in a Global Covered Bonds must rely on the procedures of the relevant Clearing System, to receive payments under the relevant Covered Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Covered Bonds.

Holders of beneficial interests in the Global Covered Bonds will not have a direct right to vote in respect of the relevant Covered Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies.

The fact that the Covered Bonds will not be in physical form may make it difficult for Covered Bondholders to pledge the Covered Bonds as security if Covered Bonds in physical form are required or necessary for such purposes.

5.20 Certain decisions of the Covered Bondholders taken at Programme level

Any Extraordinary Resolution to direct the Bond Trustee to serve an Issuer Acceleration Notice following an Issuer Event of Default, to direct the Bond Trustee to serve an LLP Acceleration Notice following an LLP Event of Default and any direction to the Bond Trustee or Security Trustee to take any enforcement action must be passed by the Covered Bondholders of all Series then outstanding (taken together as a single Series).

5.21 Obligations under the Covered Bonds

The Covered Bonds will not represent an obligation or be the responsibility of any of the Arrangers, the Dealers, the Bond Trustee, the Security Trustee, the Agents or any other party to the Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuer and the LLP. The Issuer and the LLP will be liable solely in their corporate capacity for their obligations in respect of the Covered Bonds or the Covered Bond Guarantee (as applicable) and such obligations will not be the obligations of their (or the Group’s) respective officers, members, directors, employees, security holders, incorporators or any holding company.

(C) MARKET RISKS

6.1 There may not be any active trading market for the Covered Bonds

The Covered Bonds issued under the Programme will be a new issue of Covered Bonds which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Covered Bonds which is already issued). If the Covered Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition, or perception, of the

Issuer. Although application has been made for Covered Bonds issued under the Programme to be admitted to trading on the Main Market of the London Stock Exchange, if so specified in the relevant Final Terms, there can be no assurance that such application will be accepted, that the Covered Bonds will be so admitted, or that an active trading market will develop. Even if an active trading market does develop, it may not be liquid and may not continue for the term of the Covered Bonds. In addition, liquidity may be limited if large allocations of a particular Tranche of Covered Bonds are made to a limited number of investors.

Whilst central bank schemes such as the BoE's Discount Window Facility, Extended Term Collateral Repo Facility, Indexed Long-Term Repo, Funding for Lending Scheme ("FLS"), the UK Government's Term Funding Scheme ("TFS"), TFSME and the European Central Bank's liquidity schemes provide, and have provided, an important source of liquidity in respect of eligible securities (such as UK regulated covered bonds), the eligibility criteria have become and are expected to continue to become more restrictive. In addition, at the date of this Prospectus, the FLS, TFS and TFSME are no longer open for further drawdowns. These changes may have an adverse impact on secondary market liquidity for UK regulated covered bonds in general, regardless of whether the Covered Bonds are eligible securities for the purpose of such facilities. No assurance is given that the Covered Bonds will be eligible for any specific central bank liquidity schemes. Investors should make their own conclusions and seek their own advice with respect to whether or not the Covered Bonds constitute eligible collateral for the purposes of any of the central bank liquidity schemes, including whether and how such eligibility may be impacted by the UK withdrawal from the EU and the UK no longer being part of the EEA. If the Covered Bonds cannot meet the relevant central bank eligibility criteria, it may impact on the liquidity of the Covered Bonds and could have an adverse effect on their value.

6.2 The trading market for debt securities may be volatile and may be adversely impacted by many events

The market for debt securities issued by the Issuer is influenced by economic, political and market conditions and, to varying degrees, market conditions, interest rates, currency exchange rates and inflation rates. If the secondary market for the Covered Bonds is limited, there may be few buyers, and this may reduce the relevant market price of the Covered Bonds. There can be no assurance that events in the United Kingdom or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of Covered Bonds or that economic and market conditions will not have any other adverse effect on the Covered Bonds.

6.3 Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Covered Bonds and the LLP will make any payments under the Covered Bond Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit other than the Specified Currency (the "**Investor's Currency**"). These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Covered Bonds, (ii) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (iii) the Investor's Currency-equivalent market value of the Covered Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in

respect of the Covered Bonds. As a result, investors may receive less interest or principal than expected, or no interest or principal.

(D) RISKS RELATING TO THE COVER POOL

7.1 Limited description of the Mortgage Portfolio

The Covered Bondholders will have access to detailed loan level data in relation to the Mortgage Loans in the Mortgage Portfolio via the Issuer's website. However, because it is expected that the constitution of the Mortgage Portfolio will frequently change due to, for instance:

- the Seller selling Mortgage Loans and their Related Security (or New Mortgage Loan Types and their Related Security) to the LLP;
- the Seller repurchasing Mortgage Loans and their Related Security in accordance with the Mortgage Sale Agreement; and
- potentially, New Sellers acceding to certain of the Transaction Documents and selling Mortgage Loans and their Related Security (or New Mortgage Loan Types and their Related Security) to the LLP.

There is no assurance that the characteristics of the New Mortgage Loans assigned to the LLP on a Transfer Date will be the same as those of the Mortgage Loans in the Mortgage Portfolio as at that Transfer Date. However, each New Mortgage Loan will be required to meet the Eligibility Criteria and the relevant Loan Warranties set out in the Mortgage Sale Agreement – see “*Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of Mortgage Loans and Related Security*” (although the Eligibility Criteria and relevant Loan Warranties may change in certain circumstances – see “*Risk Factors – The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders’ or Secured Creditors’ prior consent*”). In addition, the Asset Coverage Test is intended to ensure that the Adjusted Aggregate Loan Amount is an amount equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding and the Administrator will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

7.2 Sale of Selected Mortgage Loans and their Related Security following the service of a Notice to Pay on the LLP

If a Notice to Pay is served on the LLP, then the LLP will be obliged to sell Selected Mortgage Loans and their Related Security (selected on a random basis) in order to make payments to the LLP's creditors including payments under the Covered Bond Guarantee (see “*Summary of the Principal Documents – LLP Deed – Sale of Selected Mortgage Loans and their Related Security following service of a Notice to Pay*”).

There is no guarantee that a buyer (including the Seller) will be found to acquire Selected Mortgage Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained, which may affect payments under the Covered Bond Guarantee. However, the Selected Mortgage Loans may not be sold by the LLP for less than an amount equal to the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds until six months prior to, as applicable, the Final Maturity Date or the Extended Due for Payment Date under the Covered Bond Guarantee in respect of such Covered Bonds. In the six months prior to, as applicable, the Final Maturity Date or Extended Due for Payment Date, the LLP is obliged to sell the Selected

Mortgage Loans for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount.

7.3 Set-off risk may adversely affect the value of the Mortgage Portfolio or any part thereof

As described in “*Equitable Interest*”, the Seller will make an equitable assignment of the relevant Mortgage Loans and Mortgages to the LLP, with legal title being retained by the relevant Legal Title Holder. Therefore, the rights of the LLP may be subject to the direct rights of the Borrowers against the relevant Legal Title Holder, including rights of set-off which occur in relation to the transactions or deposits made between the Borrower and that Legal Title Holder existing prior to notification to the Borrowers of the assignment in respect of the Mortgage Loans and the Mortgages.

Should a Borrower hold a deposit account with the Issuer, the Borrower, in the event of the insolvency of the Issuer, may be able to set-off any amounts held in the relevant deposit account against amounts owed by the Borrower pursuant to the Mortgage Loan. The giving of notice to the Borrower would crystallise the Borrower’s entitlement to set-off amounts as of the date of receipt of the relevant notice.

If the Seller fails to make a Mandatory Further Advance, rights of set-off may arise. For further information, see “*Set-off in relation to Mandatory Further Advances and Borrower deposits*” below.

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. In that case, the Administrator 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 or decree is obtained.

The standard forms of mortgage conditions used in connection with the Mortgage Portfolio may not exclude a right for the Borrower to set-off certain sums owed to it or liabilities of the lender against sums or liabilities owed by the Borrower to the lender.

The exercise of set-off rights by Borrowers would reduce the incoming cash flow to the LLP during such exercise.

7.4 Limited recourse to the Seller

The LLP, the Bond Trustee and the Security Trustee will not undertake any investigations, searches or other actions on any Mortgage Loan or its Related Security comprising the Mortgage Portfolio or to establish the creditworthiness of any Borrower and will rely instead on the relevant Loan Warranties given in the Mortgage Sale Agreement by the Seller.

In the event of there being a breach of any of the relevant Loan Warranties as at the relevant Transfer Date which could (having regard to, without limitation, whether a loss is likely to be incurred in respect of the Mortgage Loan and/or its Related Security to which the breach relates after taking account of the likelihood of recoverability or otherwise of any sums under any applicable insurance policies) have a material adverse effect on such Mortgage Loan and its Related Security, then the Seller will be required to notify the LLP and the Security Trustee as soon as reasonably practical after becoming aware of the fact.

If the Seller fails to remedy such breach of a Loan Warranty within 28 calendar days (or such longer period not exceeding 35 calendar days as the LLP and the Security Trustee may agree) of the Seller or the Administrator becoming aware of such breach, then the Seller will be required to repurchase on or before the next following LLP Payment Date (or such other date that may be agreed between the LLP and the Seller) the relevant Mortgage Loan and its Related Security at the Repurchase Price.

There can be no assurance that the Seller, in the future, will have the financial resources to repurchase a Mortgage Loan or Mortgage Loans and its or their Related Security. However, if the Seller does not repurchase those Mortgage Loans and their Related Security which are in breach of the relevant Loan Warranties then the Current Balance of those Mortgage Loans will be excluded from the calculation of the Asset Coverage Test. There is no further recourse to the Seller or the Issuer in respect of a breach of a Loan Warranty.

7.5 Maintenance of Mortgage Portfolio

Asset Coverage Test: Pursuant to the terms of the Mortgage Sale Agreement, the Seller has agreed to use all reasonable endeavours to transfer Mortgage Loans and their Related Security to the LLP in order to ensure that the Mortgage Portfolio is in compliance with the Asset Coverage Test as at each Calculation Date. The consideration payable to the Seller for the sale of the Mortgage Loans and Related Security to the LLP will be a combination of: (i) a cash payment paid by the LLP; and/or (ii) the Seller being treated as having made a Capital Contribution in Kind to the LLP (in an amount up to the difference between the aggregate of the Current Balance and the Amortised Cost Adjustment of the Mortgage Loans sold by the Seller to the LLP as at the relevant Transfer Date and the cash payment (if any) paid by the LLP for such Mortgage Loans); and (iii) Deferred Consideration. The Amortised Cost Adjustment of any Mortgage Loans is not included in the calculation of the Asset Coverage Test on each Calculation Date.

Alternatively, the Issuer (in its capacity as a Member of the LLP) may make a Cash Capital Contribution to the LLP pursuant to the LLP Deed in order to ensure that the LLP is in compliance with the Asset Coverage Test. Any such Cash Capital Contribution shall be paid into the Transaction Account and credited to the Principal Ledger by the Administrator. If a breach of the Asset Coverage Test occurs which is not cured on the next Calculation Date, an Asset Coverage Test Breach Notice will be served on the LLP, which will result in the consequences set out in “*Summary of the Principal Documents – LLP Deed – Asset Coverage Test*”. There is no specific recourse by the LLP to the Seller in respect of the failure to sell Mortgage Loans and their Related Security to the LLP nor is there any specific recourse to the Issuer (in its capacity as a Member of the LLP) if it does not make Cash Capital Contributions to the LLP. In addition, Covered Bondholders should be aware that the FCA may take certain action under the RCB Regulations in relation to the Seller, including prohibiting the Seller from transferring further Mortgage Loans to the LLP. Any such action may have an adverse effect on the ability of the Issuer and the LLP to meet its obligations under the Covered Bonds and the Covered Bond Guarantee, as applicable.

Amortisation Test: Pursuant to the LLP Deed, the LLP and the Issuer (in its capacity as a Member of the LLP) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP but prior to the service of an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security, the Amortisation Test Aggregate Loan Amount is in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds. The Amortisation Test is intended to ensure that the assets of the LLP do not fall below a certain threshold to ensure that the assets of the LLP are sufficient to meet its obligations under the Covered Bond Guarantee and senior expenses that rank in priority to or *pari passu* with amounts due on the Covered Bonds. The Amortised Cost Adjustment of any Mortgage Loans is not included in the calculation of the Amortisation Test on each Calculation Date.

If the collateral value of the Mortgage Portfolio has not been maintained in accordance with the terms of the Asset Coverage Test or the Amortisation Test, then that may affect the realisable value of the Mortgage Portfolio or any part thereof (both before and after the occurrence of an LLP Event of Default) and/or the ability of the LLP to make payments under the Covered Bond Guarantee. However, failure to satisfy the Amortisation Test on any Calculation Date following an Issuer Event of Default will constitute an LLP Event of Default, thereby entitling the Bond Trustee to accelerate the Issuer’s obligations under

the Covered Bonds against the Issuer (to the extent such obligations had not already been accelerated against the Issuer) and the LLP's obligations under the Covered Bond Guarantee against the LLP subject to and in accordance with the Conditions.

Prior to the occurrence of an Issuer Event of Default, the Asset Monitor will, subject to receipt of the relevant information from the Administrator, test the calculations performed by the Administrator in respect of the Asset Coverage Test once each year on the Calculation Date immediately prior to each anniversary of the Initial Programme Date and more frequently in certain circumstances. Following the occurrence of an Issuer Event of Default, the Asset Monitor will be required to test the calculations performed by the Administrator in respect of the Amortisation Test. See further "*Summary of the Principal Documents – Asset Monitor Agreement*".

Neither the Bond Trustee nor the Security Trustee shall be responsible for monitoring compliance with, or the monitoring of, the Asset Coverage Test or the Amortisation Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document.

7.6 Factors that may affect the realisable value of the Mortgage Portfolio or any part thereof or the ability of the LLP to make payments under the Covered Bond Guarantee

Following the occurrence of an Issuer Event of Default, the serving on the Issuer of an Issuer Acceleration Notice and the serving on the LLP of a Notice to Pay, the realisable value of Selected Mortgage Loans and their Related Security comprised in the Mortgage Portfolio may be reduced (which may affect the ability of the LLP to make payments under the Covered Bond Guarantee) by:

1. representations or warranties not being given by the LLP or (unless otherwise agreed with the Seller) the Seller;
2. default by Borrowers of amounts due on their Mortgage Loans;
3. declining house prices;
4. the Mortgage Loans of New Sellers being included in the Mortgage Portfolio;
5. the inclusion of New Mortgage Loan Types in the Mortgage Portfolio;
6. changes to the Lending Criteria of the Seller;
7. the LLP not having legal title to the Mortgage Loans in the Mortgage Portfolio;
8. risks in relation to some types of Mortgage Loans (including Interest-only Mortgage Loans that are common in the buy-to-let sector) which may adversely affect the value of Mortgage Portfolio or any part thereof;
9. limited recourse to the Seller;
10. possible regulatory changes by the FCA, the PRA, the CMA and other regulatory authorities; and
11. regulations in the United Kingdom that could lead to some terms of the Mortgage Loans being unenforceable (see "*Information Relating to the Regulation of the Mortgage Loans in the UK*" below).

Certain of these factors are considered in more detail below. However, it should be noted that the Asset Coverage Test, the Amortisation Test and the Eligibility Criteria are intended to ensure that there will be an adequate amount of Mortgage Loans in the Mortgage Portfolio and monies standing to the credit of the LLP Accounts to enable the LLP to meet its obligations under the Covered Bond Guarantee following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice

to Pay on the LLP and accordingly it is expected (but there is no assurance) that Selected Mortgage Loans and their Related Security could be realised for sufficient values to enable the LLP to meet its obligations under the Covered Bond Guarantee.

7.7 No representations or warranties to be given by the LLP or the Seller if Selected Mortgage Loans and their Related Security are to be sold

Following the serving of an Asset Coverage Test Breach Notice (which has not been revoked) or the serving of a Notice to Pay on the LLP (but in each case prior to the serving of an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security), the LLP will be obliged to sell Selected Mortgage Loans and their Related Security to third party purchasers, subject to a right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement (see “*Summary of the Principal Documents – LLP Deed – Sale of Selected Mortgage Loans and their Related Security following service of an Asset Coverage Test Breach Notice*”). In respect of any sale of Selected Mortgage Loans and their Related Security to third parties, however, the LLP will not be permitted to give warranties or indemnities in respect of those Selected Mortgage Loans and their Related Security. There is no assurance that the Seller would give any warranties or representations in respect of the Selected Mortgage Loans and their Related Security. Any relevant Loan Warranties previously given by the Seller in respect of the Mortgage Loans in the Mortgage Portfolio may not have value for a third-party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Mortgage Loans and their Related Security could be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

7.8 Default by Borrowers in paying amounts due on their Mortgage Loans

The risks identified in the section “*Risks Relating to the Issuer – Business Risks – As a lender, the Issuer is exposed to the risk of unexpected material losses in the event of customers being unable to repay their debts*” above also apply to the Borrowers and the Mortgage Loans in the Mortgage Portfolio.

If a Borrower fails to meet its Mortgage Loan obligations and a receiver of rent is appointed the likelihood of there being a net loss on disposal of the Mortgaged Property may be increased where the property value of that receiver of rent case has reduced in a particular area. In turn this could adversely affect the LLP’s ability to make payments under the Covered Bond Guarantee.

7.9 Risks relating to Buy-to-Let mortgage loans

None of the Mortgaged Properties relating to the Mortgage Loans are owner-occupied. It is intended that the Mortgaged Properties will be let by the relevant Borrower to tenants but there can be no guarantee that each such Mortgaged Property will be the subject of an existing tenancy when the relevant Mortgage Loan is acquired by the LLP or that any tenancy which is granted will subsist throughout the life of the Mortgage Loan and/or that the rental income achievable from tenancies of the relevant Mortgaged Property will be sufficient to provide the Borrower with sufficient income to meet the Borrower’s interest obligations in respect of the Mortgage Loan.

Upon enforcement of a Mortgage Loan in respect of a Mortgaged Property which is the subject of an existing tenancy, the Administrator may not be able to obtain vacant possession of that Mortgaged Property until the end of the tenancy. If the Administrator enforces while the tenancy is continuing and sells the Mortgaged Property as an investment property with one or more tenants *in situ*, this may affect the amount which may be realised in the sale, although the existence of any such tenant paying rent in full on a timely basis may not have an adverse effect on the amount of such realisation. However, in the

UK it is common for tenancies to be for 12 months or less, in which case a tenanted property may be vacated sooner than an equivalent owner-occupied property.

Delays to landlords seeking possession of a Mortgaged Property may result in less rental income being available to meet the relevant Borrower's repayment obligations in respect of the buy-to-let Mortgage Loan. Enforcement procedures in relation to such Mortgage Loans include the ability to appoint a receiver of rent, in which case such a receiver would collect any rents payable in respect of such Mortgaged Property and apply them (after payment of certain statutorily prescribed outgoings) in payment of any interest and arrears accruing under the Mortgage Loan and thereafter any surplus shall either be applied in discharge of principal or paid to the Borrower.

7.10 Risk of losses associated with Interest-only Mortgage Loans

Some Mortgage Loans, when originated, will provide solely for interest to be paid monthly during their term, with no scheduled payment of principal prior to maturity ("**Interest-only Mortgage Loans**"). Consequently, upon the maturity of an Interest-only Mortgage Loan, the Borrower will be required to make a "bullet" payment that will represent the entirety of the principal amount outstanding. The ability of such a Borrower to repay an Interest-only Mortgage Loan at maturity may frequently depend on such Borrower's ability to sell the Mortgaged Property, refinance the Mortgaged Property or obtain funds from another source such as individual savings accounts, a pension policy, personal equity plans or an endowment policy. None of the Issuer, the Security Trustee, the Seller, the Administrator, the Originators nor the Legal Title Holders have verified that the Borrower has any such other source of funds and none of them has obtained security over the Borrower's right in respect of any such other source of funds. The ability of a Borrower to sell or refinance the Mortgaged Property will be affected by a number of factors, including the value of the Mortgaged Property, the Borrower's equity in the Mortgaged Property, the financial condition of the Borrower, tax laws and general economic conditions at the time. Moreover, the mortgage conditions in respect of Interest-only Mortgage Loans do not require a Borrower to put in place alternative funding arrangements.

If Borrowers of Interest-only Mortgage Loans are unable to sell or refinance their mortgaged properties, this could lead to higher delinquency rates and losses which in turn may adversely affect payments on the Covered Bonds.

7.11 Geographical concentration risks

The Mortgage Loans in the Mortgage Portfolio may be subject to geographic concentration risks. To the extent that specific geographic regions within England and Wales have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions in the United Kingdom, a concentration of the Mortgage Loans in such a region may be expected to exacerbate the risks relating to the Mortgage Loans described in this section. Certain geographic regions within the United Kingdom rely on different types of industries. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of the borrowers in that region or the region that relies most heavily on that industry. Any natural or other disasters including epidemic outbreaks in a particular region may reduce the value of affected Mortgaged Properties. This may result in a loss being incurred upon sale of the Mortgaged Property. These circumstances could affect receipts on the Mortgage Loans and ultimately adversely affect payments under the Covered Bond Guarantee.

7.12 Risks of losses associated with declining property values

The security granted by the LLP consists of, *inter alia*, the LLP's interest in the Mortgage Loans. This security may be affected by, among other things, a decline in property values. No assurance can be given

that the values of the Mortgaged Properties have remained or will remain at the level at which they were on the dates of origination of the relevant Mortgage Loans. If the residential property market in the United Kingdom should experience an overall decline in property values, such a decline could in certain circumstances result in the value of the security created over the Mortgage Loans being significantly reduced and, ultimately, may result in losses to the Covered Bondholders if a LLP Event of Default has occurred and the security is enforced.

Downturns in the performance of the United Kingdom economy (due to local, national and/or global macroeconomic factors) generally may have a negative effect on the housing market. In addition, any natural disasters, or widespread health crises (such as a pandemic or epidemic), governmental policies, action or inaction in response to such crises or such potential crises and/or the fear of such crises, whether in the United Kingdom or in any other jurisdictions, may lead to a deterioration of the economic conditions in the United Kingdom and also globally and may reduce the value of residential properties.

Investors should be aware that, other than the valuation of properties undertaken as at origination or any revaluation of the relevant properties for the purposes of making Further Advances or using the Indexed Valuation of the Mortgaged Properties for the purpose of the Asset Coverage Test and the Amortisation Test, no revaluation of any property has been undertaken by the Seller, the LLP, the Administrator, any other Originator or Legal Title Holder, the Security Trustee or any other person for the purposes of the Programme.

Borrowers may have insufficient equity in their properties to refinance their Mortgage Loans with lenders other than the Issuer or they may apply for an Interest Rate Conversion in accordance with the Administration Agreement or they may have insufficient resources to pay amounts in respect of their Mortgage Loans as and when they fall due. This could lead to higher delinquency rates and to losses which in turn may adversely affect payments on the Covered Bond Guarantee.

7.13 Rising interest rates

The Bank of England's Monetary Policy Committee can raise the Bank of England's base rate, which can result in rises in mortgage interest rates. Increases in interest rates (whether as a result of inflationary pressures or otherwise) may adversely affect Borrowers' ability to pay interest or repay principal on their Mortgage Loans. Borrowers with a Mortgage Loan subject to a variable rate of interest or with a Mortgage Loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, will be exposed to increased monthly payments if the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). In these circumstances, Borrowers, in their capacity as landlords of Mortgaged Properties, may not be able to pass the increased rates to their tenants until permitted by the terms of the relevant tenancy agreement, or until the tenancy agreement is renewed. This increase in Borrowers' monthly payments may result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid increased monthly payments (caused by, for example, the expiry of an initial fixed rate or low introductory rate, or a rise in the related mortgage interest rate) by refinancing their Mortgage Loans may no longer be able to find available replacement loans at comparably low interest rates or be able to obtain a conversion of the interest rate that applies in respect of their mortgage to a lower or competitive rate (including in accordance with the Administration Agreement). Any decline in housing prices may also leave Borrowers with insufficient equity in the relevant properties to permit them to refinance.

These events, alone or in combination, may contribute to higher delinquency rates and losses on the Mortgage Portfolio, which in turn may affect the ability of the LLP to make payments under the Covered Bond Guarantee.

7.14 Buildings insurance

At origination, either the relevant Mortgage Conditions or the applicable Lending Criteria required Borrowers to have buildings insurance in respect of the relevant Mortgaged Property. However, it will be difficult in practice for the Administrator and/or the LLP to determine whether the relevant Borrower has valid insurance in place at any time and the Administrator does not conduct checks to ensure that such insurance is in place at any time since the origination date. The LLP will have the benefit of the Block Buildings Policies for properties in possession and/or where a receiver of rent has been appointed, which will give the LLP certain protection in respect of the risks associated with repossessed and receiver of rent properties. The LLP will also have the benefit of the Mortgage Impairment Contingency Policy (which indemnifies the insured for damage to a Mortgaged Property occurring as a direct result of the inadvertent failure of the Borrower to effect or renew adequate insurance cover). As is customary for insurances of these types, the insurances are subject to exclusions and deductibles. No assurance can therefore be given that the LLP will always receive the benefit of any claims made under such insurances or that the amounts received in respect of a successful claim will be sufficient to reinstate the affected property or otherwise cover the losses of the LLP. This could adversely affect the LLP's ability to make payments under the Covered Bond Guarantee.

7.15 Changes to the Lending Criteria of the Seller

Each of the Mortgage Loans will have been originated in accordance with the relevant Lending Criteria at the time of origination. It is expected that the Lending Criteria will generally consider, among other things, type of property, term of loan, the age of the borrower at the end of the term, the loan-to-value ratio, status of applicants, credit history and income and employment details. In respect of the sale of Mortgage Loans and Related Security to the LLP, the Seller will warrant only that the relevant Lending Criteria were satisfied at the time of origination subject to such waivers as might be within the discretion of a reasonably prudent mortgage lender. The Seller retains the right to revise its Post-Crisis Lending Criteria from time to time. If the Post-Crisis Lending Criteria change in a manner that affects the creditworthiness of the Mortgage Loans, this may lead to increased defaults by Borrowers and may affect the realisable value of the Mortgage Portfolio, or part thereof, and the ability of the LLP to make payments under the Covered Bond Guarantee.

7.16 The Mortgage Loans of New Sellers may be included in the Mortgage Portfolio

New Sellers, which are members of the Group, may in the future accede to the Programme and sell Mortgage Loans and their Related Security to the LLP. However, this would only be permitted if the conditions precedent relating to New Sellers acceding to certain of the Transaction Documents (more fully described under "*Summary of the Principal Documents – Mortgage Sale Agreement – New Sellers*", below) are met. Provided that those conditions are met, the consent of the Covered Bondholders to the accession of any New Seller to the Programme will not be required.

Any loans originated by a New Seller will have been originated in accordance with the lending criteria of the New Seller, which may differ from the Lending Criteria of Mortgage Loans originated by the Seller or the relevant Originator. If the lending criteria differ in a way that affects the creditworthiness of the loans in the Mortgage Portfolio, that may lead to increased defaults by Borrowers and may affect the realisable value of the Mortgage Portfolio or any part thereof or the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Mortgage Loans in

the Mortgage Portfolio which are not repurchased by the Seller will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

7.17 Equitable Interest

The transfer of the Mortgage Loans and their Related Security by the Seller to the LLP will take effect in equity only (unless and until legal title is conveyed following the occurrence of a Relevant Event). This means that in respect of the Mortgage Loans, the LLP will not acquire legal title and, in the case of registered land in England and Wales, will not be registered as proprietor and legal owner of the Mortgage at HM Land Registry.

Notice of assignment of the Mortgage Loans will not be given to Borrowers at the time of the assignment but may be given on the occurrence of any Relevant Event in respect of an Affected Legal Titleholder. Such notices of assignment would oblige the Affected Legal Title Holder to transfer legal title to the Mortgage Loans, at which point the LLP will, pursuant to the Mortgage Sale Agreement, submit an application for the transfer of the relevant Mortgages to be registered at HM Land Registry. Each Legal Title Holder shall hold legal title to the Mortgage Loans as bare trustee for the LLP who shall be the sole beneficial owner.

The holding of the whole beneficial interest in the Mortgage Loans and not the legal estate has five main legal consequences in England and Wales, being the following:

- (a) for so long as the LLP holds only the whole beneficial interest in the Mortgage Loans and their Related Security and not the legal estate, the interest of the LLP in the Mortgage Loans and their Related Security may (particularly in the case of a Mortgage Loan where there is no restriction on the title against registration of any interests) become subject to interests of third parties (whether legal or equitable) created after the creation of the equitable interest of the LLP and before the transfer to it of the legal estate is perfected. The LLP's equitable interest may also be defeated by a subsequent purchaser or transferee for value of the Mortgage Loans and their Related Security;
- (b) although as between the Legal Title Holders and the LLP, under the Administration Agreement, the Legal Title Holders have agreed that they will not vary any of the terms of the Mortgage Loans or their Related Security, Paragon Bank PLC may in its capacity as Administrator vary certain terms in certain circumstances as set out in the Administration Agreement. As between any Borrower and the LLP, if a Legal Title Holder were (contrary to such undertakings in the Administration Agreement) to modify the terms of the Mortgage Loans and their Related Security the revised terms would apply and the LLP would only have recourse against that Legal Title Holder for breach of contract or breach of trust;
- (c) for so long as the LLP holds only an equitable interest, it must join the relevant Legal Title Holder as a party to any legal proceedings which it may want to take against any Borrower. In this regard, the Legal Title Holders have undertaken for the benefit of the Issuer and the LLP that they will lend their name to, and take such other steps as may reasonably be required by the Issuer, the LLP or the Security Trustee in relation to, any legal proceedings in respect of the relevant Mortgage Loans or their Related Security;
- (d) unless and until a Borrower has notice of the transfer to the LLP of the relevant Mortgage Loan, such Borrower is not bound to make payment to anyone other than the person to whom he or she made such payments before the transfer took place (being the relevant Legal Title Holder) and can obtain a valid discharge from such person. However, the relevant Legal Title Holder will hold all amounts received in relation to the Mortgage Loans on trust for the LLP; and

- (e) unless and until a Borrower has notice of the sale, equitable rights of set off may accrue in favour of such Borrower against his or her obligation to make payments under the relevant Mortgage Loans to the relevant Legal Title Holder. These rights may result in the LLP receiving less money than anticipated from the Mortgage Loans.

Once notice has been given to the Borrowers of the assignment of the Mortgage Loans and their Related Security to the LLP, independent set-off rights which a Borrower has against the relevant Legal Title Holder (such as, for example, set-off rights associated with Borrowers holding deposits with the Issuer) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under “transaction setoff” (which are set-off claims arising out of a transaction connected with the Mortgage Loan) will not be affected by that notice and will continue to exist.

It should be noted however, that the Asset Coverage Test seeks to take account of the potential set-off risk associated with Borrowers holding deposits with the Issuer which exceed the FSCS Limit (although there is no assurance that all such risks will be accounted for). Further, for so long as the LLP does not have legal title, each Legal Title Holder has undertaken for the benefit of the LLP and the Secured Creditors that it will lend its name to, and take such other steps as may be reasonably required by the LLP and/or the Security Trustee in relation to, any legal proceedings in respect of the relevant Mortgage Loans and their Related Security.

If any of the risks described above were to occur then the realisable value of the Mortgage Portfolio or any part thereof may be affected.

Under the Mortgage Sale Agreement, each Legal Title Holder will grant to the LLP and the Security Trustee a power of attorney to give it the power to do all further things and take all necessary action to perfect the transfer of legal title to the Mortgage Loans and their Related Security to the LLP following the occurrence of a Relevant Event in respect of that Legal Title Holder.

7.18 Realisation of Charged Property following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or following the commencement of Winding-Up Proceedings against the LLP

If an LLP Event of Default occurs and an LLP Acceleration Notice is served on the LLP and/or Winding-Up Proceedings are commenced against the LLP, then the Security Trustee will be entitled to enforce the Security created under and pursuant to the Deed of Charge and the proceeds from the realisation of the Charged Property will be applied by the Security Trustee towards payment of all secured obligations in accordance with the Post-Enforcement Priority of Payments, described in “*Cashflows*” below.

There is no guarantee that the proceeds of realisation of the Charged Property will be in an amount sufficient to repay all amounts due to the Secured Creditors (including the Covered Bondholders) under the Covered Bonds and the Transaction Documents.

If an LLP Acceleration Notice is served on the LLP then the Covered Bonds may be repaid sooner or later than expected or not at all.

7.19 Mortgage Loans are subject to certain legal and regulatory risks

Certain regulatory risks exist in relation to the Mortgage Loans, including in relation to the legal and regulatory considerations relating to the Mortgage Loans and their Related Security, changes in law, regulation, the possibility of complaints by Borrowers in relation to terms of the Mortgage Loans and in relation to the policies and procedures of the Legal Title Holders, the Seller and the Administrator. If any of these risks materialise, they could have an adverse effect on the Legal Title Holders, the Seller, the

Issuer, the Administrator and the LLP and could adversely affect the ability of the Issuer to make payments on the Covered Bonds. The effect of future regulatory considerations by their nature are unknown and could adversely affect the value of the Mortgage Portfolio and the ability of the LLP to make interest and/or principal payments on the Covered Bonds if a Notice to Pay is served on the LLP in respect of the Covered Bond Guarantee. Further detail on certain considerations in relation to the regulation of mortgages in the UK is set out in the section headed “*Information Relating to the Regulation of the Mortgage Loans in the UK*” below and certain specific risks are set out below:

- (a) while the Seller believes that the Mortgage Portfolio comprises Mortgage Loans which are unregulated (as described below), there is a risk that Mortgage Loans have been mis-categorised and are actually regulated as Regulated Mortgage Contracts, Regulated Credit Agreements or CBTL Loans. Where this is the case then breach of the relevant regulations could give rise to a number of consequences that may adversely affect the ultimate amount received by the LLP in respect of the relevant Mortgage Loans, and the realisable value of the Mortgage Portfolio and/or the LLP’s ability to make payment in full under the Covered Bond Guarantee when due. Further detail on certain considerations in relation to the regulation of mortgages in the UK is set out in the section headed “*Information Relating to the Regulation of the Mortgage Loans in the UK – Regulation of buy-to-let mortgage loans*”;
- (b) under the CCA, 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. 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 Seller, the Legal Title Holders, or any assignee such as the LLP, to repay amounts received from such a Borrower (see further “*Information Relating to the Regulation of the Mortgage Loans in the UK – Unfair relationships*” below). If the court determined that there was an unfair relationship between the Legal Title Holder or, as applicable, the Seller and the Borrowers in respect of the Mortgage Loans and ordered that financial redress was made in respect of such Mortgage Loans, such redress may adversely affect the ultimate amount received by the Issuer in respect of the relevant Mortgage Loans, and, unless the relevant Mortgage Loans are repurchased by the Seller, the realisable value of the Mortgage Portfolio and/or the LLP’s ability to make payment in full under the Covered Bond Guarantee when due;
- (c) the UTCCR and the CRA provide that a consumer may, in certain circumstances, challenge a term in an agreement on the basis that it is unfair. The broad and general wording of the UTCCR and the CRA makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any of the Mortgage Loans which have been made to Borrowers covered by the UTCCR and/or the CRA may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of a Mortgage Loan where the borrower is categorised as a consumer is found to be unfair for the purpose of the UTCCR or the CRA, this may adversely affect the ultimate amount received by the Issuer in respect of the relevant Mortgage Loans, and, unless the relevant Mortgage Loans are repurchased by the Seller, the realisable value of the Mortgage Portfolio and/or the LLP’s ability to make payment in full under the Covered Bond Guarantee when due;
- (d) 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 Legal Title Holders, the LLP and/or the Administrator and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators’ responsibilities) will not affect the Mortgage

Loans and the realisable value of the Mortgage Portfolio and/or the LLP's ability to make payment in full under the Covered Bond Guarantee when due. Further detail in relation to both the UTCCR and the CRA is included in the sections headed "*Information Relating to the Regulation of Mortgages in the UK – Unfair Terms in Consumer Contracts Regulations 1994 and 1999*" and "*Consumer Rights Act 2015*" below;

- (e) the Mortgage Repossession (Protection of Tenants etc) Act 2010 came into force in October 2010. The act introduced powers for courts hearing a mortgage repossession case where the property is occupied by unauthorised tenants, including powers to delay a repossession order and suspend a warrant of eviction on application by an unauthorised tenant. The act may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Mortgage Loans may result in lower recoveries and affect the LLP's ability to make payments in full under the Covered Bond Guarantee when due (see further "*Information Relating to the Regulation of the Mortgage Loans in the UK – Mortgage repossession*" below);
- (f) landlords of relevant domestic properties in England and Wales cannot grant a tenancy to new or existing tenants and must not let or continue letting a relevant domestic property if their property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate for the property) and there is no valid exemption in place, both such cases being referred to in the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (the "**Energy Efficiency Regulations 2015**") as the prohibition on letting substandard property. Where a local authority is satisfied that a property has been let in breach of the Energy Efficiency Regulations 2015 it may serve a notice on the landlord imposing financial penalties. This may impact the ability of the relevant Borrower to make payment on the relevant Mortgage Loan which in turn could affect the LLP's ability to make payments in full under the Covered Bond Guarantee when due (see further "*Information Relating to the Regulation of the Mortgage Loans in the UK – Energy Efficiency Regulations 2015*" below); and
- (g) on 11 September 2024 the Government introduced the Renters' Rights Bill to the House of Commons. The Bill has completed its passage through the House of Commons and has been introduced to the House of Lords. The Renters' Rights Bill builds on and strengthens various proposals set out in the Renters Reform Bill introduced under the previous Government. The proposals set out in the Renters' Rights Bill remove a landlord's ability to use "no fault" evictions under Section 21 of the Housing Act 1988 (the "**HA 1988**"); give tenants the ability to challenge above-market rent increases, expand the application of the "Decent Homes Standard" and establish a landlord redress scheme. It is not known at this stage what effect the proposals will have on the Seller, the Legal Title Holders, the Administrator or the LLP or their respective business operations, however if such effects were to be adverse, this may affect the LLP's ability to make payments in full under the Covered Bond Guarantee when due (see further "*Information Relating to the Regulation of the Mortgage Loans in the UK – Renters' Rights Bill*" below).

(E) RISKS RELATING TO REGULATION OF THE COVERED BONDS

8.1 UK regulated covered bond regime

Paragon Bank PLC has been admitted to the register of issuers and the Programme has been admitted to the register of regulated covered bonds. The FCA may take certain actions in respect of the Issuer and/or the LLP under the RCB Regulations. Such actions include directing the winding-up of the LLP, removing the Issuer from the register of issuers (but pursuant to the RCB Regulations, a regulated covered bond may not be removed from the relevant register prior to the expiry of the whole period of validity of the

relevant bond), directing the Issuer and/or the LLP to take specified steps for the purpose of complying with the RCB Regulations and/or imposing a financial penalty of such amount as it considers appropriate in respect of the Issuer or the LLP and/or restricting the ability of the Seller to transfer further loans to the LLP and directing the Issuer to publish information given to the FCA under the RCB Regulations. Moreover, the bodies which regulate the financial services industry in the UK may take certain actions in respect of issuers using their general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool). There is a risk that any such regulatory actions may reduce the amounts available to pay Covered Bondholders.

With respect to the risks referred to above, see also "*Cashflows*" and "*Description of the UK Regulated Covered Bond Regime*" below for further details.

(F) RISKS RELATING TO COUNTERPARTIES

9.1 Reliance of the LLP on third parties

The LLP has entered into agreements with a number of third parties, which have agreed to perform services for the LLP. In particular, but without limitation, the Administrator has been appointed to administer Mortgage Loans in the Mortgage Portfolio sold to the LLP, to calculate and monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash administration services to the LLP, and the Transaction Account will be held with the Account Bank. In the event that any of those parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Mortgage Portfolio or any part thereof or pending such realisation (if the Mortgage Portfolio or any part thereof cannot be sold) the ability of the LLP to make payments under the Covered Bond Guarantee may be affected. For instance, if the Administrator has failed adequately to administer the Mortgage Loans, this may lead to higher incidences of non-payment or default by Borrowers. The LLP is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Intercompany Loan Agreement and the Covered Bond Guarantee, as described below.

If an Administrator Termination Event occurs pursuant to the terms of the Administration Agreement, then the LLP or (following the service of an LLP Acceleration Notice) the Security Trustee will be entitled to terminate the appointment of the Administrator and appoint a new administrator in its place. The Back-Up Administrator Facilitator must use its best efforts to identify and appoint a substitute administrator on the LLP's behalf, but there can be no assurance that a substitute administrator with sufficient experience of providing cash administration services and administering mortgages of residential properties would be found who would be willing and able to service the Mortgage Loans on the terms of the Administration Agreement. In addition, any substitute administrator may be required to be authorised under the FSMA to carry out certain debt collection and debt administration services. The ability of a substitute administrator to fully perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute administrator may affect the realisable value of the Mortgage Portfolio or any part thereof, and/or the ability of the LLP to make payments under the Covered Bond Guarantee. If the Administrator ceases to be assigned the Administrator Required Ratings it will, with the assistance of the Back-Up Administrator Facilitator, use reasonable efforts to enter into a back-up administration agreement, in form and substance acceptable to the parties to the Administration Agreement, with a suitably experienced third party acceptable to and appointed by the LLP, within 60 days of the Administrator ceasing to be assigned such rating.

The Administrator has no obligation itself to advance payments that Borrowers fail to make in a timely fashion. Covered Bondholders will have no right to consent to or approve of any actions taken by the Administrator under the Administration Agreement.

Neither the Security Trustee nor the Bond Trustee is obliged in any circumstances to act as an administrator or to monitor the performance by the Administrator of its obligations.

The performance of any such third parties may also be affected by economic, social, political and other factors, such as changes in the national or international economic climate, regional economic conditions, changes in laws, political developments and government policies, natural disasters, illness (including illnesses from epidemics or pandemics) and widespread health crises or the fear of such crises (such as coronavirus, measles, SARS, Ebola, H1N1, Zika, avian influenza, swine flu, or other epidemic diseases), which may result in a material delay or default in the performance of certain services in relation to the Covered Bonds by such third parties.

9.2 Reliance on Swap Providers

To provide a hedge against possible variances in the rates of interest payable on the Fixed Rate Mortgage Loans in the Mortgage Portfolio and a compounded daily SONIA rate, the LLP may, from time to time, enter into Interest Rate Swaps with one or more Interest Rate Swap Providers. The LLP may also, from time to time, enter into Standby Swap Agreements with one or more Standby Swap Providers to replace any Interest Rate Swap Provider upon the occurrence of a failure to pay or bankruptcy with respect to such Interest Rate Swap Provider under the terms of the relevant Interest Rate Swap Agreement (a **“Standby Swap Trigger Event”**). Subject to the mark-to-market value of the Interest Rate Swaps, the Interest Rate Swap Provider may be required to post collateral for its obligations under the relevant Interest Rate Swap Agreement from the date on which it enters into the relevant Interest Rate Swap Agreement. If the ratings of both the Interest Rate Swap Provider and the Standby Swap Provider fall below a specified ratings level, the Interest Rate Swap Provider (prior to the occurrence of a Standby Swap Trigger Event) or Standby Swap Provider (on or following the occurrence of a Standby Swap Trigger Event) (as the case may be) may be obliged to post additional collateral for its respective obligations under the relevant Interest Rate Swap or Standby Interest Rate Swap (as applicable), transfer its obligations under the relevant Interest Rate Swap Agreement or Standby Swap Agreement (as applicable) to an appropriately rated entity (which may include with respect to the Standby Swap Provider, a replacement standby swap provider that is an appropriately rated and which is nominated by the LLP), obtain a guarantee of its obligations under the relevant Interest Rate Swap Agreement or Standby Swap Agreement (as applicable) from an appropriately rated guarantor and/or take such other action (which may include no action) which will result in the ratings assigned to the Covered Bonds being maintained at, or restored to, the level at which the Covered Bonds were rated immediately prior to the date on which the relevant downgrade occurred. In addition, to provide a hedge against interest rate and currency risks in respect of amounts received by the LLP under the Mortgage Loans and the Interest Rate Swaps or Standby Interest Rate Swaps (as applicable) and amounts payable by the LLP on the outstanding Term Advances or (following service on the LLP of a Notice to Pay) under the Covered Bond Guarantee in respect of the Covered Bonds, the LLP will enter into a Covered Bond Swap Agreement with each Covered Bond Swap Provider other than in respect of Floating Rate Covered Bonds denominated in pounds Sterling which bear interest calculated by reference to Compounded Daily SONIA.

If the LLP fails to make timely payments of amounts due under any Swap Agreement (except where such failure is caused by the assets available to the LLP on the relevant Due for Payment Date being insufficient to make the required payment in full), then it will have defaulted under that Swap Agreement and such Swap Agreement may be terminated. If a Standby Swap Trigger Event occurs with respect to

an Interest Rate Swap Provider under the terms of an Interest Rate Swap Agreement, such Interest Rate Swap Agreement shall be terminated or novated and the Standby Interest Rate Swap(s) under the Standby Swap Agreement with the Standby Swap Provider (and the interest rate hedging under the Interest Rate Swap Agreement) will instead be provided by the Standby Swap Provider. If a Swap Agreement terminates (other than as a result of an Interest Rate Swap Agreement being terminated or novated following the occurrence of a Standby Swap Trigger Event), the LLP will be exposed to changes in the relevant rates of interest; further, if a Swap Provider (other than an Interest Rate Swap Provider) defaults on its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the LLP on the payment date under the Swap Agreements, the LLP will be exposed to changes in the relevant currency exchange rates to Sterling (where relevant) and to any changes in the relevant rates of interest. In these circumstances, unless a replacement swap is entered into, the LLP may have insufficient funds to make payments under the Intercompany Loan Agreement or Covered Bond Guarantee.

If a Swap Agreement terminates, then the LLP may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the LLP will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the LLP will be able to find a replacement swap counterparty which has sufficiently high ratings as may be specified in current rating agency criteria published by each Rating Agency as being sufficient to maintain the current ratings of the Covered Bonds and which agrees to enter into a replacement swap agreement.

If the LLP is obliged to pay a termination payment under any Swap Agreement, such termination payment will rank:

- (A) in the case of Interest Rate Swaps or Standby Interest Rate Swaps:
 - (i) prior to the service of an LLP Acceleration Notice, the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security, ahead of amounts due on the Covered Bonds; and
 - (ii) following the service of an LLP Acceleration Notice, the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security, *pari passu* with amounts due on the Covered Bonds,

except where default by, or downgrade of, the relevant Swap Provider has caused the relevant Swap Agreement to terminate; and
- (B) in the case of Covered Bond Swaps, *pari passu* with amounts due on the Covered Bonds, except where default by, or downgrade of, the relevant Swap Provider has caused the relevant Swap Agreement to terminate.

The obligation to pay a termination payment may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

9.3 Change of counterparties

The parties to the Transaction Documents who receive and hold monies pursuant to the terms of such documents (such as the Account Bank) are required to satisfy certain criteria in order that they can continue to receive and hold monies.

These criteria include requirements imposed under the FSMA and current rating criteria published by each Rating Agency from time to time in relation to the ratings ascribed to such party by each Rating Agency (see the section entitled “*Key Rating Triggers Table*” below). If the party concerned ceases to

satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive monies on behalf of the LLP) may be required to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the Transaction Documents.

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

9.4 Conflicts

Where a party to the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement and/or any of its affiliates act in numerous capacities (including, but not limited to swap providers) there may be actual or potential conflicts between (1) the interests of such party and/or any such affiliates in such various capacities and (2) the interests of the Covered Bondholders and such transaction parties and/or any such affiliates. If such conflicts arise, the effect on Covered Bondholders would be unknown.

(G) RISKS RELATING TO STRUCTURAL AND DOCUMENTATION CHANGES

10.1 The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent

Pursuant to the terms of the Trust Deed, Condition 15(b) (*Modifications and waivers*) and the Deed of Charge, the Bond Trustee and the Security Trustee (acting on the directions of the Bond Trustee, so long as there are any Covered Bonds outstanding, or all of the other Secured Creditors if there are no Covered Bonds outstanding) may, without the consent or sanction of any of the Covered Bondholders or any of the other Secured Creditors, concur with any person in making or sanctioning any modification to, or waive or authorise any breach or proposed breach in respect of, the Transaction Documents and/or the Conditions of the Covered Bonds or determine, without any such consent as aforesaid, that any Issuer Event of Default or LLP Event of Default or Potential Issuer Event of Default or Potential LLP Event of Default shall not be treated as such provided that:

- (i) the Bond Trustee is of the opinion that such modification, waiver, authorisation or determination will not be materially prejudicial to the interests of any of the Covered Bondholders of any Series; or
- (ii) in the opinion of the Bond Trustee such modification, waiver, authorisation or determination is made to correct a manifest error or is of a formal, minor or technical nature or is made to comply with mandatory provisions of law,

provided that, prior to the Bond Trustee and the Security Trustee (acting on the directions of the Bond Trustee, so long as there are any Covered Bonds outstanding, or all of the other Secured Creditors if there are no Covered Bonds outstanding) agreeing to any such modification, waiver, authorisation or determination, the Issuer must provide written confirmation to the Bond Trustee that:

- (i) such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations or the RCB Sourcebook, or result in the Issuer, the Programme and/or any Covered Bonds issued under the Programme ceasing to be registered under the RCB Regulations; and
- (ii) either: (a) such modification, waiver, authorisation or determination would not require the FCA to be notified in accordance with Regulation 20 of the RCB Regulations; or (b) if such

modification, waiver, authorisation or determination would require the FCA to be notified in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FCA and the FCA has given its approval to such proposed modification, waiver, authorisation or determination.

In addition, the Issuer may in the future seek to amend the terms of the Programme such that the Bond Trustee shall agree to such modifications (other than in respect of a Series Reserved Matter) (and shall direct the Security Trustee to do so) without the consent or sanction of any of the Covered Bondholders or the Couponholders and without the consent or sanction of any other Secured Creditors (other than any Secured Creditor party to the relevant Transaction Document to be amended), subject to receipt by the Bond Trustee and the Security Trustee of: a certificate (upon which certificate the Bond Trustee and the Security Trustee shall be entitled to rely absolutely and without enquiry or liability) signed by a director of the Issuer and a certificate of a Designated Member of the LLP, each certifying to the Bond Trustee and the Security Trustee (a) that the requested amendments are to be made solely for the purpose of enabling one or more of the matters referred to in Condition 15(b) (*Modifications and waivers*) or complying with, or implementing or reflecting any change in the criteria of one or more of the Rating Agencies, without the consent of Covered Bondholders and (b) that the requested amendments are not, in the opinion of the Issuer and the LLP, materially prejudicial to the interests of any Covered Bondholder, Couponholders or any Secured Creditor of any Series.

There can be no assurance that the effect of such modifications to the Transaction Documents will not ultimately adversely affect the interests of the Covered Bondholders. See further Condition 15(b) (*Modifications and waivers*) below.

10.2 Covered Bondholders will be deemed to have consented to certain modifications to the Transaction Documents so long as holders of at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds have not contacted the Bond Trustee, the Issuer and the Principal Paying Agent (collectively) in writing

In addition to the right of the Bond Trustee to make certain modifications to the Transaction Documents without the consent of Covered Bondholders described under “*The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders’ or Secured Creditors’ prior consent*” above, the Bond Trustee, the Security Trustee and the LLP shall, without any consent or sanction of the Covered Bondholders or any of the other Secured Creditors (other than the consent only of the Secured Creditors (i) party to the relevant Transaction Document being amended or (ii) whose ranking in any Priorities of Payment is affected), be obliged to concur with the Issuer in making any modification (other than a Series Reserved Matter) to the Trust Deed, the Conditions or any other Transaction Document for the purpose of (I) changing the Reference Rate on the relevant Series of Covered Bonds outstanding to an Alternative Base Rate and/or (II) changing any Reference Rate referred to in any Transaction Document (including, for the avoidance of doubt but without limitation, any Covered Bond Swap in relation to the Covered Bonds) to an alternative benchmark in order to preserve the effect of the relevant hedging or other arrangements under such Transaction Document in respect of the Covered Bonds, as further described in Condition 15(b)(iii) (*Base Rate Modifications*) (and, in each case, making such other amendments as are necessary or advisable in the reasonable judgment of the Issuer to facilitate such change) to the extent there has been or there is reasonably expected to be a material disruption or cessation to a Reference Rate, in each case subject to the satisfaction of certain requirements, including receipt by the Bond Trustee and the Security Trustee of a Base Rate Modification Certificate, certifying, among other things, that the modification is required for its stated purpose.

The Issuer must provide at least 30 days' prior written notice to the Covered Bondholders of the proposed modification in accordance with Condition 14 (*Notices*) and by publication on Bloomberg on the "Company News" screen relating to the Covered Bonds. If, by the relevant deadline specified in such notice, Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have notified the Bond Trustee, the Issuer and the Principal Paying Agent (collectively) in writing (or otherwise in accordance with the then current practice of any applicable Clearing System through which such Covered Bonds may be held) that such Covered Bondholders do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Covered Bondholders of the relevant Series then outstanding is passed in favour of the Base Rate Modification in accordance with Condition 15(b)(iii) (*Base Rate Modifications*). However, in the absence of such a notification to the Bond Trustee, the Issuer and the Principal Paying Agent from Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding, all Covered Bondholders will be deemed to have consented to such modification and the Bond Trustee shall, subject to the requirements of Condition 15(b)(iii) (*Base Rate Modifications*), without seeking further consent or sanction of any of the Covered Bondholders and irrespective of whether such modification is or may be materially prejudicial to the interest of the Covered Bondholders, be obliged to concur with the Issuer in making the proposed modification.

Therefore, it is possible that a modification relating to the Reference Rate could be made without the vote of any Covered Bondholders taking place, even if Covered Bondholders holding less than 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding objected to it. In addition, Covered Bondholders should be aware that, unless they have made arrangements promptly to receive notices sent to Covered Bondholders (a) from any custodians or other intermediaries through which they hold their Covered Bonds and (b) from Bloomberg on the "Company News" screen relating to the Covered Bonds, and give the same their prompt attention, Meetings may be convened or resolutions (including Extraordinary Resolutions) may be proposed and considered and passed or rejected or deemed to be passed or rejected without their involvement even if, were they to have been promptly informed, they would have voted in a different way from the Covered Bondholders which passed or rejected the relevant proposal or resolution.

10.3 Security Trustee's and Bond Trustee's powers may affect the interests of the Covered Bondholders

In the exercise of its powers, trusts, authorities and discretions the Security Trustee and the Bond Trustee shall only have regard to the interests of the Covered Bondholders. In the exercise of its powers, trusts, authorities and discretions, the Security Trustee and the Bond Trustee may not act on behalf of the Seller.

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Bond Trustee or the Security Trustee is of the opinion that the interests of the Covered Bondholders of any one or more Series would be materially prejudiced thereby, the Bond Trustee and the Security Trustee shall not exercise such power, trust, authority or discretion without the approval of such Series of Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at least 25 per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

Investors should therefore be aware of the risk that a matter determined either by way of an Extraordinary Resolution or written direction of the Covered Bondholders of the relevant Series may not be determined in the manner desired by a particular investor.

(H) LEGAL AND REGULATORY RISKS

11.1 Changes in law

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law (including any change in regulation which may occur without a change in primary legislation) or administrative practice or tax treatment in the United Kingdom after the date of this Prospectus, nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Covered Bonds or the ability of the LLP to make payments under the Covered Bond Guarantee.

11.2 UK EMIR and EU EMIR

If the LLP's counterparty status as an NFC- for the purposes of UK EMIR and/or the third country equivalent of an NFC- for the purposes of EU EMIR changes and the LLP is unable to rely on the relevant conditional exemptions, this may adversely affect the ability of the LLP to continue to be party to Swap Agreements (possibly resulting in restructuring or termination of the Swap Agreements) or to enter into Swap Agreements, thereby negatively affecting the ability of the LLP to hedge certain risks. This may also reduce the amounts available to make payments with respect to the Covered Bonds.

UK EMIR and/or EU EMIR (as may be applicable) may, *inter alia*, lead to more administrative burdens and higher and/or additional costs and expenses for the LLP, which may in turn reduce the amounts available to make payments with respect to the Covered Bonds. Further, if any party fails to comply with the applicable rules under UK EMIR and/or EU EMIR (as may be applicable), it may be liable for a fine. If such a fine is imposed on the LLP, this may also reduce the amounts available to make payments with respect to the Covered Bonds.

Further detail is included in the section headed "*Regulatory Developments – UK and European Banking and Financial Services Reform Initiatives – UK EMIR and EU EMIR*" below.

11.3 Insolvency proceedings and subordination provisions

There is uncertainty as to the validity and/or enforceability of a provision which (based on contractual and/or trust principles) subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor. In particular, recent cases have focused on provisions involving the subordination of a hedging 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 Priorities of Payments.

The UK Supreme Court has held in *Belmont Park Investments Pty Limited v BNY Corporate Trustee Services Ltd* and *Lehman Brothers Special Financing Inc* [2011] UKSC 38 that a flip clause as described above is valid under English law. Contrary to this, however, the U.S. Bankruptcy Court has held that such a subordination provision is unenforceable under U.S. bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a U.S. bankruptcy of the counterparty. However, a subsequent 2016 U.S. Bankruptcy Court decision held that in certain circumstances flip clauses are protected under the Bankruptcy Code and therefore enforceable in bankruptcy. The 2016 decision was affirmed on 14 March 2018 by the U.S. District Court for the Southern District of New York, which 2018 decision was further affirmed on 11 August 2020 by the United States Court of Appeals for the Second Circuit. The implications of these conflicting judgments are unresolved.

If a creditor of the LLP (such as a swap counterparty) or a related entity becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the U.S.), and it is owed a payment by the LLP, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of subordination provisions included in the English law governed Transaction Documents (such as a provision of the Priorities of Payments which refers to the ranking of the swap counterparties' payment rights). In particular, based on the decision of the U.S. Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under U.S. bankruptcy laws. Such laws may be relevant in certain circumstances with respect to a range of entities which may act as swap counterparty, including U.S. established entities and certain non-U.S. established entities with assets or operations in the U.S. (although the scope of any such proceedings may be limited if the relevant non-U.S. entity is a bank with a licensed branch in a U.S. 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 Covered Bondholders, the market value of the Covered Bonds and/or the ability of the LLP to satisfy its obligations under the Covered Bond Guarantee.

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 payments under the Priorities of Payments, 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 Covered Bonds. If any rating assigned to the Covered Bonds is lowered, the market value of the Covered Bonds may reduce.

11.4 Expenses of insolvency officeholders

Pursuant to the RCB Regulations, following the realisation of any asset pool security (excluding circumstances where there is a concurrent winding up of the LLP) certain costs and expenses are payable out of the fixed and floating charge assets of the LLP in priority to the claims of other Secured Creditors (including the Covered Bondholders). Such costs and expenses are also payable out of the floating charge assets of the LLP (but not out of the fixed charge assets) in priority to the claims of the other Secured Creditors in a winding up of the LLP and/or in an administration of the LLP. Such costs and expenses include disbursements made by the officeholder (including an administrative receiver, liquidator or administrator) in respect of costs in relation to certain senior service providers and hedge counterparties and also general expenses incurred in the corresponding insolvency proceedings in respect of the LLP (which could include any corporation tax charges). This is a departure from the general position under English law which provides that the expenses of any administration and the expenses of any liquidation only rank ahead of a holder of a floating charge (but not ahead of the claims of a fixed charge-holder).

It is intended that the LLP should be a bankruptcy-remote entity and a provision has been included in the Deed of Charge such that, in certain post-enforcement scenarios in circumstances where the RCB Regulations apply to the LLP, each Secured Creditor agrees in effect that (amongst other things) if it receives certain subordinated amounts in respect of any secured liabilities owed to it other than in accordance with the Post-Enforcement Priority of Payments (referred to under "*Cashflows*" below) then such amounts will be held on trust for the Security Trustee and paid over to the Security Trustee immediately upon receipt so that such amounts may be applied in accordance with that priority of payments. Notwithstanding such provision, assuming that the RCB Regulations will apply, there is a risk that in certain circumstances the relevant provisions of the RCB Regulations will result in a

reduction in the amounts available to pay Covered Bondholders. In particular, it is not possible to bind third parties (such as HMRC) in relation to such subordination provisions.

See also the risk factor described below under “*Liquidation Expenses*”.

11.5 Fixed charges may take effect under English law as floating charges

Pursuant to the terms of the Deed of Charge, the LLP has purported to grant fixed charges over, amongst other things, its interests in the Mortgage Loans and their Related Security, the Substitution Assets and its rights and benefits in the LLP Accounts and all Authorised Investments purchased from time to time.

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the LLP may take effect under English law as floating charges only, if, for example, it is determined that the Security Trustee does not exert sufficient control over the Charged Property for the security to be said to constitute fixed charges. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets. In particular, Section 176A of the Insolvency Act requires a “prescribed part” (up to a maximum amount of £800,000) of the floating charge realisations available for distribution to be set aside to satisfy the claims of unsecured creditors. The prescribed part, the expenses of any administration and/or winding up and the claims of any preferential creditors would rank ahead of the claims of the Security Trustee in respect of floating charge assets. Although the Enterprise Act 2002 abolished the preferential status of certain Crown debts (including the claims of the UK tax authorities), the Finance Act 2020, which took effect from 1 December 2020, provides that certain amounts owed to the UK tax authorities constitute secondary preferential debts and rank ahead of the recoveries to floating charge holders. These measures are intended to apply to taxes effectively collected by a business from customers and employees on behalf of the tax authorities and include amounts in respect of VAT, PAYE, employee national insurance contributions and construction industry scheme deductions. In addition, certain employee claims (in respect of contributions to pension schemes and wages) still have preferential status. In this regard, it should be noted that the LLP has agreed in the Transaction Documents not to have any employees, should not be required to register for VAT in the United Kingdom, and should not be subject to the construction industry scheme.

In addition, any administrative receiver, administrator or liquidator appointed in respect of the LLP will be required to set aside the prescribed percentage or percentages of the floating charge realisations in respect of the floating charges contained in the Deed of Charge.

Pursuant to the modifications made by the RCB Regulations to (amongst other things) the Insolvency Act 1986, the provisions set out above in respect of Section 176A will not apply with respect to the LLP and its floating charge assets.

11.6 English law security and insolvency considerations

The LLP has entered into a Deed of Charge, pursuant to which it has granted the Security in respect of its obligations under the Covered Bond Guarantee (as to which, see “*Summary of the Principal Documents – Deed of Charge*”). In certain circumstances, including the occurrence of certain insolvency (or certain pre-insolvency) events in respect of the LLP, the ability to realise the Security may be delayed and/or the value of the Security impaired. In particular, it should be noted that significant changes to the UK insolvency regime were enacted under the Corporate Insolvency and Governance Act 2020 which came into effect on 26 June 2020. The changes include, among other things: (i) the introduction of a new moratorium regime that certain eligible companies can obtain which will prevent creditors taking certain action against the company for a specified period; (ii) a ban on operation of or exercise of *ipso facto*

clauses preventing (subject to exemptions) termination, variation or exercise of other rights under a contract due to a counterparty entering into certain insolvency or restructuring procedures; and (iii) a new compromise or arrangement under Part 26A of the Companies Act (the “**Restructuring Plan**”) that provides for ways of imposing a restructuring on creditors and/or shareholders without their consent (so-called cross-class cram-down procedure), subject to certain conditions being met and with a court adjudicating on the fairness of the restructuring proposal as a whole in determining whether or not to exercise its discretionary power to sanction the Restructuring Plan. While the Issuer and the LLP are expected to be exempt from the application of the new moratorium regime and the ban on ipso facto clauses, there is no guidance on how the new legislation will be interpreted and the Secretary of State may by regulations modify the exceptions. For the purposes of the Restructuring Plan, it should also be noted that there are currently no exemptions, but the Secretary of State may by regulations provide for exclusion of certain companies providing financial services and the UK Government has expressly provided for changes to the Restructuring Plan to be effected through secondary legislation, particularly in relation to the cross-class cram-down procedure. It is therefore possible that aspects of the legislation may change. While the transaction structure is designed to minimise the likelihood of the LLP becoming insolvent, there can be no assurance that the LLP will not become insolvent and/or subject to pre-insolvency restructuring proceedings and/or that the Covered Bondholders would not be adversely affected by the application of insolvency laws (including English insolvency law or the laws affecting the creditors’ rights generally) and no assurance can be given that any modification of the exceptions from the application of the new insolvency reforms referred to above will not be detrimental to the interests of the Covered Bondholders.

In addition, it should be noted that, to the extent that the assets of the LLP 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 Sections 174A, 176ZA and 176A of the Insolvency Act 1986, the prescribed part, which would otherwise be available to satisfy expenses of the insolvency proceeding and the claims of Secured Creditors under the Deed of Charge, may be used to satisfy any claims of unsecured creditors or creditors who otherwise take priority over floating charge recoveries. While certain of the covenants given by the LLP in the Transaction Documents are intended to ensure it has no significant creditors other than the secured creditors under the Deed of Charge, it will be a matter of fact as to whether the LLP has any other such creditors at any time. There can be no assurance that the Covered Bondholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

Pursuant to the modifications made by the RCB Regulations to (amongst other things) the Insolvency Act 1986, the provisions set out above in respect of Section 176A will not apply with respect to the LLP and its floating charge assets.

11.7 Liquidation Expenses

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 the 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 (England and Wales) Rules 2016 (as amended) as applied to the LLP by virtue of the Insolvency (Miscellaneous Amendments) Regulations 2017. In addition, the claims of a floating charge are subordinate to the expenses of any administration (under Schedule B1 to the Insolvency Act).

It appears that the provisions referred to above apply in respect of limited liability partnerships in general and/or to owners under the RCB Regulations. Therefore, in a winding up of the LLP (whether or not the RCB Regulations apply), floating charge realisations which would otherwise be available to satisfy the

claims of Secured Creditors under the Deed of Charge may be reduced by at least a significant proportion of any liquidation expenses (including certain super-priority expenses, if the RCB Regulations apply to the LLP). There can be no assurance that the Covered Bondholders will not be adversely affected by such a reduction in floating charge realisations.

11.8 Limited Liability Partnerships

The LLP is a limited liability partnership. Limited liability partnerships, created by statute pursuant to the Limited Liability Partnership Act 2000 (the “**LLPA 2000**”), are bodies corporate for general English law purposes and have unlimited capacity. A general description of limited liability partnerships is set out below under “*Description of Limited Liability Partnerships*”. This area of the law in the UK is relatively undeveloped. Accordingly, there is a risk that as the law develops, new case law or new regulations made under or affecting the LLPA 2000 or relating to limited liability partnerships could adversely affect the ability of the LLP to perform its obligations under the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement which could, in turn, adversely affect the interests of the Covered Bondholders.

11.9 Harmonisation of the EU covered bond framework

From 8 July 2022 a new covered bond directive (Directive (EU) 2019/2162) and a new regulation (Regulation (EU) 2019/2160) replaced article 52(4) of the UCITS Directive and established a revised common base-line for issue of covered bonds for EU regulatory purposes (subject to various options that members states may choose to exercise when implementing the new directive through national laws). The new regulation amends article 129 of the Capital Requirements Regulation (Regulation (EU) No 575/2013) (“**EU CRR**”) (and certain related provisions) and further strengthens the criteria for covered bonds that benefit from preferential capital treatment under the EU CRR regime. In the UK, the impact of the EU covered bond directive on the UK covered bond regime remains unclear. Therefore, there can be no assurances or predictions made as to the precise effect of the new regime on the Covered Bonds.

In addition, preferential regulatory treatment under article 129 of the EU CRR is not available in respect of the Covered Bonds, as the UK has left the EU and is no longer part of the EEA. The Covered Bonds may be eligible as Level 2A assets under the Commission Delegated Regulation (EU) 2018/1620 (as amended), provided certain equivalence and transparency requirements are met as to which no assurances are made and prospective investors should therefore make themselves aware of the changes in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds.

Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer, the LLP, any Arranger or any Dealer makes any representation to any prospective investor or purchaser of the Covered Bonds regarding the treatment of their investment on the issue date of such Covered Bonds or at any time in the future.

11.10 Pensions Act 2004

Under the Pensions Act 2004, the Pensions Regulator (“**TPR**”) can issue a contribution notice (“**CN**”) or financial support direction (“**FSD**”) to someone who is connected with or an associate of an employer under an occupational pension scheme.

PFPLC, a wholly owned subsidiary of the Issuer, is an employer under an occupational pension scheme. The Issuer is therefore connected with, and an associate of, PFPLC. The LLP is also connected with and an associate of PFPLC.

FSDs are directions requiring a target to put in place financial support for a scheme (e.g. in the form of a guarantee). TPR may issue an FSD to a person who is connected with or an associate of an employer participating in a scheme if TPR is of the opinion that the employer in relation to the scheme is a “service company” or is “insufficiently resourced” at a time determined by TPR (the “**relevant time**”). The relevant time must fall in the two years before TPR issues a warning notice in relation to the FSD.

An employer is a “service company” if its turnover is solely or principally derived from amounts charged for the provision of the services of employees to other members of the group.

The employer in relation to a scheme is insufficiently resourced if:

- (i) the value of the resources of the employer is less than the amount which is 50% of the estimated buy out deficit in relation to the scheme; and
- (ii) there is at that time a person associated with the employer, or there are at that time two or more persons who are associated with the employer and with each other, and the aggregate value of their resources when combined with the resources of the employer is equal to 50% or more than the estimated buy out deficit.

TPR may only issue an FSD if it is of the opinion that it is reasonable to impose the requirements of the FSD on that person.

CNs are statutory notices requiring a target to pay a specified contribution to a pension scheme. TPR may issue a CN to a person connected with, or an associate of, the employer, if it considers that that person has been party to an act or a deliberate failure to act (or a series of acts/failures) and where TPR is of the opinion:

- (i) that the material detriment test is met in relation to that act or failure. The material detriment test is met in relation to an act or failure if TPR is of the opinion that the act or failure has detrimentally affected in a material way the likelihood of accrued scheme benefits being received;
- (ii) that the main purpose or one of the main purposes of that act or failure was:
 - (a) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer in relation to the scheme under section 75 of the Pensions Act 1995,
 - (b) to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or reduce the amount of a debt which would otherwise become due;
- (iii) where an act or failure to act satisfies the “employer insolvency test”: this will be met where there is a deficit in the scheme on the solvency basis and, if a Section 75 debt became due at the relevant time, the act or failure to act would have materially reduced the amount of the Section 75 debt likely to be recovered by the scheme: and
- (iv) where an act or failure to act satisfies the “employer resources test”: this will be met where the act or failure to act reduces the value of the resources of the employer and that reduction was a material reduction relative to the amount of the employer’s estimated Section 75 debt.

TPR may also issue a CN where the target has failed to comply with the terms of an FSD. TPR can only issue a CN in respect of acts or failures to act which occurred within the six years before TPR issues a warning notice in respect of that CN where the person was connected or associated at that time. TPR may only issue a CN where it considers that it is reasonable to impose liability on the person to pay the sum specified in the notice.

If TPR issued a CN or FSD to the Issuer this could adversely affect the Issuer's business and financial position.

Any amount payable pursuant to a CN or in response to an FSD would be an unsecured debt. Although any such claim against the LLP would rank behind the rights and claims of the Security Trustee under the Deed of Charge with respect of any charged asset, if TPR issued a CN or FSD to the LLP this could adversely affect the LLP's ability to make repayments under the Covered Bond Guarantee.

11.11 Regulatory initiatives may have an adverse impact on the regulatory treatment of the Covered Bonds

In Europe, the U.S. and elsewhere, there is significant focus on fostering greater financial stability through increased regulation of financial institutions, and their corresponding capital and liquidity positions. This has resulted in a number of regulatory initiatives which are currently at various stages of implementation and which may have an impact on the regulatory position for certain investors in covered bond exposures and/or on the incentives for certain investors to hold covered bonds, and may thereby affect the liquidity of such securities. Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer, the LLP, any Dealer or any Arranger makes any representation to any prospective investor or purchaser of the Covered Bonds regarding the treatment of their investment on the date hereof or at any time in the future.

Prospective investors should therefore make themselves aware of such requirements (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

11.12 Volcker Rule

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

The LLP is not, and after giving effect to any offering and sale of Covered Bonds and the application of the proceeds thereof will not be, a "covered fund" for purposes of the Volcker Rule. In reaching this conclusion, the LLP has determined that (i) the LLP may rely on the exemption from registration under the Investment Company Act provided by Section 3(c)(5)(C) thereof and (ii) the LLP will not rely solely 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. Although the LLP has conducted careful analysis to determine the availability of the exemption provided by Section 3(c)(5)(C) of the Investment Company Act, there is no assurance that the U.S. Securities and Exchange Commission will not take a contrary position.

The general effects of the Volcker Rule remain uncertain. Any prospective investor in the Covered Bonds, including a U.S. or foreign bank or a subsidiary or other affiliate thereof, should consult its own legal advisers regarding such matters and other effects of the Volcker Rule.

11.13 Potential effects of any additional regulatory changes

No assurance can be given that additional regulations or guidance from the FCA, the PRA, the FOS, the CMA or any other regulatory authority will not arise with regard to the mortgage market in the United Kingdom generally, the Legal Title Holders' or Seller's particular sector in that market or specifically in relation to the Legal Title Holders or 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 Legal Title Holders, the Seller, the LLP and/or the Administrator and their respective businesses and operations. This may reduce the amounts available to meet the payments due in respect of the Covered Bonds.

FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression “necessary information” means, in relation to any Tranche of Covered Bonds, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Covered Bonds. In relation to the different types of Covered Bonds which may be issued under the Programme, the Issuer has included in this Prospectus all of the necessary information except for information relating to the Covered Bonds which is not known at the date of this Prospectus and which can only be determined at the time of an individual issue of a Tranche of Covered Bonds.

Any information relating to the Covered Bonds which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Covered Bonds will be contained either in the relevant Final Terms or in a Drawdown Prospectus.

For a Tranche of Covered Bonds which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Prospectus and must be read in conjunction with this Prospectus. The terms and conditions applicable to any particular Tranche of Covered Bonds which is the subject of Final Terms are the Conditions described in this Prospectus as completed to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Covered Bonds which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus.

In the case of a Tranche of Covered Bonds which is the subject of a Drawdown Prospectus, each reference in this Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus, unless the context requires otherwise.

FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be either in bearer form, without interest coupons and/or talons attached, or registered form, without interest coupons and/or talons attached.

Bearer Covered Bonds

Each Tranche of Bearer Covered Bonds will be initially issued in the form of a temporary global covered bond without receipts, interest coupons or talons attached (a “**Temporary Global Covered Bond**”) which, will:

- (a) if the Bearer Global Covered Bonds are intended to be issued in new global covered bond (“**NGCB**”) form, as stated in the applicable Final Terms Document (the “**applicable Final Terms Document**”), be delivered on or prior to the Issue Date of the relevant Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”); or
- (b) if the Bearer Global Covered Bonds are not intended to be issued in NGCB form, as stated in the applicable Final Terms Document, be delivered on or prior to the issue date of the relevant Tranche to a common depositary (the “**Common Depositary**”) for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system.

If the applicable Final Terms indicates that the Bearer Global Covered Bond is a NGCB, the nominal amount of the Covered Bonds represented by such Bearer Global Covered Bond will be the aggregate from time to time entered in the records of both Euroclear and Clearstream, Luxembourg. The records of Euroclear and Clearstream, Luxembourg (which expression in such Bearer Global Covered Bond means the records that each of Euroclear and Clearstream, Luxembourg holds for its customers which reflect the amount of each such customer’s interest in the Covered Bonds) will be conclusive evidence of the nominal amount of Covered Bonds represented by such Bearer Global Covered Bond and, for such purposes, a statement issued by Euroclear and/or Clearstream Luxembourg, as the case may be, stating that the nominal amount of Covered Bonds represented by such Bearer Global Covered Bond at any time will be conclusive evidence of the records of Euroclear and/or Clearstream at that time, as the case may be.

Whilst any Bearer Global Covered Bond is represented by a Temporary Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Bearer Global Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Covered Bond if the Temporary Global Covered Bond is not intended to be issued in NGCB form) only to the extent that certification to the effect that the beneficial owners of interests in such Bearer Global Covered Bond are not U.S. persons for U.S. federal income tax purposes or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the “**Exchange Date**”) which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for: (i) interests in a Permanent Global Covered Bond of the same Series; or (ii) for Bearer Definitive Covered Bonds of the same Series with, where applicable, interest coupons attached (as indicated in the applicable Final Terms), in each case against certification of non-U.S. beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or for Bearer Definitive Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Covered Bond if the Permanent Global Covered Bond is not intended to be issued in NGCB form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, interest coupons attached upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that: (A) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or (B) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Covered Bonds represented by the Permanent Global Covered Bond in definitive form. The Issuer will promptly give notice to the Covered Bondholders of each Series of Bearer Global Covered Bonds in accordance with Condition 14 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (B) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The exchange of a Permanent Global Covered Bond for a Bearer Definitive Covered Bond upon notice from Euroclear and/or Clearstream (acting on the instructions of any holder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Final Terms if the Covered Bonds are issued with a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher integral multiples of another smaller amount such as €1,000 (or its equivalent in another currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Covered Bonds which is to be represented on issue by a Temporary Global Covered Bond exchangeable for definitive Covered Bonds.

Bearer Global Covered Bonds and Bearer Definitive Covered Bonds will be issued pursuant to the Trust Deed in accordance with the Agency Agreement.

The following legend will appear on all Bearer Covered Bonds (other than Temporary Global Covered Bonds) which have an original maturity of more than one year and on all interest coupons relating to such Bearer Covered Bonds:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Covered Bonds, receipts or interest coupons or talons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Bearer Covered Bonds, receipts or interest coupons or talons.

Covered Bonds which are represented by a Bearer Global Covered Bond will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Covered Bonds

Each Tranche of Registered Covered Bonds will initially be represented by a global covered bond in registered form (a “**Registered Global Covered Bond**”). Prior to expiry of the Distribution Compliance Period (as defined in Regulation S) applicable to each Tranche of Covered Bonds, beneficial interests in a Registered Global Covered Bond may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 3 (*Transfers of Registered Covered Bonds*) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Registered Global Covered Bond will bear a legend regarding such restrictions on transfer.

Registered Global Covered Bonds will either (i) in the case of a Registered Global Covered Bond which is not intended to be held under the New Safekeeping Structure, be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and/or Clearstream, Luxembourg; or (ii) in the case of a Registered Global Covered Bond which is intended to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg, in each case as specified in the applicable Final Terms.

Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6(d) (*Payments in respect of Registered Covered Bonds*)) as the registered holder of the Registered Global Covered Bonds. None of the Issuer, the LLP, the Bond Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(d) (*Payments in respect of Registered Covered Bonds*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that: (i) in the case of Covered Bonds registered in the name of a nominee for a common depositary or, as applicable, a common safekeeper (or its nominee), for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond in definitive form. The Issuer will promptly give notice to the Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 14 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

General

Pursuant to the Agency Agreement (as defined under Conditions of the Covered Bonds), the Principal Paying Agent shall arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds, the Covered Bonds of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Covered Bonds of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period applicable to the Covered Bonds of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

No Covered Bondholder or Couponholder shall be entitled to proceed directly against the Issuer or the LLP unless the Bond Trustee or, as the case may be, the Security Trustee, having become so bound to proceed, (i) fails so to do within a reasonable period, or (ii) is unable for any reason so to do, and the failure or inability shall be continuing.

The Issuer will notify the ICSDs and the Paying Agents upon issue whether the Covered Bonds are intended, or are not intended, to be held in a manner which would allow Eurosystem eligibility and deposited with one of the ICSDs as common safekeeper (and in the case of registered Covered Bonds, registered in the name of a nominee of one of the ICSDs acting as common safekeeper). Where the Covered Bonds are not intended to be deposited with one of the ICSDs as common safekeeper upon issuance, should the Eurosystem eligibility criteria be amended in the future such as that the Covered Bonds are capable of meeting such criteria, the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper. Where the Covered Bonds are so deposited with one of the ICSDs as common safekeeper (and in the case of registered Covered Bonds, registered in the name of a nominee of one of the ICSDs acting as common safekeeper) upon issuance or otherwise, this does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at issuance or at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the terms and conditions of the Covered Bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each Definitive Covered Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer(s) at the time of issue but, if not so permitted and agreed, such Definitive Covered Bond will have endorsed thereon or attached thereto such terms and conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and Definitive Covered Bond.

1 Introduction

- (a) This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Paragon Bank PLC (the “**Issuer**”) constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the “**Trust Deed**”) dated as of the Initial Programme Date made between the Issuer, Paragon Covered Bonds LLP as guarantor (the “**LLP**”) and HSBC Corporate Trustee Company (UK) Limited as bond trustee (in such capacity, the “**Bond Trustee**”, which expression shall include any successor as Bond Trustee) and as security trustee (in such capacity, the “**Security Trustee**”, which expression shall include any successor as Security Trustee).
- (b) *Definitions:* Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the applicable Final Terms and/or the master definitions and construction agreement signed by, among others, the Issuer, the LLP, the Bond Trustee and the Security Trustee (as the same may be amended and/or supplemented and/or restated from time to time, the “**Master Definitions and Construction Agreement**”), a copy of each of which may be obtained as described in Condition 1(j) (*Transaction Documents*) below.
- (c) *Interpretation:* Save as provided for in Conditions 10 (*Events of Default and Enforcement*) and 15 (*Meetings of Covered Bondholders, Modification and Waiver*), references herein to the “**Covered Bonds**” shall be references to the Covered Bonds of this Series and shall mean:
 - (i) in relation to any Covered Bonds represented by a global covered bond (a “**Global Covered Bond**”), units of the lowest Specified Denomination in the Specified Currency;
 - (ii) any Global Covered Bond;
 - (iii) any Definitive Covered Bonds in bearer form (“**Bearer Definitive Covered Bonds**”), issued in exchange for a Global Covered Bond in bearer form; and
 - (iv) any Definitive Covered Bonds in registered form (“**Registered Definitive Covered Bonds**”) (whether or not issued in exchange for a Global Covered Bond in registered form).

As used herein, “**Tranche**” means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and “**Series**” means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are: (i) expressed to be consolidated and form a single series; and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

- (d) *Agency Agreement:* The Covered Bonds and the Coupons (as defined below) have the benefit of an agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated the Initial Programme Date and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee and HSBC Bank plc, as agent bank (in such capacity, the “**Agent Bank**”) and principal paying agent (in such capacity, the “**Principal Paying Agent**”, which

expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents), HSBC Bank plc, as registrar (in such capacity, the “**Registrar**”, which expression shall include any successor registrar) and as transfer agent (in such capacity, a “**Transfer Agent**”, which expression shall include any additional or successor transfer agent. As used herein, “**Agents**” shall mean the Paying Agents, the Registrar, the Agent Bank and the Transfer Agent).

- (e) *Coupons and Talons*: Interest-bearing Bearer Definitive Covered Bonds have interest coupons (“**Coupons**”) and in the case of Covered Bonds which when issued in definitive form have more than 27 interest payments remaining, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Covered Bonds and Global Covered Bonds do not have Coupons attached on issue.
- (f) *Final Terms*: The Final Terms for this Covered Bond (or the relevant provisions thereof) are attached to or endorsed on this Covered Bond and complete these terms and conditions (the “**Conditions**”). References to the “**applicable Final Terms**” are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Covered Bond or as set out in any drawdown prospectus issued specifically in relation to a particular series of Covered Bonds.
- (g) *Bond Trustee*: The Bond Trustee acts for the benefit of the holders for the time being of the Covered Bonds (the “**Covered Bondholders**”, which expression shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below) and the holders of the Coupons (the “**Couponholders**”, which expression shall, unless the context otherwise requires, include the holders of the Talons), and for holders of each other Series of Covered Bonds in accordance with the provisions of the Trust Deed.
- (h) *LLP Guarantee*: The LLP has, pursuant to the Trust Deed, irrevocably and unconditionally guaranteed the due and punctual payment of Guaranteed Amounts in respect of the Covered Bonds and the Coupons as and when the same shall become due for payment on certain dates in accordance with the Trust Deed (“**Due for Payment**”), but only after (i) service of a Notice to Pay on the LLP following an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice on the Issuer or (ii) service of an LLP Acceleration Notice on the LLP.
- (i) *Deed of Charge*: The security for the obligations of the LLP under the Covered Bond Guarantee and the other Transaction Documents to which it is a party has been created in and pursuant to, and on the terms set out in, a deed of charge (such deed of charge as amended and/or supplemented and/or restated from time to time, the “**Deed of Charge**”) dated the Initial Programme Date and made between the LLP, the Bond Trustee, the Security Trustee and certain other Secured Creditors.
- (j) *Transaction Documents*: These Conditions include summaries of, and are subject to, the provisions of the Trust Deed, the Deed of Charge and the Agency Agreement. Copies of the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement, the Agency Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the registered office for the time being of the Bond Trustee being at the date of this Prospectus at 8 Canada Square, London E14 5HQ and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms for all Covered Bonds of each Series shall be published on the Issuer’s website at <https://www.paragonbankinggroup.co.uk/investors/fixed-income/covered-bond/covered-bond-information>. The Covered Bondholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement, the Agency Agreement, each

of the other Transaction Documents and the applicable Final Terms which are applicable to them and to have notice of each set of Final Terms relating to each other Series.

2 Form, Denomination and Title

- (a) *Form:* The Covered Bonds are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of Definitive Covered Bonds (being Bearer Definitive Covered Bond(s) and/or, as the context may require, Registered Definitive Covered Bond(s)), serially numbered, in the Specified Currency and the Specified Denomination(s). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and vice versa.
- (b) *Denomination:* This Covered Bond may be denominated in any currency.
- (c) *Fixed Rate Covered Bond, Floating Rate Covered Bond or Zero Coupon Covered Bond:* This Covered Bond may, depending upon the Interest Basis shown in the applicable Final Terms, be a Fixed Rate Covered Bond, a Floating Rate Covered Bond or a Zero Coupon Covered Bond or a combination of any of the foregoing subject to, where this Covered Bond is a Zero Coupon Covered Bond confirmation from the Rating Agencies that the then current ratings of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond.
- (d) *Bearer Definitive Covered Bonds:* Bearer Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds in which case references to Coupons and Couponholders in these Conditions are not applicable.
- (e) *Title:* Subject as set out below, title to the Bearer Covered Bonds and Coupons will pass by delivery and title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the LLP, the Paying Agents, the Security Trustee and the Bond Trustee will (except as otherwise required by law) deem and treat the bearer of any Bearer Covered Bond or Coupon and the registered holder of any Registered Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.
- (f) *Global Covered Bonds:* For so long as any Covered Bond is represented by a Global Covered Bond deposited with a common depositary (in the case of a CGCB) or common safekeeper (in the case of a NGCB) for Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking S.A. (“**Clearstream, Luxembourg**”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream’s Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified with the amount of such holding) shall be treated by the Issuer, the LLP, the Paying Agents, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such Covered Bonds, for which purpose the bearer of the relevant Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer, the LLP, any Paying Agent, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in

accordance with and subject to the terms of the relevant Global Covered Bond and the expression “**Covered Bondholder**” and related expressions shall be construed accordingly.

Covered Bonds which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits (but not in the case of any NGCB), be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

(g) **Definitions**

In these Conditions, the following expressions have the following meanings:

“**CGCB**” means a Temporary Global Covered Bond or a Permanent Global Covered Bond, in either case in respect of which the applicable Final Terms specify that it is not a new global covered bond;

“**Distribution Compliance Period**” means the period that ends 40 days after the completion of the distribution of the relevant Tranche of Covered Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant lead manager (in the case of a syndicated issue);

“**NGCB**” means a Temporary Global Covered Bond or a Permanent Global Covered Bond, in either case in respect of which the applicable Final Terms specify that it is a new global covered bond;

“**Regulation S**” means Regulation S under the Securities Act; and

“**Securities Act**” means the United States Securities Act of 1933, as amended.

3 Transfers of Registered Covered Bonds

(a) **Transfers of interests in Registered Global Covered Bonds**

Transfers of beneficial interests in registered Global Covered Bonds (“**Registered Global Covered Bonds**”) will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Covered Bonds in definitive form only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement.

(b) **Transfers of Registered Covered Bonds in definitive form**

Subject as provided in Condition 3(e) (*Exchanges and transfers of Registered Covered Bonds generally*) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer: (i) the holder or holders must: (A) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing; and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent; and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful

enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Bond Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 4 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in definitive form in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

(c) ***Registration of transfer upon partial redemption***

In the event of a partial redemption of Covered Bonds under Condition 7 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

(d) ***Costs of registration***

Covered Bondholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) ***Exchanges and transfers of Registered Covered Bonds generally***

Holders of Registered Definitive Covered Bonds may exchange such Covered Bonds for interests in a Registered Global Covered Bond of the same type at any time.

4 Status of the Covered Bonds and the Covered Bond Guarantee

(a) ***Status of the Covered Bonds***

The Covered Bonds (and any Coupons relating thereto) will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, (save for such obligations as may be preferred by provisions of law).

(b) ***Status of the Covered Bond Guarantee***

The payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment has been unconditionally and irrevocably guaranteed by the LLP (the “**Covered Bond Guarantee**”) in the Trust Deed. However, the LLP shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts until (i) the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and service by the Bond Trustee on the LLP of a Notice to Pay or, (ii) if earlier, following the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee are direct (following (i) an Issuer Event of Default, service of an Issuer Acceleration Notice and service of a Notice to Pay or (ii) an LLP Event of Default and service of an LLP

Acceleration Notice), unconditional and unsubordinated obligations of the LLP, which are secured as provided in the Deed of Charge.

Any payment made by the LLP under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Bond Trustee pursuant to Condition 10 (*Events of Default and Enforcement*)) discharge *pro tanto* the obligations of the Issuer in respect of such payment under the Covered Bonds and Coupons except where such payment has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the Covered Bondholders.

5 Interest

(a) *Interest on Fixed Rate Covered Bonds*

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) its date of issue (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 up to (and including) the Final Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the fixed coupon amount specified in the Final Terms (the “**Fixed Coupon Amount**”). Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the broken amount specified in the relevant Final Terms (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 first) Interest Payment Date.

Except in the case of Covered Bonds where a Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (i) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds represented by such Global Covered Bond; or
- (ii) in the case of Fixed Rate Covered Bonds in definitive form, the Specified Denomination;

and in each case, 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.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a) (*Interest on Fixed Rate Covered Bonds*):

- (i) if “**Actual/Actual (ICMA)**” is specified in the applicable Final Terms:
 - (A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant 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 (1) the number of days in such Determination Period and (2) the number of Interest

Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(B) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

- (1) 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 Interest Determination Dates that would occur in one calendar year; and
- (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Interest Determination Dates that would occur in one calendar year; and

(ii) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

“**Determination Period**” means each period from (and including) an Interest Determination Date to (but excluding) the next Interest Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not an Interest Determination Date, the period commencing on the first Interest Determination Date prior to, and ending on the first Interest Determination Date falling after, such date).

“**Original Due for Payment Date**” means, in respect of the payment of Guaranteed Amounts, prior to the occurrence of an LLP Event of Default and following the delivery of a Notice to Pay on the LLP, the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day which is two Business Days following service of a Notice to Pay on the LLP in respect of such Guaranteed Amounts or, if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, each Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date.

“**Principal Amount Outstanding**” means in respect of a Covered Bond on any day the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day.

“**sub-unit**” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01.

(b) ***Interest on Floating Rate Covered Bonds***

(i) ***Interest Payment Dates***

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, the expression “**Interest Period**” shall mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) (*Interest Payment Dates*) below, the “**Floating Rate Convention**”, such Interest Payment Date: (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis*; or (ii) in the case of (y) above, 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 (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the “**Following Business Day Convention**”, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the “**Modified Following Business Day Convention**”, such Interest Payment Date 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
- (D) the “**Preceding Business Day Convention**”, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, “**Business Day**” means a day which is:

- (A) 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; and
- (B) if T2 is specified as an Additional Business Centre in the applicable Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System or any successor or replacement for that system (“**T2**”) is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms.

(A) *Screen Rate Determination for Floating Rate Covered Bonds referencing EURIBOR*

If Relevant Screen Page is available

Where the Reference Rate in respect of the relevant Series of Floating Rate Covered Bonds is specified in the applicable Final Terms as being “EURIBOR”, the Rate of Interest for each Interest Period will, subject as provided below, be the published rate for EURIBOR which appears on the Relevant Screen Page as at 11.00 a.m. Brussels time (or at such Specified Time in the Relevant Financial Centre as specified in the applicable Final Terms) on the Interest Determination Date in question plus or minus the Margin (if any) as determined by the Agent Bank.

If Relevant Screen Page is not available or no published rate

If the Relevant Screen Page is not available or no published rate for EURIBOR appears, unless both an Index Cessation Event and an Index Cessation Event Effective Date have occurred, the Rate of Interest will be determined by the Agent Bank using the published rate for EURIBOR which appeared on the Relevant Screen Page as at 11.00 a.m. Brussels time (or at such Specified Time in the Relevant Financial Centre as specified in the applicable Final Terms) on the last preceding Business Day prior to the Interest Determination Date for which the Relevant Screen Page was available or in respect of which such published rate was available, plus or minus the Margin (if any).

If the Relevant Screen Page is not available or no published rate for EURIBOR appears at 11.00 a.m. Brussels time (or at such Specified Time in the Relevant Financial Centre as specified in the applicable Final Terms), and both an Index Cessation Event and an Index Cessation Effective Date have occurred, the Rate of Interest shall be determined by the Agent Bank as if references in these Conditions to “EURIBOR” were references to the rate (inclusive of any spread(s) or adjustment(s)) that was recommended as the replacement for EURIBOR by the ECB (or any successor thereof) or any relevant committee or other body established, sponsored or approved by the ECB (or any successor thereof), in each case for the purpose of recommending a replacement for such rate (and each such replacement rate having been notified in writing by the Issuer to the Agent Bank), provided that, if no such rate has been recommended before the end of the first Interest Determination Date following the date on which the relevant Index Cessation Event Effective Date occurred, the Rate of Interest to be determined on such Interest Determination Date (and any other Interest Determination Date occurring prior to such recommendation having been made) shall be determined as the Rate of Interest as at the last preceding Interest 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).

In this Condition:

“Index Cessation Effective Date” means the first date on which EURIBOR is no longer provided by the administrator of EURIBOR; and

“Index Cessation Event” means the occurrence of one or more of the following events in respect of EURIBOR:

- (1) a public statement or publication of information by or on behalf of the administrator of EURIBOR announcing that it has ceased or will cease to provide or publish

EURIBOR permanently or indefinitely, provided that, at the time of the statement or the publication, there is no successor administrator that will continue to provide EURIBOR; or

- (2) a public statement or publication of information by the regulatory supervisor for the administrator of EURIBOR, the central bank for the currency of euro, an insolvency official with jurisdiction over the administrator of EURIBOR, a resolution authority with jurisdiction over the administrator of EURIBOR or a court or an entity with similar insolvency or resolution authority over the administrator of EURIBOR, which states that the administrator of EURIBOR has ceased or will cease to provide EURIBOR permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide EURIBOR.

Minimum Rate of Interest

Unless otherwise stated in the Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination for Floating Rate Covered Bonds referencing Compounded Daily SONIA

Where the Reference Rate in respect of the relevant Series of Floating Rate Covered Bonds is specified in the relevant Final Terms as being “Compounded Daily SONIA”, the Rate of Interest for an Interest Accrual Period will, subject as provided below, be Compounded Daily SONIA with respect to such Interest Accrual Period plus or minus (as indicated in the relevant Final Terms) the applicable Margin.

“**Compounded Daily SONIA**” means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) as calculated by the Agent Bank (or other party responsible for calculating the Rate of Interest as set out in the relevant Final Terms) as at the relevant Interest Determination Date in accordance with the following formula (and the resulting percentage will be rounded if necessary to the nearest fifth decimal place, with 0.000005 being rounded upwards):

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{\text{SONIA}_{i-\text{SLBD}} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

“**d**” is the number of calendar days in the relevant Interest Accrual Period;

“**d₀**” is the number of London Banking Days in the relevant Interest Accrual Period;

“**i**” is a series of whole numbers from one to d₀, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Accrual Period;

“**London Banking Day**” or “**LBD**” means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

“**n_i**” for any day “**i**”, means the number of calendar days from (and including) such day “**i**” up to (but excluding) the following London Banking Day;

“**Observation Period**” means the period from (and including) the date falling five London Banking Days prior to the first day of the relevant Interest Accrual Period to (but excluding) the date falling five London Banking Days prior to the Interest Payment Date for such Interest Accrual Period;

“**SONIA_i**” means, the SONIA Reference Rate in respect of a London Banking Day “**i**”;

“**SONIA_{i-5LBD}**” means, in respect of any London Banking Day falling in the relevant Observation Period, the SONIA Reference Rate for the London Banking Day falling five London Banking Days prior to the relevant London Banking Day “**i**”; and

“**SONIA Reference Rate**”, in respect of any London Banking Day (“**LBD_x**”), is a reference rate equal to the daily Sterling Overnight Index Average (“**SONIA**”) rate for such LBD_x as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page (or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors) on the London Banking Day immediately following such LBD_x.

Fallback provisions

If, in respect of any London Banking Day in the relevant Observation Period, the applicable SONIA Reference Rate is not made available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, then (unless the Agent Bank (or other party responsible for calculating the Rate of Interest as set out in the relevant Final Terms) has been notified of any Alternative Base Rate (and any related Base Rate Modifications) pursuant to Condition 15(b)(iii) (*Base Rate Modifications*), if applicable) the SONIA Reference Rate in respect of such London Banking Day shall be: (i) the Bank of England’s Bank Rate (the “**Bank Rate**”) prevailing at 5.00 p.m. (or, if earlier, close of business) on such London Banking Day; plus (ii) the mean of the spread of the SONIA Reference Rate to the Bank Rate over the previous five London Banking Days on which a SONIA Reference Rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads).

Notwithstanding the paragraph above, in the event the Bank of England publishes guidance as to (i) how the SONIA Reference Rate is to be determined or (ii) any rate that is to replace the SONIA Reference Rate, the Agent Bank (or such other party responsible for the calculating the Rate of Interest as set out in the relevant Final Terms) shall, subject to receiving written instructions from the Issuer and to the extent that it is reasonably practicable, follow such guidance in order to determine *SONIA_i* for the purpose of the relevant Series of Covered Bonds for so long as the SONIA Reference Rate is not available or has not been published by the authorised distributors.

In the event that the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be:

- (1) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin, Maximum Rate of Interest and/or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin, Maximum

Rate of Interest and/or Minimum Rate of Interest (as the case may be) relating to the relevant Interest Accrual Period, in place of the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as applicable) relating to that last preceding Interest Accrual Period); or

- (2) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Series of Covered Bonds for the first scheduled Interest Accrual Period had the Covered Bonds been in issue for a period equal in duration to the first scheduled Interest Accrual Period but ending on (and excluding) the Interest Commencement Date (applying the Margin and, if applicable, any Maximum Rate of Interest and/or Minimum Rate of Interest, applicable to the first scheduled Interest Accrual Period).

As used herein, an “**Interest Accrual Period**” means (i) each Interest Period and (ii) any other period (if any) in respect of which interest is to be calculated, being the period from (and including) the first day of such period to (but excluding) the day on which the relevant payment of interest falls due (which, if the relevant Series of Covered Bonds becomes due and payable following an Issuer Event of Default or an LLP Event of Default, shall be the date on which such Covered Bonds become due and payable).

If the relevant Series of Covered Bonds becomes due and payable following an Issuer Event of Default and a subsequent LLP Event of Default, the final Rate of Interest shall be calculated for the Interest Accrual Period to (but excluding) the date on which the Covered Bonds become so due and payable, and such Rate of Interest shall continue to apply to the Covered Bonds for so long as interest continues to accrue thereon as provided in Condition 5(d) (*Accrual of Interest*) and the Trust Deed.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent Bank, in the case of Floating Rate Covered Bonds 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 (or other party responsible for calculating the Rate of Interest as set out in the relevant Final Terms) will calculate the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination (each an “**Interest Amount**”) for the relevant Interest Period or Interest Accrual Period, as applicable. Each Interest Amount shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding, 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.

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Period:

- (A) if **“Actual/Actual”** or **“Actual/Actual (ISDA)”** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) 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 in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if **“Actual/365 (Sterling)”** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if **“Actual/360”** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (E) if **“30/360”**, **“360/360”** or **“Bond Basis”** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (F) if **“30E/360”** or **“Eurobond Basis”** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the last calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (G) if “**30E/360 (ISDA)**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day of the Interest Period, unless (i) that day is the last day of February but not the Final Maturity Date (or, as the case may be, the Extended Due for Payment Date) or (ii) such number would be 31, in which case D2 will be 30.

(v) *Notification of Rate of Interest and Interest Amounts*

Except where the Reference Rate in respect of the relevant Series of Covered Bonds is specified in the relevant Final Terms as being “Compounded Daily SONIA”, the Agent Bank (or other party responsible for calculating the Rate of Interest as set out in the relevant Final Terms) 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 Issuer, the LLP, the Administrator, the Bond Trustee and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds 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 (*Notices*) as soon as possible after their determination but in no event later than the 40 Business

Day (as defined in Condition 5(b)(i) (*Interest Payment Dates*)) thereafter by the Agent Bank (or such other party as aforementioned). 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 Bond Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Covered Bonds are for the time being listed or by which they have been admitted to listing and to the Covered Bondholders in accordance with Condition 14 (*Notices*).

Where the Reference Rate in respect of the relevant Series of Floating Rate Covered Bonds is specified in the relevant Final Terms as being “Compounded Daily SONIA”, the Agent Bank (or other party responsible for calculating the Rate of Interest as set out in the relevant Final Terms) will cause the Rate of Interest and each Interest Amount for each Interest Accrual Period and the relevant Interest Payment Date to be notified to the Issuer, the LLP, the Administrator, the Bond Trustee and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds 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 (*Notices*) as soon as possible after their determination but in no event later than the second London Banking Day thereafter. Each Rate of Interest, 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 relevant Interest Accrual Period. Any such amendment or alternative arrangements will promptly be notified to the Issuer, the LLP, the Administrator, the Bond Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Covered Bonds are for the time being listed or by which they have been admitted to listing and to the Covered Bondholders in accordance with Condition 14 (*Notices*).

(vi) *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 5(b) (*Interest on Floating Rate Covered Bonds*), by the Agent Bank (or other party responsible for calculating the Rate of Interest as set out in the relevant Final Terms) shall (in the absence of wilful default, negligence or fraud) be binding on the Issuer, the LLP, the Agent Bank, the Bond Trustee and all the Covered Bondholders and Couponholders and (in the absence of wilful default, negligence or fraud) no liability to the Issuer, the LLP, the Covered Bondholders or the Couponholders shall attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) ***Fixed/Floating Rate Covered Bonds***

- (i) *Application:* This Condition 5 (*Interest*) is applicable to the Covered Bonds only if the Fixed Rate Covered Bond Provisions or the Floating Rate Covered Bond Provisions are specified in the relevant Final Terms as being applicable.
- (ii) *Fixed/Floating Rate:* The Issuer may issue Covered Bonds (i) that the Issuer may elect to convert on the date set out in the relevant Final Terms from a Fixed Rate Covered Bond to a Floating Rate Covered Bond, or from a Floating Rate Covered Bond to a Fixed Rate Covered Bond or (ii) that will automatically change from a Fixed Rate Covered Bond to a Floating Rate Covered Bond, or from a Floating Rate Covered Bond to a Fixed Rate Covered Bond on the date set out in the relevant Final Terms.

(d) ***Accrual of interest***

Interest (if any) will cease to accrue on each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) 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 as provided in the Trust Deed.

(e) ***Agent Bank***

The Issuer will procure that, so long as any of the Covered Bonds remains outstanding, there will at all times be an Agent Bank for the purposes of determining interest in respect of the Covered Bonds. The Issuer is entitled, with the prior written approval of the Bond Trustee, to terminate the appointment of the Agent Bank. If the Agent Bank shall be unable or unwilling to continue to act as the Agent Bank, or if the appointment of the Agent Bank shall be terminated, the Issuer will, with the approval of the Bond Trustee, appoint a successor Agent Bank to act as such in its place, provided that neither the resignation nor removal of the Agent Bank shall take effect until a successor Agent Bank approved by the Bond Trustee has been appointed, subject to and in accordance with the terms of the Agency Agreement.

6 Payments

(a) ***Method of payment***

Subject as provided below:

- (i) payments in Sterling will be made by credit or electronic transfer to a Sterling account maintained by the payee with a bank in London; and
- (ii) payments in euro will be made by credit or electronic transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction but without prejudice to the provisions of Condition 8 (*Taxation*), 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 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. References to Specified Currency will include any successor currency under applicable law. Any such amounts withheld or deducted will be treated as paid for all purposes under the Covered Bonds, and no additional amounts will be paid on the Covered Bonds with respect to any such withholding or deduction.

(b) ***Presentation of Bearer Definitive Covered Bonds and Coupons***

Payments of principal and interest (if any) will (subject as provided below) be made against presentation and surrender of Bearer Definitive Covered Bonds or Coupons, as the case may be, at any specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Fixed Rate Covered Bonds in definitive bearer form (other than any Long Maturity Covered Bonds) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid

bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 12 years after the Relevant Date (as defined in Condition 8 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9 (*Prescription*)) or, if later, six years from the date on which such Coupon would otherwise have become due.

Upon amounts in respect of any Fixed Rate Covered Bond in definitive bearer form becoming due and repayable by the Issuer (in the absence of a Notice to Pay) or LLP under the Covered Bond Guarantee prior to its Final Maturity Date (or, as the case may be, Extended Due for Payment Date), all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the due date for redemption of any Floating Rate Covered Bond or Long Maturity Covered Bond in definitive bearer form, all unmatured Coupons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **“Long Maturity Covered Bond”** is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond. If the date for redemption of any Bearer Definitive Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Bearer Definitive Covered Bond.

(c) ***Payments in respect of Bearer Global Covered Bonds***

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to Bearer Definitive Covered Bonds and otherwise in the manner specified in the relevant Global Covered Bond (against presentation or surrender, as the case may be, of such Global Covered Bond if the Bearer Global Covered Bond is not intended to be issued in NGCB form at the specified office of any Paying Agent outside the United States). On the occasion of each payment, (i) in the case of any Bearer Global Covered Bond which is not issued in NGCB form, a record of such payment made on such Bearer Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Covered Bond by the Paying Agent and such record shall be *prima facie* evidence that the payment in question has been made and (ii) in the case of any Global Covered Bond which is issued in NGCB form, the Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

(d) ***Payments in respect of Registered Covered Bonds***

Payments of principal in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Paying Agents. Such payments will be made by electronic transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the **“Register”**) at the close of business on the third Business Day (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Paying Agent is located) before the relevant due date. For these

purposes, “**Designated Account**” means the account maintained by a holder with a “**Designated Bank**” and identified as such in the Register and Designated Bank means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Covered Bond (whether or not in global form) will be made in the Specified Currency on the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on the Business Day before the relevant due date (the “**Record Date**”). Upon application of the holder to the specified office of the Paying Agent not less than three Business Days in the city where the specified office of the Paying Agent is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by electronic transfer on the due date in the manner provided in the preceding paragraph. Any such application for electronic transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Paying Agent is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption will be made in the same manner as payment of the principal in respect of such Registered Covered Bond.

None of the Issuer, the LLP, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) ***General provisions applicable to payments***

The holder of a Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Issuer or, as the case may be, the LLP will be discharged by payment to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or the LLP to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No person other than the holder of the relevant Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall have any claim against the Issuer or the LLP in respect of any payments due on that Global Covered Bond.

(f) ***Payment Day***

If the date for payment of any amount in respect of any Covered Bond or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. In this Condition (unless otherwise specified in the applicable Final Terms), “**Payment Day**” means any day which (subject to Condition 9 (*Prescription*)) is:

- (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:
 - (A) London; and
 - (B) if T2 is specified as an Additional Financial Centre in the applicable Final Terms, a day on which T2 is open; and

- (ii) either (1) in relation to any sum payable in Sterling, 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 or (2) in relation to any sum payable in euro, a day on which T2 is open.

(g) ***Interpretation of principal and interest***

Any reference in these Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8 (*Taxation*) or under any undertakings or covenants given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Covered Bonds;
- (iii) the Early Redemption Amount of the Covered Bonds;
- (iv) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (v) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 7(e)(iii) (*Early Redemption Amounts*));
- (vi) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and
- (vii) any Excess Proceeds which may be payable by the Bond Trustee under or in respect of the Covered Bonds.

Any reference in these Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 (*Taxation*) or under any undertakings given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

(h) ***Definitions***

In these Conditions, the following expressions have the following meanings:

“**Calculation Amount**” has the meaning given in the applicable Final Terms.

“**euro**” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty.

“**Rate of Interest**” means the rate of interest payable from time to time in respect of Fixed Rate Covered Bonds and Floating Rate Covered Bonds, as determined in, or as determined in the manner specified in, the applicable Final Terms.

“**Treaty**” means the Treaty establishing the European Community, as amended.

7 Redemption and Purchase

(a) ***Final redemption***

Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount in the relevant Specified Currency on the Final Maturity Date specified in the applicable Final Terms.

Without prejudice to Condition 10 (*Events of Default and Enforcement*), if:

- (i) the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms (or after expiry of the grace period set out in Condition 10(a)(ii)(2)(A) (*Non-payment*)); and
- (ii) following the service of a Notice to Pay on the LLP by no later than the date falling one Business Day prior to the Extension Determination Date, the LLP has insufficient monies available to apply under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the Extension Determination Date,

then payment of the unpaid amount by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Extension Determination Date will, if available, be paid by the LLP on each Original Due for Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

The Issuer shall give the Principal Paying Agent not less than four Business Days' notice prior to the Final Maturity Date whether (a) payment will be made of the Final Redemption Amount of the applicable Series of Covered Bonds in full on its (i) Final Maturity Date or (ii) Extension Determination Date or (b) the obligation to pay the Final Redemption Amount of the applicable Series of Covered Bonds on its Final Maturity Date shall be deferred until the Extended Due for Payment Date. Any failure by the Issuer to notify the Principal Paying Agent shall not affect the validity or effectiveness of the extension or deferral.

Provided that the relevant notice has been received from the Issuer (in accordance with the paragraph above), the Principal Paying Agent shall notify the Clearing Systems not less than three Business Days' notice prior to the Final Maturity Date whether (a) payment will be made of the Final Redemption Amount of the applicable Series of Covered Bonds in full on its (i) Final Maturity Date or (ii) Extension Determination Date or (b) the obligation to pay the Final Redemption Amount of the applicable Series of Covered Bonds on its Final Maturity Date shall be deferred until the Extended Due for Payment Date. Any failure by the Principal Paying Agent to notify the Clearing Systems shall not affect the validity or effectiveness of the extension.

The LLP shall notify the relevant Covered Bondholders (in accordance with Condition 14 (*Notices*)), each Rating Agency, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the Registrar (in the case of Registered Covered Bonds) as soon as reasonably practicable and in any event at least one Business Day prior to the Extension Determination Date of any inability of the LLP to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee on the Extension Determination Date. Any failure by the LLP to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party. In the circumstances outlined above, the LLP shall on the earlier of (a) the date falling two Business Days after the service of a Notice to Pay or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 10(b)(ii)(B)(1)) and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the monies (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the Scheduled Interest in respect of each such Covered Bond on such

date. A failure to pay the Final Redemption Amount in full on or before the Extension Determination Date by the LLP shall not constitute an LLP Event of Default.

Any discharge of the obligations of the Issuer as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the amounts to be paid by the LLP under the Covered Bond Guarantee in connection with this Condition 7(a).

For the purposes of these Conditions:

“Extended Due for Payment Date” means, in respect of a Series of Covered Bonds, the date specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date.

“Extension Determination Date” means, in respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days following (and including) the Final Maturity Date of such Series of Covered Bonds.

“Guarantee Priority of Payments” means the priority of payments relating to monies standing to the credit of the LLP Accounts to be paid on each LLP Payment Date in accordance with the LLP Deed.

“Rating Agency” means Moody’s Investors Service Limited and/or Fitch Ratings Limited and/or any other credit rating agency that may be appointed by the Issuer from time to time (collectively, the **“Rating Agencies”**) or their successors, to the extent they provide ratings in respect of the Covered Bonds, provided at all times, there is at least one rating agency rating the Covered Bonds then outstanding.

(b) ***Redemption for taxation reasons***

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if the Covered Bond is not a Floating Rate Covered Bond) or on any Interest Payment Date (if the Covered Bond is a Floating Rate Covered Bond), on giving not less than 15 nor more than 30 days’ notice to the Bond Trustee, the Agents and, in accordance with Condition 14 (*Notices*), the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee (by providing it with an officer’s certificate signed by two authorised signatories of the Issuer) immediately before the giving of such notice that on the occasion of the next date for payment of interest, as a result of any change or proposed change in or amendment or proposed amendment to the laws or regulations of the United Kingdom or any authority or political subdivision therein or thereof having power to tax, including any treaty to which such jurisdiction is a party, or any change in the official application of those laws or regulations (including a holding by a court or tribunal of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Covered Bonds, the Issuer is or will be required to pay additional amounts as provided in Condition 8 (*Taxation*). Covered Bonds redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in Condition 7(e) (*Early Redemption Amounts*) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) ***Redemption at the option of the Issuer (Issuer Call)***

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given not less than 15 nor more than 30 days’ notice (or such other notice period as may be specified in the applicable Final Terms) to the Bond Trustee, the Principal Paying Agent, (in the case of the redemption of Registered Covered Bonds) the Registrar and, in accordance with Condition 14 (*Notices*), the Covered Bondholders (which notice shall be irrevocable) redeem all or some only (as specified in the applicable Final Terms)

of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly.

In the event of a redemption of some only of the Covered Bonds:

- (i) such redemption must be for an amount being no less than the Minimum Redemption Amount and no greater than the Higher Redemption Amount; and
- (ii) the Covered Bonds to be redeemed (the “**Redeemed Covered Bonds**”) will be selected in accordance with applicable law and stock exchange or other regulatory requirements and:
 - (A) individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds; and
 - (B) in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Covered Bonds represented by a Global Covered Bond,

in each case, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “**Selection Date**”).

In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 14 (*Notices*) not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by Definitive Covered Bonds shall bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of Definitive Covered Bonds outstanding bears to the aggregate nominal amount of the Covered Bonds outstanding, in each case on the Selection Dates, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Covered Bonds represented by a Global Covered Bond shall be equal to the balance of the Redeemed Covered Bonds. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7(c) and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 14 (*Notices*) at least five days prior to the Selection Date.

(d) ***Redemption due to illegality***

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 15 nor more than 30 days’ notice to the Bond Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 14 (*Notices*), all the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee (by providing it with an officer’s certificate signed by an authorised signatory of the Issuer) immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Term Advance made by it to the LLP from the Covered Bonds pursuant to the Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.

Covered Bonds redeemed pursuant to this Condition 7(d) will be redeemed at their Early Redemption Amount referred to in Condition 7(e) (*Early Redemption Amounts*) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(e) ***Early Redemption Amounts***

For the purpose of Conditions 7(b) (*Redemption for taxation reasons*) above and 7(h) (*Late payment on Zero Coupon Covered Bonds*) below and Condition 10 (*Events of Default and Enforcement*), each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Covered Bond (other than a Zero Coupon Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Covered Bond is denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (iii) in the case of a Zero Coupon Covered Bond, at an amount (the “**Amortised Face Amount**”) equal to the sum of:
 - (A) the Reference Price; and
 - (B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable,

or such other amount as is provided in the applicable Final Terms.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made in the case of a Zero Coupon Covered Bond payable in Sterling, on the basis of a 360-day year consisting of 12 months of 30 days each or (ii) in the case of a Zero Coupon Covered Bond payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365) or (iii) on such other calculation basis as may be specified in the applicable Final Terms.

(f) ***Purchases***

The Issuer or any of its subsidiaries or the LLP may at any time purchase or otherwise acquire Covered Bonds (provided that, in the case of Bearer Definitive Covered Bonds, all unmatured Coupons appertaining thereto are attached thereto or surrendered therewith) at any price and in any manner. If purchases are made by tender, tenders must be available to all the Covered Bondholders alike. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer or the relevant subsidiary, surrendered to any Paying Agent and/or the Registrar for cancellation (except that any Covered Bonds purchased or otherwise acquired by the LLP must immediately be surrendered to any Paying Agent and/or the Registrar for cancellation).

(g) ***Cancellation***

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Coupons attached thereto or surrendered therewith at the time

of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 7(f) (*Purchases*) above and cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Coupons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be held, reissued or resold.

(h) ***Late payment on Zero Coupon Covered Bonds***

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Condition 7(a) (*Final redemption*), (b) (*Redemption for taxation reasons*) or (c) (*Redemption at the option of the Issuer (Issuer Call)*) above or upon its becoming due and repayable as provided in Condition 10 (*Events of Default and Enforcement*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 7(e)(iii) (*Early Redemption Amounts*) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (ii) the date on which the full amount of the monies payable in respect of such Zero Coupon Covered Bonds has been received by the Principal Paying Agent or the Bond Trustee or the Registrar and notice to that effect has been given to the Covered Bondholders either in accordance with Condition 14 (*Notices*) or individually.

(i) ***Certification on redemption under Conditions 7(b) and 7(d)***

Prior to the publication of any notice of redemption pursuant to Conditions 7(b) (*Redemption for taxation reasons*) and 7(d) (*Redemption due to illegality*), the Issuer shall deliver to the Bond Trustee a certificate signed by two Authorised Signatories (as defined in the Master Definitions and Construction Agreement) of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all holders of the Covered Bonds and Couponholders.

8 Taxation

(a) ***Gross-up***

All payments of principal and interest (if any) in respect of the Covered Bonds and Coupons by or on behalf of the Issuer or the LLP, as the case may be, will be made free and clear of, and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Covered Bondholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Covered Bond or Coupon:

- (i) held by or on behalf of a Covered Bondholder or Couponholder that is liable to such taxes, duties, assessments or governmental charges in respect of such Covered Bond or Coupon by reason of its having some connection with the United Kingdom other than the mere holding of the Covered Bond or Coupon; or
- (ii) where the relevant Covered Bond or Coupon is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of such Covered Bond or Coupon would have been entitled to such additional amounts on presenting or surrendering such Covered Bond or Coupon for payment on the last day of such period of 30 days; or
- (iii) where the Covered Bondholder or Couponholder is able to avoid such withholding or deduction by complying, or procuring that a third party complies with, any applicable statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority.

Any amounts to be paid by the Issuer or the LLP on the Covered Bonds will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the Code, any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, any intergovernmental agreement, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code (or any law implementing such an intergovernmental agreement) (a “**FATCA Withholding**”), and neither the Issuer nor the LLP will be required to pay any additional amounts on account of any FATCA Withholding.

Should any payments made by the LLP under the Covered Bond Guarantee be made subject to any withholding or deduction for or on account of taxes or duties of whatever nature imposed or levied by or on account of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, the LLP will not be obliged to pay any additional amounts as a consequence.

As used herein:

“**Relevant Date**” means the date on which such payment in respect of the Covered Bond or Coupon first becomes due and payable, except that, if the full amount of the monies payable on such date has not been duly received by the Bond Trustee, the Registrar or the Principal Paying Agent on or prior to such date, it means the date on which such monies have been so received, notice to that effect having been given to the Covered Bondholders in accordance with Condition 14 (*Notices*).

(b) ***Taxing jurisdiction***

If the Issuer and/or the LLP becomes subject at any time to any taxing jurisdiction other than, or in addition to, the United Kingdom (or any political sub-division thereof), references in these Conditions to the United Kingdom shall be construed as references to such other jurisdiction.

9 **Prescription**

The Covered Bonds (whether in bearer or registered form) and Coupons will become void unless presented for payment within 12 years (in the case of principal) and six years (in the case of interest) in each case from the Relevant Date (as defined in Condition 8 (*Taxation*)) therefor, subject in each case to the provisions of Condition 6 (*Payments*).

There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6 (*Payments*) or any Talon which would be void pursuant to Condition 6 (*Payments*).

10 Events of Default and Enforcement

(a) *Issuer Events of Default*

The Bond Trustee:

(i) may, at its discretion; and

(ii) shall, if:

- (1) so requested in writing by the holders of at least 25 per cent. of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose or the purpose of any Extraordinary Resolution referred to in this Condition 10(a) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate); or

- (2) so directed by an Extraordinary Resolution of all the Covered Bondholders,

(subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction) give notice (an “**Issuer Acceleration Notice**”) in writing to the Issuer (but in the case of the happening of any of the events mentioned in subparagraph (B) below, only if the Bond Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series, provided that a breach of any obligation to provide notices, reports or other information to the FCA under the RCB Regulations and/or the RCB Sourcebook shall not be considered materially prejudicial to the interests of the Covered Bondholders by the Bond Trustee) that as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with any accrued interest as provided in the Trust Deed if any of the following events (each an “**Issuer Event of Default**”) shall occur and be continuing:

- (A) *Non-payment*: any principal or interest in respect of the Covered Bonds has not been paid within seven days (in the case of principal) and within 14 days (in the case of interest) from the due date for payment provided that the Issuer shall not, however, be in default if it satisfies the Bond Trustee during the seven or 14 day period (as applicable) that such sums were not paid in order to comply with any law, regulation or order of any court of competent jurisdiction. Where there is doubt as to the validity or applicability of any such law, regulation or order, the Issuer will not be in default if it acts on the advice given to it during such period by independent legal advisers approved by the Bond Trustee; or
- (B) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Covered Bonds or Coupons of any Series or the Trust Deed (but excluding any obligation of the Issuer to comply with the Asset Coverage Test or any representation or warranty given by the Issuer in respect of the Asset Coverage Test) and that breach has not been remedied within 30 days (or such longer period as the Bond Trustee may permit) of receipt of a written notice from the Bond Trustee certifying to the Issuer that in its opinion the breach is materially prejudicial to the interests of the holders of Covered Bonds or Coupons of any Series and requiring the same to be remedied; or
- (C) *Winding-up etc.*: a Winding-up Event occurs; or

- (D) *Asset Coverage Test Breach Notice*: if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice.

In these Conditions, a “**Winding-up Event**” means, in respect to the Issuer: (i) a court of competent jurisdiction in England makes an order for its winding-up which is not successfully appealed within 30 days of the making of such order, (ii) the Issuer’s shareholders adopt an effective resolution for its winding-up (other than, in the case of either (i) or (ii) above, in connection with a substitution, consolidation, merger, amalgamation or transfer pursuant to Condition 15(c) (*Substitution of the Issuer*) or otherwise under or in connection with a scheme of reconstruction, merger or amalgamation not involving a bankruptcy or insolvency) or (iii) following the appointment of an administrator of the Issuer, the administrator gives notice that it intends to declare and distribute a dividend.

Upon the Covered Bonds becoming immediately due and repayable by the Issuer pursuant to this Condition 10(a), the Bond Trustee shall forthwith serve a notice to pay (the “**Notice to Pay**”) on the LLP pursuant to the Covered Bond Guarantee and the LLP shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice and a Notice to Pay, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 10(c) (*Enforcement*).

The Trust Deed provides that all monies received by the Bond Trustee from the Issuer or any receiver, liquidator, administrator or other similar official appointed in relation to the Issuer following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice and a Notice to Pay (the “**Excess Proceeds**”), shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the LLP Accounts and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other monies from time to time standing to the credit of the LLP Accounts pursuant to the Deed of Charge and the LLP Deed. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the payment of the amount of such Excess Proceeds under the Covered Bonds and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of a Notice to Pay) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

(b) ***LLP Events of Default***

The Bond Trustee:

- (i) may, at its discretion; and
- (ii) shall, if:
 - (A) so requested in writing by the holders of at least 25 per cent. of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 10(b) means the Covered Bonds of this Series together with the Covered Bonds of any other Series

constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate); or

(B) so directed by an Extraordinary Resolution of all the Covered Bondholders,

(subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction) give notice (the “**LLP Acceleration Notice**”) in writing to the Issuer and to the LLP, that (x) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and (y) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with any accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each an “**LLP Event of Default**”) shall occur and be continuing if:

- (1) default is made by the LLP for a period of seven (7) days or more in the payment of any Guaranteed Amounts when Due for Payment in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount when Due for Payment under Condition 7(a) (*Final redemption*) where the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (2) default is made by the LLP in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document to which the LLP is a party and, except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the LLP requiring the same to be remedied and only if the Bond Trustee has certified in writing to the Issuer and the LLP that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series; or
- (3) an order is made or an effective resolution passed for the liquidation or winding-up of the LLP; or
- (4) the LLP ceases or threatens to cease to carry on its business or substantially the whole of its business; or
- (5) the LLP shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (6) proceedings (“**Winding-Up Proceedings**”) are initiated against the LLP under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver and/or manager, administrative receiver, administrator, trustee

or other similar official is appointed (whether out of court or otherwise) in relation to the company or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or such company shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of, or shall enter into any composition with, its creditors generally, save where (in each case) such proceedings are being contested in good faith by the company, or an administrative or other receiver, administrator or other similar official is appointed in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of such company, or a distress, execution, diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of such company and in any of the foregoing cases such proceedings or claims are not vexatious or frivolous or are not discharged within 15 days; or

- (7) a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any Calculation Date following an Issuer Event of Default; or
- (8) the Covered Bond Guarantee is not, or is claimed by the LLP not to be, in full force and effect.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP by the Bond Trustee, each of the Bond Trustee and the Security Trustee may or shall (in the case of a direction by Covered Bondholders of each Series in accordance with Condition 10(c) (*Enforcement*)) take such proceedings or steps in accordance with the first and third paragraphs, respectively, of Condition 10(c) (*Enforcement*) and the Covered Bondholders of each Series shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount together with any accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 8 (*Taxation*)) as provided in the Trust Deed.

(c) ***Enforcement***

The Bond Trustee may at any time, at its discretion and without further notice, take such proceedings against the Issuer and/or the LLP, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds, the Coupons and any other Transaction Document, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Covered Bonds or the Coupons or any other Transaction Document unless (i) it shall have been so directed by an Extraordinary Resolution of the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than 25 per cent. of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together as a single Series) and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions the Bond Trustee shall only have regard to the interests of the Covered Bondholders of all Series and shall not have regard to the interests of any other Secured Creditors.

The Security Trustee may at any time, at its discretion and without further notice, take such proceedings against the LLP and/or any other person as it may think fit to enforce the provisions of the Deed of Charge or any other Transaction Document it is a party to and may, at any time after the Security has

become enforceable, take such proceeding or steps or any other action under the Deed of Charge as it may think fit to enforce the Security, but it shall not be bound to take any such steps or proceeding unless (i) it shall have been so directed by an Extraordinary Resolution of the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or a request in writing by the holders of not less than 25 per cent. of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together as a single Series); and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph the Security Trustee shall only have regard to the interests of the Covered Bondholders of all Series and shall not have regard to the interests of any other Secured Creditors.

No Covered Bondholder or Couponholder shall be entitled to proceed directly against the Issuer or the LLP or to take any action with respect to the Trust Deed, the Covered Bonds, the Coupons, the Deed of Charge or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound so to proceed, (i) fails so to do within a reasonable time, or (ii) is unable for any reason so to do, and such failure or inability shall be continuing.

11 Replacement of Covered Bonds and Coupons

Should any Covered Bond or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds or Coupons) or the Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice shall have been published in accordance with Condition 14 (*Notices*) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds or Coupons must be surrendered before replacements will be issued.

12 Principal Paying Agent, Paying Agents, Registrar, Transfer Agent

The Issuer is entitled, with the prior written approval of the Bond Trustee, to vary or terminate the appointment of any Principal Paying Agent, Paying Agents, Registrar or Transfer Agent and/or appoint additional or other Principal Paying Agent, Paying Agents, Registrar or Transfer Agent and/or approve any change in the specified office through which any Principal Paying Agent, Paying Agents, Registrar or Transfer Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar; and
- (b) so long as any of the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) (which may be the Principal Paying Agent) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or as the case may be, other relevant authority.

Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency when it shall be of immediate effect) after not less than 30 nor more than 45 days' after service of notice of such variation, termination, appointment or change has been given to the Covered Bondholders in accordance with Condition 14 (*Notices*).

In acting under the Agency Agreement, the Principal Paying Agent, Paying Agents, Registrar and Transfer Agent act solely as agents of the Issuer and the LLP and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any Covered Bondholders

or Couponholders. The Agency Agreement contains provisions permitting any entity into which any the Principal Paying Agent, Paying Agents, Registrar and Transfer Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

13 Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 9 (*Prescription*).

14 Notices

All notices to the Covered Bondholders shall be deemed to have been duly given to those Covered Bondholders:

- (a) if information concerned in such notice shall appear on the relevant page of the Reuters Screen or such other medium for the electronic display of data as may be approved by the Bond Trustee and notified to the Covered Bondholders (the “**Relevant Screen**”), and in such case such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen; or
- (b) if published in the Financial Times or, if such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other leading daily newspaper or newspapers printed in the English language as the Bond Trustee shall approve in advance having (individually or in combination) a general circulation in the United Kingdom, Europe and in each such case such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above; or
- (c) (in respect of Registered Covered Bonds in definitive form) if sent to them by first class post (or its equivalent) or (if posted to an address outside the United Kingdom) by airmail at the respective addresses on the Register, and in such case such notice will be deemed to have been given on the fourth day after the date of posting; or
- (d) whilst the Covered Bonds then held by those Covered Bondholders are represented by a Global Covered Bond, if given to Euroclear and/or Clearstream, Luxembourg for communication by them to those Covered Bondholders, and in such case such notice shall be deemed to have been given to the relevant Covered Bondholders on the day of such delivery to Euroclear and/or Clearstream, Luxembourg, as appropriate; or
- (e) any other method or methods of giving notice sanctioned in advance by the Bond Trustee if, in the Bond Trustee’s sole opinion, such other method or methods is/are reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges, competent listing authorities and/or quotation systems on or by which the Covered Bonds are then listed, quoted and/or traded and provided that notice of such other method or methods is/are given to those Covered Bondholders in such manner as the Bond Trustee shall require,

and where a notice is given to those Covered Bondholders using more than one of the methods described in the above paragraphs of this Condition, such notice shall be deemed to have been given on the first date on which such notice is deemed to have been given under those paragraphs.

While the Covered Bonds are listed on the official list maintained by the FCA, copies of all notices given in accordance with these provisions shall be sent to a regulatory information service prescribed by the prospectus rules of the FCA and to Euroclear and Clearstream, Luxembourg.

15 Meetings of Covered Bondholders, Modification and Waiver

(a) *Meetings of Covered Bondholders*

The Trust Deed contains provisions for convening meetings (including by way of conference call or by use of a videoconference platform) of the Covered Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any such meeting in respect of any Covered Bonds of any Series for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing the Covered Bondholders whatever the nominal amount of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of any Series Reserved Matter, the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Couponholders in respect of such Series of Covered Bonds. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between such Covered Bondholders, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 10 (*Events of Default and Enforcement*) or to direct the Bond Trustee or the Security Trustee to take any enforcement action (each a “**Programme Resolution**”) shall only be capable of being passed at a single meeting of the Covered Bondholders of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee or by the Covered Bondholders of any Series. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all the Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Couponholders in respect of such Series of Covered Bonds.

(b) *Modifications and waivers*

- (i) *Non-material prejudice or manifest error:* The Bond Trustee may without the consent or sanction of any of the Covered Bondholders or Couponholders of any Series and without the consent of the Secured Creditors (and for this purpose the Bond Trustee and Security Trustee may disregard whether any such modification relates to a Series Reserved Matter), concur with the Issuer and

the LLP and any other party, or direct the Security Trustee to concur with the Issuer or any other person in making:

- (A) any modification of the Covered Bonds (including the Conditions and any Final Terms) of one or more Series, the related Coupons or any Transaction Document provided that in the opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series; or
- (B) any modification of the Covered Bonds (including the Conditions) of any one or more Series, the related Coupons or any Transaction Document which is, (i) in the opinion of the Bond Trustee of a formal, minor or technical nature, (ii) in the opinion of the Bond Trustee made to correct a manifest error or (iii) to comply with mandatory provisions of law.

(ii) *Additional rights of modification:*

In addition to the provisions of Conditions 15(b)(i) (*Non-material prejudice or manifest error*):

- (A) the Issuer and the LLP may agree, without the consent of the Bond Trustee, the Security Trustee, the Covered Bondholders, the Couponholders or any of the other Secured Creditors, to any modification of any of the provisions of any Final Terms which is of a formal, minor or technical nature or is made to correct a manifest error (provided that any rights, powers or protections afforded to the Bond Trustee or the Security Trustee are not affected by such modification);
- (B) the Issuer and the LLP may request the Bond Trustee and the Security Trustee (acting on the directions of the Bond Trustee, so long as there are any Covered Bonds outstanding, or all of the other Secured Creditors if there are no Covered Bonds outstanding) to agree to modifications to the Transaction Documents (including the relevant Loan Warranties and the Eligibility Criteria) and/or these Conditions of the Covered Bonds to enable:
 - (1) the Covered Bonds issued under the Programme to qualify, or continue to qualify, as regulated covered bonds under the RCB Regulations or any replacement or amended regulations;
 - (2) the Transaction Documents and/or these Conditions to comply with or implement or reflect any change in criteria of the Rating Agencies;
 - (3) the appointment of an additional or replacement Account Bank (provided any such Account Bank has at least the Account Bank Ratings) and the LLP to open additional Transaction Accounts with any Account Bank or to open any cash or securities account with any Account Bank for the purposes of depositing Authorised Investments or Substitution Assets (provided any such Account Bank has at least the Account Bank Ratings);
 - (4) the establishment of any additional or replacement Swap Collateral Account that may be required in accordance with any Interest Rate Swap Agreement, Standby Swap Agreement or any Covered Bond Swap Agreement (provided any such Swap Collateral Account is held with an Account Bank which has at least the Swap Collateral Account Bank Ratings);
 - (5) the Covered Bonds to be (or to remain) listed on the London Stock Exchange;

- (6) the Issuer or the LLP or any other person that is party to a Transaction Document to comply with FATCA (or any voluntary agreement entered into with a taxing authority in relation thereto);
- (7) the addition of any Rating Agency to the Programme;
- (8) New Mortgage Loan Types to be sold to the LLP provided that the Ratings Condition is satisfied in respect of such modifications and subject always to the provisions of the Mortgage Sale Agreement in relation to New Mortgage Loan Types;
- (9) the accession of a Member or New Seller as contemplated by clause 31 of the LLP Deed;
- (10) any other member of the Group to be appointed as administrator of all or some of the Mortgage Loans to be acquired by the LLP; and/or
- (11) the Issuer to transfer any of the Collection Accounts to HSBC UK Bank plc or Barclays Bank PLC, provided that the conditions stipulated in clause 6.7(b) of the Administration Agreement have been satisfied.

Each of the Bond Trustee and the Security Trustee (acting on the directions of the Bond Trustee, so long as there are any Covered Bonds outstanding, or all of the other Secured Creditors if there are no Covered Bonds outstanding) shall agree to such modifications (other than in respect of a Series Reserved Matter) without the consent or sanction of any of the Covered Bondholders or Couponholders and without the consent or sanction of any other Secured Creditors (other than any Secured Creditor party to the relevant Transaction Document to be amended), subject to receipt by the Bond Trustee and the Security Trustee of a certificate (upon which certificate the Bond Trustee and the Security Trustee shall be entitled to rely absolutely and without enquiry or liability) signed by a director of the Issuer and a signed certificate of a Designated Member of the LLP, each certifying to the Bond Trustee and the Security Trustee that (i) the requested amendments are to be made solely for the purpose of enabling one or more of the matters referred to in paragraphs (1) to (11) above and (ii) the requested amendments are not, in the opinion of the Issuer (in the case of a certificate furnished on behalf of the Issuer) and the LLP (in the case of a certificate furnished on behalf of the LLP), materially prejudicial to the interests of any Covered Bondholder, Couponholder or Secured Creditor of any Series;

- (C) the Bond Trustee shall, without the consent of the holders of any of the Covered Bonds or any other Secured Creditor of any Series (other than any Secured Creditor party to the relevant Transaction Document to be amended) be obliged to concur with the Issuer and/or the LLP, and/or direct the Security Trustee to concur with the Issuer and/or the LLP, in making any modifications to the Transaction Documents and/or these Conditions that are requested by the Issuer and/or the LLP in order to enable the Issuer, the LLP and/or a Swap Provider to comply with any requirements which apply to it under 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 (“**EU EMIR**”) and/or EU EMIR as it forms part of UK domestic law by virtue of the EUWA (“**UK EMIR**”) and any other obligation which applies to it under UK EMIR and/or EU EMIR, irrespective of whether or not such modifications might otherwise constitute a Series Reserved Matter or might otherwise be materially prejudicial to the interests of the Covered Bondholders (which neither the Bond Trustee nor the Security Trustee shall be required to investigate and

without liability to any person) subject to receipt by the Bond Trustee and the Security Trustee of a certificate of the Issuer and/or the LLP (upon which the Bond Trustee and the Security Trustee may rely absolutely without further enquiry or liability to any person) certifying to the Bond Trustee and the Security Trustee that the requested amendments are to be made solely for the purpose of enabling the Issuer and/or the LLP to satisfy any requirements which apply to either of them under UK EMIR and/or EU EMIR; and

- (D) the Bond Trustee shall, without the consent of the holders of any of the Covered Bonds or any other Secured Creditor of any Series (other than any Secured Creditor party to the relevant Transaction Document to be amended), be obliged to concur with the Issuer and/or the LLP, and/or direct the Security Trustee to concur with the Issuer and/or the LLP:
- (1) in making any modifications to a Swap Agreement requested by the relevant Swap Provider to reflect that certain provisions, rules, regulations, directions, processes, guidelines and procedures relating to any applicable laws or regulations affecting the regulatory treatment of the LLP or relevant Swap Provider (including without limitation any associated regulatory or implementing technical standards and advice, guidance or recommendations from relevant competent authorities or ESMA) have been clarified, updated, delivered, amended, modified or become operative or applicable (“**New Regulatory Requirements**”) and any modifications to the Transaction Documents that are requested by the Issuer or the LLP which are consequential to such modifications to such Swap Agreement, irrespective of whether or not such modifications might otherwise constitute a Series Reserved Matter or might otherwise be materially prejudicial to the interests of the Covered Bondholders (which neither the Bond Trustee nor the Security Trustee shall be required to investigate and without liability to any person) subject to receipt by the Bond Trustee and the Security Trustee of a certificate of the Swap Provider certifying that such modifications to the Swap Agreement are being made solely for the purpose of addressing the New Regulatory Requirements and (if applicable) a certificate of the Issuer or as applicable the LLP certifying to the Bond Trustee and the Security Trustee that the requested amendments are to be made solely as a consequence of amendments to the Swap Agreement (upon which certificates the Bond Trustee and the Security Trustee may rely absolutely without further enquiry or liability to any person); and further provided that any such modifications shall not cause the then current ratings of the Covered Bonds to be adversely affected or withdrawn as a consequence;
 - (2) in waiving the terms of or making any modifications to a Swap Agreement as will result in the rating of the Covered Bonds by a Rating Agency, following the occurrence of a Rating Event, being maintained at or restored to the level at which it was immediately prior to the occurrence of such Rating Event (each, a “**Rating Cure Event**”) irrespective of whether or not such waiver or modification might otherwise constitute a Series Reserved Matter or might otherwise be materially prejudicial to the interests of the Covered Bondholders (which neither the Bond Trustee nor the Security Trustee shall be required to investigate and without liability to any person) subject to receipt by the Bond Trustee and the Security Trustee of a certificate in writing of the Issuer or the LLP (upon which the Bond Trustee and the Security Trustee may rely absolutely without further enquiry or liability to any person) certifying to the Bond Trustee and the Security Trustee that

the requested waivers or modifications are to solely required in order to accommodate such Rating Cure Event;

- (3) notwithstanding Condition 15(ii)(B)(2), in making any modifications to a Swap Agreement requested by the relevant Swap Provider to reflect updated or new rating criteria of a Rating Agency and any modifications to the Transaction Documents that are requested by the Issuer or the LLP which are consequential to such modifications to such Swap Agreement, irrespective of whether or not such modifications might otherwise constitute a Series Reserved Matter or might otherwise be materially prejudicial to the interests of the Covered Bondholders (which neither the Bond Trustee nor the Security Trustee shall be required to investigate and without liability to any person) subject to receipt by the Bond Trustee and the Security Trustee of a certificate of the Swap Provider certifying that such modifications to the Swap Agreement are being made solely for the purpose of addressing the new rating criteria and (if applicable) a certificate of the Issuer or as applicable the LLP certifying to the Bond Trustee and the Security Trustee that the requested amendments are to be made solely as a consequence of amendments to the Swap Agreement (upon which certificates the Bond Trustee and the Security Trustee may rely absolutely without further enquiry or liability to any person); and further provided that any such modifications shall not cause the then current ratings of the Covered Bonds to be adversely affected or withdrawn as a consequence; and
 - (4) in making any modifications to the Transaction Documents and/or these Conditions that are requested by the Issuer and/or the LLP in order to remove references to a Rating Agency and their criteria to the extent such Rating Agency no longer maintains ratings of any outstanding Covered Bonds, irrespective of whether or not such modifications might otherwise constitute a Series Reserved Matter or might otherwise be materially prejudicial to the interests of the Covered Bondholders (which neither the Bond Trustee nor the Security Trustee shall be required to investigate and without liability to any person) subject to receipt by the Bond Trustee and the Security Trustee of a certificate of the Issuer (upon which the Bond Trustee and the Security Trustee may rely absolutely without further enquiry or liability to any person) certifying to the Bond Trustee and the Security Trustee that the requested amendments are to be made solely for the purpose of removing such Rating Agency and its criteria.
- (iii) *Base Rate Modifications:* The Bond Trustee, the Security Trustee (acting on the directions of the Bond Trustee, so long as there are any Covered Bonds outstanding, or all of the other Secured Creditors if there are no Covered Bonds outstanding) and the LLP shall (without the consent of the Covered Bondholders of any Series and/or the related Couponholders and without the consent of the other Secured Creditors) be obliged to concur with the Issuer in making any modification (other than in respect of a Series Reserved Matter, provided that a Base Rate Modification (as defined below) will not constitute a Series Reserved Matter) to these Conditions and/or any Transaction Document (including, for the avoidance of doubt but without limitation, any Covered Bond Swap, Interest Rate Swap and Standby Interest Rate Swap in relation to the relevant Series of Covered Bonds and subject to the consent only of the Secured Creditors (i) party to the relevant Transaction Document being amended or (ii) whose ranking in any Priorities of Payment is affected) that the Issuer considers necessary for the purpose of (I) changing the base rate in respect of the Covered Bonds from EURIBOR, Compounded Daily SONIA or any other benchmark rate

(each, a “**Reference Rate**”) to an alternative base rate (any such rate, an “**Alternative Base Rate**”) and/or (II) amending the provisions of any Transaction Document (including, for the avoidance of doubt but without limitation, any Covered Bond Swap in relation to the relevant Series of Covered Bonds) to refer to or otherwise accommodate an alternative benchmark in order to preserve the effect of the relevant hedging or other arrangements under such Transaction Document in respect of the relevant Series of Covered Bonds, and in each case make such other amendments as are necessary or advisable in the reasonable judgement of the Issuer to facilitate such change (a “**Base Rate Modification**”), provided that:

- (A) the Issuer certifies to the Bond Trustee and the Security Trustee in writing (such certificate, a “**Base Rate Modification Certificate**”) that such Base Rate Modification is being undertaken due to:
- (1) where the applicable Reference Rate is Compounded Daily SONIA, an alternative manner of calculating a SONIA-based base rate is introduced and becomes a standard means of calculating interest for similar transactions; or
 - (2) a material disruption to the relevant Reference Rate, a material change in the methodology of calculating the relevant Reference Rate or the relevant Reference Rate ceasing to exist or be published;
 - (3) the insolvency or cessation of business of the administrator of the relevant Reference Rate (in circumstances where no successor administrator has been appointed); or
 - (4) a public statement by the administrator of the relevant Reference Rate that it will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator for the Reference Rate has been appointed that will continue publication of the relevant Reference Rate) with effect from a date no later than six months after the proposed effective date of such Base Rate Modification; or
 - (5) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued (or there will be a material change in the methodology of calculating the relevant Reference Rate) with effect from a date no later than six months after the proposed effective date of such Base Rate Modification; or
 - (6) a public statement by the supervisor of the administrator of the relevant Reference Rate that means such Reference Rate will be prohibited from being used or that its use is subject to restrictions or adverse consequences with effect from a date no later than six months after the proposed effective date of such Base Rate Modification; or
 - (7) it becomes unlawful for any Agent, the Issuer or the Administrator to calculate any payments due to be made to any Covered Bondholder using the relevant Reference Rate; or
 - (8) the reasonable expectation of the Issuer or Administrator that any of the events specified in sub-paragraphs (1), (2), (3) or (7) above will occur or exist within six months of the proposed effective date of such Base Rate Modification; or

- (9) a change in the generally accepted market practice in the publicly listed covered bond market to refer to a base rate endorsed in a public statement by the Bank of England, the Financial Conduct Authority, the Prudential Regulation Authority, the supervisor of the administrator of the relevant Reference Rate or any relevant committee or other body established, sponsored or approved by any of the foregoing, including the Working Group on Sterling Risk-Free Rates and the Working Group on Euro Risk-Free Rates, despite the continued existence of the relevant Reference Rate;
- and, in each case, has been drafted solely to such effect;
- (B) any such Alternative Base Rate is:
 - (1) a base rate published, endorsed, approved or recognised by the administrator of the relevant Reference Rate, the supervisor of the administrator of the relevant Reference Rate or other relevant authority or any stock exchange on which the Covered Bonds are listed (or any relevant committee or other body established, sponsored or approved by any of the foregoing); or
 - (2) Compounded Daily SONIA where an alternative manner of calculating a SONIA-based base rate is introduced and becomes a standard means of calculating interest for similar transactions; or
 - (3) in relation to EURIBOR, the euro short term rate (€STR) (or any rate which is derived from, based upon or otherwise similar to the foregoing); or
 - (4) the Broad Treasuries Repo Financing Rate (or any rate which is derived from, based upon or otherwise similar to the foregoing); or
 - (5) a base rate utilised in a material number of publicly listed new issues of floating rate covered bonds or floating rate senior unsecured notes prior to the effective date of such Base Rate Modification; or
 - (6) a base rate utilised in a publicly-listed new issue of floating rate covered bonds where the issuer is the Issuer; or
 - (7) such other base rate as the Issuer or the Administrator reasonably determines;
 - (C) at least 30 days' prior written notice of any Base Rate Modification has been given to the Bond Trustee and the Security Trustee;
 - (D) a Base Rate Modification Certificate is provided to the Bond Trustee and the Security Trustee both at the time each of the Bond Trustee and the Security Trustee is notified of the Base Rate Modification and on the effective date of such Base Rate Modification;
 - (E) with respect to each Rating Agency, either:
 - (1) the Issuer obtains from such Rating Agency written confirmation that such Base Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the relevant Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent) and delivers a copy of each such confirmation to the Bond Trustee and the Security Trustee; or

- (2) the Issuer provides a certificate (upon which certificate the Bond Trustee and the Security Trustee shall be entitled to rely absolutely and without enquiry or liability) signed by a director of the Issuer certifying to the Bond Trustee and the Security Trustee that it has notified such Rating Agency of the Base Rate Modification and, in its opinion, formed on the basis of (i) due consideration of any oral or other confirmation from an appropriately authorised person at such Rating Agency or (ii) the lack of contrary indication from that Rating Agency, such Base Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent),

each a “**Ratings Confirmation**”;

- (F) the Issuer pays (or arranges for the payment of) all documented fees, costs and expenses (including legal fees) properly incurred by the Bond Trustee, the Security Trustee and the Agents in connection with such Base Rate Modification; and
- (G) the Issuer has provided at least 30 days’ notice to the Covered Bondholders of the relevant Series of Covered Bonds of the Base Rate Modification in accordance with Condition 14 (*Notices*) and by publication on Bloomberg on the “Company News” screen relating to the Covered Bonds (in each case specifying the date and time by which Covered Bondholders must respond), and by the relevant deadline so specified, the Bond Trustee, the Issuer and the Principal Paying Agent (collectively) have not received any objections from Covered Bondholders, or have received such objections but the aggregate holding of the objecting Covered Bondholders is less than 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding (any such objections must (i) be given by Covered Bondholders by way of notice in writing or otherwise in accordance with the then current practice of any applicable Clearing System through which such Covered Bonds may be held, and (ii) expressly state that the relevant Covered Bondholder does not consent to the Base Rate Modification).

If Covered Bondholders holding at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have notified the Bond Trustee, the Issuer and the Principal Paying Agent (collectively) in writing (or otherwise in accordance with the then current practice of any applicable Clearing System through which the Covered Bonds may be held) by the time specified in such notice that such Covered Bondholders do not consent to the Base Rate Modification, then the Base Rate Modification will not be made unless an Extraordinary Resolution of the Covered Bondholders of the relevant Series then outstanding is passed in favour of the Base Rate Modification in accordance with Condition 15 (*Meetings of Covered Bondholders, Modification and Waiver*).

If Covered Bondholders holding at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have not notified the Bond Trustee, the Issuer and the Principal Paying Agent (collectively) in writing (or otherwise in accordance with the then current practice of any applicable Clearing System through which the Covered Bonds may be held) by the time specified in such notice that such Covered Bondholders do not consent to the Base Rate Modification, then the Base Rate Modification will be made.

When implementing any modification pursuant to this Condition 15(b)(iii) and Condition 15(b)(ii):

- (I) each of the Bond Trustee and the Security Trustee shall not consider the interests of the Covered Bondholders, any other Secured Creditor of any Series or any other person and shall act and rely solely and without investigation or liability on any Base Rate Modification Certificate or other certificate or evidence provided to it by the Issuer and shall not be liable to the Covered Bondholders, any other Secured Creditor of any Series or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and
 - (II) neither the Bond Trustee, the Security Trustee nor any Agent shall be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and/or the Security Trustee and/or such Agent would have the effect of (i) exposing the Bond Trustee and/or the Security Trustee and/or such Agent to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights, powers, authorisations, discretions, indemnification or protections, of the Bond Trustee and/or the Security Trustee and/or such Agent in the Transaction Documents and/or these Conditions.
- (iv) *Trustee protections:* The Bond Trustee and the Security Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and the Security Trustee, as applicable, would have the effect of (a) exposing the Bond Trustee and the Security Trustee, as applicable, to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (b) increasing the obligations or duties, or decreasing the protections, of the Bond Trustee and the Security Trustee, as applicable, in the Transaction Documents and/or these Conditions.
- (v) *Waiver or authorisation of breach:* The Bond Trustee may also agree, without the consent of the Covered Bondholders of any Series or the related Couponholders, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds of any Series, the Trust Deed or any other Transaction Documents, or determine, without any such consent as aforesaid, that any Issuer Event of Default or LLP Event of Default or Potential Issuer Event of Default or Potential LLP Event of Default shall not be treated as such, provided that, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the Covered Bondholders of any Series. The Security Trustee (acting on the directions of the Bond Trustee, so long as there are any Covered Bonds outstanding, or all of the other Secured Creditors if there are no Covered Bonds outstanding) may also agree, without the consent of the Covered Bondholders of any Series, the related Couponholders or any other Secured Creditor, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Transaction Documents, provided that, in any such case, it is not, in the opinion of the Security Trustee, (acting on the directions of the Bond Trustee, so long as there are any Covered Bonds outstanding, or all of the other Secured Creditors if there are no Covered Bonds outstanding) materially prejudicial to the interests of any of the Covered Bondholders of any Series.
- (vi) *No breach of RCB Regulations:* In respect of any proposed modification, waiver, authorisation or determination, prior to the Bond Trustee agreeing to any such modification, waiver, authorisation or determination pursuant to this Condition 15, the Issuer must provide a certificate signed by a director of the Issuer certifying to the Bond Trustee that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations or result in

the Issuer and/or the Programme ceasing to be registered under the RCB Regulations and that either:

- (A) such modification, waiver, authorisation or determination will not require the FCA to be notified in accordance with Regulation 20 of the RCB Regulations; or
 - (B) if such modification, waiver, authorisation or determination will require the FCA to be notified in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FCA and the FCA has given its approval to such proposed modification, waiver, authorisation or determination.
- (vii) *Binding on Covered Bondholders:* Any such modification, waiver, authorisation or determination shall be binding on all the Covered Bondholders of all Series of Covered Bonds for the time being outstanding, the related Couponholders and the other Secured Creditors, and unless the Security Trustee (acting on the directions of the Bond Trustee, so long as there are any Covered Bonds outstanding, or all of the other Secured Creditors if there are no Covered Bonds outstanding) and the Bond Trustee otherwise agree, any such modification shall be notified by the Issuer to the Covered Bondholders of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with the relevant terms and conditions as soon as practicable thereafter.
- (viii) *Regard to general interests of Covered Bondholders of each Series as a class:* In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Bond Trustee and the Security Trustee shall have regard to the general interests of the Covered Bondholders (or any Series thereof) as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered Bondholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Covered Bondholders, the related Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee and the Security Trustee shall not be entitled to require, nor shall any Covered Bondholder or Couponholder be entitled to claim, from the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholder and/or Couponholders, except to the extent already provided for in Condition 8 (*Taxation*) and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

(c) ***Substitution of the Issuer***

- (i) Subject to paragraph (c)(ii) below, if so requested by the Issuer, the Bond Trustee and the Security Trustee (acting on the directions of the Bond Trustee, so long as there are any Covered Bonds outstanding, or all of the other Secured Creditors if there are no Covered Bonds outstanding) shall, without the consent of the Covered Bondholders or Couponholders or any other Secured Creditor, agree with the Issuer and the LLP to the substitution in place of the Issuer (or of the previous substitute under this Condition 15(c)) as the principal debtor under the trust presents, the Covered Bonds, the Coupons and all other Transaction Documents of any subsidiary of the Issuer or any holding company of the Issuer or any other subsidiary of any such holding company, in each case incorporated or to be incorporated in any country in the world (such substituted issuer being hereinafter called the “**New Company**”), provided that, in each case a trust deed is

executed and other forms of undertaking are given by the New Company in the form and manner satisfactory to the Bond Trustee, agreeing to be bound by the provisions of the trust presents, the Covered Bonds, the Coupons and the other Transaction Documents to which the Issuer is a party and with any consequential amendments which the Bond Trustee may deem appropriate as fully as if the New Company had been named in the trust presents, the Covered Bonds, the Coupons and the other Transaction Documents as the principal debtor in place of the Issuer (or of the previous substitute under this Condition 15(c)).

- (ii) The following further conditions shall apply to paragraph (i) above:
 - (A) the Issuer and the LLP shall deliver to the Bond Trustee and the Security Trustee a certificate of two directors of the Issuer and a certificate of a Designated Member of the LLP stating that immediately after giving effect to such transaction no Issuer Event of Default (in respect of the Issuer) or LLP Event of Default, respectively and no Potential Issuer Event of Default (in respect of the Issuer) or Potential LLP Event of Default, respectively, shall have occurred and be continuing;
 - (B) where the New Company is incorporated, domiciled or resident in, or subject generally to the taxing jurisdiction of, a territory other than or in addition to the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax, undertakings or covenants shall be given by the New Company in terms corresponding to the provisions of Condition 8 (*Taxation*) with the substitution for (or, as the case may be, the addition to) the references to the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax of references to that other or additional territory in which the New Company is incorporated, domiciled or resident or to whose taxing jurisdiction it is subject and, where such undertaking or covenant is provided, references in Condition 7(b) (*Redemption for taxation reasons*) to the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax shall be deemed to be amended accordingly;
 - (C) a Ratings Confirmation (in accordance with limb (i) of the definition thereof) is provided by each Rating Agency;
 - (D) the Covered Bond Guarantee remaining in place *mutatis mutandis* in relation to the obligations of the New Company;
 - (E) the Issuer and the LLP shall deliver to the Bond Trustee and the Security Trustee legal opinions from lawyers approved by the Bond Trustee in (a) England (and/or if different (in the case of the Issuer), the jurisdiction in which the Issuer is incorporated) and (b) the jurisdiction of incorporation of the New Company, in each case in form and substance satisfactory to the Bond Trustee and the Security Trustee;
 - (F) any New Company, including any Successor in Business or the subsidiary of the Issuer or of such Successor in Business or the holding company of the Issuer or such Successor in Business or any other subsidiary of any such holding company or such Successor in Business, is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations and that all other provisions of the RCB Regulations and the RCB Sourcebook (including Regulation 20 of the RCB Regulations) are satisfied prior to the substitution of the Issuer pursuant to this Condition 15(c); and
 - (G) the directors of the New Company shall certify that the New Company is solvent at the time at which the said substitution is proposed to be effected (which certificate the Bond

Trustee and the Security Trustee may rely upon absolutely) and the Bond Trustee and the Security Trustee shall not have regard to the financial condition, profits or prospects of the New Company or compare the same with those of the Issuer or of any previous substitute under this sub-clause.

- (iii) Any such trust deed executed and/or undertakings given in this Condition 15(c) shall, if so expressed, operate to release the Issuer or the previous substitute as aforesaid from all of its obligations as principal debtor under the trust presents, the Covered Bonds, the Coupons and the other Transaction Documents to which it is a party. Not later than 14 days after the execution of such documents and compliance with such requirements, the New Company shall give notice thereof in a form previously approved by the Bond Trustee to the Covered Bondholders in the manner provided in Condition 14 (*Notices*). Upon the execution of such documents and compliance with such requirements, the New Company shall be deemed to be named in the trust presents, the Covered Bonds, the Coupons and the other Transaction Documents in place of the Issuer (or in each case in place of the previous substitute under this Condition 15(c)) under the trust presents, the Covered Bonds, the Coupons and the other Transaction Documents and the trust presents, the Covered Bonds, the Coupons and the other Transaction Documents shall be deemed to be modified in such manner as shall be necessary to give effect to the above provisions and, without limitation, references in the trust presents, the Covered Bonds, the Coupons and the other Transaction Documents to the Issuer shall, unless the context otherwise requires, be deemed to be or include references to the New Company.

(d) ***Consolidation, Merger, Amalgamation or Transfer of the Issuer***

- (i) Subject to paragraph (ii) below, the Issuer may (without the consent of the Covered Bondholders or Couponholders of any Series or any other Secured Creditor (including the Bond Trustee and the Security Trustee) where the new entity is a corporation organised under the laws of the United Kingdom or any political subdivision thereof) consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation (where the surviving entity or transferee company is not the Issuer, such surviving entity or transferee company shall be referred to as the “**New Entity**”).
- (ii) The following further conditions shall apply to paragraph (i) above:
 - (A) the Issuer and the LLP shall each deliver to the Bond Trustee and the Security Trustee a certificate signed by a director of the Issuer and, in the case of the LLP, a Designated Member of the LLP stating that immediately after giving effect to such transaction no Issuer Event of Default or Potential Issuer Event of Default (in respect of the Issuer) and no LLP Event of Default or Potential LLP Event of Default (in respect of the LLP), shall have occurred and be continuing;
 - (B) where the surviving entity or transferee company is not the Issuer, the Issuer shall procure that the New Entity shall execute a trust deed and give other forms of undertaking in form and manner satisfactory to the Bond Trustee, agreeing to be bound by the provisions of the trust presents and the other Transaction Documents to which the Issuer is a party with any consequential amendments which the Bond Trustee may deem appropriate as if the New Entity had been named in the trust presents and such other Transaction Documents as the principal debtor in place of the Issuer (or in each case of the previous substitute under this Condition 15(d));
 - (C) a Ratings Confirmation (in accordance with limb (i) of the definition thereof) is provided by each Rating Agency;

- (D) where the surviving entity or transferee company is not the Issuer, where the New Entity is domiciled or resident in, or subject generally to the taxing jurisdiction of, a territory other than or in addition to the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax, undertakings or covenants shall be given by the New Entity in terms corresponding to the provisions of Condition 8 (*Taxation*) with the substitution for (or, as the case may be, the addition to) the references to the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax of references to that other or additional territory in which the New Entity is incorporated, domiciled or resident or to whose taxing jurisdiction it is subject and, where such undertaking or covenant is provided, references in Condition 7(b) (*Redemption for taxation reasons*) to the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax shall be deemed to be amended accordingly;
 - (E) the Covered Bond Guarantee remaining in place *mutatis mutandis* in relation to the obligations of the New Entity;
 - (F) the Issuer and the LLP shall deliver to the Bond Trustee and the Security Trustee legal opinions obtained from lawyers approved by the Bond Trustee in (a) England (and/or if different (in the case of the Issuer), the jurisdiction in which the Issuer is incorporated) and (b) the jurisdiction of incorporation of the New Entity, in each case in form and substance satisfactory to the Bond Trustee;
 - (G) any New Entity is included in the register of regulated covered bonds pursuant to the RCB Regulations and that all other provisions of the RCB Regulations and the RCB Sourcebook (including Regulation 20 of the RCB Regulations) are satisfied prior to the consolidation, merger, amalgamation or transfer of the Issuer pursuant to this Condition 15(d); and
 - (H) the Directors of the New Entity shall certify that the New Entity is solvent at the time at which the said consolidation, merger, amalgamation or transfer is proposed to be effected (which certificate the Bond Trustee or the Security Trustee may rely upon absolutely) and the Bond Trustee or the Security Trustee shall not have regard to the financial condition, profits or prospects of the New Entity or compare the same with those of the Issuer or of any previous substitute under this subclause.
- (iii) Any such trust deed executed and/or undertakings given in this Condition 15(d) shall, if so expressed, operate to release the Issuer (as the case may be) or the previous substitute as aforesaid from all of its obligations under the trust presents, the Covered Bonds, the Coupons and the other Transaction Documents. Not later than 14 days after such consolidation, merger, amalgamation and/or transfer, the New Entity shall give notice thereof in a form previously approved by the Bond Trustee to the Covered Bondholders in the manner provided in Condition 14 (*Notices*). Upon the execution of such documents and compliance with such requirements, the New Entity shall be deemed to be named in the trust presents, the Covered Bonds, the Coupons and the other Transaction Documents to which the Issuer is a party as the principal debtor in place of the Issuer (where the New Entity is the successor entity or transferee company of the Issuer) (or in each case in place of the previous substitute under this Condition 15(d)) under the trust presents, the Covered Bonds, the Coupons and the other Transaction Documents and the trust presents, the Covered Bonds, the Coupons and the other relevant Transaction Documents shall be deemed to be modified in such manner as shall be necessary to give effect to the above provisions and, without limitation, references in the trust presents, the Covered Bonds, the Coupons and the other

relevant Transaction Documents to the Issuer shall, unless the context otherwise requires, be deemed to be or include references to the New Entity.

(e) **Definitions**

For the purposes of this Condition 15:

“Potential Issuer Event of Default” means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default;

“Potential LLP Event of Default” means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an LLP Event of Default;

“Successor in Business” means:

- (a) a company or other entity to which the Issuer validly and effectually, in accordance with all enactments, orders and regulations in force for the time being and from time to time, as part of a transfer of the whole or substantially the whole of its business, undertaking or assets, transfers the whole or substantially the whole of its business, undertaking or assets for the purpose of such other company or entity assuming and conducting the business of the Issuer in its place and which company or other entity undertakes to fulfil the obligations of the Issuer under these presents; or
- (b) any other entity which in acquiring in any other manner all or a substantial part of the undertaking, property and/or assets of the Issuer or in carrying on as a successor to the Issuer the whole or a substantial part of the business carried on by the Issuer prior thereto undertakes to fulfil the obligations of the Issuer under these presents,

where, in each of the cases in paragraphs (a) and (b) above, the terms of the proposed transaction have been previously approved by the Bond Trustee or by an Extraordinary Resolution of the Covered Bondholders; and

“Series Reserved Matter” in relation to Covered Bonds of a Series means:

- (a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds (except in accordance with Condition 15(b)(iii) (*Modifications and waivers*));
- (b) alteration of the currency in which payments under the Covered Bonds and Coupons are to be made;
- (c) alteration of the majority required to pass an Extraordinary Resolution;
- (d) any amendment to the Covered Bond Guarantee or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests the Covered Bondholders of any Series);
- (e) except in accordance with Condition 15 (*Meetings of Covered Bondholders, Modification and Waiver*), the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds

in consideration of, shares, stock, Covered Bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, Covered Bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the Covered Bondholders to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and

- (f) alteration of the proviso to paragraph 5 or paragraph 6 of Schedule 4 to the Trust Deed.

16 Indemnification of the Bond Trustee and/or Security Trustee and Bond Trustee and/or Security Trustee Contracting with the Issuer and/or the LLP

If, in connection with the exercise of its powers, trusts, authorities or discretions the Bond Trustee or the Security Trustee is of the opinion that the interests of the Covered Bondholders of any one or more Series would be materially prejudiced thereby, the Bond Trustee or the Security Trustee shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at least 25 per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

The Trust Deed and the Deed of Charge contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured and/or pre-funded to their satisfaction.

The Trust Deed and the Deed of Charge also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*: (i) to enter into business transactions with the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates; (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered Bondholders or Couponholders or the other Secured Creditors; and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Mortgage Loans or Related 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 Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for: (i) supervising the performance by the Issuer or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have written notice to the contrary, that all such persons are properly performing their duties; (ii) considering the basis on which approvals or consents are granted by the Issuer or any other party to the Transaction Documents under the Transaction Documents; (iii) monitoring the Mortgage Portfolio, including, without limitation, whether the Mortgage Portfolio is in compliance with the Asset Coverage Test or the Amortisation Test; or (iv) monitoring whether Mortgage Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no

responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

17 Further Issues

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholder or the Couponholders to create and issue further bonds having terms and conditions the same as the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

18 Limited Recourse

The Covered Bondholders agree with the LLP and the Security Trustee that, notwithstanding any other provision of any Transaction Document, all obligations of the LLP to the Covered Bondholders in respect of the secured obligations of the LLP owing to the Covered Bondholders are limited in recourse to the Charged Property and, upon the Security Trustee giving written notice to the Covered Bondholders that:

- (a) it has determined in its sole opinion that there is no reasonable likelihood of there being any further realisations in respect of the Charged Property (whether arising from enforcement of the Security or otherwise) which would be available to pay amounts outstanding under the Transaction Documents; and
- (b) all amounts available to be applied to pay amounts owing under the Transaction Documents have been so applied in accordance with the Transaction Documents,

the Covered Bondholders shall have no further claim against the LLP in respect of any amounts owing to them which remain unpaid and such unpaid amounts shall be deemed to be discharged in full.

19 Non-Responsive Rating Agency

- (a) In respect of each Rating Agency, if a Ratings Confirmation is a condition to any action, step or matter under any Transaction Document and a written request for such Ratings Confirmation is delivered to that Rating Agency by or on behalf of the Issuer (copied to the Bond Trustee and the Security Trustee, as applicable) and:
 - (i) (A) that Rating Agency indicates that it does not consider a Ratings Confirmation necessary in the circumstances or otherwise declines to review the matter for which the Ratings Confirmation is sought (including as a result of the policy or practice of that Rating Agency) or (B) within 30 days of delivery of such request, that Rating Agency has not responded to the request for the Ratings Confirmation; and
 - (ii) the Issuer has otherwise received no indication from that Rating Agency that its then current ratings of the Covered Bonds would be reduced, qualified, withdrawn or put on negative watch as a result of such action, step or matter,

then (1) there shall be no requirement for the Ratings Confirmation from the Rating Agency if the Issuer provides to the Bond Trustee and the Security Trustee a certificate signed by a director of the Issuer (which certificate the Bond Trustee and the Security Trustee may rely upon absolutely) certifying and confirming that each of the events in paragraph (i)(A) or (B) and (ii) above has occurred; and (2) none of the Issuer, the LLP, the Security Trustee nor the Bond Trustee shall be liable for any loss that Covered Bondholders may suffer as a result.

20 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21 Governing Law and Jurisdiction

- (a) *Governing Law*: The Trust Deed, the Agency Agreement, the Corporate Services Agreement, the Covered Bonds, the Coupons and the other Transaction Documents and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary.
- (b) *Jurisdiction*: The parties to the Trust Deed have (i) irrevocably submitted to the exclusive jurisdiction of the English courts in any action or proceeding arising out of or in connection with the Trust Deed (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed), have agreed that all claims in respect of such action or proceeding may be heard and determined by such courts and (ii) waived, to the fullest extent it may possibly do so, any defence or claim that the English courts are an inconvenient forum for the maintenance or hearing of such action or proceeding.

This Condition 21(b) (*Jurisdiction*) is for the benefit of the Bond Trustee, the Security Trustee and the Covered Bondholders only. As a result, and notwithstanding Condition 21(b) (*Jurisdiction*) above, this Condition does not prevent the Bond Trustee and/or the Security Trustee and/or the Covered Bondholders taking proceedings relating to any dispute in any other courts with jurisdiction. Further, to the extent allowed by law, the Bond Trustee and/or the Security Trustee and/or the Covered Bondholders may take concurrent proceedings in any number of jurisdictions.

FORM OF FINAL TERMS

UK MiFIR PRODUCT GOVERNANCE/ PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET - solely for the purposes of [the/each] manufacturer's product approval process the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (the "**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA ("**UK MiFIR**"); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

[MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET - solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (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 Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Covered Bonds 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 MiFID II; or (ii) a customer within the meaning of Regulation (EU) 2016/97 as amended (the "**EU Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**EU PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making the Covered Bonds available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.]

[PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Covered Bonds 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 United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Covered Bonds

or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[SINGAPORE SECURITIES AND FUTURES ACT PRODUCT CLASSIFICATION: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Covered Bonds are [prescribed capital markets products] / [capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).]¹

[Date]

PARAGON BANK PLC

Legal entity identifier (LEI): 213800ZD686TR7FEP983

Issue of Regulated [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds] irrevocably and unconditionally guaranteed as to payment of principal and interest by Paragon Covered Bonds LLP under the £5 billion Covered Bond Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated [date] [and the supplemental Prospectus dated [date]] which constitutes a base prospectus for the purposes of the Regulation (EU) 2017/1129 as amended and as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “EUWA”) (the “UK Prospectus Regulation”). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of the UK Prospectus Regulation and must be read in conjunction with such Prospectus [and supplemental Prospectus] in order to obtain all the relevant information. Copies of the Prospectus [and the supplemental Prospectus] [is] [are] available free of charge to the public at the registered office of the Issuer and from the specified office of each of the Paying Agents and have been published on the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the “Conditions”) set forth in the prospectus dated [●] (which have been incorporated by reference into the prospectus dated [●]) [and the supplemental prospectus[es] dated [●] and [●]], which [together] constitute[s] a base prospectus (the “Prospectus”) for the purposes of the Regulation (EU) 2017/1129 as amended and as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the EUWA) (the “UK Prospectus Regulation”). This document constitutes the final terms of the Covered Bonds described herein for the purposes of the UK Prospectus Regulation and must be read in conjunction with the Prospectus in order to obtain all the relevant information. Copies of such Prospectus(es) is/are available free of charge to the public at the registered office of the Issuer and from the specified office of each of the Paying

¹ For any Covered Bonds to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Covered Bonds pursuant to Section 309B of the SFA prior to the launch of the offer.

Agents and have been published on the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.]

[The LLP is not now, and immediately following the issuance of the Covered Bonds pursuant to the Trust Deed 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, and under the Volcker Rule and its related regulations may be available, the LLP has relied on the exemption from registration set forth in Section 3(c)(5)(C) of the Investment Company Act of 1940, as amended. See “*Certain United States Regulatory Considerations*” in the Prospectus dated [●].]

- | | | |
|----|---|---|
| 1 | (i) Issuer: | Paragon Bank PLC |
| | (ii) Guarantor: | Paragon Covered Bonds LLP |
| 2 | (i) Series Number: | [●] |
| | (ii) Tranche Number: | [●] |
| | (iii) Series which Covered Bonds will be consolidated and form a single Series with: | [●]/[Not Applicable] |
| | (iv) Date on which the Covered Bonds will be consolidated and form a single Series with the Series specified above: | [●]/[Issue Date]/[Not Applicable] |
| 3 | Specified Currency or Currencies: | [●] |
| 4 | [Nominal Amount of Covered Bonds to be issued:] | [●] |
| 5 | Aggregate Nominal Amount of the Covered Bonds Admitted to trading: | |
| | (i) [Series: | [●]] |
| | (ii) [Tranche: | [●]] |
| 6 | Issue Price: | [●] per cent. of the Aggregate Nominal Amount
[plus accrued interest from [●]] |
| 7 | (i) Specified Denominations: | [●]/ [€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Covered Bonds in definitive form will be issued with a denomination above [€199,000].] |
| | (ii) Calculation Amount: | [●] |
| 8 | (i) Issue Date: | [●] |
| | (ii) Interest Commencement Date: | [●]/[Issue Date]/[Not Applicable] |
| 9 | (i) Final Maturity Date | [●]/[Interest Payment Date falling in or nearest to [●]] |
| | (ii) Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: | [●]/[Interest Payment Date falling in or nearest to [●]] |
| 10 | Interest Basis: | [[●] per cent. Fixed Rate] |

- [EURIBOR/Compounded Daily SONIA] [+/-
[●] per cent.]
[Floating Rate]
[Zero Coupon]
(see further paragraph[s] [●] [and [●]] below).
- 11 Redemption/Payment Basis: [●] per cent. of the nominal value
- 12 Change of Interest Basis or Redemption/Payment Basis: [●]/[in accordance with paragraphs [15] and [16] below]
- 13 Call Options: [Issuer Call]/[Not Applicable]
- 14 [Date of board of directors or delegated sub-committee approval for issuance of Covered Bonds and Covered Bond Guarantee obtained: [●] and [●]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 15 Fixed Rate Covered Bond Provisions: [Applicable/Not Applicable]
- (i) Fixed Rate(s) of Interest: [●] per cent. per annum payable in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [●] in each year up to and including the [Final Maturity Date] [Extended Due for Payment Date, if applicable]/ [(provided however that after the Extension Determination Date, the Interest Payment Date shall be [monthly])]
- (iii) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (iv) Business Day(s): [●]
Additional Business Centre(s): [Not Applicable]/[T2]
- (v) Fixed Coupon Amount(s): [●] per Calculation Amount
- (vi) Initial Broken Amount(s): [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/[Not Applicable]
- (vii) Final Broken Amount: [●]
- (viii) Day Count Fraction: [30/360]/[or Actual/Actual (ICMA)]/[●]
- (ix) Interest Determination Date(s): [●] in each year/[Not Applicable]
- 16 Floating Rate Covered Bond Provisions: [Applicable/Not Applicable]
- (i) Specified Period(s)/Specified Interest Payment Date(s): [●] (provided however that [prior to the Extension Determination Date,][the Specified Interest Payment Date shall be no more frequent than quarterly][, and provided further that] [after the Extension Determination Date, the Interest Payment Date shall be [monthly][quarterly]])
The first Interest Payment Date shall be [●].

(ii) Business Day Convention:	[Floating Rate Convention]/[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]
(iii) Additional Business Centre(s):	[Not Applicable]/[T2]
(iv) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent Bank):	[●]
(v) Screen Rate Determination:	<ul style="list-style-type: none"> <li data-bbox="359 566 1388 719">• Reference Rate, Specified Time and Relevant Financial Centre: Reference Rate: [Compounded Daily SONIA] / [●] month [EURIBOR] Specified Time: [11.00a.m./[●]] Relevant Financial Centre: [London/Brussels] <li data-bbox="359 734 895 775">• Interest Determination Date(s): [●] <li data-bbox="359 786 1086 826">• Relevant Screen Page: [●]/[Not Applicable]
(vi) Margin(s)	[+/-] [●] per cent. per annum.
(vii) Minimum Rate of Interest:	[[●] per cent. per annum]/[Not Applicable]
(viii) Maximum Rate of Interest:	[[●] per cent. per annum]/[Not Applicable]
(ix) Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 360/360 Bond Basis 30E/360 Eurobond Basis 30E/360 (ISDA)] [●]
17 Zero Coupon Covered Bond Provisions:	[Applicable]/[Not Applicable]
(i) Accrual Yield:	[●] per cent. per annum
(ii) Reference Price:	[●]
(iii) Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]
(iv) Business Day(s):	[●]
(v) Additional Business Centre(s):	[Not Applicable]/[T2]
(vi) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Condition [●] applies]

PROVISIONS RELATING TO REDEMPTION BY THE ISSUER

- | | | |
|----|---|--|
| 18 | Issuer Call: | [Applicable/Not Applicable] |
| | (i) Optional Redemption Date(s): | [●] |
| | (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): | [[●] per Calculation Amount] |
| | (iii) If redeemable in part: | |
| | (a) Minimum Redemption Amount: | [●] |
| | (b) Higher Redemption Amount: | [●] |
| | (iv) Notice period: | [[As per Condition 7(c)],[No less than [●] days and more than [●] days]/[●]] |
| 19 | Final Redemption Amount: | [Nominal Amount/[●] per Calculation Amount] |
| 20 | Early Redemption Amount payable on redemption for taxation reasons, on acceleration following an Issuer Event of Default or an LLP Event of Default | [[●] per Calculation Amount] |

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

- | | | |
|----|--|--|
| 21 | New Global Covered Bond: | [Yes][No] |
| 22 | Form of Covered Bonds: | <p>[Bearer Covered Bonds:</p> <p>[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event]</p> <p>[Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds only after an Exchange Event]</p> <p>[Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event]]</p> <p>[Registered Covered Bonds:</p> <p>[Registered Global Covered Bond registered in the name of a nominee for [a common depositary]/[common safekeeper] for Euroclear and Clearstream, Luxembourg]]</p> |
| 23 | Additional Financial Centre(s) or other special provisions relating to Payment Dates: | [T2]/[Not Applicable] |
| 24 | Talons for future Coupons to be attached to Bearer Definitive Covered Bonds (and dates on which such Talons mature): | [Yes, as the Covered Bonds have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupons payments are still to be made]/[No] |

PART B – OTHER INFORMATION

1 LISTING AND ADMISSION TO TRADING

- (i) Admission to Trading: [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the main market of the London Stock Exchange and to the Official List of the FCA with effect from [●].]/[Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the main market of the London Stock Exchange and to the Official List of the FCA with effect from [●].]/[Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

The Covered Bonds to be issued [have [not] been/are expected to be] rated[:
[Fitch Ratings Limited (“Fitch”): [●] (endorsed by Fitch Ratings Ireland Limited)]
[“Moody’s Investor Service Ltd” (“Moody’s”): [●] (endorsed by Moody’s Deutschland GmbH)]
[[Other]: [●]]
[Each of] [Fitch] [and [Moody’s] is established in the UK and are registered in accordance with Regulation (EC) No. 1060/2009 as it forms part of UK domestic law by virtue of the EUWA (the “UK CRA Regulation”)].
There is no assurance that the Rating Agencies will rate the Covered Bonds up to their Final Maturity Date.
[Include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]
(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]

[Save for the fees [of [insert relevant fee disclosure]] payable to the Dealers, so far as the Issuer and the LLP are aware, no person involved in the offer of the Covered Bonds has an interest material to the offer. The Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and/or the LLP and/or its or their affiliates in the ordinary course of business.]

4 [Fixed Rate Covered Bonds only – YIELD

Indication of yield:

[●]

[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]]

5 OPERATIONAL INFORMATION

(i) ISIN:

[●] [Not Applicable]

(ii) Common Code:

[●]

(iii) FISN

[[●], as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable]

(iv) CFI Code

[[●], as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable]

(v) Any clearing system(s) other than Euroclear and/or Clearstream, Luxembourg and the relevant identification number(s):

[●]/[Not Applicable]

(vi) Delivery:

Delivery [against/free of] payment

(vii) Names and addresses of additional Paying Agent(s) (if any):

[●]

(viii) Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes. Note that the designation “yes” simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,] and does not necessarily mean that the Covered Bonds 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 ECB 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 Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common

safekeeper]. Note that this does not necessarily mean that the Covered Bonds 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 ECB being satisfied that Eurosystem eligibility criteria have been met.]

- (ix) Relevant Benchmark[s]: [[*Specify benchmark*] is provided by [*administrator legal name*]. As at the date hereof, [*administrator legal name*] [appears] / [does not appear] in the register of administrators and benchmarks established and maintained by the Financial Conduct Authority pursuant to Article 36 of the UK Benchmarks Regulation] / [As far as the Issuer is aware, as at the date hereof, [*specify benchmark*] does not fall within the scope of the UK Benchmarks Regulation] / [Not Applicable].

6 REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS

- (i) Reasons for the offer [See [*“Use of Proceeds”*] in the Prospectus/*Give details*]
- (ii) Estimated net proceeds: [●]

7 DISTRIBUTION

- (i) Method of Distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated:
- (a) Names of Dealers: [Not Applicable/[●]]
- (b) Stabilising Manager(s) (if any): [Not Applicable/[●]]
- (iii) If non-syndicated, name of Dealer: [Not Applicable/[●]]
- (iv) U.S. Selling Restrictions Reg. S Compliance Category 2; - [TEFRA C/TEFRA D/TEFRA not applicable]
- (v) Prohibition of Sales to EEA Retail Investors: [Applicable]/[Not Applicable]
(If the Covered Bonds clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Covered Bonds may constitute “packaged” products, “Applicable” should be specified.)
- (vi) Prohibition of Sales to UK Retail Investors: [Applicable]/[Not Applicable]
(If the Covered Bonds clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Covered Bonds

*may constitute “packaged” products,
“Applicable” should be specified.)*

(vii) Singapore Sales to Institutional Investors and [Applicable]/[Not Applicable]
Accredited Investors only:

Signed on behalf of the Issuer:

By:

Duly authorised

Signed on behalf of the LLP:

By:

Duly authorised

USE OF PROCEEDS

The gross proceeds from each issue of Covered Bonds will be used by the Issuer to make available Term Advances to the LLP pursuant to the terms of the Intercompany Loan Agreement, which in turn shall be used by the LLP (after swapping the proceeds of the Term Advances into Sterling, if necessary):

- (a) to purchase Mortgage Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
- (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit and/or Authorised Investments,

to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test (as described below), and thereafter may be applied by the LLP:

- (i) to purchase Mortgage Loans and Further Advances and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
- (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit and/or Authorised Investments; and/or
- (iii) subject to complying with the Asset Coverage Test, to make a Capital Distribution to the Seller (in its capacity as Member) by way of distribution of that Member's equity in the LLP in an amount equal to the Sterling Equivalent of the Term Advance or any part thereof, which shall be paid to the Member on the relevant Issue Date by telegraphic transfer or as otherwise directed by the Member; and/or
- (iv) if an existing Series or Tranche, or part of an existing Series or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
- (v) to make a deposit of all or part of the proceeds to the Transaction Account.

INFORMATION ON THE ISSUER

Paragon Bank PLC

Incorporation and status

The Issuer is a public limited company incorporated under the laws of England, registered number 5390593 and is a wholly owned direct subsidiary of Paragon Banking Group PLC. The registered office of the Issuer is 51 Homer Road, Solihull, West Midlands, B91 3QJ (telephone number: +44 (0)121 712 2323). The Issuer was incorporated on 12 March 2005 as Paragon Mortgages (No. 24) PLC and on 31 January 2014 changed its name to Paragon Bank PLC. It was authorised by the PRA to take retail deposits on 8 May 2014 and otherwise operates its business in accordance with its constitutive documents.

The Issuer is the predominant operating subsidiary of Paragon Banking Group PLC, and the historical operating and lending companies are all subsidiaries of the Issuer. The principal activities of the Issuer and its subsidiaries (together, the “**Group**”) are the taking of retail deposits and the provision of finance, the origination of buy-to-let mortgages, and commercial lending, including development finance and asset finance.

The Issuer is authorised by the PRA and regulated by the PRA and FCA in respect of, *inter alia*, deposit taking, consumer credit activities and regulated mortgages activities. The Issuer is registered under the Data Protection Act 1988 as a data controller.

As at the date of this Prospectus, the Issuer has a long-term issuer default rating of BBB+ by Fitch, and a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of Baa2 by Moody’s.

Paragon Banking Group PLC

Incorporation and status

Paragon Banking Group PLC (“**PBG**”) was incorporated in England (registered number 02336032) on 17 January 1989 as a public limited company under the Companies Act 1985. PBG’s name on incorporation was Giltfind Public Limited Company. On 28 February 1989, following a reorganisation of the group structure, it changed its name to National Home Loans Holdings PLC. On 3 March 1997, it changed its name to The Paragon Group of Companies PLC, and on 21 September 2017, following its reorganisation into a banking group, changed to its current name of Paragon Banking Group PLC. PBG’s registered office and head office is 51 Homer Road, Solihull, West Midlands B91 3QJ, United Kingdom.

PBG’s ordinary shares are listed on the official list of the FCA and traded on the main market of the London Stock Exchange. PBG is currently a FTSE 250 company, having first become a FTSE 250 company in 2002, and operates through its subsidiary businesses.

As at the date of this Prospectus, PBG has a long-term issuer default rating of BBB+ by Fitch, and a short-term issuer default rating of F2. This is classified by Fitch as an investment grade rating.

History and overview

PBG together with its subsidiaries (including the Issuer, and together, the “**Paragon Banking Group**”) is a specialist banking group, offering a range of savings products and provides finance for landlords, small businesses and property developers in the UK. The Paragon Banking Group continues to expand its presence in the buy-to-let mortgage market and commercial lending, including asset finance to SMEs and development finance.

The Paragon Banking Group began as a specialist residential mortgage lender in 1985. A pioneer in buy-to-let lending, in 1995 the Paragon Banking Group launched its first mortgage products for UK landlords in the

growing private rented sector, achieving a 10 per cent. share in the buy-to-let market by 2006. After successfully navigating the financial crisis in 2008, the Paragon Banking Group returned to new lending in 2010. In 2014, the establishment of Paragon Bank PLC enabled the Paragon Banking Group to diversify its funding sources and enter new lending markets. Paragon Bank PLC was authorised to take retail deposits by the PRA on 8 May 2014 and new lending by the Group is funded primarily through its personal savings operation. In 2017, the Paragon Banking Group transformed its business model to become a banking group.

Principal Activities

The Group has two operating divisions: Mortgage Lending and Commercial Lending. These divisions are supported by the Group through the provision of capital and central services, including loan servicing, marketing, information technology and legal support. This operating model combines sector specialism with centralised resources, enabling economies of scale and the development of centres of excellence.

Mortgage Lending

The Group's Mortgage Lending division principally provides buy-to-let mortgages secured on UK residential property to specialist landlords. The Paragon Banking Group has been active in this market for over a quarter of a century, through a wide range of economic environments. This gives the Group an unparalleled understanding of this sector of the mortgage market and the requirements of the specialist landlords which form its customer base.

The Group also offers a limited volume of loans to non-specialist landlords, although this activity has become increasingly non-core. The mortgage division also holds legacy assets from discontinued product lines, including residential first and second charge mortgage loans.

The Group's focus on the specialist buy-to-let market facilitates detailed, case-by-case underwriting, where its unique approach to managing property risk and building customer relationships differentiate it from both mass-market and other specialist lenders.

Specialist intermediaries are the principal source of the Group's buy-to-let loan applications and it continues to focus strategically on ensuring the service offered to intermediaries is excellent.

Commercial Lending

The Group's Commercial Lending division comprises four specialist business lines, lending to commercial organisations, mostly on a secured basis. The division had been a major source of growth within the Group.

The four business lines are:

- Development finance: funding smaller, mostly residential, property development projects
- SME lending: providing leasing for business assets and unsecured cash flow lending for professional services firms, amongst other products
- Structured lending: providing finance for niche non-bank lenders
- Motor finance: focused on specialist parts of the sector

Each of these business lines is led by a specialist management team with a strong understanding of their market. The principal competitors for each are small banks and non-bank lenders. The Group operates principally in markets where the largest lenders have little presence, creating both a credit availability issue for customers and significant opportunities for the Group.

The Group's strategy for Commercial Lending is to target niches (either product types or customer groups) where its skill sets and customer service culture can be best applied, and its capital deployed to optimise the relationship between growth, risk and return.

Management of Paragon Bank PLC and Paragon Banking Group PLC

The directors of the Issuer, their functions within the Paragon Banking Group and their principal activities outside the Paragon Banking Group where these are significant with respect to the Paragon Banking Group are as follows:

Name	Role	Principal activities outside the Paragon Banking Group
Robert East	Chair Chair: Nomination Committee Member: Risk and Compliance and Remuneration Committees	Director: RCWJ Limited
Nigel Terrington	Chief Executive Officer (“ CEO ”)	Member of HM Treasury’s Home Finance Forum
Richard Woodman	Chief Financial Officer (“ CFO ”)	Director: Woodman Portfolio Holdings Limited Director: Rose Wine Ltd Director: Chalet Woodman S.à r.l.
Hugo Tudor	Non-Executive Director	Director: Damus Capital Limited Director: Vitec Global Limited, Vitec Air Systems Limited and Vitec Aspida Limited Director: Porthcothan Property Limited Director: Sevenoaks Vine Cricket Club Ltd
Alison Morris	Non-Executive Director Chair: Audit Committee Member: Remuneration, Risk and Compliance and Nomination Committees	Non-executive director of Quilter plc, Quilter Life & Pensions Limited, Quilter Investment Platform Limited and Quilter Financial Planning Limited, all part of the Quilter plc group Non-executive director of Sabre Insurance Group PLC and Sabre Insurance Company Limited Chair of the Audit Committee at Sabre Insurance Group

Name	Role	Principal activities outside the Paragon Banking Group
Barbara Ridpath	Non-Executive Director Member: Audit, Nomination and Risk and Compliance Committees	Non-executive director of ORX in Switzerland, a trade association for operational risk professionals and a director of ORX UK Limited Chair of the Ethical Investment Advisory Group of the Church of England Member of the International Advisory Council of the Institute of Business Ethics
Graeme Yorston	Non-Executive Director Member: Nomination, Remuneration and Risk and Compliance Committees	Director: Calon Lan Consultancy
Peter Hill	Non-Executive Director Chair: Risk and Compliance Committee Member: Audit Committee	Chair of Mortgage Brain Holdings Limited Director, Trustee, Secretary, Treasurer and Chair of the Finance & Governance Committee of Leeds Rugby Foundation Deputy Chair and Treasurer of the Leeds Rugby Foundation Services Limited
Tanvi Davda	Non-Executive Director Chair: Remuneration Committee Member: Nomination, Audit and Risk and Compliance Committees	Director of Ashrah Advisory Limited Director: CLC Services Limited Director: Luminor Bank AS
Zoe Howorth	Non-Executive Director Member: Risk and Compliance and Remuneration Committees	Non-executive Director of AG Barr PLC Non-executive Director of International Schools Partnership Limited

The business address of each of the above individuals is 51 Homer Road, Solihull, West Midlands B91 3QJ.

There are no potential conflicts of interest between the duties to the Issuer of the directors listed above and their private interests or other duties. Any potential conflicts are kept under review and recusal from Board discussions is undertaken where appropriate.

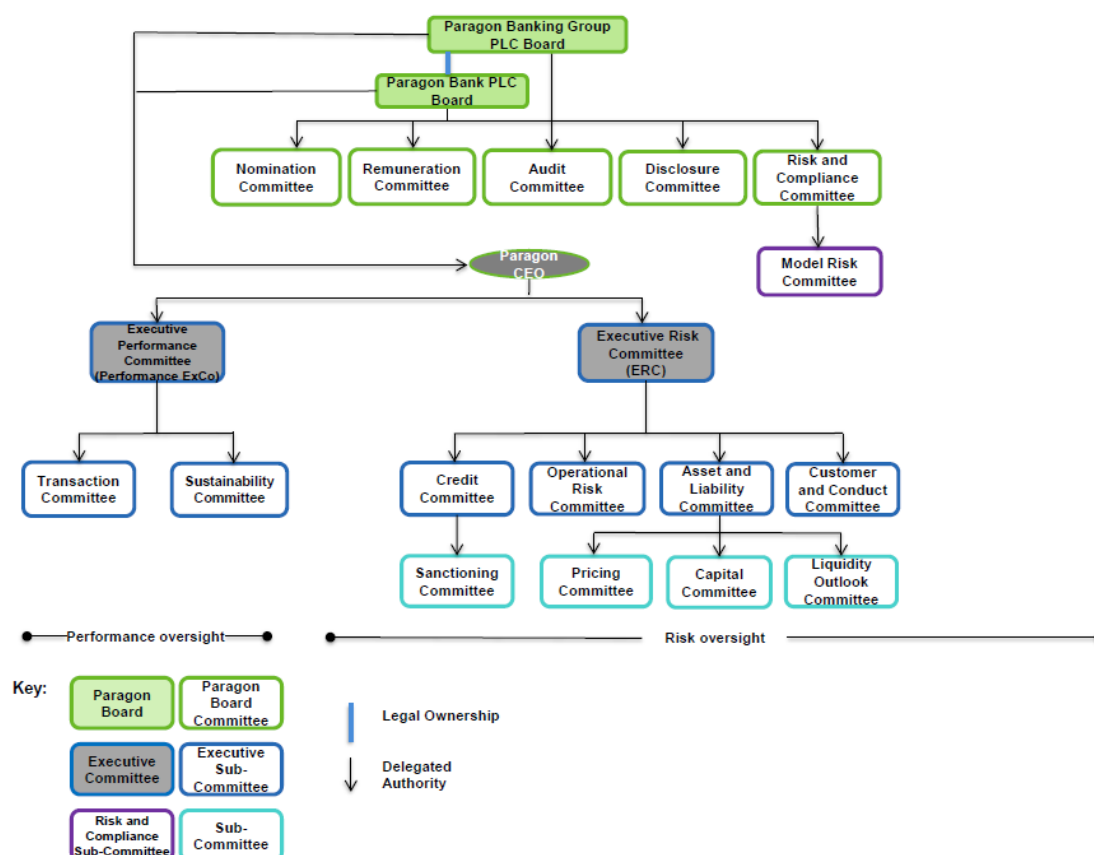
The employees of the Group are employed by PFPLC, a subsidiary of the Issuer.

Risk Governance

The Board of Directors has overall responsibility for the governance of risk in the Group. The way it discharges these duties is set out below.

Committee structures

The Group has several board sub-committees and executive committees providing risk governance, with executive committees taking their mandate directly from the CEO. The structure of the board and executive committees is shown below.



The oversight of risk in the Group is primarily conducted through the committees described below.

Risk and Compliance Committee

The Risk and Compliance Committee (the “**Committee**”) assists the Board in fulfilling its responsibilities for risk management. It comprises the independent non-executive directors and the Chair of the Board. The terms of reference, which were reviewed and approved by the Board in November 2024, align with the UK Corporate Governance Code and good practice. The Committee’s responsibilities include reviewing on behalf of the Board:

- Recommendations and matters for escalation from the Executive Risk Committee
- The Group’s current and future risk appetite including the extent and categories of risk which the Board regards as acceptable

- The effectiveness of the Group's Enterprise Risk Management Framework and the extent to which risks inherent in the Group's business activities and strategic objectives are controlled within the risk appetite established by the Board
- The effectiveness of the Group's systems and controls for compliance with statutory and regulatory obligations
- The appropriateness of the Group's risk culture, to ensure it supports the Group's stated risk appetite
- The effectiveness of the Group's strategy in promoting good outcomes for customers and integrity in the market as central to its operations and culture
- The effectiveness of the Group in addressing issues requiring remedial attention to ensure actions are completed in a timely manner and minimise the potential for risk appetite thresholds to be exceeded
- The Group's processes for compliance with laws, regulations and ethical codes of practice and prevention of fraud

The Committee provides oversight and challenge to the Group's enterprise-wide risk management arrangements which are managed through the ERC. It also retains oversight responsibility for model risk within the Group. The Committee delegates the review and approval of material aspects of the rating and estimation processes in relation to credit and finance models to the Model Risk Committee ("MRC"). The Committee meets at least four times a year. The executive directors, Chief Risk Officer ("CRO"), Chief Operating Officer, General Counsel and Chief Internal Auditor are invited to attend meetings of the Committee on a regular basis. The Committee reserves the right to request any of these individuals to withdraw or to request the attendance of any other Group employee. The Committee aims to meet annually with the CRO, without the presence of executive management, to discuss their remit and any issues arising from it. The Committee also has the power to requisition a meeting with the Chief Internal Auditor and/or the external auditor without the presence of executive management to discuss any matters that any of these parties believe should be discussed privately.

Executive Risk Committee ("ERC")

The purpose of the ERC is to assist the CEO in designing and embedding the Group's risk management framework, monitoring adherence to risk appetite statements and identifying, assessing and controlling the principal risks within the Group. The ERC was established under the specific authority of the CEO. It is chaired by the CRO and includes all Executive Committee members. The ERC monitors the interaction and integration of the Group's business objectives, strategy and business plans with the Group's risk appetite and risk strategy and escalates breaches and significant matters to the Risk and Compliance Committee, recommending changes as appropriate. Key areas of focus for the ERC include:

- Reviewing, as appropriate from time to time, the appropriateness and effectiveness of the Enterprise Risk Management Framework and supporting frameworks to manage and mitigate risk;
- Reviewing the Group's approach to controlling each principal risk and its capability to identify and manage such risks;
- Reviewing the emerging and corporate risk register, including reviewing emerging risks as they arise, consideration of their potential impact on the Group's business objectives, strategy and business plans, as well as risk choices, appetite and thresholds;
- Periodically reviewing the effectiveness of the Group's internal control and risk systems including the Group's material outsourced arrangements and risks associated therewith, particularly as they might impact customers;

- Ensuring compliance with relevant PRA and FCA regulations (excluding the Senior Management and Certification Regime, which is overseen by the Performance Executive Committee);
- Reviewing the process and outcome of the Group's Internal Capital Adequacy Assessment Process, Internal Liquidity Adequacy Assessment Process and Recovery Plan and making recommendations to the Board Risk and Compliance Committee and Board for approval; and
- Considering the implications of any proposed legislative or regulatory changes that may be material to the Group's risk appetite, risk exposure, risk management and regulatory compliance.

The ERC is supported by an executive level Asset and Liability Committee, Customer and Conduct Committee, Credit Committee, and Operational Risk Committee, which focus on specific aspects of the Group's risk profile. Each of the executive sub-committees operates within terms of reference formally approved by the ERC. The primary functions of each of these committees are described below.

Asset and Liability Committee ("ALCO")

The ALCO comprises heads of relevant functions and is chaired by the Balance Sheet Risk Director.

The principal purpose of the ALCO is to monitor and review the financial risk management of the Group's balance sheet. As such, it is responsible for overseeing all aspects of market risk, liquidity risk, pricing and capital management as well as the treasury control framework. The ALCO operates within clearly delegated authorities, monitoring exposures and providing recommendations on actions required. It also monitors performance against risk appetite on an on-going basis and makes recommendations for revisions to risk appetites through the ERC to the Risk and Compliance Committee.

Customer and Conduct Committee ("CCC")

The CCC comprises heads of relevant functions and is chaired by the Conduct and Compliance Director.

The CCC is responsible for overseeing the management of the Group's conduct risk and regulatory compliance risk (including financial crime) so that they are managed within appetite and customers receive good outcomes. The CCC considers conduct risk information such as details of conduct or regulatory compliance breaches; systems and procedures for delivering good outcomes to customers (such as in relation to customer vulnerability); the product governance framework; and monitoring reports. It also considers product and fair value reviews from a customer perspective. With respect to compliance, the CCC is responsible for overseeing the maintenance of effective systems and controls to meet conduct-related regulatory obligations. It is also responsible for reviewing the quality, adequacy, resources, scope and nature of the work of the Compliance function, including the annual Compliance Monitoring Plan. The CCC is responsible for overseeing adherence to FCA Consumer Duty principles and outcomes through robust project oversight and the review and challenge of the annual Consumer Duty report prior to escalation to the Risk and Compliance Committee and Board.

Credit Committee

The Credit Committee comprises senior managers from the Risk and Compliance, Finance and Collections functions and is chaired by the Credit Risk Director.

The Credit Committee approves credit risk policies in respect of customer exposures and defines risk grading and underwriting criteria for the Group. It also provides guidance and makes recommendations in order to implement the Group's strategic plans for credit. The Credit Committee oversees the management of the credit portfolios, the post-origination risk management processes and the management of past due or impaired credit accounts. It also monitors performance against appetite on an on-going basis and makes recommendations for revisions to the credit risk appetites to the Board or Risk and Compliance Committee. The Credit Committee also operates the Group's most senior lending mandate.

Operational Risk Committee (“ORC”)

The ORC comprises heads of relevant functions and lines of business and is chaired by the Enterprise Risk Director.

The ORC is responsible for overseeing the Group’s operational risk and resilience arrangements, including those systems and controls intended to counter the risk that the Group might be used to further financial crime. Although the CCC is the prime oversight body relating to financial crime, the ORC retains oversight through the annual review of the Money Laundering Reporting Officer report, and of fraud-related risk events given that financial crime is an Operational Risk category. The remit of the ORC also includes risks arising from personnel, technology, and environmental matters within the business, including those arising from the use of third parties. The ORC considers key operational risk information such as key risk indicators, themes within risk registers, emerging risks, loss events, control failures, and operational resilience measures. It also monitors performance against risk appetite on an on-going basis.

Model Risk Committee (“MRC”)

The MRC reports directly to the Risk and Compliance Committee and comprises senior managers from Risk, Finance and the main business areas. It is chaired by the CRO and attended by Hugo Tudor, a non-executive director. The role of the MRC is to review and make recommendations on all material aspects of the rating and estimation processes in relation to key credit and finance models. The MRC also acts as the ‘Designated Committee’ for internal ratings based (“**IRB**”) purposes, approving all material aspects of IRB rating systems.

THE LLP

Introduction

The LLP was incorporated in England and Wales on 19 January 2024 as a limited liability partnership (partnership number OC450708) with limited liability under the LLPA 2000. Its Members are Paragon Bank PLC and the Liquidation Member. The principal place of business of the LLP is at 51 Homer Road, Solihull, West Midlands, B91 3QJ (telephone number: +44 (0)121 712 2323). The LLP has no subsidiaries.

Principal Activities

The principal objects of the LLP are set out in the LLP Deed and include, *inter alia*, the ability to carry on the business of acquiring the Mortgage Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement with a view to profit and to do all such things as are incidental or conducive to the carrying on of that business and to borrow money.

The LLP has not engaged since its incorporation, and will not engage whilst the Covered Bonds or any Term Advance remains outstanding, in any material activities other than activities incidental to its incorporation under the LLPA 2000, activities contemplated under the Transaction Documents to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

Members

The members of the LLP as at the date of this Prospectus are and their principal offices are:

Name	Principal Office
Paragon Bank PLC	51 Homer Road, Solihull, West Midlands, B91 3QJ
Liquidation Member	51 Homer Road, Solihull, West Midlands, B91 3QJ

The LLP has no employees.

Directors of the Members

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

Name	Business Address	Business Occupation
CSC Directors (No.1) Limited	10th Floor, 5 Churchill Place, London, E14 5HU	Corporate Director
CSC Directors (No.2) Limited	10th Floor, 5 Churchill Place, London, E14 5HU	Corporate Director

The directors of Paragon Bank PLC are set out under “*Information on the Issuer – Board of Directors*” above.

The directors of CSC Directors (No.1) Limited and CSC Directors (No.2) Limited are set out below.

No potential conflicts of interest exist between any duties to the LLP of the members of the LLP (who are listed in the table above) and their private interests or other duties in respect of their management roles.

LLP Management Committee

The “**Management Committee**”, consisting as at the date of this Prospectus of directors, officers and/or employees of PFPLC and the Liquidation Member, will act on behalf of the LLP and to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding-up of the LLP, which require a unanimous decision of the Members) the Members delegate all matters. Any decision by the Management Committee relating to the admission of a New Member, any change in the LLP’s business, any change to the LLP’s name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

Directors of CSC Directors (No.1) Limited and CSC Directors (No.2) Limited

Name	Business Address	Business Occupation
Alasdair Watson	10th Floor, 5 Churchill Place, London, E14 5HU	Director
Aline Sternberg	10th Floor, 5 Churchill Place, London, E14 5HU	Director
Catherine McGrath	10th Floor, 5 Churchill Place, London, E14 5HU	Director
Debra Parsall	10th Floor, 5 Churchill Place, London, E14 5HU	Director
Dragos Savacenco	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary
Fouzia Ahmed	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary
Helena Whitaker	10th Floor, 5 Churchill Place, London, E14 5HU	Director
Jackie Sarpong	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary
Jonathan Hanly	10th Floor, 5 Churchill Place, London, E14 5HU	Director
Jordina Walker	10 th Floor, 5 Churchill Place, London, E14 5HU	Director
Laura Cocco	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary
Luis Villar	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary
Meka Umeadi	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary
Natalie Lau	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary
Navaneetha Rajan	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary

Name	Business Address	Business Occupation
Olivia Chan	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary
Oreoluwa Salu	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary
Oskari Tammenmaa	10th Floor, 5 Churchill Place, London, E14 5HU	Director
Raheel Khan	10th Floor, 5 Churchill Place, London, E14 5HU	Director
Renda Manyika	10th Floor, 5 Churchill Place, London, E14 5HU	Director
Robert Pitcher	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary
Sukanthapriya Jeyaseelan	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary
Umar Khan	10th Floor, 5 Churchill Place, London, E14 5HU	Company Secretary

No potential conflicts of interest exist between any duties to the LLP of the individual directors of CSC Directors (No.1) Limited and CSC Directors (No.2) Limited and their private interests or other duties in respect of their management roles.

REGULATORY DEVELOPMENTS

The financial services industry, of which the Issuer and the Group are part, has been and continues to be the focus of significant regulatory change. A brief description of key elements of changing regulation which impacts the Issuer and the Group is set out below. In particular, some of the following legislative changes have affected and will affect: (i) the capital and risk management strategy of the Issuer and the Group; and (ii) the Covered Bonds.

1 PRUDENTIAL REGULATION

1.1 The Banking Act and the SRR

Under the Banking Act, substantial powers are granted to the Bank of England (or, in certain circumstances, HM Treasury), in consultation with the PRA, the FCA and HM Treasury as appropriate as part of a special resolution regime (the “**SRR**”).

These powers enable the relevant UK resolution authority to implement resolution measures with respect to entities (“**relevant entities**”) such as the Issuer in circumstances in which the relevant UK resolution authority is satisfied that the relevant resolution conditions are met.

The SRR consists of five stabilisation options: (a) private sector transfer of all or part of the business or shares of the relevant entity, (b) transfer of all or part of the business of the relevant entity to a “bridge bank” established by the Bank of England, (c) transfer to an asset management vehicle wholly or partly owned by HM Treasury or the Bank of England, (d) the bail-in tool and (e) temporary public ownership (nationalisation).

The stabilisation options are intended to be used prior to the point at which any insolvency proceedings with respect to the relevant entity could have been initiated. The purpose of the stabilisation options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns.

In July 2024, HM Treasury published a response to its January 2024 consultation on enhancing the SRR and laid before Parliament the Bank Resolution (Recapitalisation) Bill. HM Treasury is aiming to enhance the SRR by providing a new mechanism to facilitate the use of certain existing stabilisation powers to manage the failure of small banks and limit risks to public funds. The bill implements the proposals set out in the consultation response, under which the statutory functions of the FSCS would be expanded, requiring it to provide funds to the Bank of England upon request: these funds could be used to meet certain costs arising from the use of the resolution regime to manage the failure of certain banks, building societies and PRA-authorised investment firms. The FSCS would be able to use its levy-raising powers to recover any funds provided to the Bank of England through imposing levies on the banking sector. The PRA’s depositor protection rules would need to be amended to facilitate the proposed changes.

The Banking Act also provides for additional insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify contractual arrangements in certain circumstances (which could include a variation of the terms of the Covered Bonds), powers to impose temporary suspension of payments, powers to suspend enforcement or termination rights that might be invoked as a result of the exercise of the resolution powers and powers for the relevant UK resolution authority to disapply or modify laws in the UK (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

As at the date of this Prospectus, the resolution strategy for the Issuer set by the Bank of England is modified insolvency under Part 2 of the Banking Act. However, in accordance with the Bank of England's policy, the actual approach taken to resolve any institution will depend on the circumstances at the time of its failure. In addition, the Issuer's resolution strategy, or the Bank of England's policy, may change in the future.

Where the relevant statutory conditions for the commencement of modified insolvency proceedings under the Banking Act are met, the relevant UK resolution authority would be expected to apply to the court for the Issuer to enter modified insolvency under Part 2 of the Banking Act at the point of failure.

1.2 The UK CRD

Capital Requirements

The UK CRD contains the core prudential requirements for UK credit institutions and investment firms and sets out minimum capital requirements for these firms. The UK CRD requires, on a consolidated basis, each of the Group and the Issuer to hold a minimum amount of total regulatory capital of 8 per cent. of RWAs, a minimum amount of Tier 1 Capital of 6 per cent. of RWAs and a minimum amount of common equity Tier 1 ("**CET1**") Capital of 4.5 per cent. of RWAs (the "**Pillar 1 requirements**"). In addition, the UK CRD requires that several capital buffers are met with CET1 capital. The combination of (i) the capital conservation buffer, (ii) the time-varying countercyclical capital buffer, (iii) the higher of (a) the global systemically important institutions buffer or other systemically important institutions buffer and (b) the systemic risk buffer constitute the "combined buffer".

Currently, the Group does not meet the criteria for designation as a systemically important institution, or the threshold for systemic risk: therefore the Group is not subject to either a global systemically important institution (G-SII) buffer or a systemic risk buffer.

The capital conservation buffer and the countercyclical capital buffer currently apply to the Group. The capital conservation buffer is set at 2.5 per cent. of RWAs and needs to be met with an additional amount of CET1 capital. The primary objective of the countercyclical capital buffer is to use a buffer of capital to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk. The UK countercyclical capital buffer is dependent upon the BoE's view of credit conditions in the economy. The BoE's Financial Policy Committee (the "**FPC**") would be expected to change countercyclical capital buffer requirements if it determines that the strength of the UK economy warrants such change.

The FPC judges that the neutral rate for the UK countercyclical capital buffer is around 2 per cent. in a standard risk environment. As part of the structural increase in the UK countercyclical capital buffer level in 2019, which effectively represented an increase in macro-prudential buffers, the PRA allowed firms to reduce their Pillar 2A requirements by up to 1 per cent. in order to ensure that the total regulatory loss-absorbing capacity was broadly unchanged. The combined buffer sits on top of the Pillar 1 requirements. If an institution breaches the combined buffer, automatic safeguards apply to limit the amount of dividend and bonus payments it can make as well as limiting payments on Additional Tier 1 instruments.

In addition, the PRA requires the Group to hold extra capital to cover risks not covered or insufficiently covered by the Pillar 1 requirements (the "**Pillar 2A requirements**"). The Pillar 2A requirements sit on top of the Pillar 1 requirements so increase the combined buffer requirements and automatic safeguards. For non-systemic firms like the Issuer, the PRA tends to set the Pillar 2A capital requirements on a two to three year cycle, although the PRA can change this frequency should it be required. The PRA's assessment is derived from each firm's individual capital assessment as documented in their Internal

Capital Adequacy Assessment Process. Under current PRA rules, the Pillar 2A must be met with at least 56.25 per cent. CET1 capital and no more than 25.00 per cent. tier 2 capital. In addition, the capital that firms use to meet their minimum requirements (Pillar 1 and Pillar 2A) cannot be counted towards meeting the combined buffer requirement. The PRA's framework also enables a PRA capital buffer which is not prescribed under the UK CRD. The PRA capital buffer (also known as Pillar 2B requirements) is set by the PRA on a bank-by-bank basis using supervisory judgement informed by the impact of stress scenarios on a bank's capital requirements and resources and taking account where appropriate of other factors including leverage, systemic importance and weaknesses in the bank's risk management and governance. The PRA's Pillar 2B assessment takes place alongside the Pillar 2A assessment.

The Bank of England's approach to stress testing comprises three elements: (a) to undertake a Bank Capital Stress Test of the largest and most systemic UK banks every other year; (b) in the intervening years, the Bank of England expects to use stress testing when appropriate to supplement its assessment of the resilience of the banking system to cyclical risks; and (c) the Bank of England to continue to use exploratory exercises to assess other risks, including structural and emerging risks that are not closely linked to the financial cycle. The PRA uses the stress test results to assess the buffer requirements of participants, although the results of the most recent exercises have noted that no individual bank has been required to strengthen its capital position as a result of the stress test. The Group is not required to participate in the Bank of England's Biennial Bank Capital Stress Test exercises. However, the Group does perform internal stress testing based on the Bank of England's published scenarios.

In this Prospectus:

“**UK CRD**” means the legislative package consisting of:

- (a) the UK CRD Regulation;
- (b) the law of the UK or any part of it, which immediately before IP completion day (as defined in the EUWA) implemented Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and its implementing measures; and
- (c) direct EU legislation (as defined in the EUWA), which immediately before IP completion day (as defined in the EUWA) implemented EU CRD as it forms part of domestic law by virtue of the EUWA.

“**UK CRD Regulation**” means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investments firms, as amended before IP completion day as it forms part of domestic law by virtue of the EUWA.

Minimum requirement for own funds and eligible liabilities

The Bank of England has the power to direct institutions to maintain a minimum requirement for own funds and eligible liabilities (“**MREL**”). For institutions for which bail-in is the appropriate resolution strategy and which are not classified as systemically important, MREL has been introduced in two phases. From 1 January 2020, such institutions were required to meet an interim MREL equivalent to 18 per cent. of risk-weighted assets and from 1 January 2023, such institutions were required to meet their end-state MREL equivalent which will be the higher of: (i) two times the sum of the firm's Pillar 1 and Pillar 2A or (ii) if subject to a leverage ratio requirement, two times the applicable requirement.

Although, as at the date of this Prospectus, the Issuer is not required to meet an MREL requirement that is above its minimum regulatory capital requirements (Pillar 1 and Pillar 2A, excluding buffers), the Bank of England's policies and instructions may be subject to change and/or there may be a significant expansion in the Group's operations, and, therefore, the Group could be subject to MREL requirements in the future.

The Bank of England published a consultation paper on amendments to its approach to setting MREL in October 2024, with changes proposed to take effect from 1 January 2026. The consultation paper proposals do not alter the resolution strategy for the Issuer, which remains modified insolvency. The most relevant change for the Group is the proposal to increase the total asset threshold at which a firm should have a bail in resolution strategy from GBP 15-25 billion to GBP 20-30 billion.

Updates to PRA Rules

The PRA issued a consultation paper in February 2022, followed by the policy statement (PS8/22) in September 2022 on the "Definition of capital: updates to PRA Rules and supervisory expectations". This policy statement sets out the PRA's approach to transferring the UK Technical Standards for own funds requirements for institutions ("UKTS") into PRA rules, with amendments to reflect revisions to the Capital Requirements Regulation ("CRR") which applied from 27 June 2019. These changes to the CRR were not reflected in the relevant EU Regulatory Technical Standard (RTS) before the end of the EU withdrawal transition period and are therefore not currently included in the UKTS on own funds. PS8/22 amended the Own Funds and Eligible Liabilities (CRR) Part of the PRA Rulebook and updated PRA Supervisory Statement (SS) 7/13 'Definition of capital (CRR firms)', including the following amendments which came into force on 1 January 2023:

- Alongside replicating the UKTS requirements in the PRA Rulebook, the PRA has updated the relevant provisions in the Own Funds and Eligible Liabilities (CRR) Part to align with the changes introduced to the CRR in 2019. This includes updates to the requirements on firms regarding information which must be provided when seeking PRA permission to reduce capital instruments, the new general prior permission process, and the process for reductions in share premium accounts.
- The PRA also updated SS7/13 to clarify its expectations of CRR firms regarding the quality of capital instruments, in light of recent supervisory experience. PS8/22 set out the PRA's expectations on liability accounted AT1 instruments, updated existing references on subordinated swaps and introduced an expectation for firms to seek PRA views prior to issuing any new tier 2 instruments which include new or complex features. The PRA also clarified its expectation that firms seek PRA permission for any forms of reduction of own funds instruments and in PS8/22 it amended the draft rules to require that, once permission is received, the general prior permission (GPP) amount should be deducted from own funds when there is sufficient certainty regarding the transaction. The PRA introduced an expectation that firms should notify the PRA every quarter regarding transactions taken under the GPP.

1.3 Basel 3.1

The Basel Committee published its final reforms to the Basel III framework ("**Basel 3.1**") in December 2017. The amendments include changes to the standardised approaches to credit and operational risks and the introduction of a new risk-weighted asset output floor. The output floor will be subject to a transition period, with full implementation by 1 January 2030. There are a number of areas within Basel 3.1 subject to national discretion and choice. The PRA published its near-final policy statements on UK implementation on 12 December 2023 (PS17/23) and 12 September 2024 (PS9/24). The exact timing for implementation within the UK is contingent on HM Treasury making a statutory instrument to revoke

the relevant parts of the CRR that the final PRA rules will replace. The proposals set out in the near-final policy statements have been included in the Group's corporate planning assumptions.

The package of bank capital consultation papers published by the PRA on 12 September 2024 also included CP7/24 containing the draft capital proposals for firms under the Small Domestic Deposit Takers ("SDDT") regime. SDDT-eligible firms can choose whether to take advantage of the SDDT regime, or move to implement the PRA's Basel 3.1 package. The proposals include the introduction of an Interim Capital Regime ("ICR"), which would allow SDDT firms and other firms to continue to calculate their capital requirements under the current CRR capital regime until 1 January 2027. The Issuer has applied to the PRA to become part of the ICR. On 17 January 2025, the PRA announced a further delay to the implementation of Basel 3.1 in the UK until 1 January 2027, at which point firms opted into the ICR would be required to either implement the full Basel 3.1 standards or the SDDT regime. The impact of this delay on the ICR is subject to further clarity by the PRA in due course.

The package also included a further consultation paper, CP 9/24, focused on streamlining the Pillar 2A capital framework, with the proposed changes due to be implemented alongside the introduction of the new Basel 3.1 rules. The main proposal is to retire refined methodology to Pillar 2A, specifically the Pillar 2A offset on the basis that Basel 3.1 risk weights and changes to IRB modelling have materially closed the gap between standardised approach and IRB risk weights for low risk, low LTV residential exposures.

1.4 FSCS and deposit guarantee scheme

The FSCS pays compensation, up to certain limits, to eligible customers of financial services firms that are unable, or likely to be unable, to pay claims against them. As well as compensating customers when regulated firms fail, the FSCS's aim is to promote confidence in the financial system by limiting the system risk that the failure of a single firm might trigger resulting in a wider loss of confidence in the relevant financial sector. The Group is responsible for contributing to the FSCS through a levy. The aim of this levy is to support compensation payments made by the FSCS and to cover management expenses.

The Deposit Guarantee Schemes Regulations 2015, as amended by the Deposit Guarantee Scheme and Miscellaneous Provisions (Amendment) (EU Exit) Regulations 2018/1285 (the "**DGS Regulation**") and the PRA's depositor protection rules ensure that all eligible deposits up to £85,000 are protected through the FSCS deposit guarantee scheme. The rules are intended to enable depositors protected by the FSCS to have continuity of access to their accounts during resolution, as well as imposing requirements on deposit-takers in relation to Single Customer View ("**SCV**"). All deposit taking firms subject to the regime are required to produce SCV files for verification purposes and in the event of default. Firms are also required to update their SCV systems and mark eligible deposits in a way that allows immediate identification of them.

Following the failure of Silicon Valley Bank in 2023, the FSCS published "*Beyond compensation: The role of FSCS in raising consumer trust and confidence*" exploring the FSCS's role in building trust in financial services and how the FSCS can play a role in raising confidence in the sector. On 18 April 2023, the Bank of England published "*Improving depositor outcomes in bank or building society insolvency*" which includes several proposals to better support the timely payout of eligible depositors and minimise the disruption caused by a bank or building society insolvency procedure. This work pre-dates, but aims to incorporate lessons learnt from, the resolution of Silicon Valley Bank UK. The Bank of England is working with other UK authorities to progress these, and as part of this work the FSCS has developed a digital payment portal, to speed up the payment of compensation of covered deposits for former customers of a failed bank or building society. Also, in response to the failure of SVB UK, and following a consultation, HM Treasury laid before Parliament the Bank Resolution

(Recapitalisation) Bill. Under the proposals set out in the bill, the statutory functions of the FSCS would be expanded, requiring it to provide funds to the Bank of England upon request, which could be used to meet certain costs arising from the use of the resolution regime to manage the failure of certain banks, building societies and PRA-authorised investment firms. The FSCS would be able to use its levy-raising powers to recover any funds provided to the Bank of England through imposing levies on the banking sector.

1.5 Leverage

The UK leverage ratio framework is intended to mirror aspects of the risk-weighted capital requirement. The UK leverage ratio was originally set at 3 per cent. of exposures and in 2017 was increased to 3.25 per cent. of exposures (excluding central bank reserve exposures), to reflect the removal of central bank deposits from the leverage exposure measure.

From 1 January 2023 the scope of the leverage ratio was expanded to include all firms with retail deposits equal to or greater than £50 billion or foreign assets equal to or greater than £10 billion, when calculated on an individual basis. The Group is not therefore subject to the UK leverage ratio. However, the PRA has set an expectation that firms not in scope of the leverage ratio minimum capital requirement should manage their leverage risk so that their leverage ratio, as calculated in accordance with the Leverage Ratio (CRR) Part of the Rulebook, does not ordinarily fall below 3.25%. At least three-quarters of the leverage ratio requirement must be met with CET1 capital and up to one-quarter may be met with AT1 capital.

1.6 Interest rate risk in the banking book and market risk

In addition to the Basel Committee's approach to interest rate risk in the banking book, the Group is monitoring its approach to traded market risk in view of the risk that, although the Group's operations are all related to banking book activity, the Basel Committee may require different treatments to be applied to certain products.

The PRA's policy statement (PS 22/21) implements the Basel standards for prudent valuation for market risk and amendments to market risk management requirements. This policy statement also requires firms to make qualitative and quantitative disclosures in relation to their risk exposure to interest rate risk in the banking book and their management of this risk, in line with the Basel standards.

1.7 Prudential Regulation of Climate Change

During April 2019, the PRA published a Policy Statement noting that climate change, and society's response to it, present financial risks which are relevant to its objectives. Furthermore, the PRA released a 'Dear CEO' letter in July 2020 emphasising its expectations for firms to have fully embedded their approaches to managing climate related financial risks by the end of 2021. To help firms understand the risks and opportunities that arise from climate change, and to provide support on how to integrate these risks into strategy and decision-making processes, the Climate Financial Risk Forum Guide was published in June 2020. The most recent round of guides were published in October 2024.

In October 2021, the Bank of England published its Climate Change Adaptation Report ("CCAR"), which set out early thinking on climate change and regulatory capital frameworks for banks and insurers. On 13 March 2023, the Bank of England and PRA published an updated report building on CCAR on climate-related risks and the regulatory capital frameworks.

The prudential regulation of climate risk will be an important driver in how the Group otherwise decides how it allocates capital and further develop its risk appetite for financing certain types of activity or engaging with counterparties that do not align to a transition to a net zero economy. The Group continues

to develop its strategy in respect of climate change, in line with this guidance, to ensure it is well-positioned to address these emerging challenges.

1.8 Ring fencing

As of 1 January 2019, the largest UK banks are required by UK law to separate core retail banking services from their investment and international banking activities. The aim of ring-fencing is to protect UK retail banking from shocks originating elsewhere in the group and in global financial markets. It covers banks with more than £25 billion of core (retail and SME) deposits. Under the regime, core banking services – taking deposits, making payments and providing overdrafts for UK retail customers and small businesses – become financially, operationally and organisationally separate from investment banking and international banking activities. Banks that have been separated (or ‘ring-fenced’) from the rest of their groups in this way are known as ring-fenced bodies.

In September 2023, the UK Government consulted on near-term reforms to the bank ring-fencing regime (“A smarter ring-fencing regime”) building on the Skeoch Review that published its recommendations in March 2022. The changes proposed by the Government include an increase in the threshold at which the ring-fencing rules are applied from £25 billion of core deposits to £35 billion of core deposits, as well as the introduction of a secondary threshold to exempt retail-focused banking groups where investment banking activity accounts for less than 10 per cent. of Tier 1 capital from the regime. The statutory instrument implementing these changes (The Financial Services and Markets Act 2000 (Ring-Fenced Bodies Core Activities, Excluded Activities and Prohibitions) (Amendment) Order 2025) was published in January 2025 and came into force on 4 February 2025. The ring-fencing rules do not currently apply to the Group and the amendments to the regime further reduce the likelihood of them applying to Paragon in the future.

2 UK AND EUROPEAN BANKING AND FINANCIAL SERVICES REFORM INITIATIVES

2.1 The Consumer Credit Regime

The Issuer is subject to the consumer credit regime under the FSMA, which regulates a wide range of credit agreements. The regulation of consumer credit pursuant to the CCA was transferred from the Office of Fair Trading (the “OFT”) to the FCA in April 2014. Certain secondary legislation made pursuant to the CCA, as well as OFT guidance, has been replaced by FCA rules and guidance set out within the FCA Handbook, although some secondary legislation remains. The FCA has greater powers of enforcement than the OFT had and looks to be taking a more proactive and intrusive approach to the regulation of consumer credit. Along with other credit providers that are required to comply with the FCA requirements applicable to the provision of consumer credit, the Issuer may come under a greater degree of scrutiny from the FCA, incur additional compliance costs and be subject to potential penalties and other sanctions for non-compliance. In addition, the courts have wide powers to look again at a credit agreement, when the borrower alleges an aspect of it was “unfair”, and render such arrangement unenforceable.

In August 2020, the FCA published a report focused on relending by high-cost lenders, identifying high volumes of re-lending to high-cost credit customers as one of the key ways in which these customers may be harmed by their lenders. The Issuer has reviewed its relending operations in the light of the FCA report and made any necessary changes to improve customer outcomes. The FCA will continue to carry out further diagnostic work to understand whether there are business models in the retail lending sectors that rely on consumers who cannot afford to repay.

In November 2024, the FCA amended the consumer credit rules in the FCA Handbook to improve outcomes for those in financial difficulty, by incorporating aspects of the FCA’s Tailored Support

Guidance (“**TSG**”) introduced during the pandemic. At the same time as the FCA Handbook was updated, the TSG was withdrawn. The Issuer has taken the necessary steps to meet the updated requirements.

The previous UK Government had committed to moving forward with an ambitious overhaul of the CCA and in July 2023 HM Treasury published a response to its initial consultation on reforming the CCA with proposals that move the majority of the remaining provisions in the CCA into the FSMA model. A second stage consultation with more detailed proposals was planned for 2024, but it is not clear whether such consultation will take place or how the proposed CCA reforms will be progressed by the current UK Government.

2.2 General Data Protection Regulation

The GDPR came into force on 25 May 2018 and provided a single set of rules on data protection, directly applicable in all EU Member States. The main provisions included a requirement to notify regulators of breaches within 72 hours of identification, increased sanctions including fines of up to four per cent. of an enterprise’s annual worldwide turnover and reduced timelines within which firms must respond to subject access requests (within 30 calendar days). In some circumstances, consumers are also able to request deletion of all personal data held by the data controller and third party recipients. The Issuer delivered these requirements by the regulatory deadline.

From 31 December 2020, the GDPR has formed part of domestic law of the United Kingdom by virtue of the EUWA and as amended by relevant UK statutory instruments. The Issuer considered these amendments to ensure that its data protection compliance programme continued to be effective. The Issuer continues to monitor regulatory developments in the UK and the EU (to the extent relevant) and in particular, the progress of the proposed Data (Use and Access) Bill through the UK Parliament.

2.3 UK EMIR and EU EMIR

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 on over-the-counter derivatives, central counterparties and trade repositories dated 4 July 2012 on OTC derivatives, central counterparties and trade repositories as amended (“**EU EMIR**”), and in the UK pursuant to EU EMIR as it forms part of the UK domestic law by virtue of the EUWA (“**UK EMIR**”). UK EMIR and EU EMIR establish certain requirements for OTC derivatives contracts, including: (i) a mandatory clearing obligation for certain classes of OTC derivative contracts (the “**Clearing Obligation**”), (ii) margin requirements, daily valuation and other risk mitigation techniques for OTC derivatives contracts not cleared by a central counterparty (the “**Risk Mitigation Requirements**”) and (iii) certain reporting and record-keeping requirements.

Under UK EMIR and/or EU EMIR, counterparties can be classified as (i) financial counterparties (FCs) (which includes a sub-category of small FCs), (ii) non-financial counterparties (“**NFCs**”) whose positions, together with the positions of all other non-financial counterparties in their “group” (as defined in UK EMIR or EU EMIR, as applicable), in OTC derivatives (excluding hedging positions) exceed a specified clearing threshold (“**NFC+s**”) and (iii) NFCs whose positions, together with the positions of all other non-financial counterparties in their “group” (as defined in UK EMIR or EU EMIR, as applicable), in OTC derivatives (excluding hedging positions) do not exceed a specified clearing threshold (“**NFC-s**”). Whereas FCs (excluding small FCs) and NFC+ entities must clear in-scope OTC derivatives contracts that are entered into on or after the effective date for the relevant Clearing Obligation, such obligation does not apply in respect of NFC- entities. OTC derivatives contracts entered into by NFC+ and FC entities (and/or third country equivalent entities) with each other that are not cleared by a central counterparty may be subject to the relevant margining requirement and the relevant

daily valuation obligation under UK EMIR and/or EU EMIR. On the basis that the LLP is an NFC- for the purposes of UK EMIR and/or the third country equivalent of an NFC- (a “**TCE NFC-**”) for the purposes of EU EMIR, OTC derivatives contracts that are entered into by the LLP are not subject to the Clearing Obligation or any margining requirements under UK EMIR and/or EU EMIR (as may be applicable).

OTC derivatives contracts that are not cleared by a central counterparty are also subject to certain other Risk Mitigation Requirements, including arrangements for timely confirmation of OTC derivatives contracts, portfolio reconciliation, dispute resolution and arrangements for monitoring the value of outstanding OTC derivatives contracts. These requirements are already in effect. In order to comply with certain of these Risk Mitigation Requirements, the LLP includes appropriate provisions in each Swap Agreement and the related Transaction Documents.

If the LLP’s counterparty status changes to an NFC+ or FC for the purposes of UK EMIR and/or a third country equivalent of an NFC+ or FC (a “**TCE NFC+**” or a “**TCE FC**” respectively) for the purposes of EU EMIR (as may be applicable), this may result in the application of the relevant Clearing Obligation or (more likely) the relevant margining requirements and the relevant daily valuation obligation under the Risk Mitigation Requirements (the “**Margin Obligation**”), as it seems unlikely that any of the Swap Agreements would be a relevant type of OTC derivatives contract that would be subject to the Clearing Obligation under UK EMIR and/or EU EMIR to date. It should also be noted that the relevant Margin Obligation should not apply in respect of swaps entered into prior to the relevant application date, unless such a swap is materially amended on or after that date. Where the relevant swap counterparty is a UK entity, an exemption from the Clearing Obligation under UK EMIR and a partial exemption in respect of the Margin Obligation under UK EMIR may be available in respect of the Interest Rate Swaps, Standby Interest Rate Swaps and Covered Bond Swaps, provided that certain conditions are satisfied.

Pursuant to the partial exemption in respect of the Margin Obligation, initial margin does not need to be posted or collected, but the LLP would be required to collect variation margin in the form of cash from its swap counterparty under in-scope Swap Agreements and return cash collected when due. If it was necessary and possible for the LLP to rely on this partial exemption, this requirement may increase the costs of entering into Swap Agreements for the LLP.

The exemption from the Clearing Obligation and partial exemption from the Margin Obligation are only likely to become relevant should the status of the LLP change from (i) an NFC- to an NFC+ or FC under UK EMIR and/or (ii) a TCE NFC- to a TCE NFC+ or TCE FC for the purposes of EU EMIR and, if clearing is applicable, should the Interest Rate Swaps, Standby Interest Rate Swaps and Covered Bond Swaps be regarded as a type that is subject to the relevant Clearing Obligation.

As a result of the UK leaving the EU and EMIR forming part of domestic UK law, the Group has become subject to separate reporting, clearing and margining obligations under UK EMIR which may diverge from the equivalent requirements under EU EMIR over time. Changes to the derivatives reporting framework under UK EMIR were published by the FCA and Bank of England in February 2023 and became applicable from September 2024.

2.4 Regulation of Benchmarks

Interest rates and indices which are deemed to be “benchmarks” are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted.

The EU Benchmarks Regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds became fully applicable from 1 January 2018. The EU Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU.

The EU Benchmarks Regulation, as it forms part of the UK domestic law by virtue of the EUWA (the “**UK Benchmarks Regulation**”) applies to provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the UK.

2.5 CMA ‘loyalty penalty’ super-complaint

Citizens Advice submitted a super-complaint to the CMA in September 2018 calling on the regulator to investigate the overcharging of ‘loyal’ customers in five essential markets (mobile, broadband, home insurance, mortgages and savings) and to identify remedies to fix this problem. Citizens Advice believes that the practice of overcharging loyal customers is widespread and it has repeatedly warned that loyal consumers are being disadvantaged. The CMA published an initial response to the super-complaint in December 2018, which included recommendations to the FCA. The FCA conducted a consultation on the impact of price discrimination in the cash savings market, but decided not to proceed with the proposals.

For mortgages, the FCA published the outcome of its Mortgage Market Study in March 2019 and as a result of its findings announced changes to its responsible lending rules and guidance, aimed at removing barriers to consumers switching to a more affordable mortgage. The FCA also introduced measures in October 2020 to help some mortgage customers to have more options to switch, in particular to make it easier for customers of a closed book firm (‘mortgage prisoners’) to switch to an active lender. The FCA provided an update on its work relating to mortgage prisoners in August 2023, indicating that it does not consider there are any further regulatory solutions it can deliver but it will continue to monitor the situation and support the government and the industry as they consider potential further action.

The FCA also published an interim findings report on the insurance markets in October 2019, discussing a range of potential remedies to address the problematic pricing practices identified in the report. Following a further market study into general insurance pricing practices, the FCA published a consultation paper (CP 20/19) in September 2020. The consultation proposed a package of robust remedies including requiring firms to offer a renewal price that is no higher than the equivalent new business price for that customer through the same sales channel. The remedy was accompanied by enhanced product governance rules and will work alongside additional measures focused on increasing transparency and competition in general insurance, as well as addressing barriers to switching. The FCA published a Policy Statement in May 2021 setting out the new rules which came into effect on 1 October 2021. The FCA continues to monitor the market: following a first review of firms’ compliance with pricing rules in December 2022, the FCA has planned a second review of compliance with pricing practice rules in 2025.

The CMA published an update on progress in the five markets in December 2020 in which it expressed commitment to continuing to work with the Government and the FCA regarding the approach to pricing for existing customers. The CMA has also encouraged regulators to take enforcement action where they see consumer harm.

2.6 Financial Ombudsman Service re-definition of gross negligence related to unauthorised payments

The Financial Ombudsman Service (“**FOS**”) confirmed to all banks and financial institutions that they are viewing negligence and payment authorisation, authentication and consent differently when

assessing fraud scam complaints. Consequently, it is highly likely that FOS will overturn historic no refund decisions for victims of ‘sophisticated’ account takeover scams, where unauthorised, fraudulent payments are made following the customer providing security credentials to fraudsters. FOS may also allow for retrospective claims to be made.

2.7 Guidance on fair treatment of vulnerable customers

In 2019, the FCA launched a consultation on guidance for firms on the fair treatment of vulnerable customers. This aimed to provide regulatory clarity for firms involved in the supply of products or services to retail customers who are actually, or are potentially, vulnerable. The FCA published finalised guidance in February 2021 (FG21/1). In July 2021, the FCA published further guidance to provide clarity on what firms should do to understand the needs of consumers in vulnerable situations and changes that should be implemented. The FCA expects firms to be able to demonstrate how their culture, policies and processes ensure the fair treatment of all consumers, including those who are vulnerable. The Issuer is monitoring vulnerabilities within their target market and customer base and is taking appropriate action in light of the FCA guidance.

The FCA published a Dear CEO letter on the cost of living crisis in June 2022, setting out its expectations for firms supporting customers affected by the rising cost of living. The FCA identified that the cost of living crisis may lead to an increase in consumer vulnerability, exposing more consumers to a greater risk of harm. The FCA therefore emphasised the need for firms to implement the FCA’s Vulnerable Customer Guidance (published in February 2021).

On 3 November 2022, the FCA published its report on borrowers in financial difficulty (“**BiFD Report**”). The BiFD review was launched to assess firms’ policies and processes following the implementation of the TSG. The BiFD Report made clear that the FCA’s expectation is that firms take immediate action to ensure that they are well-placed to support customers.

In March 2024, the FCA announced that it would conduct a review of firms’ treatment of customers in vulnerable circumstances, to explore how firms are acting to understand and respond to the needs of customers in vulnerable circumstances, and whether the outcomes customers in vulnerable circumstances receive are as good as the outcomes of other customers. The results of the review are expected in early 2025.

2.8 Consumer Duty

The FCA’s consumer duty (the “**Consumer Duty**”) aims to set a higher level of consumer protection in retail financial markets by requiring regulated firms to act to deliver good retail customer outcomes. It has applied since 31 July 2023 for products and services that remain open to sale or renewal and since 31 July 2024 for closed products and services. The package of measures comprises (i) a new “consumer principle” that provides an overarching standard of conduct, (ii) a set of cross cutting rules that set clear expectations for firms’ cultures and behaviours, and (iii) a set of outcomes, which set more detailed expectations for firm conduct in relation to products and services, price and fair value, consumer understanding and consumer support. For mortgages, the Consumer Duty does not apply to unregulated buy-to-let contracts or commercial mortgage loans but would apply to most regulated mortgage contracts and there are some circumstances in which the Consumer Duty would apply to the servicing of buy-to-let loans.

2.9 Dual Regulation

The Issuer is a dual-regulated financial institution in the United Kingdom, meaning it is subject to regulation and supervision by both the FCA and the PRA.

The PRA is responsible for the prudential oversight and regulation of the Issuer, focusing on the safety and soundness of the Issuer's financial condition, the protection of depositors, and the stability of the UK financial system. The PRA evaluates the Issuer's capital adequacy, liquidity, and risk management processes, among other things.

The FCA is responsible for ensuring that the Issuer and certain other entities in the Group conduct their respective business with integrity, that the financial markets in which the Group operates function well, and that the Group provides adequate protection to consumers and retail customers. The FCA has the authority to investigate and enforce action against regulated entities and individuals for breaches of its rules and principles.

2.10 Senior Managers and Certification Regime

The Issuer and other regulated entities within the Group (the “**Regulated Entities**”) are subject to the Senior Managers and Certification Regime (“**SMCR**”), a regulatory framework designed to increase the accountability of senior individuals working within financial institutions, and to ensure that they meet appropriate standards of conduct and competence. Under the SMCR, the Issuer and the other Regulated Entities are subject to a number of requirements including:

- **Senior Managers Regime:** The Issuer and the other Regulated Entities are required to assign specific responsibilities to individuals who are classified as Senior Managers. These individuals must be approved by the regulators and are subject to a ‘Duty of Responsibility’, meaning that each could be held personally accountable for any misconduct that falls within that person's area of responsibility.
- **Certification Regime:** This applies to employees who are not Senior Managers but whose role is deemed to pose a risk of significant harm to the Issuer and the other Regulated Entities or any of their respective customers (Certified Persons). The Issuer and the other Regulated Entities are obliged to certify that these individuals are fit and proper to perform their role at least annually.
- **Conduct Rules:** These are a set of baseline rules that apply to all staff except ancillary staff. They require individuals to act with integrity, due care, skill and diligence, be open with regulators, pay due regard to customer interests and treat them fairly, and to observe proper standards of market conduct. The Consumer Duty introduced an additional Conduct Rule requiring all Conduct Rule Staff to act to deliver good outcomes for retail customers where the activities of the firm fall within scope of the Consumer Duty. Senior Managers are also subject to additional Conduct Rules.

2.11 Competition Law

The FCA has a statutory objective to promote effective competition in the interests of consumers, and the PRA has a secondary objective to facilitate effective competition in the markets for services provided by PRA-authorised firms. Since 1 April 2015, the FCA has assumed concurrent powers with the CMA to enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems. There is a memorandum of understanding between the FCA and the CMA that sets out how they will work together in relation to competition law.

Following a market study into general insurance pricing practices, and subsequent consultation, the FCA published a policy statement (PS21/5) in May 2021, and an additional policy statement in August 2021 that makes minor changes to these rules. The policy statement implements a package of robust remedies including requiring firms to offer a renewal price that is no higher than the equivalent new business price for that customer through the same sales channel. A multi firm review by the FCA on general insurance pricing attestations, which was published on 2 December 2022, found that overall, most firms in the

review had taken appropriate action to implement appropriate systems and controls to enable them to comply with the rules, however some smaller firms lacked the records and evidence to demonstrate how they were compliant. A second FCA review into firms' compliance with pricing practice rules is planned during 2025.

2.12 UK Operational Resilience Regime

In March 2021, the FCA, the BoE and the PRA published their final rules and guidance regarding new requirements to strengthen operational resilience in the financial services sector, which entered into force on 31 March 2022 (the "**UK Operational Resilience Regime**"). The Issuer and the other Regulated Entities are subject to the UK Operational Resilience regime. The regime is designed to ensure that banks and other critical financial services providers can prevent, adapt, respond to, recover, and learn from operational disruptions that could impact services provided to their customers. Under the regime, the Issuer and the other Regulated Entities are expected to:

- Identify important business services: These are services that, if disrupted, could pose a risk to the Issuer's and the other Regulated Entities' viability, financial stability, or consumer harm.
- Set impact tolerances: For each identified important business service, the Issuer and the other Regulated Entities must establish a tolerance level for disruption and prepare to be able to operate within those tolerances at all times.
- Map and test: The Issuer and the other Regulated Entities must map the people, processes, technology, facilities, and information necessary to deliver each important business service and test its ability to remain within the set impact tolerances through a range of severe but plausible disruption scenarios.

In November 2024 the FCA and PRA jointly published a policy statement on operational resilience and critical third parties to the UK financial sector (PS16/24). The policy statement sets out the regulators' final rules on the critical third parties regime which took effect from 1 January 2025. Under the new regime, HM Treasury may designate certain third-parties that provide services to regulated firms 'critical', if in its opinion, a failure in or disruption to the provision of the services provided could threaten the stability of, or confidence in, the UK financial system. The regulators have powers to make rules, gather information from, and take enforcement action against, designated critical third parties.

INFORMATION RELATING TO THE REGULATION OF THE MORTGAGE LOANS IN THE UK

Policy considerations in respect of the UK private rented sector

The year ending 30 September 2024 has seen the buy-to-let mortgage market continuing to reshape following a period of sustained fiscal and regulatory intervention. Following changes to tax and stamp duty affecting landlords, the PRA introduced new rules on the conduct of buy-to-let underwriting, which came into force on 1 January 2017 and 1 October 2017 and which are further described under the heading below “Regulatory changes affecting buy-to-let lending”. The development of the regulatory landscape for the PRS has been dominated for some time by the Renters (Reform) Bill proposed by the last UK Government, which failed to become law before the dissolution of Parliament in May 2024, and its successor Renters’ Rights Bill introduced by the new administration.

The Seller’s target customers in the buy-to-let sector are specialist landlords. These landlords will typically let out four or more properties, or operate with more complex properties. They will generally run their portfolio as a business and have both a strong understanding of their local lettings market and a high level of personal day-to-day involvement. The Seller is one of the leaders amongst a small number of specialist lenders addressing this sector, which is underserved by many of the larger financial institutions. The Seller considers that its target customers’ level of experience, involvement in day-to-day letting activities and diversification of income streams across properties make them less vulnerable to cash flow shocks in the event of a downturn and therefore better able to cope when faced with economic pressures facing their business or their tenants.

While it is clear that the changing economic environment and regulatory landscape has caused some landlords to step away from the PRS, the Seller’s experience is that this reaction is concentrated amongst some smaller non-specialist amateur landlords, while the Seller’s specialist customers remain committed to the sector.

The 2023-2024 English Housing Survey, published by the Ministry of Housing, Communities and Local Government in November 2024, shows that the PRS continues to represent around 19 per cent. of English households, as it has consistently done for some time. With research published in May 2024 by the Nationwide Building Society, indicating households deferring their first house purchase due to economic pressures, this makes the role of the rented sector particularly important at present.

The impact on this demand for rental property can be seen in the lettings market data published in the RICS September 2024 UK Residential Market Survey. This reported continuing strong tenant demand coupled with a shortage of new instructions from landlords, which was pushing rents upwards, with RICS members expecting further rent rises in the short term.

Research published by the online property search engine, Zoopla, suggested that, on average, rents for new tenancies across the UK had increased by 5.4 per cent. in the year to July 2024 (the most recent published figure), after three years of growth at even higher levels, driven by demand outpacing the supply of new properties to rent. Zoopla predicts rents to continue increasing in the short term, but at a slower rate.

Around two thirds of properties in the PRS in England are funded through buy-to-let mortgages (based on UK Government data), although buy-to-let mortgage activity in the year showed less evidence of improvement than the general market. New advances reported by UK Finance (“UKF”) were £31.2 billion for the year ended 30 September 2024, 17.2 per cent. lower than for the previous year (2023: £37.7 billion), with the value of both house purchase and remortgage cases falling by similar proportions.

The propensity of borrowers to transfer to new products offered by their existing lender has also been affected. While such cases are not included in data for new mortgages, information published by UKF showed that around two thirds of landlords refinancing their mortgage in the year ended 30 September 2024 switched to a new

product with the same lender, rather than remortgaging with a new provider. This represented a similar proportion to the previous year, but the value of these cases was reduced, with a significant number of landlords clearly deferring any refinancing of their property, either as a result of affordability issues, or in anticipation of more competitive rates becoming available in the short term.

This mixed outlook for the sector was borne out by the Seller's own independently commissioned research amongst landlords and mortgage intermediaries.

In the Seller's quarterly survey of buy-to-let landlords for the quarter ended 30 September 2024, 79 per cent. of landlords reported they were experiencing strong tenant demand, including 40 per cent. who reported very strong demand. Rental yields continued to move upwards, with 74 per cent. of respondents having made rent increases over the year, and landlords reported that rental arrears had plateaued at a low level.

However, expectations for future rental yields had fallen year-on-year and the proportion of landlords who are optimistic about their business prospects was only 33 per cent., with the number of landlords looking to expand their portfolios at an historically low level. Only a very small number of landlords were positive about the UK economy, with a large proportion of respondents nervous that the incoming government's policies might affect their business negatively.

Amongst specialist mortgage intermediaries, the Seller's half-yearly insight survey, published in July 2024, showed the vast majority of intermediaries were confident or very confident about the prospects for their firms, the intermediary sector and the mortgage industry. The number who were confident about their buy-to-let business was lower, at 65 per cent., but this was substantially more positive than the 56 per cent. reported a year earlier. The principal issues concerning the respondents were the impact of the change in UK government and the level of interest rates, even after those rates had stabilised.

The UKF analysis of arrears and possessions also provided analysis of buy-to-let cases, showing a similar position to the wider mortgage market, with arrears easing in the last months of the period after moving upwards through most of the year to that point.

Overall, this data indicates that the buy-to-let mortgage market remains fundamentally robust, even in the face of economic pressures, albeit with a degree of caution on its future prospects, both on an economic and a regulatory basis. It therefore underpins the strength of the Seller's proposition, particularly given the Seller's focus on specialist landlords, who may be best placed to deal with these headwinds.

The buy-to-let market has been disrupted as a result of a series of government fiscal policy and regulatory interventions, which are in the process of reshaping the sector. Significant changes have been seen to date, and the effects are yet to work themselves out fully, from the following principal changes:

- (a) the introduction of a stamp duty land tax surcharge, Welsh land transaction tax surcharge and higher capital gains tax rate on buy-to-let properties;
- (b) the restriction of income tax relief on finance costs for buy-to-let landlords; and
- (c) regulatory changes affecting buy-to-let lending.

The changing economic environment and regulatory landscape as outlined above has caused some small-scale landlords to step back from the private rented sector.

The introduction of these measures may adversely affect the private residential rental market in England and Wales in general, or (in the case of the restriction of income tax relief) the ability of individual borrowers of buy-to-let mortgage loans to meet their obligations under those mortgage loans.

Stamp Duty Land Tax Surcharge, Welsh Land Transaction Tax Surcharge and Capital Gains Tax higher rate on buy-to-let properties:

Certain residential property transactions are subject to higher Stamp Duty Land Tax and Welsh Land Transaction Tax rates. Between 1 April 2016 and 30 October 2024, a 3-percentage point surcharge applied on top of the existing Stamp Duty Land Tax rates for acquisitions of residential property by non-natural persons (such as companies) and acquisitions by individuals of additional residential properties including residential investment property (e.g. second homes and buy-to-let properties). On 31 October 2024 the surcharge was raised to 5 percentage points. The policy was designed to “level the playing field” for the benefit of home buyers. However, the changes have not fundamentally altered the economics for residential property investors as the additional costs of acquisition can be defrayed over the term over which the property is held. As a result, the increase in stamp duty appears to have had the least effect of the government fiscal policy and regulatory interventions referred to above, with landlords considering their investment in the long term, mitigating the impact. The purchase by non-natural persons (such as companies) of a residential property and by an individual of an additional residential property in Wales is subject to Land Transaction Tax in Wales at higher residential rates being 5 percentage points higher than the main Welsh Land Transactions Tax rate for the first band of purchase price and for subsequent bands of purchase price, the additional rates remain higher than the main Welsh Land Transactions Tax rates (by differing percentages) and the bands of purchase price to which the additional rates are applied are structured differently to the main Welsh Land Transactions Tax bands.

In addition, capital gains tax (“CGT”) applies in respect of a gain realised by an individual on the disposal of a residential property which is not the taxpayer’s principal private residence (e.g. a second home or a buy-to-let property). From April 2024, the CGT annual exempt amount has been reduced from £6,000 to £3,000.

Since 6 April 2020 no deduction has been available for finance costs against rental income for individual landlords and instead a borrower is, broadly, only entitled to a tax credit at the basic rate of income tax for finance costs against that borrower’s income tax liability, which may result in higher taxes for individual landlords (depending on their personal circumstances).

Certain tax relief changes phased in between April 2017 to April 2023 have had a significant impact on customer behaviour, with amateur non-portfolio landlords (those with fewer than four properties) moving away from the market, leading to a fall in the volume of buy-to-let purchase transactions undertaken by such landlords which seems to be settling at a new ‘normal’ level. The reaction of the more professional portfolio landlords, who constitute the Group’s main target customer base, has been different. Their focus has generally been to adopt defensive measures, including putting properties into corporate structures and focussing on higher yielding properties such as homes in multiple occupation. This has led to a sharper distinction between professional landlord investors and other buy-to-let borrowers.

Regulatory changes affecting buy-to-let lending:

In September 2016 the PRA published a supervisory statement (SS13/16) on underwriting standards for buy-to-let mortgage contracts which introduced regulatory changes that were implemented in two phases:

- (a) From 1 January 2017 the PRA imposed common standards for affordability testing in the buy-to-let sector, similar, in principle, to the approach adopted by the FCA for owner-occupied mortgages under the MCOB rules. Most lenders were able to adopt these changes without serious disruption; and
- (b) From 1 October 2017, lenders were required to underwrite portfolio buy-to-let cases on a much more specialised basis, differentiating between portfolio and non-portfolio landlords, based on the number of properties owned with buy-to-let finance. Whilst the market in general was slow to reflect the required regulatory changes and communicate these to landlords and intermediaries leading to some disruption around the implementation date due to lack of clarity on lenders’ requirements, such disruption has subsequently eased as lenders have made their position clearer. Lenders in the buy-to-let market now

broadly fall into one of three groups: (i) those that only offer buy-to-let mortgages to non-portfolio landlords; (ii) those that offer only limited services to portfolio landlords; and (iii) specialist lenders (such as the Seller) that provide a full range of products for professional portfolio landlords.

Regulation of buy-to-let mortgage loans

Buy-to-let mortgage loans can fall under several different regulatory regimes. They can be:

- (a) unregulated (although certain related debt administration and debt collection activities are regulated and PFPLC has the relevant permissions to carry out such activities);
- (b) regulated by the CCA as a regulated credit agreement – as defined by section 8(3) of the CCA (a “**Regulated Credit Agreement**”);
- (c) regulated by the FSMA as a regulated mortgage contract - as defined by article 61 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (as amended) (a “**Regulated Mortgage Contract**”); or
- (d) regulated as a consumer buy-to-let (“**CBTL**”) mortgage contract under the CBTL regime - as defined by the Mortgage Credit Directive Order 2015 (a “**CBTL Loan**”).

The Mortgage Portfolio comprises Mortgage Loans that the Seller believes are unregulated (as described above). The Seller believes that the Initial Mortgage Portfolio does not contain and the New Mortgage Loans will not constitute Regulated Mortgage Contracts, Regulated Credit Agreements or CBTL Loans.

If any of the Mortgage Loans are in fact Regulated Credit Agreements, Regulated Mortgage Contracts or CBTL Loans then breach of the relevant regulations could give rise to a number of consequences (as applicable), including but not limited to: unenforceability of the Mortgage Loans, interest payable under the Mortgage Loans being irrecoverable for certain periods of time, or Borrowers being entitled to claim damages for losses suffered and being entitled to set off the amount of their claims against the amount owing by the Borrower under the Mortgage Loans.

Unfair Relationships

Under the CCA, the “extortionate credit bargain” 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. A “credit agreement” is any agreement between an individual (the ‘debtor’) and any other person (the ‘creditor’) by which the creditor provides the debtor with credit of any amount, and would therefore include any Individual Mortgage Loan which is not a Regulated Mortgage Contract. 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 Seller, or any assignee such as the LLP, to repay amounts received from such a 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 or in relation to any related 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 the UK legislation due to the UTCCR. The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The principle of “treating customers fairly” (which, in respect of retail customers, was replaced on 31 July 2023 by a new principle under the Consumer Duty, that a firm must act to deliver good outcomes for retail customers) under the FSMA, and guidance published by the Financial Services Authority (“**FSA**”) and subsequently by 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.

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. For example, it is possible that the non-disclosure of any commission paid by the lender to a broker or other third party could form part of a finding of an unfair relationship.

The Seller will warrant to the LLP and the Security Trustee in the Mortgage Sale Agreement that no Mortgage Loan (whether alone or with any related agreement) constitutes an unfair relationship for the purposes of sections 140A to 140C of the CCA. The sole remedy for breach of this warranty will be the Seller's obligation to repurchase the affected Mortgage Loan, paying the LLP an amount (not less than zero) equal to the aggregate of the Current Balance and the Amortised Cost Adjustment plus accrued interest on such Mortgage Loan as of the date of completion of such repurchase.

Challenge to Commission Based Lending

The UK consumer credit industry has recently been subject to significant challenges with respect to motor finance commissions, which could have implications for the financial services sector more generally.

In 2021, the FCA banned a form of commission arrangement known as "discretionary commission arrangements" ("DCAs") in the motor finance market, effectively removing the ability for brokers to increase the interest rate that a customer pays for their motor finance product linked to the commission to be received (the "**FCA Ban**"). Prior to the FCA Ban, the FCA had expressed concerns with respect to DCAs and highlighted in a Report in 2019 that very few brokers were disclosing to the customer the commission they received for arranging finance and that lenders were not taking reasonable steps to ensure that brokers complied with the Consumer Credit sourcebook.

Following the FCA Ban, an increasing number of customer complaints had been received by firms including through the FOS and via small claims made in county courts.

On 11 January 2024, the FCA announced it will be using its powers under Section 166 of the FSMA in order to appoint a "skilled person" to review historical motor finance commission arrangements and sales across "several firms". While this process is ongoing, the FCA has temporarily suspended the 8-week complaint handling deadline for motor finance firms. The moratorium on complaints handling has since (on 19 December 2024) been extended to 4 December 2025 to ensure orderly, consistent and efficient outcomes to motor finance complaints.

The FCA has confirmed that if, pursuant to its Section 166 skilled person review, it finds that there has been widespread misconduct and consumers have lost money as a result, it will identify how to best ensure that those who are owed compensation receive this in an orderly, consistent and efficient way. This could include an industry-wide consumer redress scheme. If this takes place, it could potentially rival the scale of the similar redress scheme set up in relation to the PPI scandal. In its update announcement on 30 July 2024, the FCA stated that it is now more likely than when it started its skilled person review that such scheme will be put in place.

Concurrent to the FCA action, the non-disclosure or partial disclosure of commissions by intermediaries has recently received renewed focus owing to the motor finance Court of Appeal cases *Johnson v FirstRand Bank Limited*, *Wrench v FirstRand Bank Limited* and *Hopcraft v Close Brothers* [2024] EWCA Civ 1106. The Court of Appeal upheld the appeals in all three cases. In addition, the Court of Appeal found that brokers owed fiduciary duties and a "disinterested" duty to customers when carrying out credit broking activities. That means that brokers were under an obligation to obtain customers' informed consent in relation to the receipt of the commissions.

The Court of Appeal's decision on these points was not limited to motor finance agreements and could extend to other products that were sold through a commission model. This means that all forms of lending, including mortgages, may be subject to additional challenge from customers who did not provide their informed consent to the receipt of commissions by the relevant broker. The Supreme Court has granted permission to appeal the Court of Appeal decision.

Given the uncertainty as to the scope of the Court of Appeal decision and the potential impact on the lending sector as a whole, the Supreme Court has expedited proceedings and the UK Chancellor of the Exchequer has taken the (unusual) step of sanctioning the government to make representations when the Supreme Court hears the appeal from the defendant lenders who provided this motor finance in April 2025. The media attention may encourage other customers to consider undisclosed or partially disclosed commission in respect of their products including the types of claims mentioned above in respect of the Mortgage Loans.

Although there is significant uncertainty with regard to legal and regulatory interventions around commissions paid in the motor finance market which could have implications for the financial services sector more generally, the Group has a comparatively small motor finance portfolio, and its expectations of exposure remain low.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

The UTCCR will apply to any term of an agreement entered into between 1 October 1999 and 30 September 2015 by a "consumer" within the meaning of the UTCCR where the term has not been individually negotiated. Regulation 2 of the UTCCR revoked the Unfair Terms in Consumer Contracts Regulations 1994, which applied to agreements entered into between 1 July 1995 and 30 September 1999. Any term found to be "unfair" within the meaning of the UTCCR will not be 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).

Under the UTCCR as long as a term is expressed in plain and intelligible English, the assessment of the fairness of the terms shall not relate to the definition of the main subject matter of the contract or the adequacy of the price or remuneration for the services under the contract. A term could, however, be assessed for fairness on other relevant grounds. Key provisions (such as the interest rate variation provision and loan transfer mechanism) of the Mortgage Loans may be subject to scrutiny under the UTCCR. For example, if a term permitting the lender to vary the interest rate (as the Seller is permitted to do in certain circumstances) were to be found by a court 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 LLP, 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 credit agreement or any other credit agreement that the borrower has taken with the lender.

The broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Mortgage Loans which have been made or may be made to borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of such Mortgage Loans. In addition, the guidance issued by the FSA has been removed by the FCA and replaced by updated guidance relating to firms' obligations under the CRA (please see below for an overview of this regime). Whilst the FCA has powers to enforce the UTCCR, it would be for a court to determine their proper interpretation.

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. When the unfair contract terms regime of the CRA came into force, it revoked the UTCCR and

introduced a new regime for dealing with unfair contractual terms. The CRA applies to any consumer contract entered into on or after 1 October 2015.

Under Part 2 of the CRA an unfair term of a consumer contract (a contract between a trader and a consumer) or notice 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). However, a consumer may choose to rely on an unfair term in a contract or notice if they wish. The CRA's definition of a consumer is wider than the UTCCR's and therefore could potentially apply to a larger group. 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". Paragraph 22 provides that this does not include terms by which a supplier of financial services reserves the right to alter the rate of interest payable by or due to the consumer, or 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 in a consumer contract may not be assessed for fairness to the extent that (i) it specifies the main subject matter of the contract; 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. This exclusion from the assessment of fairness only applies if the term is transparent and prominent. Terms that appear on the "grey list" referenced above cannot benefit from this exclusion.

A trader must ensure that a written term of a consumer contract, or a consumer notice in writing, is transparent i.e. that it is expressed in plain and intelligible language and is legible.

Where a term of a consumer contract is "unfair", it will not bind the consumer. However, the remainder of the contract, will, so far as practicable, continue to have effect in every other respect. Where a term in a consumer contract is susceptible to 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 FCA and the CMA are both jointly responsible for protecting the interests of consumers through enforcing the CRA. The CMA holds a leadership role in relation to enforcing both the UTCCR and the CRA, while the FCA has responsibilities in relation to the enforcement of the UTCCR for most financial service products and consumer credit regulation.

The CMA published its finalised guidance on the unfair terms provisions in the CRA on 31 July 2015 which sits alongside two complementary CMA publications aimed particularly at smaller businesses and others who require a short introduction to unfair terms law and to the CMA's approach to unfair terms enforcement.

Additionally, the FCA updated its Unfair Contract Terms Regulatory Guide before the CRA came into force, which sets out the FCA's approach to assessing the fairness of a contract term. In deciding whether to ask a firm to undertake to stop including a term in new contracts or to stop relying on it in concluded contracts, the FCA considers the full circumstances of each case, including:

- (a) whether the FCA is satisfied that the term may properly be regarded as unfair within the meaning of the CRA;

- (b) the extent and nature of the detriment to consumers resulting from the term or the potential harm which could result from the term; and
- (c) whether the firm has fully cooperated with the FCA in resolving their concerns about the fairness of the particular contractual term.

In May 2018, the FCA published a consultation on new guidance on unfair contract terms, “*Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015*”. The finalised guidance (FG 18/7) was published in December 2018, and outlines factors the FCA considers financial services firms should consider when drafting and reviewing variation terms in their consumer contracts. 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 any 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 Seller will warrant to the LLP and the Security Trustee in the Mortgage Sale Agreement that as far as the Seller is aware, no term of any Individual Mortgage Loan to which the UTCCR or CRA applies is an unfair term for the purposes of such regulations.

The Seller has agreed in the Mortgage Sale Agreement that, if a term of any Individual Mortgage Loan sold by it to the LLP is at any time on or after the First Transfer Date found by a competent court, whether on application of a borrower or the FCA or otherwise, to be an unfair term for the purposes of the UTCCR or CRA, it shall repurchase or procure the repurchase of the Individual Mortgage Loan concerned.

Financial Ombudsman Service

Under the FSMA, the FOS has a duty to resolve complaints relating to activities and transactions under its jurisdiction on the basis of what, in the FOS’s opinion, would be fair and reasonable in all circumstances of the case, taking into account (among other things) law and guidance. The FOS has jurisdiction to consider a complaint if it relates to an act or omission by a firm (as defined in the FCA Handbook), carrying on certain activities including regulated activities, CBTL business, and lending money secured by a charge on land. The FOS also has jurisdiction with relation to relevant credit-related complaints which relate to an act or omission which took place before 1 April 2014. Complaints brought before the FOS for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the FOS. The FOS may make a money award to a Borrower, which may adversely affect the value at which Mortgage Loans could be realised.

Consumer Protection from Unfair Trading Regulations 2008

The Consumer Protection from Unfair Trading Regulations 2008 (“CPUTR”) came into force on 26 May 2008 and prohibits certain practices deemed to be “unfair” that affect individuals acting for purposes outside their respective businesses. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. Consequently, there is a risk that breach of the CPUTR would initiate intervention by a regulator and may lead to criminal sanctions. The possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreement may also result in irrecoverable losses on amounts to which such agreements apply. The Consumer Protection (Amendment) Regulations 2014 (SI No.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.

The Digital Markets, Competition and Consumers Act 2024 (“**DMCCA**”) received Royal Assent on 24 May 2024. When relevant provisions in Part 4 of the DMCCA are commenced, they will revoke and restate the CPUTR, with minor amendments. In a written statement to Parliament on 9 September 2024, the government gave April 2025 as the planned commencement date. Once commenced, the DMCCA unfair commercial practices provisions will apply to acts or omissions occurring on or after the commencement date and the CPUTR to acts or omissions occurring prior to the commencement date. The DMCCA adds to the list of commercial practices which are in all circumstances considered unfair, and gives the Government the power to amend the list of practices using secondary legislation. Similar to the CPUTR, if there is a finding of an unfair practice, a trader will have committed an offence under Section 237 of the DMCCA (subject to defences). Unless subject to a right of redress under Section 232 (which affords a consumer rights such as unwinding a contract and damages under secondary regulation in the context of the prohibited practices of “misleading action” and “aggressive practice”), contracts will remain enforceable. The FCA (or another enforcer listed in the Act e.g. the CMA) (following consultation with the infringer) could apply to the court under Part 3, for an enforcement order to stop the practice. The DMCCA introduces new powers for the CMA to enforce the unfair commercial practices provisions directly (including to issue significant fines directly for breaches without the need to go to court). Under the DMCCA, only the CMA is empowered to directly enforce consumer law (and impose penalties). However, other “enforcers” under the DMCCA, including the FCA, will be able to apply to the court to impose financial penalties, including fines of up to 10 per cent. of a company’s global turnover. The effect (if any) of the CPUTR and/or the unfair commercial practices provisions of the DMCCA on the Mortgage Loans will depend on whether the Seller engages in any of the practices described in these laws.

Mortgage repossession

A protocol for mortgage repossession cases in England and Wales came into force on 19 November 2008, which sets out the steps that judges will expect any lender to take before starting a claim.

The Mortgage Repossession (Protection of Tenants etc) Act 2010 came into force in October 2010. The act introduced powers for courts hearing a mortgage repossession case where the property is occupied by unauthorised tenants, including powers to delay a repossession order and suspend a warrant of eviction on application by an unauthorised tenant. The lender has to serve notice at the property before enforcing a possession order.

The protocol in the above for mortgage possession cases may have adverse effects in markets experiencing above-average levels of possession claims. Delays in the initiation of responsive action in respect of the Mortgage Loans may result in lower recoveries.

The Renting Homes (Wales) Act 2016

The Renting Homes (Wales) Act 2016 (the “**Renting Homes Act**”) received royal assent on 18 January 2016 and fully entered into force on 1 December 2022. The Renting Homes Act converts the majority of existing residential tenancies in Wales into an occupation contract with retrospective effect, however some tenancies will not be converted with retrospective effect (including those which have protection under the Rent Act and tenancies for more than 21 years).

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

The Renting Homes Act may result in lower recoveries in relation to buy-to-let mortgage loans over properties in Wales.

Assured Shorthold Tenancy

The Mortgage Loans to be purchased by the LLP prohibit the holder of a long lease from occupying the Mortgaged Property as their only or principal home. Further, none of the Mortgaged Properties relating to the Mortgage Loans in the Mortgage Portfolio are prohibited by the terms of the Mortgage from being owner occupied. However, there can be no guarantee that each such Mortgaged Property will be the subject of an existing tenancy when the relevant Mortgage Loan is acquired by the LLP or that any tenancy which is granted will subsist throughout the life of the Mortgage Loan.

In some circumstances where: (a) the tenancy in respect of a Mortgaged Property ends; (b) the Mortgaged Property is comprised of a long leasehold granted after 15 January 1989; (c) the holder of the long lease is an individual who then occupies (or, in the case of joint leaseholders, at least one of them then occupies) the Mortgaged Property as their only or principal home in a manner contrary to the mortgage conditions; (d) the annual ground rent payable in respect of the long lease meets certain thresholds provided by the HA 1988; and (e) the long lease does not fall within any of the exceptions in Schedule 1 to the HA 1988, then the long lease may also be an Assured Tenancy (“AT”) or Assured Shorthold Tenancy (“AST”) under the HA 1988. If it is, this could have the consequences set out below.

The HA 1988 entitles a landlord to obtain an order for possession and terminate an AT or AST during its fixed term on proving one of the grounds for possession specified in section 7(6) of the HA 1988. This includes Ground 8 – namely that if the rent is payable yearly (as most ground rents are), at least three months’ rent is more than three months in arrears both at the date of service of the landlord’s notice and the date of the hearing.

Most leases in England and Wales give the landlord a right to forfeit the lease if rent is unpaid for a certain period of time but the courts normally have power to grant relief, cancelling the forfeiture as long as the arrears are paid off. There are also statutory protections in place to protect long leaseholders from unjustified forfeiture action. However, an action for possession under Ground 8 is not the same as a forfeiture action and the court’s power to grant relief does not apply to Ground 8. In order to obtain possession, the landlord will have to follow the notice procedure in section 8 of the HA 1988 and, if the tenant does not leave on expiry of the notice, apply for a court order. However, as Ground 8 is a mandatory ground, the court will have no discretion and will be obliged to grant the order if the relevant conditions are satisfied.

Accordingly, there is a risk that where:

- (a) a long lease is also an AT/AST due to the factors discussed above, including the breach by the leaseholder of the mortgage conditions;
- (b) the leaseholder is in arrears of ground rent for more than 3 months;
- (c) the landlord chooses to use the HA 1988 route to seek possession under Ground 8; and
- (d) the leaseholder does not manage to reduce the arrears to below 3 months’ ground rent by the date of the court hearing,

then the long lease will come to an end and the landlord will be able to take possession of the relevant Mortgaged Property without having to compensate the leaseholder or its mortgagee. In such circumstances any sub-lettings (and any security over the same) will also terminate.

However, if the Renters’ Rights Bill is enacted in its current form, the AST regime will be abolished and tenancies with a term more than twenty one years, with a term of between seven and twenty one years and granted before the Renters’ Rights Act is passed, or which, form part of a regulated home purchase plan will be excluded from the AT regime. As such, it would no longer be possible for long leases to be forfeited under section 8 and Ground 8 as described above.

Financial Services (Distance Marketing) Regulations 2004

The Financial Services (Distance Marketing) Regulations 2004 apply to, inter alia, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A Regulated Mortgage Contract, if made by a UK originator from an establishment in the UK, will not be cancellable under these regulations. Certain other credit agreements will be cancellable under these 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 these regulations the borrower may send notice of cancellation under these regulations at any time before the end of the fourteenth 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.

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

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

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

Energy Efficiency Regulations 2015

Since 1 April 2018, landlords of relevant domestic properties in England and Wales cannot grant a tenancy to new or existing tenants if their property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate for the property). Since 1 April 2020, landlords must not let or continue letting a relevant domestic property if that property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate for the property) and there is no valid exemption in place. In both cases described above this is referred to in the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (the "**Energy Efficiency Regulations 2015**") as the prohibition on letting substandard property. Where a landlord wishes to continue letting property which is currently substandard, it will need to ensure that energy efficiency improvements are made which raise the EPC rating to a minimum of E. The Government has announced its intention to raise the minimum EPC rating for private rented homes to band C by 2030.

In certain circumstances landlords may be able to register an exemption from this prohibition on letting substandard property; this includes situations where all improvements which can be made have been made up to a cost cap of £3,500 (including VAT), and the property remains below an EPC rating of Band E. Other exemptions include where there are no improvements that can be made or the cost of installing even the cheapest recommended measure would exceed the £3,500 cap. In the absence of such exemptions, any obligation on a landlord to make the necessary energy efficiency improvements may impact the ability of the relevant Borrower to make payment on the relevant Loan. Local authorities will enforce compliance with the domestic minimum level of energy efficiency. They may check whether a property meets the minimum level of energy efficiency, and may issue a compliance notice requesting information where it appears to them that a property has been let in breach of the Energy Efficiency Regulations 2015 (or an invalid exemption has been registered in respect of it). Where a local authority is satisfied that a property has been let in breach of the Energy Efficiency

Regulations 2015 it may serve a notice on the landlord imposing financial penalties. Any such action from local authorities may impact the ability of the relevant Borrower to make payment on the relevant Mortgage Loan.

On 4 December 2024 the Ministry of Housing Communities & Local Government and the Department for Energy Security & Net Zero launched a consultation on changes to EPCs. The consultation considers, among other things, increasing the range of metrics measured by an EPC and amending the rules so that EPCs are required more frequently for a greater range of buildings. The consultation closes on 26 February 2025.

Electrical Safety Regulations

The Electrical Safety Standards in the Private Rented Sector (England) Regulations 2020 (the “**Electrical Safety Regulations**”) came into force on 1 June 2020. They apply in England (i) from 1 July 2020 to tenancies granted on and after 1 June 2020 and (ii) from 1 April 2021 to tenancies granted before 1 June 2020. Tenancies subject to the Electrical Safety Regulations (referred to as “specified tenancies”) are those of residential premises in England which grant one or more persons the right to occupy all or part of the premises as their only or main residence, provide for payment of rent (whether or not a market rent), and are not an excluded tenancy (e.g. social housing, care homes, student halls of residence).

A private landlord who grants or intends to grant a specified tenancy must: (i) ensure that the relevant electrical safety standards are met during any period when the residential premises are occupied, (ii) ensure every electrical installation in the premises is inspected and tested at regular intervals by a qualified person, and (iii) ensure the first inspection and testing is carried out before the tenancy commences (in the case of a tenancy granted on or after 1 June 2020) or was carried out before 1 April 2021 (in the case of a tenancy granted before 1 June 2020). Regular intervals means every five years or as specified in the most recent inspection report. An inspection report provides the results of the inspection and test and must be obtained by the landlord from the person conducting the inspection and test. The landlord must provide copies of the inspection report to a range of people within prescribed timeframes, including the existing tenant and any new tenants. If the report indicates that the landlord is or is potentially in breach of the duty to ensure electrical safety standards are met and it requires the landlord to undertake further investigative or remedial work, the landlord must ensure that the further work is carried out by a qualified person within 28 days of the inspection and testing (or less if the report specifies a shorter period). The landlord must then obtain further written confirmation from a qualified person that the work has been carried out and either the electrical safety standards are met or further additional work is required. The steps need to be repeated until the electrical safety standards are met.

Where a local housing authority has reasonable grounds to believe that a landlord is in breach of one or more of its duties and the most recent inspection report does not indicate that urgent remedial action is required, the authority must serve a remedial notice on the landlord specifying, among other things, the remedial action that must be taken. The local housing authority can also take remedial action itself (including urgent remedial action) and can recover costs from the landlord. The local housing authority also has the power to impose financial penalties on the landlord if satisfied that the landlord has breached its duties.

Renters’ Rights Bill

On 11 September 2024 the Government introduced the Renters’ Rights Bill to the House of Commons. The Bill has completed its passage through the House of Commons and has been introduced to the House of Lords. The Bill builds on and strengthens various proposals set out in the Renters Reform Bill introduced under the previous Government.

As the law currently stands, a landlord can evict a tenant who has an AST using a “Section 21 Notice”. Section 21 Notices can be served to evict tenants either on expiry of the fixed term of the tenancy, where there is provision for a break during the tenancy, or at the end of a period of the tenancy where the tenancy has become

“periodic”. When issuing a Section 21 Notice, there is no requirement for the tenant to be in breach of the lease, or for a landlord to specify valid reasons for wanting to bring the tenancy to an end.

The Renters’ Rights Bill proposes to remove the whole of Chapter 2 of Part 1 of the HA 1988, which contains the provisions that establish ASTs. The removal of this Chapter entails the removal of section 21 of the HA 1988. This will remove the ability for landlords to seek to recover possession of a tenanted property by serving notice under section 21 of the HA 1988 on a so-called “no fault” basis. Instead, landlords will only be able to evict a tenant on one of the grounds set out in Schedule 2 to the HA 1988. The grounds set out in Schedule 2 will include the landlord or certain close family members intending to move into the property; and the landlord intending to sell the property, provided in each case that certain conditions are met. Schedule 2 to the HA also allows for a tenant to be evicted if the landlord is to sell the property, and includes various fault-based grounds for eviction.

The Renters’ Rights Bill contains provisions limiting landlords’ ability to increase rent: under the proposals, landlords may only increase rent annually to a rate not exceeding the open market rate. Tenants who believe that a proposed rent increase exceeds market rate can then challenge this at the First-tier Tribunal, who will determine the market rent.

In addition, the Renters’ Rights Bill will give the Secretary of State the power to issue regulations requiring residential landlords to join a landlord redress scheme, under which complaints by or on behalf of tenants or prospective tenants would be independently investigated and determined. The regulations may require prospective residential landlords to join the redress scheme before marketing a dwelling, and to remain members for a specified period after ceasing to be residential landlords. The Government has stated its intention to establish the Private Rented Sector Landlord Ombudsman scheme as the landlord redress scheme and it is expected that residential landlords will be required to pay a small annual fee to fund the scheme, but detailed information about this scheme is not available at the date of this Prospectus.

The Renters’ Rights Bill will also:

- (a) grant the Secretary of State the power to make regulations that would extend the Decent Homes Standard set out in the Housing Act 2004 to most properties in the residential private rented sector;
- (b) limit landlords’ ability to request rent in advance to one month’s rent;
- (c) for students, reduce the period of time between the date a tenancy agreement is entered into and the date the tenant is entitled to occupy the property to six months or less; and
- (d) relieve guarantors (who are guaranteeing the rent) of any liability for rent when a family member they are standing guarantor for dies.

Mortgage Market Study and Mortgage Prisoners

In March 2019, the FCA finalised its mortgage market study in respect of residential mortgages (MS16/2.3), which assessed consumers’ ability to make effective choices regarding mortgages, and commercial arrangements between firms which may potentially lead to conflicts of interest. The study found that the tools available to enable consumers to select cheaper mortgages (or remortgages) were not sufficient, and determined that changes were needed in this area. The market study focused on residential mortgages only – however the study noted that the FCA had considered the issues raised by the study in relation to buy-to-let mortgages. The FCA amended its responsible lending rules under MCOB in October 2019 (PS19/27), which determined that mortgage lenders can choose to carry out modified affordability assessments on customers, to enable them to switch to cheaper mortgages, where the consumer is up to date on mortgage payments, and is not looking to move home or borrow more against their existing property.

These amendments relate to regulated residential mortgage contracts only – however, these may be indicative of further regulatory change to the market following on from the mortgage market study, which may impact the servicing of the Mortgage Loans and may lead to increased flexibility in the market as consumers are increasingly able to switch between mortgage providers.

On 11 September 2024, a Private Members' Bill (the Mortgage Prisoners Inquiry Bill) was introduced in the House of Lords to establish an inquiry into the events surrounding the creation of mortgage prisoners, their consequences and any other relevant matters with the power to make recommendations. HM Treasury has stated that it remains committed to looking for practical new solutions for borrowers who are struggling in the context of mortgage imprisonment. It is, therefore, possible that there may be further relevant legislative and regulatory changes in the future.

Breathing Space Regulations

The Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020 (SI 2020/1311) ("**Breathing Space Regulations**") (which came into force in England and Wales on 4 May 2021) established a scheme which gives eligible individuals in England and Wales with problem debt the right to legal protection from their creditors, including almost all enforcement action, during a period of "breathing space". A standard breathing space will give an individual in England and Wales with problem debt legal protection from creditor action for up to 60 days to receive debt advice; and a mental health crisis breathing space will give an individual in England and Wales protection from creditor action for the duration of their mental health crisis treatment (which is not limited in duration) plus an additional 30 days following the end of such treatment.

However, the Breathing Space Regulations do not apply to mortgage payments of principal and interest, but do apply to mortgage arrears which are uncapitalised at the date of the application under the Breathing Space Regulations and interest, fees or any other charges on those arrears. Interest can still be charged on the principal secured debt during the breathing space period, but not on the arrears. Any mortgage arrears incurred during any breathing space period are not protected from creditor action. The borrower must continue to make mortgage payments in respect of any mortgage secured against their primary residence (save in respect of arrears accrued up to the start of the breathing space) during the breathing space period, otherwise the relevant debt adviser may cancel the breathing space period.

In February 2021, the FCA issued a policy statement (PS21/1) on the application of the Breathing Space Regulations, in which they confirm that no changes were at the time to be made to the rules under MCOB, in relation to how mortgage lenders should treat a "breathing space" as an indicator of payment difficulties. The FCA's view is that this is something that firms should take into account but should not be treated more specifically than other potential indicators of payment difficulties. Delays in the initiation of enforcement action in respect of the Mortgage Loans as a result of breathing space periods may result in lower recoveries.

FCA Consumer Duty

The FCA's Consumer Duty, which requires regulated firms to act to deliver good retail customer outcomes has applied since 31 July 2023 for products and services that remain open to sale or renewal and since 31 July 2024 for closed products and services.

For mortgages, the Consumer Duty does not apply to unregulated buy-to-let contracts or commercial mortgage loans but would apply to most regulated mortgage contracts and there are some circumstances in which the Consumer Duty would apply to the servicing of buy-to-let loans. This approach is in line with the position in the MCOB. The FCA further clarifies in its Handbook Notice No 108 issued in March 2023, that the Consumer Duty does not apply to activities where an exclusion exists in its sectoral rules.

There are three main elements to the Consumer Duty, comprising a new consumer principle, that “a firm must act to deliver good outcomes for the retail consumers of its products”, cross-cutting rules supporting the consumer principle, and four outcomes, relating to firms’ products and services, price and value, consumer understanding and consumer support.

The Consumer Duty applies not only at origination of a product but throughout its subsistence (so in the case of a mortgage loan, throughout the period the mortgage loan is outstanding). The cross-cutting rules include an obligation to avoid causing foreseeable harm to the consumer and the outcomes include an obligation to ensure that the product (for example, a mortgage loan) provides fair value to the retail customer. These obligations (as with the remainder of the Consumer Duty) must be assessed on a regular basis throughout the life of the product.

The Consumer Duty applies to product manufacturers and distributors, which include FCA authorised purchasers of in scope mortgage loans, as well as firms administering or servicing those mortgage loans. Although the Consumer Duty does not apply retrospectively to past actions by firms, the FCA requires firms to apply the Consumer Duty to existing products on a forward-looking basis.

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 the Seller specifically.

Perfection of title

On the First Transfer Date, the Seller will sell the Mortgage Loans and Related Security that comprise the Initial Mortgage Portfolio to the LLP. From time to time in accordance with the terms of the Mortgage Sale Agreement, the Seller may sell the New Mortgage Loans to the LLP. Legal title to the Mortgage Loans in the Initial Mortgage Portfolio will be held by the Seller or one of the other Legal Title Holders and legal title to New Mortgage Loans will be held by the Seller or one of the other Legal Title Holders.

The LLP’s title to the Mortgage Loans it acquires from the Seller will only be perfected in certain circumstances by the execution of transfers of Mortgage Loans by the relevant Legal Title Holder to the LLP, the carrying out of requisite registrations and the giving of notice to any Borrower. In the meantime, neither the LLP nor the Security Trustee will acquire legal title to any of the Mortgage Loans and they will not be able to apply to the Land Registry or the Land Charges Department to register transfers of the Mortgage Loans to perfect and/or protect their interests. Neither the LLP nor the Security Trustee will give notice to any Borrower or guarantor in respect of any transfer of the Mortgage Loans prior to the occurrence of a Relevant Event.

The effect of the agreement to transfer the Mortgage Loans from the Seller to the LLP pursuant to the Mortgage Sale Agreement remaining unperfected is that the rights of the LLP (and, therefore, in turn, the Security Trustee) may be, or may become, subject to equities as well as to the interests of third parties who perfect a legal interest prior to the LLP acquiring and perfecting its respective legal interest. Furthermore, the LLP’s interests will be or become subject to such equitable and other interests of third parties as may rank in priority to its interests in accordance with the normal rules governing the priority of equitable and other interests in the case of both registered and unregistered land. For further information, see “*Summary of the Principal Documents – Mortgage Sale Agreement – Transfer of legal title to the LLP*” below.

Set-off in relation to Mandatory Further Advances and Borrower deposits

The LLP expects the Seller to fund Mandatory Further Advances in respect of certain Post-Crisis Mortgage Loans, and the LLP may purchase such Further Advances from the Seller in accordance with the LLP Deed and the Mortgage Sale Agreement.

If the Seller fails to make a Mandatory Further Advance having agreed to do so prior to the relevant Borrower being notified of the assignment of the relevant Mortgage Loan (see “*Information Relating to the Regulation of the Mortgage Loans in the UK – Perfection of title*”), set-off rights may arise. The rights of the LLP may be subject to the direct rights of the relevant Borrower(s) against that Legal Title Holder, including rights of set-off which occur in relation to transactions made between the Borrower and that Legal Title Holder existing prior to notification to the Borrower of the assignment of the Mortgage Loans. For example, the relevant Borrower may exercise its rights to set off any claim for damages arising from that Legal Title Holder’s breach of contract against that Legal Title Holder’s (and, as equitable assignee of the relevant Mortgage Loan, the LLP’s) claim for payment of principal and/or interest under the relevant Mortgage Loan as and when it becomes due.

The amount of any such claim against that Legal Title Holder will, in many cases, be the cost to the Borrower of finding an alternative source of funds. The Borrower may obtain a mortgage loan elsewhere, in which case the damages awarded could be equal to any difference in the borrowing costs together with any direct losses arising from that Legal Title Holder’s breach of contract, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees).

If the relevant Borrower is unable to obtain an alternative mortgage loan, he or she may have a claim in respect of other indirect losses arising from that Legal Title Holder’s breach of contract where there are special circumstances communicated by the Borrower to the Legal Title Holder at the time the Borrower entered into the Mortgage Loan or which otherwise were reasonably foreseeable. A Borrower may also attempt to set off an amount greater than the amount of his or her damages claim against his or her mortgage payments. In that case, the Administrator 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.

In addition, a right of independent set-off could arise where the relevant Borrower has, on the relevant Transfer Date, a deposit account with the Seller or the Borrower opens a deposit account with the Seller following the relevant Transfer Date. In such circumstances, the Borrower in the event of the insolvency of the Seller, may be able to set-off any amounts held in the relevant deposit account against amounts owed by the Borrower pursuant to a Mortgage Loan entered into with the Seller (so long as is the Seller is the Legal Title Holder). The giving of notice to the Borrower would crystallise the Borrower’s entitlement to set-off amounts as of the date of receipt of the relevant notice.

Banks, insurance companies and other financial institutions in the UK are subject to the Financial Services Compensation Scheme (the “FSCS”) which gives customers protection where an authorised firm is unable or is likely to be unable to meet claims against it because of its financial circumstances. It is expected that most deposits made by borrowers with the Seller will be covered by the FSCS which gives the borrower protection up to the FSCS limit (as at the date of this Prospectus being £85,000). The Asset Coverage Test seeks to take account of the potential set-off risk associated with Borrowers holding deposits with the Issuer which exceed the FSCS Limit (although there is no assurance that all such risks will be accounted for).

Third party rights

Third party rights (for example, rights of occupation or rights of a subsequent mortgagee or security holder) may arise subsequent to the completion of the initial advance to a borrower. None of the Administrator, the Seller, the Legal Title Holders, the Originators, the Issuer or the Security Trustee has undertaken or will undertake any investigation or search of any kind prior to the making of a Mandatory Further Advance to a Borrower or, in some circumstances, the making of a Discretionary Further Advance. The Seller will not hold any interest in any such subsequent rights. Certain such third party rights may delay or affect the enforcement of any Mortgage Loan.

SUMMARY OF THE PRINCIPAL DOCUMENTS

1 Trust Deed

(a) Summary

The Trust Deed is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, *inter alia*:

- (i) the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under *Conditions of the Covered Bonds* above);
- (ii) the covenants of the Issuer and the LLP;
- (iii) the terms of the Covered Bond Guarantee (as described below);
- (iv) the enforcement procedures relating to the Covered Bonds and the Covered Bond Guarantee; and
- (v) the appointment, powers and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may resign or retire or be removed.

(b) Covered Bond Guarantee

Under the terms of the Covered Bond Guarantee, if the Issuer defaults in the payment on the due date of any monies due and payable under or pursuant to the Trust Deed or the Covered Bonds or any Coupons, if any other Issuer Event of Default occurs (other than by reason of non-payment) or if an LLP Event of Default occurs, the LLP has agreed (subject as described below) to pay or procure to be paid (following service of an Issuer Acceleration Notice and Notice to Pay or, if applicable, an LLP Acceleration Notice) unconditionally and irrevocably to or to the order of the Bond Trustee (for the benefit of the Covered Bondholders), an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or the Extended Due for Payment Date, by the Issuer (or an amount which would have become Due for Payment but for any variation, discharge or release of the Guaranteed Amounts). Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which an LLP Acceleration Notice is served.

Following the occurrence of an Issuer Event of Default and after the Covered Bonds have been declared due and payable by the Bond Trustee as against the Issuer, following service of an Issuer Acceleration Notice, the Bond Trustee will serve a Notice to Pay on the LLP. Payment by the LLP of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the day on which the Guaranteed Amounts are Due for Payment.

All payments of Guaranteed Amounts by or on behalf of the LLP will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction of such taxes, assessments or other governmental charges is required by law or regulation or administrative practice of the United Kingdom or any political subdivision thereof or any authority therein or thereof having the power to tax. If any such withholding or deduction is required, the LLP will pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The LLP will not be obliged to pay any additional amount to the Bond Trustee or any holder of Covered Bonds in respect of the amount of such withholding or deduction.

Under the terms of the Covered Bond Guarantee, the LLP agrees that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and

unconditional, irrespective of, and unaffected by, any invalidity, irregularity, illegality or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Coupons or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the Covered Bondholders or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Subject to the grace period specified in Condition 10(b) (*LLP Events of Default*) of the Conditions, failure by the LLP to pay the Guaranteed Amounts when Due for Payment will result in an LLP Event of Default.

(c) ***Excess Proceeds following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice and a Notice to Pay***

The Trust Deed provides that the Excess Proceeds shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the Transaction Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other monies from time to time standing to the credit of the Transaction Account. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and Notice to Pay or, if earlier, service of an LLP Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

(d) ***Governing law***

The Trust Deed and any non-contractual obligation arising out of or in relation to the Trust Deed are governed by English law.

2 Intercompany Loan Agreement

(a) ***Summary***

On each Issue Date, the Issuer will lend the gross proceeds of the Covered Bonds issued under the Programme on that date to the LLP by way of a Term Advance pursuant to the Intercompany Loan Agreement. Each Term Advance will be made in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms, and will be (if necessary) swapped into Sterling pursuant to the relevant Covered Bond Swap Agreement. The Sterling Equivalent of each Term Advance will be used by the LLP:

- (i) to purchase Mortgage Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
- (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit and/or Authorised Investments,

to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test (as described below), and thereafter may be applied by the LLP:

- (a) to purchase Mortgage Loans and Further Advances and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or

- (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit and/or Authorised Investments; and/or
- (c) subject to complying with the Asset Coverage Test, to make a Capital Distribution to the Seller (in its capacity as Member) by way of distribution of that Member's equity in the LLP in an amount equal to the Sterling Equivalent of the Term Advance or any part thereof, which shall be paid to the Member on the relevant Issue Date by telegraphic transfer or as otherwise directed by the Member; and/or
- (d) if an existing Series or Tranche, or part of an existing Series or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
- (e) to make a deposit of all or part of the proceeds to the Transaction Account.

Each Term Advance will bear interest at a rate of interest equal to the rate of interest payable on the corresponding Series or Tranche, as applicable, of Covered Bonds.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advance(s) in accordance with the relevant Priorities of Payments. Prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked) or a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer on each Interest Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the Pre-Acceleration Principal Priority of Payments. The Issuer may use the proceeds of the Term Advances to pay amounts due on the Covered Bonds. However, any failure by the LLP to pay any amounts due on the Term Advances will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds. For so long as an Asset Coverage Test Breach Notice is outstanding and has not been revoked, the LLP may not borrow any new Term Advances (and the Issuer may not make any new Term Advances) under the Intercompany Loan Agreement.

The amounts owed by the LLP to the Issuer under the Term Advances will be reduced by: (i) any amounts paid by the LLP under the terms of the Covered Bond Guarantee to repay the Covered Bonds (the proceeds of which were originally applied to make such Term Advances); and (ii) the Principal Amount Outstanding of any Covered Bonds (the proceeds of which were originally applied to make such Term Advances) purchased by the LLP and cancelled in accordance with Condition 7(g) (*Cancellation*).

(b) ***Governing law***

The Intercompany Loan Agreement and any non-contractual obligation arising in out of or in relation to the Intercompany Loan Agreement is governed by English law.

3 Mortgage Sale Agreement

(a) ***The Seller***

Mortgage Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of the Mortgage Sale Agreement.

(b) ***Sale by the Seller of Mortgage Loans and Related Security***

Under the Mortgage Sale Agreement the Seller agreed to sell and assign the Initial Mortgage Portfolio, comprising the Mortgage Loans together with all Related Security, to the LLP on the First Transfer Date. Prior to an Issuer Event of Default or an LLP Event of Default, the Seller shall also be entitled to sell

and assign New Mortgage Loans to the LLP on a Transfer Date and sell Further Advances to the LLP on any date, subject to the satisfaction of the Eligibility Criteria, as described in more detail in paragraphs (d) (*Eligibility Criteria*) and (f) (*Additional circumstances where Seller may repurchase*) below. In addition to providing for the sale and assignment of the Initial Mortgage Portfolio, New Mortgage Loans and Further Advances, the Mortgage Sale Agreement also sets out or provides for the following:

- (i) the representations and warranties to be given by the Seller in relation to the Mortgage Loans and the Related Security (including any New Mortgage Loans and their Related Security);
- (ii) the repurchase by the Seller of Mortgage Loans together with their Related Security which are the subject of an Interest Rate Conversion or in respect of which a Further Advance is made (in each case as further described in the section entitled “*Repurchase of Mortgage Loans subject to an Interest Rate Conversion or a Further Advance*”) where the Eligibility Criteria have not been satisfied on the Calculation Date following the Calculation Period (measured as at the last working day of the Calculation Period) in which the Interest Rate Conversion or Further Advance is made;
- (iii) the repurchase of Mortgage Loans together with their Related Security where the Seller has breached any of the relevant Loan Warranties, which breach could have a materially adverse effect on the relevant Mortgage Loans or their Related Security and, in any such case, is not remedied within the specified grace period, as further described in paragraph (e) (*Repurchase by the Seller for breach of warranty*) below; and
- (iv) the circumstances for the transfer of legal title to the Mortgage Loans and their Related Security to the LLP.

The assignment will be an assignment which takes effect in equity only. The transfer of legal title to the Mortgage Loans and their Related Security by way of legal assignment may not occur or, if it does occur, will not occur until a later date, as described further in the section entitled “*Transfer of legal title to the LLP*” below.

Additionally, the LLP and the Members (other than the Liquidation Member) are required to ensure that the Mortgage Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Administrator on each Calculation Date). If on any Calculation Date there is a breach of the Asset Coverage Test, the Seller will use all reasonable endeavours to offer to sell sufficient New Mortgage Loans and their Related Security to the LLP (or provide a Cash Capital Contribution to be credited to the Principal Ledger) on or before the next Calculation Date.

The consideration for the sale and assignment of the Initial Mortgage Portfolio on the First Transfer Date and any New Mortgage Loans on the relevant Transfer Date will consist of:

- (i) a cash payment to be made by the LLP from the proceeds of the relevant Term Advance (converted into Sterling (if required) at the relevant rate specified in any Covered Bond Swap Agreement entered into in respect thereof) and/or (in respect of any New Mortgage Loans) from Available Principal Receipts; and/or
- (ii) the Seller being treated as having made a Capital Contribution in Kind in an amount equal to the difference between the aggregate of the Current Balance and the Amortised Cost Adjustment (if any) for such Mortgage Loans as of the relevant Transfer Date and the cash payment (if any) made by the LLP; and
- (iii) Deferred Consideration.

Retained Pre Purchase Accruals and Arrears in respect of the Mortgage Loans will not be sold by the Seller to the LLP on any Transfer Date. Amounts received by the LLP in respect of Retained Pre Purchase Accruals and Arrears will be paid directly by the LLP to the Seller outside the Priorities of Payments.

(c) **Warranties**

The Mortgage Sale Agreement will contain warranties to be given by the Seller to the LLP and the Security Trustee in relation to each Pre-Crisis Mortgage Loan and Post-Crisis Mortgage Loan and its Related Security assigned to the LLP on the First Transfer Date and in relation to any New Mortgage Loans and their Related Security to be acquired by the LLP on a relevant Transfer Date. Neither the LLP nor the Security Trustee has carried out or will carry out any search, inquiry or independent investigation of the type which a prudent purchaser or mortgagee would normally be expected to carry out. Each is relying entirely on the Seller's warranties under the Mortgage Sale Agreement. Warranties in relation to Pre-Crisis Mortgage Loans are different from those in relation to Post-Crisis Mortgage Loans due to the Lending Criteria and the products offered at that respective point in time. Subject to agreed exceptions and materiality qualifications, the Seller's warranties under the Mortgage Sale Agreement (the "**Loan Warranties**") include, *inter alia*, the following (and references herein to the "Loan Warranty/ies" applying to a particular Mortgage Loan shall be interpreted in accordance with the below):

In relation to Pre-Crisis Mortgage Loans:

- (1) the particulars of each Mortgage Loan provided to the LLP pursuant to the Mortgage Sale Agreement are complete, true and accurate in all material respects;
- (2) subject to the completion of any registration or recording of the Mortgage which may be pending at the Land Registry of England and Wales, each Mortgage Loan is legally owned by the relevant Legal Title Holder;
- (3) the Seller is the beneficial owner of each Mortgage Loan;
- (4) each Mortgage Loan constitutes a valid and binding obligation of the Borrower;
- (5) subject to the completion of any registration or recording of the Mortgage which may be pending at the Land Registry of England and Wales, each Mortgage constitutes a valid and subsisting legal mortgage or fixed charge or mortgage over the relevant Mortgaged Property which is either:
 - a. a first legal mortgage or fixed charge or mortgage in respect of all monies outstanding under the related Mortgage Loan; or
 - b. a second or subsequent legal mortgage or fixed charge or mortgage over which no mortgage or fixed charge or mortgage which is not a Mortgage has priority in respect of all monies outstanding under the related Mortgage Loan;
- (6) the Mortgage Loans and the other estates and interests sold by the Seller are free and clear of all mortgages, securities, charges, liens, encumbrances, diligences, claims and equities but subject:
 - a. to the terms of the Mortgage Sale Agreement and the Deed of Charge; and
 - b. in the case of the Mortgages registration of which is pending at the Land Registry, to the completion of such registration or recording;
- (7) each Mortgage Loan is secured on a freehold or leasehold residential property which is situated in England or Wales;

- (8) all steps necessary with a view to perfecting the relevant Legal Title Holder's legal title to each Mortgage Loan were duly taken at the appropriate time or are in the process of being taken without undue delay on its part or on the part of those within its control;
- (9) no lien or right of set off (or analogous right) or counterclaim or compensation has been created or arisen or now exists between the Seller, the Legal Title Holders and any Borrower which would entitle such Borrower to reduce the amount of any payment otherwise due under a Mortgage Loan;
- (10) prior to making the initial advance to a Borrower:
 - a. the relevant Originator received from solicitors or licensed conveyancers acting for it a report on title or certificate of title to the relevant Mortgaged Property (the benefit of which is available to the owner for the time being of the relevant Mortgage Loan) which either initially or after further investigation disclosed nothing which would cause a reasonably prudent lender to decline to proceed with the initial advance on the proposed terms; or
 - b. where the Mortgage Loan made in relation to a Mortgaged Property is secured by a Mortgage which was made without there being a contemporaneous purchase of such Mortgaged Property by the Borrower, the relevant Originator carried out such written searches and investigations of title to the Mortgaged Property which a reasonably prudent mortgage lender would carry out in relation to the remortgaging of a property, which searches and investigations either initially or on further investigation disclosed nothing which would cause a reasonably prudent mortgage lender to decline to proceed with the initial advance on the proposed terms;
- (11) prior to making a Mortgage Loan, a valuation was undertaken on behalf of the relevant Originator by a valuer approved by that Originator (being a fellow or associate of the Royal Institution of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers) which either initially or after further investigation disclosed nothing which would cause a reasonably prudent mortgage lender to decline to proceed with taking the mortgage or charge on the proposed terms;
- (12) subject to registration or recording at the Land Registry where required, at the date of the Mortgage Loan each Mortgaged Property was held by the Borrower free from any encumbrance which would materially adversely affect either the title to the Mortgaged Property or the value of the Mortgaged Property for security purposes set out in any valuation report carried out for the relevant Originator;
- (13) if the Mortgaged Property is not registered at the Land Registry and is not required to be registered, the relevant Borrower has a good and marketable title to the fee simple absolute in possession or a term of years absolute in the relevant Mortgaged Property or, if the Mortgaged Property is registered or is unregistered but is subject to first registration at the Land Registry, it has been registered or is in the course of registration with title absolute, in the case of freehold property, or absolute or good leasehold title, in the case of leasehold property;
- (14) prior to making each initial advance or Discretionary Further Advance, the Pre-Crisis Lending Criteria were satisfied so far as applicable (having regard to any further advance which could fall to be made) subject to such waivers as might be within the discretion of a reasonably prudent lender;
- (15) each advance has been made in all material respects on the terms of the Mortgage Loan Documents current at the date of the advance and, other than where the relevant Originator or

Legal Title Holder has acted as a reasonable prudent lender, such documents have not been subsequently varied in any material respect;

- (16) the relevant Borrower's consent is not required for the transfer of any Mortgage Loan;
- (17) interest is charged on each Mortgage Loan at such rate as may be from time to time determined in accordance with the provisions of the Mortgage Loan Conditions;
- (18) no Mortgage Loan is an Arrears Mortgage;
- (19) other than in the case of Mortgage Loan where the Borrower has been written to in respect of an unauthorised letting, there are no outstanding claims in respect of any material breaches of the terms of any Mortgage Loan;
- (20) the relevant Originator took (or instructed its solicitors to take) on or prior to the date of completion of each Mortgage Loan all reasonable steps to ensure that any Mortgaged Property was insured under a policy with an insurance company against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the valuer acting for it and that it was either a named insured or its interest was noted by the insurers;
- (21) since the registration of each Mortgage in the name of the relevant Originator, full and proper accounts, correspondence files, books and records showing all transactions, payments, receipts, proceedings and notices relating to that Mortgage have been kept and all such accounts, books and records are up to date and in the possession of the Seller or the Legal Title Holders or held to their order;
- (22) neither the Seller nor the Legal Title Holders have received written notice of any claim calling into question in any material way its title to any Mortgage;
- (23) all the Title Deeds to the Mortgaged Property and the Mortgages are held by or to the order of the Seller or the Legal Title Holders or have been lodged by the Seller or the Legal Title Holders at the Land Registry;
- (24) in the case of Individual Mortgage Loans only, no Borrower is a current employee of the Seller or the Legal Title Holders and each Borrower of an Individual Mortgage Loan is an individual;
- (25) other than in the case of any Mortgage Loan where the Borrower has been written to in respect of an unauthorised letting or accepting a payment holiday, neither the Seller nor any other Legal Title Holder has knowingly waived or acquiesced in any breach of any of its rights under or in relation to a Mortgage Loan other than such waivers as a reasonably prudent lender might make in accordance with the guidance set out in the Administration Manual;
- (26) no agreement for any Individual Mortgage Loan is unenforceable in whole or in part as a result of any non compliance with the CCA;
- (27) for so long as there is a breach of the applicable Mortgage Loan Conditions no Mortgage Loan will require the making of any Mandatory Further Advance (if any);
- (28) in relation to any Mortgage Loan where the obligations of the Borrower are guaranteed by a guarantor, each guarantee or surety obligation in respect of such Mortgage Loan constitutes a valid and binding obligation of such guarantor and the benefit of such guarantee may be assigned to the LLP and charged by the LLP to the Security Trustee;

- (29) there is no obligation on the part of the Seller or the Legal Title Holders to make any further advances except in accordance with the relevant Mortgage Loan Conditions;
- (30) the first payment due in respect of each Mortgage Loan has fallen due and has been received in full;
- (31) the Insurance Contracts will (to the extent applicable) apply to each of the Mortgage Loans and to the extent that they apply to such Mortgage Loans the LLP will have the benefit of each such Insurance Contract and, as between the assignor and the assignee, any assignment or transfer of the rights and benefits under each such insurance contract by the LLP to the Security Trustee will be valid and binding without notification to, or request for consent from, the relevant insurer;
- (32) so far as each Legal Title Holder is aware, no term of any Individual Mortgage Loans to which the Unfair Terms in Consumer Contract Regulations 1994 or 1999 apply is an unfair term for the purposes of such regulations;
- (33) in the case of each Corporate Mortgage Loan, the prescribed particulars of the Corporate Mortgage Loans and any floating charge together with the instrument by which they were created were delivered to the Registrar of Companies for registration within 21 days after their creation in accordance with section 395 (or, as applicable, section 410) of the Companies Act 1985 and a certificate of registration has been received in respect of such registration;
- (34) in the case of Corporate Mortgage Loans only, each Borrower is a private company incorporated with limited liability in England and Wales;
- (35) in the case of Corporate Mortgage Loans only, neither the Seller nor the Legal Title Holders have received written notice of any steps having been taken for the liquidation or winding up of, or the making of an administration order in relation to, any Borrower or of any steps having been taken to enforce any security over the assets of any Borrower;
- (36) in the case of Corporate Mortgage Loans only, a search was conducted at Companies House in relation to the Borrower which revealed that no notices of appointment of a liquidator, administrator, administrative receiver or receiver had been filed and that no resolution had been passed to wind up the Borrower; and
- (37) the Mortgage Loans will constitute “eligible property” for the purposes of Regulation 2 of the RCB Regulations.

In relation to Post-Crisis Mortgage Loans:

- (1) the particulars of each Mortgage Loan provided to the LLP pursuant to the Mortgage Sale Agreement are complete, true and accurate in all material respects;
- (2) subject to the completion of any registration or recording of the Mortgage which may be pending at the Land Registry of England and Wales, each Mortgage Loan is legally owned by the relevant Legal Title Holder;
- (3) the Seller is the beneficial owner of each Mortgage Loan in the Mortgage Portfolio on the Relevant Transfer Date;
- (4) each Mortgage Loan constitutes a valid and binding obligation of the Borrower;
- (5) subject to the completion of any registration or recording of the Mortgage which may be pending at the Land Registry of England and Wales, each Mortgage constitutes a valid and subsisting legal mortgage over the relevant Mortgaged Property which is either:

- a. a first legal mortgage in respect of all monies outstanding under the related Mortgage Loan; or
 - b. a second or subsequent legal mortgage over which no mortgage which is not a Mortgage has priority in respect of all monies outstanding under the related Mortgage Loan,
- (6) the Mortgage Loans and the other estates and interests sold by the Seller under the Mortgage Sale Agreement are free and clear of all mortgages, securities, charges, liens, encumbrances, diligences, claims and equities but subject:
 - a. to the terms of the Mortgage Sale Agreement and the Deed of Charge; and
 - b. in the case of the Mortgages registration or recording of which is pending at the Land Registry of England and Wales to the completion of such registration or recording,
- (7) each Mortgage Loan is secured on a freehold or leasehold residential property which is situated in England or Wales;
- (8) all steps necessary with a view to perfecting the relevant Legal Title Holder's legal title to each Mortgage Loan were duly taken at the appropriate time or are in the process of being taken without undue delay on its part or on the part of those within its control;
- (9) no Mortgage Loan is subject to any right of rescission, set off, lien, counterclaim or defence which would entitle the relevant Borrower to reduce the amount of any payment otherwise due under a Mortgage Loan (where "Mortgagee" means the relevant Legal Title Holder);
- (10) prior to making the initial advance to a Borrower:
 - a. the relevant Originator received from solicitors or licensed or qualified conveyancers acting for it a report on title or certificate of title to the relevant Mortgaged Property (the benefit of which is available to the owner for the time being of the relevant Mortgage) which either initially or after further investigation disclosed nothing which would cause a reasonably prudent mortgage lender to decline to proceed with the initial advance on the proposed terms; or
 - b. where the Mortgage Loan made in relation to a Mortgaged Property is secured by a Mortgage which was made without there being a contemporaneous purchase of such Mortgaged Property by the Borrower, the relevant Originator carried out such written searches and investigations of title to the Mortgaged Property which a reasonably prudent mortgage lender would carry out in relation to the remortgaging of a property, which searches and investigations either initially or on further investigation disclosed nothing which would cause a reasonably prudent mortgage lender to decline to proceed with the initial advance on the proposed terms;
- (11) prior to making a Mortgage Loan, a valuation was undertaken on behalf of the relevant Originator by a valuer approved by that Originator (being a fellow or associate of the Royal Institution of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers) which either initially or after further investigation disclosed nothing which would cause a reasonably prudent mortgage lender to decline to proceed with taking the mortgage or charge on the proposed terms;
- (12) subject to registration or recording at the Land Registry of England and Wales where required, at the date of the Mortgage each Mortgaged Property was held by the Borrower free from any encumbrance which would materially adversely affect either the title to the Mortgaged Property

or the value of the Mortgaged Property for security purposes set out in any valuation report carried out for the relevant Originator;

- (13) if the Mortgaged Property is not registered at the Land Registry of England and Wales and is not required to be registered, the relevant Borrower has a good and marketable title to the fee simple absolute in possession or a term of years absolute in the relevant Mortgaged Property or, if the Mortgaged Property is registered or is unregistered but is subject to first registration at the Land Registry of England and Wales, it has been registered or is in the course of registration with title absolute, in the case of freehold property, or absolute or good leasehold title, in the case of leasehold property and if the Mortgaged Property is not registered and is not required to be registered, it is comprised in either a fee simple absolute (if freehold) or a term of years (if leasehold) of not less than 30 years beyond the term of the Mortgage Loan relating to such Mortgaged Property and is free from any encumbrance which would affect such title, and if the Mortgaged Property is registered, it has been registered with title absolute (if freehold) or good leasehold estate title of the requisite term (if leasehold) or is in the process of being so registered;
- (14) prior to making each initial advance or Discretionary Further Advance, the Post-Crisis Lending Criteria were satisfied so far as applicable (having regard to any further advance which could fall to be made) subject to such waivers as might be within the discretion of a reasonably prudent mortgage lender;
- (15) each advance has been made in all material respects on the terms of the Mortgage Loan Documents current at the date of the advance and such documents have not been subsequently varied in any material respect;
- (16) the relevant Borrower's consent is not required for the transfer or assignment of any Mortgage Loan;
- (17) interest is charged on each Mortgage Loan at such rate as may be from time to time determined in accordance with the Mortgage Loan Conditions;
- (18) no Mortgage Loan is an Arrears Mortgage;
- (19) other than in the case of a Mortgage on a Mortgaged Property where the Borrower has been written to in respect of an unauthorised letting, there are no outstanding claims in respect of any material breaches of the terms of any Mortgage Loan;
- (20) the relevant Originator took (or instructed its solicitors to take) on or prior to the date of completion of each Mortgage all reasonable steps to ensure that any Mortgaged Property was insured under a policy with an insurance company against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the valuer acting for it and that it was either a named insured or its interest was noted by the insurers;
- (21) the first payment due in respect of each Mortgage Loan has fallen due and has been received in full;
- (22) since the registration of each Mortgage in the name of the relevant Originator, full and proper accounts, correspondence files, books and records showing all transactions, payments, receipts, proceedings and notices relating to that Mortgage have been kept and all such accounts, books and records are up to date and in the possession of the Seller or the Legal Title Holders or held to their order;

- (23) the Legal Title Holders have not received written notice of any claim calling into question in any material way its title to any Mortgage Loan;
- (24) all the Title Deeds to the Mortgaged Properties and the Mortgages are held by or to the order of the Seller or the Legal Title Holders or have been lodged by the Seller or the Legal Title Holders at the Land Registry of England and Wales;
- (25) in the case of Individual Mortgage Loans only, no Borrower is a current employee of a Paragon Banking Group Company and each Borrower of an Individual Mortgage Loan purchased pursuant to the Mortgage Sale Agreement is an individual;
- (26) other than in the case of any Mortgage Loan on a Mortgaged Property where the Borrower has been written to in respect of an unauthorised letting, the Seller or the Legal Title Holders have not knowingly waived or acquiesced in any breach of any of its rights under or in relation to a Mortgage Loan other than such waivers as a reasonably prudent mortgage lender might make in accordance with the guidance set out in the Administration Manual;
- (27) no Mortgage Loan is wholly or partly regulated by the CCA or by the FSMA as a regulated credit agreement under article 60B of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) or treated as such, or, to the extent that it is so regulated or partly regulated or treated as such, the Seller, the Originators and the Legal Title Holders have complied with all of the relevant legal requirements of, and procedures set out in, the CCA or the FSMA and all secondary legislation made pursuant thereto and the FCA handbook, as applicable;
- (28) no Mortgage Loan is wholly or partly regulated by the FSMA as a regulated mortgage contract as defined under article 61 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) or treated as such, or, to the extent that it is so regulated or partly regulated or treated as such, the Seller, the Originators and the Legal Title Holders have complied with all of the relevant legal requirements of, and procedures set out in the FSMA and all secondary legislation made pursuant thereto and the FCA handbook, as applicable;
- (29) no Mortgage Loan (whether alone or with any related agreement) constitutes an unfair relationship for the purposes of sections 140A to 140C of the CCA;
- (30) the amount outstanding under each Mortgage Loan is a valid debt to the relevant Legal Title Holder (as holder of the legal title to the Mortgage Loan) from the Borrower arising from advances of money to the Borrower and, except for any Mortgage Loan and its Related Security which is not binding by virtue of UTCCR or CRA, the terms of each Mortgage Loan and its Related Security constitute valid, binding and legally enforceable obligations of the relevant parties except that (i) enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the courts' discretion in relation to equitable remedies and (ii) the warranty only applies in relation to interest and principal payable by the Borrower;
- (31) no agreement for any Mortgage Loan is cancellable in whole or in part as a result of any non-compliance with the Financial Services (Distance Marketing) Regulations 2004 (as amended);
- (32) for so long as there is a breach of the applicable Mortgage Loan Conditions no Mortgage Loan will require the making of any Mandatory Further Advance;
- (33) in relation to any Mortgage Loan where the obligations of the Borrower are guaranteed by a guarantor, each guarantee or surety obligation in respect of such loan constitutes a valid and

binding obligation of such guarantor and the benefit of such guarantee may be assigned to the LLP and charged by the LLP to the Security Trustee;

- (34) there is no obligation on the part of the Seller or the Legal Title Holders under a Mortgage Loan to make any further advances except in accordance with the relevant Mortgage Loan Conditions;
- (35) the Insurance Contracts will (to the extent applicable) apply to each of the Mortgage Loans and to the extent that they apply to such Mortgages the LLP will have the benefit of each such Insurance Contract and, as between the assignor and the assignee, any assignment or transfer of the rights and benefits under each such Insurance Contract by the LLP to the Security Trustee will be valid and binding without notification to, or request for consent from, the relevant insurer;
- (36) no term of any Mortgage Loan is an “unfair term” within the meaning of UTCCR or the CRA but this warranty shall only be construed to apply in respect of principal and interest due or charged on the Mortgage Loan and not in respect of any early repayment or prepayment charges;
- (37) the relevant Originator and Legal Title Holder has at all relevant times held, and continues to hold, authorisation and appropriate permissions from the FCA for conducting all regulated activities specified in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended) carried on by it in respect of each Mortgage Loan;
- (38) in the case of each Corporate Mortgage Loan, the prescribed particulars of the Corporate Mortgage Loan and any floating charge together with the instrument by which they were created were delivered to the Registrar of Companies for registration within 21 days after their creation in accordance with Section 859 of the Companies Act and a certificate of registration has been received in respect of such registration;
- (39) in the case of Corporate Mortgage Loans only, each Borrower is a private company incorporated with limited liability in England and Wales;
- (40) in the case of Corporate Mortgage Loans only, neither the Seller nor the Legal Title Holders have received written notice of any steps having been taken for the liquidation or winding up of, or the making of an administration order in relation to, any Borrower or of any steps having been taken to enforce any security over the assets of any Borrower;
- (41) in the case of Corporate Mortgage Loans only, a search was conducted at Companies House at origination in relation to the Borrower, which revealed that no notices of appointment of a liquidator, administrator, administrative receiver or receiver had been filed and that no resolution had been passed to wind up the Borrower;
- (42) none of the Mortgages, the Mortgage Loans (other than the Mortgage Loans advanced to Borrowers that are not individuals), Related Security or Insurance Contracts consist of or include any “stock” or “marketable securities” as such terms are defined in section 122 of the Stamp Act 1891 or “chargeable securities” for the purposes of section 99 of the Finance Act 1986, and none of the Mortgages, the Mortgage Loans, Related Security or Insurance Contracts consist of or include a “chargeable interest” for the purposes of section 48 of the Finance Act 2003 and section 4 of the Land Transaction Tax and Anti-Avoidance of Devolved Taxes (Wales) Act 2017;
- (43) all the Mortgages Loans advanced to Borrowers that are not individuals are within the exemption conferred by section 79(4) of the Finance Act 1986;
- (44) the underlying Mortgage Loan Documents used in respect of each Mortgage Loan is governed by and subject to the laws of England and Wales;

- (45) in the case of Individual Mortgage Loans only, at origination, the relevant Borrower is resident in England and Wales;
- (46) each Mortgage Loan is denominated in Sterling; and
- (47) the Mortgage Loans will constitute “eligible property” for the purposes of Regulation 2 of the RCB Regulations.

If New Mortgage Loan Types are to be sold to the LLP, then the relevant Loan Warranties may be modified as required to accommodate these New Mortgage Loan Types. The prior consent of the Covered Bondholders to the requisite amendments will not be required to be obtained, provided that the Ratings Condition is satisfied in respect of such modifications.

(d) ***Eligibility Criteria***

Pursuant to the terms of the Mortgage Sale Agreement, the Seller shall be entitled to sell, and the LLP shall be entitled to purchase, New Mortgage Loans and their Related Security, subject to satisfaction of the criteria as set out below (the “**Eligibility Criteria**”) on the relevant Transfer Date. The Seller shall be entitled to sell Further Advances to the LLP, and the Administrator on behalf of the Legal Title Holders shall be entitled to make Interest Rate Conversions. Mortgage Loans subject to a Further Advance or an Interest Rate Conversion may remain in the Mortgage Portfolio subject to satisfaction of certain of the Eligibility Criteria on the next Calculation Date measured as at the last working day of the Calculation Period during which such Interest Rate Conversion or Further Advance was made. In the event that condition (d), (e) or (f) of the Eligibility Criteria below are not met on such Calculation Date, the Seller will be required to repurchase such Mortgage Loans or take such other action, as described under “*Repurchase of Mortgage Loans subject to an Interest Rate Conversion or a Further Advance*” in paragraph (f) below.

The Eligibility Criteria are as follows:

- (a) no New Mortgage Loan is in breach of the relevant Loan Warranties as at the relevant Transfer Date;
- (b) no Issuer Event of Default or LLP Event of Default under the Transaction Documents shall have occurred which is continuing as at the relevant Transfer Date;
- (c) the LLP, acting on the advice of the Administrator, is not aware, and could not reasonably be expected to be aware, that the purchase of the Mortgage Loans and their Related Security, would adversely affect the then current ratings by Moody’s or Fitch of the Covered Bonds;
- (d) the weighted average interest charging rate on the Mortgage Loans in the Mortgage Portfolio (including the New Mortgage Loans) is at least 0.40 per cent. greater than the SONIA Spot Rate published on the final London Banking Day in the previous Calculation Period, calculated by reference to (i) the weighted average interest charging rate on the Mortgage Loans, (ii) the margins on the Interest Rate Swaps and (where relevant) Standby Interest Rate Swaps, (iii) the average yield on any Substitution Assets and Authorised Investments held by the LLP and (iv) the amount standing to the credit of the Yield Reserve;
- (e) no Mortgage Loan which is proposed as a New Mortgage Loan to be sold on any Transfer Date relates to a Mortgaged Property which is not a residential property; and
- (f) no Mortgage Loan constitutes a New Mortgage Loan Type, in respect of which the Ratings Condition has not been satisfied in accordance with the terms of the Mortgage Sale Agreement.

provided that, in respect of the sale of New Mortgage Loans, if the relevant Transfer Date is an Issue Date, only conditions (a), (b), (d), (e) and (f) are required to be satisfied to effect an assignment and transfer of the mortgage loans that are proposed to be New Mortgage Loans.

If the relevant Transfer Date of New Mortgage Loans is not an Issue Date, condition (d) will be tested on the Calculation Date following the end of the Calculation Period during which the LLP purchased the New Mortgage Loans and measured as at the last working day of such Calculation Period. If, in this scenario, condition (d) is not met on the relevant Calculation Date and the Seller does not repurchase the relevant Mortgage Loans, the Seller will be required to: (i) offer to sell sufficient New Mortgage Loans and their Related Security to the LLP on or before the Calculation Date immediately following the Calculation Date on which the breach of the Eligibility Criteria was determined in which the Interest Rate Conversion or Further Advance was made, so as to ensure that paragraph (d) of the Eligibility Criteria will be satisfied on the Calculation Date following the Calculation Date on which the breach of item (d) was determined, or (ii) make a Cash Capital Contribution, to be credited to the Yield Reserve Ledger, such that, taking account of any amounts previously credited to the Yield Reserve (if any) in accordance with item (k) of the Pre-Acceleration Revenue Priority of Payments, item (d) of the Eligibility Criteria will be satisfied on the Calculation Date following the Calculation Date on which the breach of item (d) was determined.

If New Mortgage Loan Types are to be sold to the LLP, then the Eligibility Criteria may be modified as required to accommodate these New Mortgage Loan Types. The prior consent of the Covered Bondholders to the requisite amendments will not be required to be obtained, provided that the Ratings Condition is satisfied in respect of such modifications.

(e) ***Repurchase by the Seller for breach of Loan Warranty***

The Seller has agreed in the Mortgage Sale Agreement to repurchase any Mortgage Loan (including any accrued interest thereon) together with its Related Security if a Mortgage Loan or its Related Security does not comply on (i) the First Transfer Date; or (ii) (in the case of any New Mortgage Loans) the relevant Transfer Date, with the relevant Loan Warranties given by the Seller under the Mortgage Sale Agreement, where such breach could have a materially adverse effect on the relevant Mortgage Loans or their Related Security and the Seller does not remedy such breach within 28 calendar days (or such longer period not exceeding 35 calendar days as the LLP and the Security Trustee may agree) of the Seller or the Administrator becoming aware of such breach and providing written notice of such breach to any of the LLP or the Security Trustee. Mortgage Loans that have not been repurchased by the 28 calendar day (or, if extended, up to 35 calendar day) deadline will be deducted from the Asset Coverage Test.

Any breach of Pre-Crisis Loan Warranties (7) or (37) and/or Post-Crisis Loan Warranties (7) or (47) when given will be deemed to have a materially adverse effect on the relevant Mortgage Loans or their Related Security, and the Seller has agreed in the Mortgage Sale Agreement to repurchase such Mortgage Loans (including any accrued interest thereon) together with its Related Security in accordance with the Mortgage Sale Agreement.

The Seller will have no other liability for breach of a Loan Warranty other than such obligation to repurchase.

For so long as the Seller is the Administrator, it must notify the LLP and the Security Trustee of any breach, which could have a materially adverse effect on the relevant Mortgage Loans or their Related Security, of a Loan Warranty as at the date such warranty was given, as soon practicable after becoming aware of such breach.

The price payable by the Seller upon the repurchase of any Mortgage Loan and its Related Security is an amount (not less than zero) equal to the aggregate of the Current Balance and the Amortised Cost Adjustment plus accrued interest on such Mortgage Loan as of the date of completion of such repurchase (the “**Repurchase Price**”).

(f) *Additional circumstances where Seller may repurchase*

Repurchase of Mortgage Loans subject to an Interest Rate Conversion or a Further Advance

If the Administrator notifies the Seller and the LLP that it has accepted an application from, or has had an offer accepted by, a Borrower for an Interest Rate Conversion or a Further Advance in respect of any Mortgage Loan in the Mortgage Portfolio and any of the Eligibility Criteria referred to condition (d), (e) or (f) of paragraph (d) above are not satisfied on the Calculation Date following the Calculation Period (measured as at the last working day of the preceding Calculation Period) in which the Interest Rate Conversion or Further Advance is made (provided that for these purposes references in the definition of “Eligibility Criteria” to (i) a “New Mortgage Loan” are to be construed as references to the Mortgage Loan which has been subject to such Interest Rate Conversion or Further Advance, (ii) in relation to an Interest Rate Conversion, “to be sold” or “purchase” are to be construed as references to the making of the Interest Rate Conversion and (iii) “Transfer Date” are to be construed as references to the Calculation Date immediately following the Calculation Period in which the Interest Rate Conversion or Further Advance is made (measured as at the last working day of the preceding Calculation Period)), the LLP shall:

- (i) subject to paragraph (ii) below, re-assign and re-transfer to the Seller (and the Seller shall then accept an assignment and re-transfer of) its Assigned Rights in relation to the relevant Mortgage Loan(s); or
- (ii) in the event of a breach of the Eligibility Criteria referred to in condition (d) of paragraph (d) above the LLP will request that the Seller:
 - i. offer to sell sufficient New Mortgage Loans and their Related Security to the LLP on or before the Calculation Date immediately following the Calculation Date on which the breach of the Eligibility Criteria was determined in which the Interest Rate Conversion or Further Advance was made, so as to ensure that paragraph (d) of the Eligibility Criteria will be satisfied on the Calculation Date following the Calculation Date on which the breach of item (d) was determined; or
 - ii. make a Cash Capital Contribution, to be credited to the Yield Reserve Ledger, such that, taking account of any amounts previously credited to the Yield Reserve in accordance with item (k) of the Pre-Acceleration Revenue Priority of Payments, item (d) of the Eligibility Criteria will be satisfied on the Calculation Date following the Calculation Date on which the breach of item (d) was determined.

For the avoidance of doubt, in the event that the Seller does not accept such request, the Seller shall instead accept the re-assignment and re-transfer of the relevant Mortgage Loans in accordance with paragraph (i) above.

Defaulted Mortgage Loans

If a Seller receives a Defaulted Mortgage Loans Notice from the Administrator identifying any Defaulted Mortgage Loan, then that Defaulted Mortgage Loan will be attributed a reduced weighting in the calculation of the Asset Coverage Test and the Amortisation Test as at the relevant Calculation Date. In addition, the Seller may, at its option, repurchase a Defaulted Mortgage Loan and its Related Security

from the LLP for an amount equal to the Repurchase Price. The LLP may accept such offer at its discretion.

General ability to repurchase

Prior to the occurrence of an Issuer Event of Default, the Seller may from time to time offer to repurchase a Mortgage Loan and its Related Security from the LLP for an amount equal to the Repurchase Price. The LLP may accept such offer at its discretion.

Right of Pre-emption

Under the terms of the Mortgage Sale Agreement, the Seller has a right of pre-emption in respect of any sale, in whole or in part, of Selected Mortgage Loans and their Related Security.

The LLP will serve on the Seller a Selected Mortgage Loans Offer Notice offering to sell those Selected Mortgage Loans and their Related Security for an offer price not less than, at the point of such sale, (a) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay), the Current Balance of the Selected Mortgage Loans and accrued interest thereon; and (b) following service of a Notice to Pay, the Adjusted Required Redemption Amount (subject to the Selected Mortgage Loans having an aggregate Current Balance of not less than the Required Current Balance Amount), subject to the offer being accepted by the Seller within 10 Business Days. If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee. If the Seller rejects the LLP's offer or fails to accept it in accordance with the foregoing, the LLP will offer to sell the Selected Mortgage Loans and their Related Security to other Purchasers (as described under "*LLP Deed – Sale of Selected Mortgage Loans and their Related Security following the occurrence of an Issuer Event of Default*", below).

If the Seller validly accepts the LLP's offer to sell the Selected Mortgage Loans and their Related Security, the LLP will, within three Business Days of such acceptance, serve a Selected Mortgage Loans Repurchase Notice on the Seller. The Seller will sign and return a duplicate copy of the Selected Mortgage Loan Repurchase Notice and will repurchase from the LLP free from the Security created by and pursuant to the Deed of Charge the relevant Selected Mortgage Loans and their Related Security (and any other Mortgage Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Mortgage Loan Repurchase Notice. Completion of the purchase of the Selected Mortgage Loans and their Related Security by the Seller will take place on the LLP Payment Date after receipt of the Selected Mortgage Loan Repurchase Notice(s) or such date as the LLP may direct in the Selected Mortgage Loan Repurchase Notice (provided that such date is not later than the earlier to occur of the date which is: (a) 10 Business Days after returning the Selected Mortgage Loan Repurchase Notice to the LLP; and (b) the Final Maturity Date of the Earliest Maturing Covered Bonds).

(g) ***Interest Rate Conversions and Further Advances***

Repurchases by the Seller of Mortgage Loan(s) and their Related Security subject to an Interest Rate Conversion or a Further Advance are described under "*Repurchase of Mortgage Loans subject to an Interest Rate Conversion or a Further Advance*" above.

In considering whether to grant a request of a Borrower for an Interest Rate Conversion or a Further Advance, or whether to offer an Interest Rate Conversion or a Further Advance to a Borrower, the Administrator shall act in accordance with its then procedure which would be acceptable to a reasonable

and prudent residential mortgage administrator (see “*Summary of the Principal Documents – Administration Agreement*” below).

The LLP may not itself offer or make any Interest Rate Conversion or Further Advances.

(h) ***Transfer of legal title to the LLP***

The sales by the Seller to the LLP of the Mortgage Loans will only be perfected by the execution of transfers of the Mortgage Loans, the carrying out of requisite registration and giving of notice to any Borrower in the circumstances set out below. Neither the LLP nor the Security Trustee will give notice to any Borrower or guarantor in respect of any transfer of the Mortgage Loans prior to the occurrence of a Relevant Event. For so long as a Legal Title Holder retains legal title to a Mortgage, a third party dealing with the Seller and/or the Legal Title Holders could obtain legal title free of the interests of the LLP and the Security Trustee. For so long as a Legal Title Holder retains legal title to a Mortgage, it must be joined as a party to any legal proceedings against any Borrower or in relation to the enforcement of that Mortgage. In this regard the Legal Title Holders have undertaken in the Mortgage Sale Agreement for the benefit of the LLP and the Security Trustee that they will lend their name to, and take such other steps as may reasonably be required in connection with, any such proceedings and have granted powers of attorney to the LLP and the Security Trustee in connection with such undertaking.

Further, the rights of the LLP and the Security Trustee may be or become subject to interests of third parties and direct rights of Borrowers against the relevant Legal Title Holder: for example, a later encumbrance or transfer of the Mortgage Loans, and/or equities created or arising before the transfer of the legal title is perfected: for example, rights of set off (or other analogous rights) as between the relevant Borrowers and the relevant Legal Title Holder and the rights of Borrowers to redeem their Mortgage Loans by repaying the relevant loan directly to the relevant Legal Title Holder. These could result in the LLP receiving less money than anticipated. However, the risk of third party claims defeating or obtaining priority to the interests of the LLP or the Security Trustee would be likely to be limited to circumstances arising from a breach by a Legal Title Holder of its contractual obligations or fraud, negligence or mistake on the part of the relevant Legal Title Holder, the LLP or their respective personnel or agents.

Until a Borrower is notified of the sale of its Mortgage Loan to the LLP, the Borrower may continue making payments to (or as directed by) the relevant Legal Title Holder. Following delivery of a notice to a Borrower informing it of the sale of its Mortgage Loan to the LLP, the Borrower would no longer be entitled to obtain a good receipt from the relevant Legal Title Holder as mortgagee. Under the Mortgage Sale Agreement, the Legal Title Holders and the Seller have undertaken that if at any time they receive (or there is received to their order) any property, interest, right or benefit agreed to be sold to the LLP it will hold the same on trust for the LLP as the beneficial owner thereof. Notice to Borrowers in respect of the Mortgage Loans would also prevent the Mortgage Loans from being amended by the Legal Title Holders and the Seller or the Borrowers without the involvement of the LLP.

Upon the occurrence of a “**Relevant Event**”, being:

- (a) the service of a Notice to Pay (unless the Seller has notified the LLP that it will accept the offer set out in the Selected Mortgage Loans Offer Notice or has made a Cash Capital Contribution to the Principal Ledger of the Transaction Account within the prescribed time) or an LLP Acceleration Notice;
- (b) the termination of the Issuer’s role as Administrator under the Administration Agreement;
- (c) the relevant Legal Title Holder and/or Seller being required, by an order of a court of competent jurisdiction, or by a regulatory authority or industry of which the relevant Legal Title Holder

and/or the Seller, as applicable, is a member or with whose instructions it is customary for the relevant Legal Title Holder and/or Seller, as applicable, to comply, to perfect the transfer of legal title to the Mortgage Loans;

- (d) any change occurring in the law after the First Transfer Date rendering it necessary by law to perfect the transfer of legal title to the relevant Mortgage Loans;
- (e) the security under the Deed of Charge or any material part of such security being in jeopardy and the Security Trustee deciding to take action to reduce such jeopardy;
- (f) notice in writing from the Seller or the Legal Title Holder to the LLP (with a copy to the Security Trustee) requesting transfer of legal title from the Seller or the Legal Title Holder to the LLP;
- (g) the occurrence of an Insolvency Event in relation to the Seller; or
- (h) in respect of Selected Mortgage Loans only, and if requested by the LLP, following the acceptance of any offer to sell the Selected Mortgage Loans and their Related Security to any person who is not the Seller.

the LLP or the Security Trustee will have the right to perfect legal title to the Mortgage Loans, legal title of which is held by an Affected Legal Title Holder, by executing transfers of the Mortgage Loans in the appropriate form (if necessary pursuant to irrevocable powers of attorney) effecting the necessary registrations, recordings and notifications and giving notice to the Borrowers in respect of such Mortgage Loans. The right of the LLP and the Security Trustee to exercise the powers of the registered proprietor, registered owner or beneficial owner of the Mortgage Loans pending registration or recording will be secured by irrevocable powers of attorney granted by the Legal Title Holders in favour of the LLP and the Security Trustee.

(i) ***Title Deeds***

The Title Deeds and Mortgage Loan Files relating to the Mortgage Loans are currently held by or to the order of the Seller or by solicitors acting for the Seller in connection with the creation of the Mortgage Loans and their Related Security. Under the Administration Agreement the Administrator has undertaken that from the First Transfer Date all the Title Deeds and Mortgage Loan Files at any time in its possession or under its control or held to its order relating to the Mortgage Loans which are on the First Transfer Date or at any time thereafter assigned to the LLP will be held to the order of the LLP and the Security Trustee. The Administrator will keep, or cause to be kept, the Title Deeds and Mortgage Loan Files relating to each Mortgage Loan and each Mortgaged Property in safe custody and shall not part with possession, custody or control of them except in the limited circumstances specified in the Administration Agreement.

(j) ***New Sellers***

In the future, any New Seller that wishes to sell loans and their Related Security to the LLP will accede to, *inter alia*, the Mortgage Sale Agreement. The sale of New Mortgage Loans and their Related Security by New Sellers to the LLP will be subject to certain conditions, including the following:

- (i) each New Seller accedes to the terms of the LLP Deed as Member (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Mortgage Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Mortgage Loans and their Related Security comprised in the Initial Mortgage Portfolio under the LLP Deed;

- (ii) each New Seller accedes to the terms of the Mortgage Sale Agreement (with such subsequent amendments as may be agreed by the parties thereto) or enters into a new mortgage sale agreement with the LLP and the Security Trustee, in each case so that it has, in relation to those New Mortgage Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Mortgage Loans and their Related Security comprised in the Initial Mortgage Portfolio under the Mortgage Sale Agreement;
- (iii) each New Seller accedes to the Dealer Agreement and enters into such other documents as may be required by the Security Trustee and/or the LLP (acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Programme;
- (iv) any New Mortgage Loans and their Related Security sold by a New Seller to the LLP comply with the Eligibility Criteria set out in the Mortgage Sale Agreement;
- (v) either the Administrator administers the New Mortgage Loans and their Related Security sold by a New Seller on the terms set out in the Administration Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Seller (or its nominee) enters into an administration agreement with the LLP and the Security Trustee which sets out the administration obligations of the New Seller (or its nominee) in relation to the New Mortgage Loans and their Related Security and which is on terms substantially similar to the terms set out in the Administration Agreement (fees payable to the Administrator or the New Seller (or its nominee) acting as administrator of such New Mortgage Loans and their Related Security would be determined on the date of the accession of the New Seller to the Programme);
- (vi) the Security Trustee is provided with a certificate signed by a duly authorised signatory of the Issuer and a certificate of a Designated Member of the LLP stating that any accession of a New Seller to the Programme will not prejudice the Asset Coverage Test; and
- (vii) the Security Trustee is satisfied that the accession of a New Seller to the Programme is not materially prejudicial to the Covered Bondholders, and the Ratings Condition has been satisfied in relation thereto.

If the above conditions are met, the consent of the Covered Bondholders to the accession of a New Seller to the Programme will not be required.

(k) ***Governing Law***

The Mortgage Sale Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

4 Administration Agreement

(a) ***Appointment***

Pursuant to the terms of the Administration Agreement, the Administrator has agreed to administer on behalf of the LLP the Mortgage Loans and their Related Security sold by the Seller to the LLP. The Administrator has agreed to administer the Mortgage Loans transferred beneficially to the LLP in the same manner as it administers mortgage loans which have not been transferred beneficially to the LLP but remain on the books of the Seller and in accordance with the practices of a reasonable prudent lender of residential mortgages.

Subject to the provisions of the Administration Agreement, the Mortgage Loans, and the Transaction Documents, the Administrator has the power to do or cause to be done any and all things which it reasonably considers necessary, convenient or incidental to the administration of the Mortgage Loans and their Related Security or the exercise of such rights, powers and discretions or the performance of such duties.

The Administrator has agreed to comply with any proper written directions, orders and instructions which the LLP or, following the service of an LLP Acceleration Notice, the Security Trustee, may from time to time give to it in accordance with the provisions of the Administration Agreement.

The Administrator will continue to administer mortgage loans which have not been transferred beneficially to the LLP.

(b) ***Interest Shortfalls and Yield Shortfall Test***

The Administrator will set, calculate or determine the rates of interest applicable to the Mortgage Loans in accordance with the Mortgage Conditions (except in the case of Fixed Rate Mortgage Loans) except in certain limited circumstances when the Security Trustee or the LLP or a substitute administrator will be entitled (but not obliged, in the case of the Security Trustee) to do so.

Interest in relation to the Mortgage Loans is calculated on the basis of the amount owing by a Borrower immediately after the initial advance or on the last day of the preceding calendar quarter (adjusted in respect of further advances and/or principal payments).

Interest Shortfalls

On each Calculation Date the Administrator shall determine, acting reasonably and having regard to:

- (i) the income which the Administrator expects the LLP to receive during the Calculation Period in which such Calculation Date falls (the “**Relevant Calculation Period**”);
- (ii) the LLP Standard Variable Rate, any other rates or margins applicable in relation to any Mortgage Loan which the Administrator proposes to set for the Relevant Calculation Period; and
- (iii) the other resources available to the LLP including those under the Interest Rate Swap Agreements, Standby Swap Agreements and the relevant Covered Bond Swap Agreements, the Reserve Fund (if maintained at such time) and taking into account any amounts, in excess of the Yield Reserve Required Amount, that the Administrator expects to be withdrawn from the Yield Reserve and form part of Available Revenue Receipts on the LLP Payment Date immediately following the Relevant Calculation Period,

whether the LLP would expect to receive an amount of income during the Relevant Calculation Period which, when aggregated with the funds otherwise available to it, is less than the amount which is the aggregate of (1) the amount of interest which would be payable (or provisioned to be paid) under the Intercompany Loan Agreement or, if a Notice to Pay has been served, the Covered Bond Guarantee on the LLP Payment Date immediately following the Relevant Calculation Period, (2) relevant amounts payable (or provisioned to be paid) to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on such LLP Payment Date and (3) the other senior expenses payable by the LLP on such LLP Payment Date ranking in priority thereto in accordance with the relevant Priorities of Payments applicable prior to an LLP Event of Default. Any shortfall shall be referred to herein as the “**Interest Shortfall**”.

If the Administrator determines that there will be an Interest Shortfall, it will give written notice to the LLP and the Security Trustee, within one Business Day, of the amount of the Interest Shortfall.

If, following a notification pursuant to Clause 5.6(b) of the Administration Agreement, the Administrator notifies the Seller that, having regard to the obligations of the LLP and the amount of the Interest Shortfall, action is required to prevent an Interest Shortfall arising on the LLP Payment Date immediately following the Relevant Calculation Period, then (i) the Seller will use all reasonable efforts to offer to sell New Mortgage Loans and their Related Security to the LLP pursuant to Clause 2 of the Mortgage Sale Agreement on or before the next Calculation Date and/or (ii) the Seller may make a Cash Capital Contribution to be paid in to the Transaction Account (which may be credited to the Yield Reserve Ledger or treated as Available Revenue Receipts, as set out in paragraph (b) (*Capital Contributions*) of the LLP Deed description below) and/or (iii) the Seller may direct that funds available (if any) previously credited to the Yield Reserve at item (k) of the Pre-Acceleration Revenue Priority of Payments which would be sufficient to prevent an Interest Shortfall occurring on the LLP Payment Date immediately following the Relevant Calculation Period, shall be applied as Available Revenue Receipts on such LLP Payment Date.

If, despite such actions, there are insufficient Available Revenue Receipts (and, where applicable, after taking into account monies credited to the Coupon Payment Ledger) and an Interest Shortfall occurs, the Administrator shall (following instructions from the LLP) debit the Yield Reserve Ledger and credit the Revenue Ledger with the amount required to eliminate such Interest Shortfall on such LLP Payment Date.

Yield Shortfalls

Following an Issuer Event of Default that is continuing, the Administrator shall determine on each Calculation Date, having regard to the aggregate of:

- (i) the LLP Standard Variable Rate and any other applicable rate or margin which the Administrator proposes to set for the Relevant Calculation Period under the Administration Agreement;
- (ii) the other resources available to the LLP under the Swap Agreements; and
- (iii) any amounts standing to the credit of the Yield Reserve Ledger and amounts to be credited thereto prior to the end of the Relevant Calculation Period,

whether the LLP would receive an aggregate amount of income during the Relevant Calculation Period which would give an annual yield on the Mortgage Loans of at least 0.40 per cent. plus the SONIA Spot Rate published on the final London Banking Day in the previous Calculation Period (the “**Yield Shortfall Test**”).

The Administrator may at any time request that the Seller make a Cash Capital Contribution to be paid into the Transaction Account and credited to the Yield Reserve Ledger so that the amount standing to the credit of the Yield Reserve Ledger is equal to or greater than the Yield Reserve Required Amount (or otherwise such that a breach of the Yield Shortfall Test is prevented from arising on any relevant Calculation Date).

The LLP and/or the Security Trustee may terminate the authority of the Administrator to determine and set the rates of interest applicable to the Mortgage Loans payable on the occurrence of certain events including any Issuer Event of Default, any LLP Event of Default or any Administrator Termination Event as defined under “*Removal or Resignation of the Administrator*”, in which case the LLP and the Security Trustee have agreed to appoint the replacement administrator to set the LLP Standard Variable Rate and the other rates or margins itself in accordance with this sub-section.

Amounts may be withdrawn from the Yield Reserve and credited to the Revenue Ledger if there are insufficient Available Revenue Receipts to pay interest on the Covered Bonds and all amounts ranking *pari passu* and senior thereto in full on an LLP Payment Date.

(c) ***Payments from Borrowers***

All direct debit payments made by Borrowers under the Mortgage Loans and all other moneys paid in respect of the Mortgage Loans purchased by the LLP (including cheque payments and redemption moneys and moneys recovered on the sale of the Mortgaged Properties following enforcement of any Mortgage Loan) will generally be paid first into the relevant Collection Account and then will be transferred not later than the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

Under the “**PML Collection Account Declaration of Trust**”, PML will declare that all direct debit payments made by Borrowers under the Mortgage Loans and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Mortgaged Properties following enforcement of any Mortgage Loans and certain other sums in respect of the Mortgage Loans which are credited to the PML Collection Account are held on trust for the LLP until they are applied in the manner described above. The PML Collection Account Declaration of Trust is and will be supplemental to, additional to and subject to each other declaration of trust made or to be made from time to time by PML in respect of amounts credited from time to time to the PML Collection Account which are not held on trust for the LLP pursuant to the PML Collection Account Declaration of Trust.

Under the “**PB Collection Account Declaration of Trust**”, Paragon Bank PLC will declare that all direct debit payments made by Borrowers under the Mortgage Loans and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Mortgaged Properties following enforcement of any Mortgage Loans and certain other sums in respect of the Mortgage Loans which are credited to the PB Collection Account are held on trust for the LLP until they are applied in the manner described above. The PB Collection Account Declaration of Trust is and will be supplemental to, additional to and subject to each other declaration of trust made or to be made from time to time by Paragon Bank PLC in respect of amounts credited from time to time to the PB Collection Account which are not held on trust for the LLP pursuant to the PB Collection Account Declaration of Trust.

Under the “**MTS Collection Account Declaration of Trust**”, (together with the PML Collection Account Declaration of Trust and the PB Collection Account Declaration of Trust, the “**Collection Account Declarations of Trust**”) MTS will declare that all direct debit payments made by Borrowers under the Mortgage Loans and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Mortgaged Properties following enforcement of any Mortgage Loans and certain other sums in respect of the Mortgage Loans which are credited to the MTS Collection Account are held on trust for the LLP until they are applied in the manner described above. The MTS Collection Account Declaration of Trust is and will be supplemental to, additional to and subject to each other declaration of trust made or to be made from time to time by MTS in respect of amounts credited from time to time to the MTS Collection Account which are not held on trust for the Issuer pursuant to the MTS Collection Account Declaration of Trust.

The Administrator and/or the Seller may at any time transfer the PML Collection Account or the MTS Collection Account to HSBC UK Bank plc, or the PB Collection Account to HSBC UK Bank plc or Barclays Bank PLC, without the consent of the Security Trustee.

Upon the transfer of the PML Collection Account to HSBC UK Bank plc, the PB Collection Account to HSBC UK Bank plc or Barclays Bank PLC, or the MTS Collection Account to HSBC UK Bank plc, the Administrator will notify the Security Trustee of such transfer as soon as reasonably practicable and

procure that (a) all direct debit payments made by the Borrowers under the Mortgage Loans and all other moneys paid in respect of the Mortgage Loans purchased by the LLP (including cheque payments, redemption moneys and moneys recovered on the sale of Mortgaged Properties following enforcement of any Mortgage Loan) are made or paid into the new PML Collection Account, the new PB Collection Account or the new MTS Collection Account (as the case may be); (b) the Seller executes (or procures, in respect of a transfer of the PML Collection Account or of the MTS Collection Account) a declaration of trust in the same terms, *mutatis mutandis*, as the PML Collection Account Declaration of Trust in respect of such new PML Collection Account, the new PB Collection Account Declaration of Trust in respect of the PB Collection Account, or the new MTS Collection Account Declaration of Trust in respect of the MTS Collection Account; and (c) (i) notice is given to HSBC UK Bank plc or Barclays Bank PLC of the new declarations of trust executed pursuant to (b) above and the assignment of the rights of the LLP under such declarations of trust; (ii) the Security Trustee is provided with a copy of such notice and a copy of the new declarations of trust and the Administrator shall deliver to the Security Trustee a certificate confirming that conditions (a) to (c) have been met as soon as reasonably practicable following the completion thereof.

(d) ***Arrears and Default Procedures***

The Administrator will endeavour to collect all payments due under or in connection with the Mortgage Loans administered by it in accordance with its procedures from time to time having regard to the circumstances of the Borrower in each case (but always acting as a reasonably prudent mortgage lender). The procedures may include one or more of appointing a receiver of rent, making arrangements whereby a Borrower's payments may be varied, pursuing (including taking legal action against) one or more Guarantors of the sums owing under the Mortgage Loan, sale of the relevant Mortgaged Property with sitting tenants as an investment and taking legal action for possession and subsequent sale of the relevant Mortgaged Property with vacant possession.

Where appointed, a receiver of rent is deemed to be the agent of the Borrower and must collect any rents payable in respect of the Mortgaged Property and apply them (after payment of certain statutorily prescribed outgoings) in payment of any interest and arrears accruing under the Mortgage Loan and thereafter any surplus shall either be applied in discharge of principal, or any other outstanding amounts owed by the Borrower, if required by the lender, or paid to the Borrower.

In order to realise its security in respect of a property located in England or Wales, the relevant mortgagee (be it a Legal Title Holder, the LLP, the Security Trustee or any receiver appointed by the Security Trustee (if the Security Trustee has taken enforcement action against the LLP)) will need to obtain possession. Any action for possession of a Mortgaged Property the subject of a letting would include a claim not only against any tenants but also against the Borrower to assist in defeating any subsequent attempt by the Borrower to assert a right of occupation. In broad terms, a lender has the same (but no better) rights against a tenant (for example, to regain possession) as are enjoyed by the borrower as landlord. Where the tenant is an individual, he will, as an assured shorthold tenant, have a limited right to security of tenure in that although an order for possession must be made against the tenant (provided, in certain cases, prescribed notices have been served) it cannot take effect earlier than six months after the beginning of the tenancy in the case of a periodic tenancy, or, in the case of a fixed term tenancy, before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement. Where the tenant is other than an individual, an order for possession cannot take effect before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement. The Borrower is permitted to grant a fixed term tenancy of up to 36 months provided that where the term exceeds 12 months the tenancy agreement provides for the Borrower (and any receiver acting as the

Borrower's agent) to terminate the fixed term upon any lender who has taken the Mortgaged Property as security having the right to exercise its power of sale.

Once possession of the property has been obtained, the relevant mortgagee has a duty to the borrower to take reasonable care to obtain the best price reasonably obtainable at the time for the property. Any failure to do so will put the relevant mortgagee at risk of an action for breach of such duty by the borrower, although it is for the borrower to prove breach of such duty. There is also a risk that a borrower may also take court action to force the relevant mortgagee to sell the property within a reasonable time. The net proceeds of sale of the Mortgaged Property (after payment of the costs and expenses of the sale) would be applied against the sums owing from the Borrower to the extent necessary to discharge the Mortgage Loan.

Whether the lender adopts one or more of the actions described above will depend upon a number of considerations including the existence of guarantors, the existence of tenants within the Mortgaged Property and their propensity to pay rent, the ratio of rent received to monthly instalments due under the Mortgage Loan, the security of tenure enjoyed by any tenants and the anticipated net receipts from a sale of the Mortgaged Property with vacant possession or with sitting tenants.

Where the funds arising from application of the above procedures are insufficient to pay all amounts owing in respect of a Mortgage Loan, such funds will be applied first in paying interest and costs, and secondly in paying principal owing in respect of such Mortgage Loan.

To the extent that a receiver of rent property is subsequently sold at a loss, the Capital Contribution will be reduced by the corresponding amount.

(e) ***Cross-collateral Mortgage Loans and Cross-collateral Rights***

The conditions of certain Mortgage Loans originated by the Seller and MTL (each a "**Cross-collateral Mortgage Loan**") provide, among other things, some "**Cross-collateral Rights**" which allow the relevant mortgagee of any such Cross-collateral Mortgage Loan:

- (i) to declare immediately due and repayable each liability secured by that Cross-collateral Mortgage Loan and to exercise the statutory power of sale under that Cross-collateral Mortgage Loan if and when the mortgagee of any other Cross-collateral Mortgage Loan in the name of the same mortgagor is entitled to declare immediately due and repayable any liability secured by that other Cross-collateral Mortgage Loan; and
- (ii) to apply the proceeds of enforcement under the Cross-collateral Mortgage Loans of the relevant mortgagor against all liabilities secured by the Cross-collateral Mortgage Loans.

On or about the First Transfer Date the LLP and the Security Trustee will enter into a "**MTL Cross-collateral Mortgage Rights Accession Deed**" pursuant to which the LLP and the Security Trustee shall become a party to a deed (the "**MTL Cross-collateral Mortgage Rights Deed**") entered into by, among others, MTL and Mortgage Trust Services PLC to regulate the respective rights between each person who has or may have a beneficial and/or legal interest in any Mortgage Loan that is a Cross-collateral Mortgage Loan originated by MTL that includes Cross-collateral Rights which may apply to one or more of the Mortgage Loans. In addition, on or about the First Transfer Date the LLP and the Security Trustee will enter into the "**PB Cross-collateral Mortgage Rights Accession Deed**" pursuant to which the LLP and the Security Trustee shall become a party to a deed (being, the "**PB Cross-collateral Mortgage Rights Deed**") entered into by the Issuer, Paragon Mortgages (No 25) PLC and Citicorp Trustee Company Limited to regulate the respective rights between each person who has or may have a beneficial and/or legal interest in any Mortgage Loan that is a Cross-collateral Mortgage Loan originated or acquired by Paragon Bank PLC that includes Cross-collateral Rights which may apply to one or more

of the Mortgage Loans (together with the MTL Cross-collateral Mortgage Rights Deed, the “**Cross-collateral Mortgage Rights Deeds**”).

The Cross-collateral Mortgage Rights Deeds seek to provide that each party thereto who is a beneficial owner of a Cross-collateral Mortgage Loan (which, upon it becoming a party to the Cross-collateral Mortgage Rights Deeds, will include the LLP) or has legal title to a Cross-collateral Mortgage Loan: (i) shall only have Cross-collateral Rights in respect of Cross-collateral Mortgage Loans that it beneficially owns; (ii) waives all rights to exercise Cross-collateral Rights in respect of other Cross-collateral Mortgage Loans which are not beneficially owned by it; (iii) waives all rights to take any action or proceedings against any other beneficial owner of Cross-collateral Mortgage Loans to exercise the Cross-collateral Rights of that other beneficial owner; (iv) waives any rights to the proceeds of enforcement of Cross-collateral Mortgage Loans not beneficially owned by it; and (v) agrees that if it enforces a Cross-collateral Mortgage Loan in respect of which Cross-collateral Rights attach, the proceeds of such enforcement after deduction of all related costs and expenses shall be applied by or on behalf of it in respect of the Cross-collateral Mortgage Loans beneficially owned by it firstly to repay all amounts owing by the mortgagee under the enforced Cross-collateral Mortgage Loan beneficially owned by it in accordance with the applicable Mortgage Conditions and, secondly, to the extent there are additional proceeds of enforcement, apply such proceeds in accordance with the approach of a reasonable, prudent mortgage lender.

(f) ***Further Advances***

Each further advance (each a “**Further Advance**”) made on behalf of the LLP in relation to the Mortgage Loans will be either a Mandatory Further Advance or a Discretionary Further Advance where:

“**Mandatory Further Advance**” means each further advance in respect of a Post-Crisis Mortgage Loan representing any part of the original advance retained pending completion of construction or refurbishment.

“**Discretionary Further Advance**” means each further advance in respect of a Mortgage Loan other than a Mandatory Further Advance.

Mandatory Further Advances are only required to be made to Borrowers for the purpose of advancing any part of the original advance which was retained pending completion of construction or refurbishment. There are no Mandatory Further Advances in respect of the Pre-Crisis Mortgage Loans.

The LLP may fund a Discretionary Further Advance to a Borrower provided that certain conditions in the Administration Agreement are satisfied. In addition the LLP may fund a Discretionary Further Advance, as part of the Administrator’s arrears and default procedures, and in acting as a reasonable prudent lender, by capitalising certain outstanding arrears of interest payable by a Borrower. The capitalisation of outstanding arrears constitutes a capitalisation for these purposes if the capitalised amount is added to the principal balance of the Mortgage Loan and the relevant Borrower’s arrears are discharged (and a debit is made to the Principal Ledger and credit is made to the Revenue Ledger).

Discretionary Further Advances may only be made on a Mortgage if the relevant Lending Criteria as far as applicable are satisfied at the relevant time subject to such waivers as might be within the discretion of a reasonably prudent lender, as provided in the Administration Agreement, and may be secured as a second charge over the relevant property.

The Mortgage Sale Agreement provides that on each occasion that a Further Advance is made by or on behalf of and in the name of the relevant Legal Title Holder to a Borrower under and on the security of a Mortgage using an increase in the Seller’s Capital Contribution, then the Seller agrees to sell and immediately upon the Legal Title Holder making such Further Advance, the Seller will be deemed to

have sold to the LLP all its rights and interest to that Further Advance in consideration for the increase in its capital contribution. The LLP may also purchase Further Advances from the Seller using Principal Receipts.

If the LLP does not wish, or is unable, to purchase a Further Advance, the relevant Legal Title Holder may (but is not obliged to) make that Further Advance on the security of a second mortgage over the Property in question (postponed to the relevant Mortgage).

No Further Advance (other than by way of capitalisation of arrears) may be made to a Borrower if the relevant Legal Title Holder or Administrator has notice that the relevant Borrower is in breach of the relevant Mortgage Conditions. No Further Advance will be funded by the LLP, or made by the relevant Legal Title Holder on its own behalf or as agent for or otherwise on behalf of the LLP, if the making of such Further Advance will involve the LLP or the relevant Legal Title Holder in carrying on a regulated activity in the United Kingdom in breach of Section 19 of the FSMA.

(g) ***Insurance***

The Administrator will, on behalf of the LLP, administer the arrangements for insurance in respect of, or in connection with, the Mortgage Loans administered by it to which the LLP is a party or in which the LLP has an interest and will make claims on behalf of the LLP under any such insurance policies when necessary.

(h) ***Conversion of Mortgage Loans***

The Administrator may as part of an arrears management programme agree to convert a Mortgage Loan from an Interest-only Mortgage Loan or, as the case may be, Optional Repayment Mortgage Loan to a Repayment Mortgage Loan (but not any other type of mortgage) or from a Repayment Mortgage Loan to an Interest-only Mortgage Loan or, as the case may be, Optional Repayment Mortgage Loan (but not any other type of mortgage) at any time without limit and without any further condition or consent being required (the relevant Mortgage Loan after such conversion being herein referred to as an “**Arrears Converted Mortgage Loan**”).

The Administrator may (but shall not be obliged to) agree to any request by a Borrower to convert its Mortgage Loan (or, in the case of a default by a Borrower, may itself elect to convert such Borrower’s Mortgage Loan) to a Mortgage Loan of a different interest type with a different interest rate (an “**Interest Rate Conversion**” and the relevant Mortgage Loan after such conversion being referred to as an “**Interest Rate Converted Mortgage Loan**”). For the avoidance of doubt, any Mortgage Loan may be converted to an Interest Rate Converted Mortgage Loan, save that the Seller will be required to repurchase the Interest Rate Converted Mortgage Loan if, on the Calculation Date following the Calculation Period (measured as at the last working day of the preceding Calculation Period) during which the Mortgage Loan was converted, the relevant Eligibility Criteria were not met, as described in more detail in paragraph (f) (*Additional circumstances where Seller may repurchase*) of the Mortgage Sale Agreement description above.

The Administrator may elect to convert a Mortgage Loan from an Interest-only Mortgage Loan or an Optional Repayment Mortgage Loan to a Repayment Converted Mortgage Loan, but not from a Repayment Mortgage Loan into an Interest-only Mortgage Loan or an Optional Repayment Mortgage Loan and take steps to effect such conversion.

In addition to the ability of the Administrator to convert Mortgage Loans as described above, the Administrator, as a reasonably prudent lender, may make the variations to the Mortgage Loans listed below (in each case, without condition and at the discretion of the Administrator) and such variation will not constitute an Interest Rate Conversion:

- (i) a change of a party to a Mortgage Loan or a release of part of the land subject to the Mortgage;
- (ii) any change in the frequency with which the interest payable in respect of the Mortgage Loan is charged;
- (iii) any change in the maturity date of any Mortgage Loan; and
- (iv) any variation imposed by law, regulation or the rules of an association of which the Issuer and/or Administrator is a member and with whose rules they are accustomed to comply.

(i) ***Delegation by the Administrator***

The Administrator may, in certain circumstances, with the consent of the LLP and the Security Trustee, sub-contract or delegate its obligations under the Administration Agreement. The Administrator may sub-contract or delegate all or substantially all of its obligations under the Administration Agreement if the then current ratings of the Covered Bonds would not be adversely affected.

The consents and conditions referred to in the paragraph above will not be required in respect of any delegation to a Paragon Banking Group Company. It is expected that the Administrator will delegate its obligations to PFPLC.

The sub-contracting or delegation arrangements in respect of the performance of the administration services by the Administrator described in the paragraphs above shall also apply to a substitute administrator assuming the performance of the administration services following the occurrence of an Administrator Termination Event.

(j) ***Redemption***

Pursuant to the Administration Agreement, the Administrator is responsible for handling the procedures connected with the redemption of Mortgage Loans. When a Mortgage Loan beneficially owned by the LLP is redeemed, it is automatically released from the security created over it in favour of the Security Trustee under the Deed of Charge.

(k) ***Fees***

As full compensation for its administration duties and activities and as reimbursement for any expense incurred by it in connection therewith, the Administrator or any substitute administrator is entitled to receive the fee from the LLP as set out in Administration Agreement.

(l) ***Removal and Resignation of the Administrator***

The appointment of the Administrator may be terminated as described below while any of the following events is continuing (each an “**Administrator Termination Event**”):

- (a) default is made by the Administrator in the payment on the due date of any payment due and payable by it under the Administration Agreement and such default continues unremedied for a period of five Business Days after the earlier of the Administrator becoming aware of such default and receipt by the Administrator of written notice from the LLP, the Seller, any other Legal Title Holder or (following the service of an LLP Acceleration Notice) the Security Trustee requiring the same to be remedied;
- (b) default by the Administrator in the performance or observance of its covenants and obligations under the Administration Agreement, which in the opinion of the Security Trustee (acting on the instructions of the Bond Trustee, if there are Covered Bonds outstanding, and otherwise acting on the instructions of all the Secured Creditors) is materially prejudicial to the Covered

Bondholders or, if there are no Covered Bonds outstanding, Secured Creditors and (except where, in the reasonable opinion of the Security Trustee, acting on the instructions of the Bond Trustee or Secured Creditors, as set out above, such default is incapable of remedy, when no such continuation and/or notice as is hereinafter mentioned will be required) such default continues unremedied for a period of 20 days after the earlier of the Administrator becoming aware of such default and receipt by the Administrator of written notice from the Security Trustee requiring the same to be remedied. If the relevant default occurs as a result of a default by any person to whom the Administrator has sub-contracted or delegated part of its obligations under the Administration Agreement such default shall not result in the termination of the appointment of the Administrator if within such 20 day period the Administrator terminates the relevant sub-contracting or delegation arrangements and takes such steps as the LLP or (following the service of an LLP Acceleration Notice) the Security Trustee may reasonably specify to remedy such default or to indemnify the LLP and the Security Trustee against the consequences of such default; or

- (c) the occurrence of an Insolvency Event in relation to the Administrator;

the Administrator's appointment will, unless the Security Trustee and the LLP agree otherwise in writing be terminated with immediate effect if at any time:

- (i) the Administrator (or any sub-contractor or delegate of the Administrator appointed by the Administrator to perform the relevant services) does not have any authorisation under the FSMA or any other applicable law which it is required to have in order to enable it to perform the services which it is to agree in the Administration Agreement to perform; or
- (ii) the LLP carries on a regulated activity in the United Kingdom in breach of section 19 of the FSMA in circumstances where the LLP is not itself so authorised and is not exempt from being so authorised.

Following the occurrence of an Administrator Termination Event described in paragraphs (a) to (c) above:

- (a) the LLP or (following the service of an LLP Acceleration Notice) Security Trustee may at once or at any time thereafter while such Administrator Termination Event continues terminate the appointment of the Administrator by notice in writing to the Administrator with effect from a date specified in the notice (not earlier than the date of the notice).; and
- (b) the Back-Up Administrator Facilitator shall use its best efforts to identify and, thereafter, appoint a substitute administrator on behalf of the LLP.

The appointment of the Administrator shall continue to the extent required to ensure that the administration services under the Administration Agreement continue to be performed pending a substitute administrator's assumption of the performance of such services.

The Administration Agreement provides that the Administrator has no liability for breaches arising out of force majeure events (unless such event arose as a result of fraud, gross negligence or wilful default of the Administrator).

The appointment of the Administrator under the Administration Agreement may also be terminated upon the expiry of not less than six months' notice of termination given by the Administrator to each of the LLP and the Security Trustee, subject to the fulfilment of certain conditions including:

- (a) the LLP and the Security Trustee consent in writing to such termination;

- (b) a substitute administrator is appointed that meets the Administrator Required Ratings, such appointment to be effective not later than the date of termination of the appointment of the Administrator (and the Administrator shall notify the Rating Agencies in writing of the identity of such substitute administrator), and such substitute administrator enters into an agreement substantially on the terms of the Administration Agreement; and
- (c) such substitute administrator has experience of administering mortgage loans secured on residential properties in England and Wales.

(m) ***Back-Up Administration Agreement***

If the Administrator ceases to be assigned the Administrator Required Ratings it will, with the Back-Up Administrator Facilitator, use reasonable efforts to enter into a back-up administration agreement, in form and substance acceptable to the parties to the Administration Agreement, with a suitably experienced third party acceptable to and appointed by the LLP, within 60 days of the Administrator ceasing to be assigned such rating or any such other time agreed with the Security Trustee.

(n) ***Cash and general administration***

The Administrator will provide certain cash administration services to the LLP pursuant to the terms of the Administration Agreement.

The cash administration services include but are not limited to:

- (i) maintaining the Ledgers on behalf of the LLP;
- (ii) maintaining records of all Authorised Investments and/or Substitution Assets, as applicable;
- (iii) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payments described under *Cashflows*, below and making other payments from the LLP Accounts in accordance with the Transaction Documents;
- (iv) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the LLP Deed, as more fully described under “*Credit Structure – Asset Coverage Test*”, below;
- (v) determining whether the Amortisation Test is satisfied on each Calculation Date following an Issuer Event of Default in accordance with the LLP Deed, as more fully described under “*Credit Structure – Amortisation Test*”, below;
- (vi) determining the Yield Reserve Required Amount from time to time as more fully described under “*Credit Structure – Yield Reserve*”, below;
- (vii) providing the FCA with information on the composition of any Substitution Assets and/or Authorised Investments comprised in the assets of the LLP and/or such other information as may be required by the FCA in accordance with the RCB Regulations;
- (viii) preparing Investor Reports for the Covered Bondholders, each Rating Agency and the Bond Trustee; and
- (ix) making the necessary notifications and procuring the necessary payments with respect to any Cash Capital Contributions which are to be credited to the Principal Ledger, Yield Reserve Ledger, Reserve Ledger or Coupon Payment Ledger.

(o) ***Governing Law***

The Administration Agreement and any non-contractual obligation arising out of or in relation to the Administration Agreement are governed by English law.

5 Asset Monitor Agreement

(a) ***Summary***

Under the terms of the Asset Monitor Agreement, the Asset Monitor has agreed that, subject to receipt of the information to be provided to it by the Administrator (including the Sterling Equivalent of the Principal Amount Outstanding of the Covered Bonds on a relevant Calculation Date and figures used in the Administrator's calculation of the Adjusted Aggregate Loan Amount), the Asset Monitor shall as soon as reasonably practicable (and in any event not later than 10 Business Days following receipt of such information from the Administrator), test the arithmetic accuracy of the calculations performed by the Administrator on the Calculation Date immediately preceding each anniversary of the Initial Programme Date with a view to confirmation of compliance by the LLP with the Asset Coverage Test or the Amortisation Test, as applicable, on that Calculation Date to the Issuer, the LLP and the Security Trustee.

If and for so long as:

- (i) in respect of Moody's, the counterparty risk assessment of the Administrator or the counterparty risk assessment of the Issuer falls below Baa3(cr) (or, if a counterparty risk assessment is not available, the long-term unsecured, unguaranteed and unsubordinated debt obligation ratings of the Administrator or the long-term unsecured, unguaranteed and unsubordinated debt obligation ratings of the Issuer fall below Baa3); or
- (ii) in respect of Fitch, the long-term IDR of the Administrator or the long-term IDR of the Issuer falls below BBB- or the short-term IDR of the Administrator or the short-term IDR of the Issuer falls below F3; or
- (iii) an Asset Coverage Test Breach Notice has been served on the Issuer and has not been revoked,

the Asset Monitor shall conduct the tests of the Administrator's calculations referred to above, as applicable, in respect of each Calculation Date, as soon as reasonably practicable (and in any event not later than 10 Business Days following receipt of the relevant information from the Administrator).

If the tests reveal arithmetic errors in the relevant calculations performed by the Administrator such that:

- (i) the reported Asset Coverage Test or Amortisation Test had been failed on the relevant Calculation Date (where the Administrator had recorded it as being satisfied); or
- (ii) the reported Adjusted Aggregate Loan Amount or the reported Amortisation Test Aggregate Loan Amount, as applicable, was mis-stated by the Administrator by an amount exceeding one per cent. of the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount, as applicable (as at the date of the relevant Asset Coverage Test or the relevant Amortisation Test),

and subject to receipt of the information to be provided to the Asset Monitor, for a period of six months thereafter, the Asset Monitor shall conduct such tests of the Administrator's calculations in respect of every Calculation Date occurring during that six month period.

The Asset Monitor is entitled, in the absence of manifest error, to assume that all information provided to it by the Administrator for the purpose of reporting on the arithmetic accuracy is true and correct and

is complete and not misleading and is not required to conduct an audit or other similar examination in respect of or otherwise take steps to verify the accuracy or completeness of such information or of any sources from which such information has been extracted by the Administrator. The Asset Monitor Report will be delivered to the Administrator, the LLP, the Issuer and the Security Trustee.

The LLP may, at any time but only with the prior written consent of the Security Trustee, terminate the appointment of the Asset Monitor upon providing the Asset Monitor with 60 days' prior written notice (provided that such termination may not be effected unless and until a replacement has been found by the LLP (such replacement to be approved by the Security Trustee unless the replacement is an accountancy firm of international standing) which agrees to provide the services of the Asset Monitor). The Asset Monitor may, at any time, resign from its appointment upon providing the LLP, the Issuer and the Security Trustee (copied to each Rating Agency) 60 days' prior written notice. The Asset Monitor may resign from its appointment upon giving 45 days' prior written notice if any action taken by any of the LLP, the Issuer, the Administrator or the Security Trustee causes a professional conflict of interest for the Asset Monitor under the rules of the professional and/or regulatory bodies regulating the activities of the Asset Monitor. Any replacement asset monitor shall be approved in writing by the Security Trustee, unless the replacement is an accountancy firm of international standing.

If a substitute asset monitor is not appointed by the date which is 30 days prior to the date when tests are to be carried out in accordance with the terms of the Asset Monitor Agreement, then the LLP shall use all reasonable endeavours to appoint an accountancy firm of international standing approved by the Security Trustee to carry out the relevant tests on a one-off basis.

The Asset Monitor Agreement will terminate upon the earlier of the occurrence of an LLP Event of Default or if, after the First Issue Date, there are no amounts outstanding in relation to any Covered Bonds for a continuous period of 90 days.

Neither the Bond Trustee nor the Security Trustee will be obliged to act as Asset Monitor in any circumstances.

(b) ***Governing law***

The Asset Monitor Agreement and any non-contractual obligations arising out of or in relation to the Asset Monitor Agreement are governed by English law.

6 LLP Deed

The Members of the LLP have agreed to operate the business of the LLP in accordance with the terms of the LLP Deed.

(a) ***Members***

As at the date of this Prospectus, each of Paragon Bank PLC and the Liquidation Member is a member (each a "**Member**", and together with any other members from time to time, the "**Members**") of the LLP. Paragon Bank PLC and the Liquidation Member are designated members (each a "**Designated Member**", and together with any other designated members from time to time, the "**Designated Members**") of the LLP. The Designated Members shall have such duties as are specified in the LLPA 2000 or otherwise at law and in the LLP Deed. The LLP Deed requires that there will at all times be at least two Designated Members of the LLP.

For so long as Covered Bonds are outstanding, if an administrator or a liquidator is appointed in respect of Paragon Bank PLC, the Liquidation Member may, by written notice to the LLP, appoint another Member as a Designated Member or may, at its sole discretion (acting on behalf of itself and the other

Members), admit a New Member to the LLP (in each case with the prior written consent of the Security Trustee).

No New Member may be otherwise appointed without the consent of the Security Trustee and the Ratings Condition being satisfied.

(b) ***Capital Contributions***

From time to time the Seller (in its capacity as a Member) will make Capital Contributions to the LLP. Capital Contributions may be made in cash or in kind (e.g. through a contribution of Mortgage Loans to the LLP). The Capital Contribution Balance of the Seller (in its capacity as a Member) in respect of the immediately preceding Calculation Period shall be calculated in Sterling (and to the extent that any amount denominated in a currency other than Sterling, converted into Sterling at the relevant Covered Bond Swap Rate) on each Calculation Date as follows:

$$A - B - C + D$$

Where,

- A** = the Capital Contribution Balance of the Seller on the last day of the immediately preceding Calculation Period including any Capital Contribution in Kind (such as a contribution of Mortgage Loans to the LLP as a Capital Contribution in Kind) or in the case of the first Calculation Date in relation to that Member, the Opening Capital Contribution Balance of that Member;
- B** = the amount of any anticipated Capital Distribution to be paid to the Seller on the next following LLP Payment Date;
- C** = the amount of any Losses on the Mortgage Loans in the immediately preceding Calculation Period that are attributable to Mortgage Loans sold in return for a Capital Contribution in Kind by the Seller to the LLP and which have not been or will not be repurchased by the Seller on or before the next following LLP Payment Date; and
- D** = any increase in the Current Balance of Mortgage Loans in the immediately preceding Calculation Period due to Capitalised Interest and fees accruing on the Mortgage Loans.

If at any time, the Seller is acting as the Administrator and an Administrator Downgrade Event occurs and is continuing the Seller will:

- (i) within three Business Days after the occurrence of an Administrator Downgrade Event notify the LLP, the Account Bank and each Covered Bond Swap Provider, of such event;
- (ii) within 10 Business Days of the occurrence of an Administrator Downgrade Event if either (i) the Reserve Fund was not, as at the immediately preceding LLP Payment Date, funded to at least the Reserve Fund Required Amount or (ii) the Reserve Fund Required Amount was calculated to be zero as at the immediately preceding Calculation Date, make a Cash Capital Contribution to the LLP in an aggregate amount equal to:
- (A) (in the case of a Term Advance where a Covered Bond Swap is not in place other than in respect of an Accumulation Series of Covered Bonds), the Required Coupon Amount payable on the immediately succeeding Loan Interest Payment Date for each such Term Advance; and/or
- (B) (in the case of a Term Advance where a Covered Bond Swap is in place), the Required Coupon Amount payable on the immediately succeeding Party B payment date (as defined

in each relevant Covered Bond Swap Agreement) (other than those amounts due in respect of an Interim Exchange Date or Final Exchange Date (each as defined in the relevant Covered Bond Swap Agreement)) relating to each Term Advance; and/or

- (C) (in the case of a Term Advance relating to an Accumulation Series of Covered Bonds), the Required Coupon Amount payable on the immediately succeeding LLP Payment Date for each such Term Advance; and
- (iii) thereafter, make a Cash Capital Contribution to the LLP not less than one Business Day after:
- (A) each Loan Interest Payment Date, in an amount equal to the aggregate of the Required Coupon Amount due on the next following Loan Interest Payment Date in respect of each Term Advance without a Covered Bond Swap in place other than an Accumulation Series of Covered Bonds; and/or
 - (B) each Party B payment date, in an amount equal to the aggregate of the Required Coupon Amount due on that Party B payment date in respect of each Term Advance with a Covered Bond Swap in place; and/or
 - (C) each LLP Payment Date, in an amount equal to the aggregate of the Required Coupon Amount due on the next following LLP Payment Date in respect of each Term Advance relating to an Accumulation Series of Covered Bonds.

Any such Cash Capital Contribution will be treated as a revenue item but will not form part of Available Revenue Receipts.

The LLP will procure that the amount received in respect of such Cash Capital Contribution in respect of items (ii) and (iii) above is paid into the Transaction Account and the Administrator will make a credit to the Coupon Payment Ledger that will be made available to meet interest payments on the Term Advances and/or Scheduled Interest on the Covered Bonds.

The Seller will, prior to the first Issue Date, and thereafter may, periodically make Cash Capital Contributions, to be paid into the Transaction Account and credited to the Yield Reserve Ledger. The Seller will ensure that the Yield Reserve is funded to at least the Yield Reserve Required Amount through a combination of Cash Capital Contributions and Available Revenue Receipts, as further described in “*Credit Structure – Yield Reserve*” below. Such Cash Capital Contributions will be treated as a revenue item but will only form part of Available Revenue Receipts at the discretion of, and if so directed by, the Seller.

The Liquidation Member will not make any Capital Contributions to the LLP.

Capital Contributions or returns on Capital Contributions shall only be paid to Members after the LLP has paid or, as applicable, provided for, all higher ranking amounts in the relevant Priorities of Payments.

(c) ***Asset Coverage Test***

Under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date prior to the service of a Notice to Pay, the Adjusted Aggregate Loan Amount is in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of the immediately preceding Calculation Period as calculated by the Administrator on the relevant Calculation Date. For the avoidance of doubt, the Amortised Cost Adjustment of any Mortgage Loans is not included in the calculation of the Asset Coverage Test on each Calculation Date.

If on any Calculation Date, the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds as at the end of the immediately preceding Calculation Period as calculated on the relevant Calculation Date, then the LLP (or the Administrator on its behalf) will notify the Members, the Bond Trustee and the Security Trustee thereof and the Members (other than the Liquidation Member) will use all reasonable endeavours to sell sufficient further Mortgage Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see “*Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of Mortgage Loans and Related Security*”) and/or provide Cash Capital Contributions (to be paid into the Transaction Account and credited to the Principal Ledger) to ensure that the Asset Coverage Test is met on the next following Calculation Date. If the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee (as notified in writing by the LLP or the Administrator on its behalf) will serve an Asset Coverage Test Breach Notice on the LLP and shall send notice of the same to the FCA pursuant to the RCB Regulations. The Bond Trustee shall revoke an Asset Coverage Test Breach Notice if, on any Calculation Date falling on or prior to the third Calculation Date following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

Following service of an Asset Coverage Test Breach Notice (which has not been revoked):

- (i) the LLP will be required to sell Selected Mortgage Loans (as described further under “*LLP Deed – Sale of Selected Mortgage Loans and their Related Security following service of an Asset Coverage Test Breach Notice*”);
- (ii) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments will be modified as more particularly described in “*Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*” below; and
- (iii) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice. On the occurrence of an Issuer Event of Default, the Bond Trustee shall give notice of the same to the FCA pursuant to the RCB Regulations. Following service of an Issuer Acceleration Notice, the Bond Trustee will be required to serve a Notice to Pay on the LLP.

For the purposes hereof:

“**Adjusted Aggregate Loan Amount**” means the amount calculated on each Calculation Date (without double counting) as follows:

$$A + B + C + D + E - (Y + Z)$$

where,

A = the lower of (a) and (b), less the amount in (c) below, where:

- (a) = the sum of the “**Adjusted Current Balance**” of each Mortgage Loan in the Mortgage Portfolio, which shall be the lower of:
- (i) the actual Current Balance of the relevant Mortgage Loan in the Mortgage Portfolio as calculated on the last day of the immediately preceding Calculation Period; and
 - (ii) the latest Indexed Valuation determined on or before the last day of the immediately preceding Calculation Period relating to that Mortgage Loan multiplied by M, where for all Mortgage Loans that are less than three months in arrears or not in arrears, M = the lower of (1) 0.75, (2) the maximum LTV amount applicable to residential mortgage loans specified in the RCB Regulations and (3) the maximum LTV amount applicable to residential mortgage loans specified in Article 129 of the UK CRR (the “**Maximum LTV Amount**”) and for all Mortgage Loans that are three months or more in arrears, M = 0; and
- (b) = the aggregate “**Arrears Adjusted Current Balance**” of the Mortgage Loans in the Mortgage Portfolio which, in relation to each Mortgage Loan, shall be the lower of:
- (i) the actual Current Balance of the relevant Mortgage Loan as calculated on the last day of the immediately preceding Calculation Period; and
 - (ii) the latest Indexed Valuation determined on or before the last day of the immediately preceding Calculation Period relating to that Mortgage Loan multiplied by N, where for all Mortgage Loans that are less than three months in arrears or not in arrears, N = 1 and for all Mortgage Loans that are three months or more in arrears, N = 0;
- the result of the calculation in this paragraph (b) above being multiplied by the Asset Percentage (as defined below); and
- (c) = the aggregate sum of the following deemed reductions to the Adjusted Current Balance or, as applicable, the Arrears Adjusted Current Balance, if any of the following occurred during the previous Calculation Period:
- (i) a Mortgage Loan or its Related Security was, in the immediately preceding Calculation Period, subject to any obligation of the Seller under the Mortgage Sale Agreement to repurchase the relevant Mortgage Loan and its Related Security, and the Seller has not repurchased such Mortgage Loan and its Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted Current Balance of the Mortgage Loans in the Mortgage Portfolio (as calculated on the last day of the immediately preceding Calculation Period) will be deemed to be reduced by an amount equal to the Adjusted Current Balance of the relevant Mortgage Loan or Mortgage Loans (as calculated on the last day of the immediately preceding Calculation Period); and/or
 - (ii) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Administrator was, in any preceding Calculation Period, in breach of a material term of the Administration Agreement. In this event, the aggregate Adjusted Current Balance of the Mortgage Loans in the Mortgage Portfolio (as calculated on the last day of the immediately preceding Calculation Period) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Administrator

without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss);

- B = the aggregate amount of any Principal Receipts on the Mortgage Loans in the Mortgage Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Principal Ledger) which have not been applied as at the end of the immediately preceding Calculation Period to acquire further Mortgage Loans and their Related Security and/or Further Advances or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents;
- C = the aggregate amount of any Cash Capital Contributions made by the Members (as recorded in the Capital Account Ledger of each Member) or proceeds of Term Advances which have not been applied as at the relevant Calculation Date to acquire further Mortgage Loans or Further Advances and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents;
- D = the aggregate outstanding principal balance of any Substitution Assets and Authorised Investments as at the end of the immediately preceding Calculation Period (to the extent not falling within (B) above);
- E = the aggregate sum of (i) any Sale Proceeds and (ii) Capital Contributions (in each case, to the extent not falling within (B) or (C) above) otherwise standing to the credit of the LLP Accounts as at the end of the immediately preceding Calculation Period (without double counting);
- Y = either:
- (a) zero, for so long as the Issuer's credit rating from each Rating Agency is at least A (long-term IDR) or F1 (short-term IDR) by Fitch or A2 (long-term) or P-1 (short-term) by Moody's; or
 - (b) the sum of the Deposit Set-off Balance for each Mortgage Loan, where the **"Deposit Set-off Balance"** is calculated on each Calculation Date by reference to the relevant balances as at the end of the preceding Calculation Period and equals,
 - (i) zero in respect of each Mortgage Loan where the aggregate amount of the relevant Borrower's deposit account balances does not exceed the FSCS Limit; or
 - (ii) in respect of each Mortgage Loan where the aggregate amount of the relevant Borrower's deposit account balances exceeds the FSCS Limit, the lower of (1) the Current Balance of the relevant Mortgage Loan and (2) the aggregate amount of deposit account balances of the relevant Borrower minus the FSCS Limit, each as calculated on the relevant Calculation Date as at the end of the immediately preceding Calculation Period; or
 - (c) such other percentage amount as may be notified by the Issuer to the LLP, the Security Trustee and the Rating Agencies from time to time, subject to receipt of a Ratings Confirmation, multiplied by the relevant balances as at the end of the immediately preceding Calculation Period;

"FSCS Limit" means the current applicable limit established by the Financial Services Compensation Scheme; and

Z =

- (a) zero, for so long as the Issuer's long-term IDR is at least A or short-term IDR is at least F1 by Fitch or the Issuer's credit rating is at least A2 (long-term) or P-1 (short-term) by Moody's; or
- (b) otherwise the weighted average remaining maturity (expressed in years) of all Covered Bonds then outstanding multiplied by the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of the immediately preceding Calculation Period multiplied by the Negative Carry Factor, provided that if the weighted average remaining maturity is less than one, the weighted average shall be deemed, for the purposes of this calculation, to be one.

The "**Negative Carry Factor**" is 0.50 per cent. (or such other percentage as may be specified by the Issuer or the LLP from time to time subject to the Ratings Condition being satisfied).

Save where otherwise agreed, the "**Asset Percentage**" on any Calculation Date shall be the lowest of:

- (i) 92.5 per cent.; or
- (ii) the percentage figure as selected at the option of the LLP (or the Administrator acting on its behalf) from time to time that is necessary to ensure the Covered Bonds maintain the then current rating assigned to them by Fitch; and
- (iii) the percentage figure as selected at the option of the LLP (or the Administrator on its behalf) from time to time and notified to Moody's and the Security Trustee on such Calculation Date or, where the LLP (or the Administrator acting on its behalf) has not notified Moody's and the Security Trustee of the minimum percentage figure on the relevant Calculation Date, on the last date of such notification, being the difference between 100 per cent. and the amount of credit enhancement required to support the then current ratings of the Covered Bonds under Moody's expected loss methodology, provided that in the event that any of the Covered Bonds are not then currently rated Aaa for as long as any Covered Bonds remain outstanding whose ratings have been downgraded at any point since their relevant original Issue Date and until they have been subsequently upgraded to at least the rating as at their original Issue Date, the Asset Percentage may not be greater than the higher of (a) the Asset Percentage specified in the most recently delivered Asset Percentage notification form prior to the first such downgrade, or (b) the lowest value for (X) in respect of each downgrade where (X) in respect of each downgrade is equal to the respective Attributed Moody's Asset Percentage specified in the relevant Investor Reports most recently delivered prior to such downgrade,

where "**Attributed Moody's Asset Percentage**" means the percentage figure as set out in each Investor Report which notwithstanding the percentage figure that may be selected by the LLP or the Administrator on its behalf from time to time and notified to the Security Trustee and Moody's, is the percentage as at each Calculation Date, being the difference between 100 per cent. and the amount of credit enhancement required to support the then current ratings of the Covered Bonds under Moody's expected loss methodology.

Notwithstanding anything to the contrary in the LLP Deed, the Asset Percentage will be adjusted in accordance with various Rating Agency methodologies to ensure that sufficient credit enhancement will be maintained.

In addition, the LLP or the Administrator acting on its behalf may, from time to time, send notification to Moody's and the Security Trustee of the percentage figure selected by it.

(d) ***Amortisation Test***

For so long as the Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) shall procure that on each Calculation Date following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security) the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of the immediately preceding Calculation Period as calculated by the Administrator on the relevant Calculation Date.

Following service of Notice to Pay on the LLP, if on any Calculation Date the Amortisation Test Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as at the end of the immediately preceding Calculation Period as calculated on the relevant Calculation Date, then the Amortisation Test will be deemed to be breached and an LLP Event of Default will occur. The LLP (or the Administrator on its behalf), will immediately notify the Members, the Security Trustee and (whilst Covered Bonds are outstanding) the Bond Trustee of any breach of the Amortisation Test and the Bond Trustee shall be entitled to serve an LLP Acceleration Notice in accordance with the Conditions.

The “**Amortisation Test Aggregate Loan Amount**” will be calculated as follows:

$$A + B + C - Z$$

where,

A = the aggregate amortisation test current balance of each Mortgage Loan, which shall be the lower of (1) the actual Current Balance of the relevant Mortgage Loan as calculated on the last day of the immediately preceding Calculation Period multiplied by M and (2) 100 per cent. of the Indexed Valuation of such Mortgage Loan multiplied by M.

Where for all the Mortgage Loans that are less than three months in arrears or not in arrears $M = 1$ or for all the Mortgage Loans that are three months or more in arrears $M = 0.7$;

B = the aggregate amount of any Principal Receipts on the Mortgage Loans in the Mortgage Portfolio as at the end of the immediately preceding Calculation Period (as recorded in the Principal Ledger) plus amounts standing to the credit of the Reserve Ledger (if any) as at the end of the immediately preceding Calculation Period;

C = the aggregate outstanding principal balance of any Substitution Assets and Authorised Investments as at the end of the immediately preceding Calculation Period (to the extent not falling within (B) above); and

Z = the weighted average remaining maturity of all Covered Bonds then outstanding ***multiplied by*** the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds (both as at the end of the immediately preceding Calculation Period) ***multiplied by*** the Negative Carry Factor.

(e) ***Sale of Selected Mortgage Loans and their Related Security following service of an Asset Coverage Test Breach Notice***

After an Asset Coverage Test Breach Notice has been served on the LLP (which has not been revoked) but prior to service of a Notice to Pay and/or an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or the realisation of the Security, the LLP shall either (i) procure that a Cash Capital Contribution is made to it by the Seller (such amounts being paid into the Transaction Account and credited to the Principal Ledger) and/or (ii) sell Selected Mortgage Loans and their Related Security in the Mortgage Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Mortgage Loans and their Related Security pursuant to the Mortgage Sale Agreement and subject to any Cash Capital Contribution made by the Members. The proceeds from any such sale or refinancing will be credited to the Transaction Account and applied as set out in the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments, subject to certain provisos described in the section entitled “*Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*” below.

(f) ***Sale of Selected Mortgage Loans and their Related Security following service of a Notice to Pay***

After a Notice to Pay has been served on the LLP but prior to the service of an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or the realisation of the Security, the LLP will be obliged to sell Selected Mortgage Loans and their Related Security in the Mortgage Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Mortgage Loans and their Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale or refinancing will be credited to the Transaction Account and applied as set out in the Guarantee Priority of Payments.

(g) ***Method of sale of Selected Mortgage Loans***

If the LLP is required to sell Selected Mortgage Loans and their Related Security to Purchasers (and has not procured that the Seller make a Cash Capital Contribution to the Transaction Account with a credit to the Principal Ledger) following either the service of an Asset Coverage Test Breach Notice which has not been revoked or a Notice to Pay, the LLP will be required to ensure that before offering Selected Mortgage Loans and their Related Security for sale:

- (i) the Selected Mortgage Loans have been selected from the Mortgage Portfolio on a random basis if only part of the Mortgage Portfolio is sold as described in the LLP Deed; and
- (ii) the Selected Mortgage Loans have an aggregate Current Balance in an amount (the “**Required Current Balance Amount**”) which is, as a minimum, as close as possible to the amount calculated as follows:
 - (A) following the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Mortgage Loans were sold at their Current Balance plus accrued interest thereon, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the anticipated payment and other obligations of the LLP (as reasonably determined by the Administrator) on the LLP Payment Date following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or

(B) following service of a Notice to Pay:

$$\text{Required Current Balance Amount} = N \times \frac{\text{the Sterling Equivalent of the Adjusted Required Redemption Amount in respect of the Earliest Maturing Covered Bond then outstanding}}{\text{the Sterling Equivalent of the Adjusted Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where “N” is an amount equal to the Current Balance of all the Mortgage Loans in the Mortgage Portfolio.

The LLP will offer the Selected Mortgage Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

- (i) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay), for an amount not less than the Current Balance of the Selected Mortgage Loans and accrued interest thereon; and
- (ii) following service of a Notice to Pay, for an amount not less than the Adjusted Required Redemption Amount (subject to the Selected Mortgage Loans having an aggregate Current Balance of not less than the Required Current Balance Amount).

Following the service of a Notice to Pay, if the Selected Mortgage Loans and their Related Security have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto), then the LLP will offer the Selected Mortgage Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

The LLP shall at all times offer the Selected Mortgage Loans and their Related Security subject to the pre-emption rights enjoyed by the Seller in accordance with the terms of the Mortgage Sale Agreement Following the service of a Notice to Pay, in addition to offering Selected Mortgage Loans for sale to Purchasers in respect of the Earliest Maturing Covered Bonds, the LLP (subject to the rights of pre-emption enjoyed by the Seller pursuant to the Mortgage Sale Agreement) is permitted to offer for sale a portfolio of Selected Mortgage Loans, in accordance with the provisions summarised above, in respect of other Series of Covered Bonds.

Notwithstanding clauses 18.2 and 18.3 of the LLP Deed, the LLP is also permitted to offer for sale to Purchasers (subject to the right of pre-emption in favour of the Seller pursuant to clause 7 (*Sale of Selected Mortgage Loans*) of the Mortgage Sale Agreement) a Partial Mortgage Portfolio. The sale price of the Partial Mortgage Portfolio (as a proportion of the minimum price calculated in accordance with the LLP Deed) shall be at least equal to the proportion that the Partial Mortgage Portfolio bears to the relevant portfolio of Selected Mortgage Loans except in circumstances where a Notice to Pay has been served and the portfolio of Selected Mortgage Loans is being sold within six months of the Extended Due for Payment Date in respect of the Series of Covered Bonds to be repaid from such proceeds, in which case the sale price of the Partial Mortgage Portfolio is to be the best price reasonably available.

The LLP will through a tender process appoint a portfolio manager of recognised standing on a basis intended to incentivise the portfolio manager to achieve the best price for the sale of the Selected Mortgage Loans (if such terms are commercially available in the market) to advise it in relation to the sale of the Selected Mortgage Loans to Purchasers (except where the Seller is buying the Selected Mortgage Loans in accordance with its right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment in accordance with such tender shall be approved by the Security Trustee.

Where a portfolio manager has been appointed, in respect of any sale or refinancing of Selected Mortgage Loans and their Related Security following service of an Asset Coverage Test Breach Notice which has not been

revoked or a Notice to Pay, the LLP will instruct the portfolio manager to use all reasonable endeavours to procure that Selected Mortgage Loans are sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager, taking into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the LLP Deed).

The terms of any sale and purchase agreement with respect to the sale of Selected Mortgage Loans (which shall give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Security Trustee. The Selected Mortgage Loans will be automatically released from the Security once they no longer form part of the Mortgage Portfolio, in accordance with the Deed of Charge (as described under – “*Deed of Charge – Release of Security*”, below).

Following the service of a Notice to Pay, if Purchasers accept the offer or offers from the LLP so that some or all of the Selected Mortgage Loans and their Related Security shall be sold prior to the Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the LLP will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require *inter alia* a cash payment from the relevant Purchasers. Any such sale will not include any Loan Warranties from the LLP or the Seller in respect of the Mortgage Loans and the Related Security unless expressly agreed by the Security Trustee or otherwise agreed with the Seller.

(h) ***Covenants of the LLP and the Members***

Each of the Members covenants that, subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the LLP without the prior written consent of the LLP and, whilst the Covered Bonds are outstanding, the Security Trustee. Whilst any amounts are outstanding in respect of the Covered Bonds, each of the Members undertakes not to terminate or purport to terminate the LLP Deed or institute any Winding-Up Proceedings, administration, insolvency or similar proceedings against the LLP.

The LLP covenants that it will not, save with the prior written consent of the Management Committee (and, for so long as any Covered Bonds are outstanding, with the prior written consent of the Security Trustee) or as envisaged by the Transaction Documents to which the LLP is a party:

- (i) create or permit to subsist any mortgage, 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 other than as created or permitted in the Deed of Charge **provided always that**, for the avoidance of doubt, the LLP may consent to Borrowers creating subsequent mortgages or charges over any of the Mortgaged Properties where the amounts secured by such mortgages or charges rank after the amounts secured or to be secured by the Mortgage Loans (including Mandatory Further Advances, Discretionary Further Advances and interest thereon) and the subsequent mortgagee or chargee expressly postpones its rights to those of the LLP;
- (ii) transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein or thereto or agree or attempt or purport to do so;
- (iii) have an interest in any bank account, other than as set out in the Transaction Documents;
- (iv) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any such indebtedness;

- (v) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;
- (vi) have any employees, premises or subsidiaries;
- (vii) acquire any assets other than pursuant to the terms of the Mortgage Sale Agreement, the Administration Agreement and the LLP Deed;
- (viii) enter into any contracts, agreements or other undertakings;
- (ix) compromise, compound or release any debt due to it;
- (x) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets;
- (xi) establish any “establishment” as that term is used in Article 2(10) of Regulation (EU) 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings as it forms part of UK domestic law (the “**UK Insolvency Regulation**”);
- (xii) 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 or deemed to be engaged in a trade or business within the United States as determined under United States tax principles; or
- (xiii) be a member of any VAT Group.

The LLP further covenants that it will:

- (1) ensure that the Asset Pool will only comprise those assets set out in items (a) to (h) of Regulation 3(1) (*Asset Pool*) of the RCB Regulations;
- (2) ensure that the Mortgage Loans and the Related Security, the Substitution Assets and the Authorised Investments contained in the Asset Pool comply with the definition of “eligible property” in Regulation 2 (*Eligible Property*) of the RCB Regulations;
- (3) furnish the FCA with any and all documents, instruments and information that may be necessary in order to maintain registration of the Issuer and the Programme and any Covered Bonds issued thereunder under the RCB Regulations;
- (4) comply with all of its obligations under the RCB Regulations and the RCB Sourcebook at such time and in such manner as required by the RCB Regulations and the RCB Sourcebook (including, but not limited to, its obligations to provide notifications to the FCA in certain circumstances) and following insolvency of the Issuer its obligations in respect of annual confirmations pursuant to RCB 3.2.10D of the RCB Sourcebook and asset pool notifications pursuant to RCB 3.3.1D and 3.3.3D of the RCB Sourcebook;
- (5) keep a record of those assets that form part of the Asset Pool which, for the avoidance of doubt, shall not include any Swap Collateral;
- (6) following any insolvency of the Issuer, notify the FCA if at any time the requirements set out in Regulation 24(1)(a)(ii) or Regulation 24(1)(a)(iii) of the RCB Regulations are not, or are not likely to be, satisfied; and
- (7) at any time when the LLP proposes to transfer ownership of the Asset Pool, comply with its obligations under Regulation 25 (Change of Owner) of the RCB Regulations and RCB 3.5 of the RCB Sourcebook. In particular, it shall make arrangements to give the FCA notice of the proposed

change of ownership and such information in respect of the proposed new owner as the FCA may direct.

(i) ***Limit on Investing in Substitution Assets***

Prior to the service of an Asset Coverage Test Breach Notice which has not been revoked or a Notice to Pay on the LLP, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances standing to the credit of the LLP Accounts in Substitution Assets, provided that the aggregate amount so invested in Substitution Assets does not exceed the higher of (i) 10 per cent. of the total assets of the LLP at any one time and (ii) the maximum amount of Substitution Assets that may constitute part of the Asset Pool pursuant to the terms of the RCB Regulations, and provided that such investments are made in accordance with the terms of the Administration Agreement. Depositing such amounts to be invested in any LLP Account will not constitute an investment in Substitution Assets for these purposes.

Following service of an Asset Coverage Test Breach Notice which has not been revoked or a Notice to Pay on the LLP, all Substitution Assets must be sold by the LLP (or the Administrator on its behalf) as quickly as reasonably practicable and the proceeds credited to the Transaction Account and the LLP will be permitted to invest all available monies in Authorised Investments, provided that such investments are made in accordance with the terms of the Administration Agreement.

There is no limit on the amounts that the LLP shall be entitled to invest in Authorised Investments, subject to compliance with the RCB Regulations.

(j) ***Other Provisions***

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the LLP is described under “*Cashflows*” below.

The Management Committee, comprising as at the date of this Prospectus directors, officers and/or employees of PFPLC and the Liquidation Member, will act on behalf of the LLP to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding-up of the LLP, which require a unanimous decision of the Members) the Members delegate all matters. Any decision by the Management Committee relating to the admission of a New Member, any change in the LLP’s business, any change to the LLP’s name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

For so long as any Covered Bonds are outstanding, each Member has agreed that it will not terminate or purport to terminate the LLP or institute any Winding-Up Proceedings, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed *inter alia* not to demand or receive payment of any amounts payable by the LLP (or the Administrator on its behalf) or the Security Trustee unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.

Each Member will be responsible for the payment of its own tax liabilities and will be required to indemnify the LLP and the other Members from any liabilities which they incur as a result of the relevant Member’s non-payment.

Following the appointment of a liquidator to any Member (other than the Liquidation Member), any decisions of the LLP that are reserved to the Members in the LLP Deed shall be made by the Liquidation Member only.

(k) ***Governing law***

The LLP Deed and any non-contractual obligations arising out of or in relation to the LLP Deed are governed by English law.

7 Interest Rate Swap Agreements

Sterling payments to be made by the LLP under the Covered Bond Swaps or under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP) and under the Covered Bond Guarantee in respect of Covered Bonds (after the service of a Notice to Pay on the LLP) for which there are no Covered Bond Swaps are based on a compounded daily SONIA rate. Some of the Mortgage Loans in the Mortgage Portfolio pay a variable rate of interest for a period of time that may be linked either to the Seller's Standard Variable Rate or linked to an interest rate other than the Seller's Standard Variable Rate, such as a rate that tracks the Bank of England base rate, and these will not be hedged. Other Mortgage Loans pay a fixed rate of interest for a period of time. To provide a hedge against some or all of the possible variance between:

- (i) the rates of interest payable on some or all of the Fixed Rate Mortgage Loans in the Mortgage Portfolio; and
- (ii) a compounded daily SONIA rate,

the LLP may enter into one or more Interest Rate Swaps with one or more Interest Rate Swap Providers from time to time, which may cover some or all of the rates of interest payable on the Fixed Rate Mortgage Loans in the Mortgage Portfolio.

The LLP and Paragon Bank PLC (in its capacity as an Interest Rate Swap Provider) will enter into Interest Rate Swap Agreements on or before the First Transfer Date and enter into Interest Rate Swaps which have notional amounts linked to the Fixed Rate Mortgage Loans (including Interest Rate conversions and Further Advances and Fixed Rate Mortgage Loans purchased using Available Principal Receipts in accordance with the relevant Priority of Payments) in the Mortgage Portfolio.

On each Calculation Date, the Administrator will determine the balance of the Performing Fixed Rate Mortgage Loans in the Mortgage Portfolio of the relevant Series of Covered Bonds and the weighted average interest rate in respect of the Performing Fixed Rate Mortgage Loans in the Mortgage Portfolio of the relevant Series of Covered Bonds, each as at the end of the immediately preceding Calculation Period. On the LLP Payment Date following such Calculation Date (subject to the amounts being paid net of one another), the LLP will pay an amount equal to the product of:

- (i) such balance of the Performing Fixed Rate Mortgage Loans of the relevant Series of Covered Bonds (as adjusted to reflect any agreed over-collateralisation); and
- (ii) such weighted average interest rate in respect of the Performing Fixed Rate Mortgage Loans of the relevant Series of Covered Bonds (as adjusted to reflect any agreed over-collateralisation),

and the relevant Interest Rate Swap Provider will pay an amount equal to the product of:

- (i) such balance of the Performing Fixed Rate Mortgage Loans in the Mortgage Portfolio of the relevant Series of Covered Bonds (as adjusted to reflect any agreed over-collateralisation); and
- (ii) Compounded Daily SONIA plus a spread.

Subject to the mark-to-market value of the Interest Rate Swaps, the Interest Rate Swap Provider may be required to post collateral for its obligations under the relevant Interest Rate Swap Agreement from the date on which it enters into the relevant Interest Rate Swap Agreements. If the ratings of both the Interest Rate Swap Provider and any related Standby Swap Provider fall below a specified ratings level, the Interest Rate Swap Provider may be required to post additional collateral for its obligations under the relevant Interest Rate Swap Agreement

(for so long as the highest of such ratings of the Interest Rate Swap Provider and any related Standby Swap Provider remains below such specified ratings level), transfer its obligations under the relevant Interest Rate Swap Agreement to an appropriately rated entity, obtain a guarantee of its obligations under the relevant Interest Rate Swap Agreement from an appropriately rated guarantor and/or take such other action (which may include no action) which will result in the ratings assigned to the Covered Bonds being maintained at, or restored to, the level at which the Covered Bonds were rated immediately prior to the date on which the relevant downgrade occurred. For further information, please see the section entitled “*Key Rating Triggers Table*” below.

If a Standby Swap Trigger Event occurs with respect to an Interest Rate Swap Provider under an Interest Rate Swap Agreement, the Interest Rate Swaps will be either novated to the Standby Swap Provider or terminated and the interest rate hedging will instead be provided by the Standby Swap Provider in accordance with the terms of the Standby Swap Agreement. A “**Standby Swap Trigger Event**” is the occurrence of any of the following:

- (i) the failure by the Interest Rate Swap Provider to pay to the LLP any amounts when due in accordance with Section 5(a)(i) (Failure to Pay) of the Interest Rate Swap Agreement; or
- (ii) the insolvency of the Interest Rate Swap Provider in accordance with Section 5(a)(vii) (Bankruptcy) of the Interest Rate Swap Agreement (as amended in the schedule thereto).

The Interest Rate Swaps may also be terminated in certain other circumstances (each referred to as an “**Interest Rate Swap Early Termination Event**”), including:

- (i) at the option of either party to an Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under such Interest Rate Swap Agreement;
- (ii) upon the occurrence of the insolvency of the Interest Rate Swap Provider and certain insolvency-related events in respect of the LLP, or the merger of the Interest Rate Swap Provider without an assumption of the obligations under the Interest Rate Swap Agreement;
- (iii) if an amendment under the Transaction Documents is made without the consent of the Interest Rate Swap Provider or Standby Swap Provider (as applicable) such that, in the event that the Interest Rate Swap Provider or Standby Swap Provider (as applicable) were to replace itself as swap counterparty, would cause it to pay more or receive less, in connection with such replacement, as compared to what it would have been required to pay or would have received had such modification or amendment not been made; and
- (iv) if any of the Priorities of Payments are amended (other than (a) in accordance with the Deed of Charge or (b) with the prior written consent of the Interest Rate Swap Provider), such that the LLP’s obligations to the Interest Rate Swap Provider are further contractually subordinated to the LLP’s obligation to any other Secured Creditor (other than as a result of subordination which occurs solely as a result of an issuance of a new Series of Covered Bonds).

The Interest Rate Swap Early Termination Events described in paragraphs (i) and (ii) above will constitute Events of Default under (and as defined in) the relevant Interest Rate Swap and the Interest Rate Swap Early Termination Events described in paragraphs (iii) and (iv) above will each constitute an Additional Termination Event under (and as defined in) the relevant Interest Rate Swap Agreement.

Each of the Interest Rate Swaps will terminate on the earlier of:

- (i) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 10(b) (*LLP Events of Default*);

- (ii) the date on which the notional amount of the relevant Interest Rate Swap reduces to zero (as a result of any Final Redemption Amount being paid pursuant to Condition 7(a) (*Final redemption*) following the Final Maturity Date);
- (iii) the date on which an LLP Acceleration Notice has been served on the LLP in accordance with the terms and conditions of the Covered Bonds;
- (iv) the date of redemption pursuant to Condition 7(b) (*Redemption for taxation reasons*), Condition 7(c) (*Redemption at the option of the Issuer (Issuer Call)*) or 7(d) (*Redemption due to illegality*); and
- (v) such other date as may be specified from time to time in the relevant Interest Rate Swap Agreement.

Upon the termination of an Interest Rate Swap pursuant to an Interest Rate Swap Early Termination Event, the LLP or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement.

Any Swap Collateral Excluded Amounts will be paid to the Interest Rate Swap Provider directly and not via the Priorities of Payments.

If withholding taxes are imposed on payments made by the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the Interest Rate Swap Provider shall always be obliged to gross up these payments. If withholding taxes are imposed on payments made by the LLP to the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the LLP shall not be obliged to gross up those payments.

Upon the termination of an Interest Rate Swap pursuant to an Interest Rate Swap Early Termination Event, the LLP shall use its reasonable efforts to enter into a replacement Interest Rate Swap in respect of the rates of interest payable on the relevant Fixed Rate Mortgage Loans in the Mortgage Portfolio. Any such replacement swap must be entered into after termination of the relevant Interest Rate Swap(s) and on terms acceptable to the LLP and the Security Trustee and subject to receipt of a Ratings Confirmation that the appointment of the replacement Interest Rate Swap Provider would not cause the then current ratings of the Covered Bonds to be downgraded, withdrawn or qualified.

If the LLP is required to sell Selected Mortgage Loans in the Mortgage Portfolio in order to provide liquidity in respect of the Earliest Maturing Covered Bonds following an Issuer Event of Default and service of a Notice to Pay on the LLP, then, to the extent practicable and desirable, either:

- (1) the notional amount of the Interest Rate Swap in respect of such Mortgage Loans will be reduced, and any associated breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating the Adjusted Required Redemption Amount for the sale of the Selected Mortgage Loans; or
- (2) such Interest Rate Swap will be partially novated to the purchaser of such Mortgage Loans, and such purchaser will thereby become party to a separate interest rate swap transaction with the relevant Interest Rate Swap Provider.

Under the Interest Rate Swap Agreements, the LLP's obligations are limited in recourse to the Charged Property.

The Interest Rate Swap Agreements and any non-contractual obligation arising out of or in relation to the Interest Rate Swap Agreements are governed by English law.

8 Covered Bond Swap Agreements

The LLP may enter into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers if it issues Covered Bonds other than Floating Rate Covered Bonds denominated in pounds Sterling which bear

interest calculated by reference to Compounded Daily SONIA. Each such Covered Bond Swap will provide a hedge against certain interest rate and currency risks in respect of amounts received by the LLP under the Mortgage Loans and the relevant Interest Rate Swap or Standby Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP) and under the Covered Bond Guarantee in respect of Covered Bonds (after the service of a Notice to Pay on the LLP).

Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series or Tranche, as applicable, of Covered Bonds and the Term Advance corresponding to such Series or Tranche. Under the Covered Bond Swaps on the relevant Issue Date, the LLP will pay to the relevant Covered Bond Swap Provider the amount received by the LLP under the applicable Term Advance (being an amount equal to the gross proceeds of the issue of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Provider will pay an amount equal to the Sterling Equivalent of the applicable Term Advance. Thereafter, the Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date amounts equivalent to the amounts that would be payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan Agreement or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the LLP will pay to the Covered Bond Swap Provider on each LLP Payment Date an amount in Sterling calculated by reference to a compounded daily SONIA rate over a period corresponding to the relevant Covered Bond Swap Observation Period plus a spread and the Sterling Equivalent of any principal due in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement or the Covered Bond Guarantee.

If prior to the Final Maturity Date in respect of the relevant Series or Tranche of Covered Bonds or (if payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 7(a) (*Final redemption*) of the Conditions of the Covered Bonds) any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date, the LLP notifies (pursuant to the terms of the Covered Bond Swap) the relevant Covered Bond Swap Provider of the amount in the Specified Currency to be paid by the Covered Bond Swap Provider on such Final Maturity Date or Interest Payment Date (such amount being equal the Final Redemption Amount or the relevant portion thereof payable by the LLP on such Final Maturity Date or Interest Payment Date under the Covered Bond Guarantee in respect of the relevant Series or Tranche of Covered Bonds), the Covered Bond Swap Provider will pay the LLP such amount and the LLP will pay the Covered Bond Swap Provider the Sterling Equivalent of such amount. Further, if on any day an Early Redemption Amount is payable pursuant to Condition 10(b) (*LLP Events of Default*), the Covered Bond Swap Provider will pay the LLP such amount (or the relevant portion thereof) and the LLP will pay the Covered Bond Swap Provider the Sterling Equivalent thereof, following which the notional amount of the relevant Covered Bond Swaps will reduce accordingly.

Each Covered Bond Swap will terminate on the earlier of some or all of the following events (as specified in the relevant Covered Bond Swap Agreement):

- (i) the Final Maturity Date or, if the LLP notifies the Covered Bond Swap Provider, prior to the Final Maturity Date, of the inability of the LLP to pay in full Guaranteed Amounts corresponding to the Final Redemption Amount, the final Interest Payment Date on which an amount representing the Final Redemption Amount is paid (but in any event not later than the Extended Due for Payment Date);
- (ii) the date on which all of the relevant Covered Bonds have been redeemed in full in accordance with Condition 7(a) (*Final redemption*);

- (iii) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post-Enforcement Priority of Payments, following the enforcement of the Security pursuant to Condition 10(b) (*LLP Events of Default*); and
- (iv) the Extended Due for Payment Date.

Under the terms of each Covered Bond Swap Agreement, in the event that the relevant rating of the Covered Bond Swap Provider is downgraded by a Rating Agency below the rating(s) specified in the relevant Covered Bond Swap Agreement for the Covered Bond Swap Provider, and, where applicable, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Covered Bond Swap Agreement, arranging for its obligations under the Covered Bond Swap Agreement to be transferred to an entity with the ratings specified in the Covered Bond Swap Agreement, procuring another entity with the rating(s) specified in the Covered Bond Swap Agreement to become co-obligor in respect of its obligations under the Covered Bond Swap Agreement, or taking such other action as may be specified in current rating agency criteria published by each Rating Agency as being sufficient to maintain the current ratings of the Covered Bonds. A failure to take such steps will allow the LLP to terminate the Covered Bond Swaps entered into under that Covered Bond Swap Agreement.

A Covered Bond Swap Agreement may also be terminated in certain other circumstances, including:

- (i) at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under such Covered Bond Swap Agreement (for the avoidance of doubt, no such failure to pay by the LLP will entitle the relevant Covered Bond Swap Provider to terminate the Covered Bond Swap Agreement, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full); and
- (ii) upon the occurrence of the insolvency of the relevant Covered Bond Swap Provider or any guarantor, and certain insolvency-related events in respect of the LLP or the merger of the Covered Bond Swap Provider without an assumption of the obligations under the relevant Covered Bond Swap Agreement.

Upon the termination of a Covered Bond Swap Agreement, the LLP or the relevant Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Covered Bond Swap Agreement. The amount of this termination payment will be calculated and made in Sterling.

Any termination payment made by the Covered Bond Swap Provider to the LLP in respect of a Covered Bond Swap Agreement will first be used to the extent necessary (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security) to pay a replacement Covered Bond Swap Provider (or replacement Covered Bond Swap Providers) to enter into a replacement Covered Bond Swap with the LLP, unless a replacement Covered Bond Swap Agreement (or replacement Covered Bond Swap Agreements) has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Covered Bond Swap Provider in respect of a replacement Covered Bond Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Covered Bond Swap Agreement, unless such termination payment has already been made on behalf of the LLP.

Any Swap Collateral Excluded Amounts will be paid to the Covered Bond Swap Provider directly and not via the Priorities of Payments.

If withholding taxes are imposed on payments made by any Covered Bond Swap Provider to the LLP under a Covered Bond Swap Agreement, such Covered Bond Swap Provider shall always be obliged to gross up those

payments. If withholding taxes are imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap Agreement, the LLP shall not be obliged to gross up those payments.

In the event that the Covered Bonds are redeemed and/or cancelled in accordance with the Conditions, the Covered Bond Swap(s) in connection with such Covered Bonds will terminate or partially terminate, as the case may be. Any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating:

- (i) the Adjusted Required Redemption Amount for the sale of Selected Mortgage Loans; and
- (ii) the purchase price to be paid for the relevant Covered Bonds purchased by the LLP in accordance with Condition 7(e) (*Early Redemption Amounts*).

Under each Covered Bond Swap Agreement, the LLP's obligations are limited in recourse to the Charged Property. To the extent that the LLP is unable to make any payment in full under any Covered Bond Swap due to its assets being insufficient to make such payment in full, the relevant Covered Bond Swap Provider's payment obligations will rateably reduce.

The Covered Bond Swap Agreements and any non-contractual obligation arising out of or in relation to the Covered Bond Swap Agreements are (or, as applicable, will be) governed by English law.

9 Standby Swap Agreements

The LLP may enter into one or more Standby Interest Rate Swaps with one or more Standby Swap Providers from time to time in order to enable the LLP to continue to meet its interest rate hedging obligations under the Covered Bonds and the Term Advances following the occurrence of a Standby Swap Trigger Event with respect to an Interest Rate Swap Provider under the terms of an Interest Rate Swap Agreement, which may cover some or all of the rates of interest payable on the Fixed Rate Mortgage Loans in the Mortgage Portfolio.

Paragon Bank PLC, the LLP and NatWest Markets Plc (in its capacity as a Standby Swap Provider) will enter into a novation agreement on or before the First Transfer Date under which Paragon Bank PLC shall novate its Interest Rate Swap Agreement to the Standby Swap Provider if certain trigger events occur in respect of the Interest Rate Swap Provider.

If a Standby Swap Trigger Event occurs with respect to an Interest Rate Swap Provider, such Interest Rate Swap Agreement shall be terminated or novated to the Standby Swap Provider. On and from the date of such Standby Swap Trigger Event, the interest rate hedging under the Interest Rate Swap Agreement will instead be provided by the Standby Swap Provider. Thereafter, on each Calculation Date, the Administrator will determine the balance of the Performing Fixed Rate Mortgage Loans in the Mortgage Portfolio of the relevant Series of Covered Bonds and the weighted average interest rate in respect of the Performing Fixed Rate Mortgage Loans in the Mortgage Portfolio of the relevant Series of Covered Bonds, each as at the end of the immediately preceding Calculation Period. On the LLP Payment Date following such Calculation Date (subject to the amounts being paid net of one another), the LLP will pay an amount equal to the product of:

- (i) such balance of the Performing Fixed Rate Mortgage Loans of the relevant Series of Covered Bonds (as adjusted to reflect any agreed over-collateralisation); and
 - (ii) such weighted average interest rate in respect of the Performing Fixed Rate Mortgage Loans of the relevant Series of Covered Bonds (as adjusted to reflect any agreed over-collateralisation),
- and the Standby Swap Provider will pay an amount equal to the product of:
- (iii) such balance of the Performing Fixed Rate Mortgage Loans of the relevant Series of Covered Bonds (as adjusted to reflect any agreed over-collateralisation); and

- (iv) Compounded Daily SONIA plus a spread.

If the ratings of a Standby Swap Provider fall below a specified ratings level, such Standby Swap Provider may be required to post collateral for its obligations under the relevant Standby Swap Agreement, transfer its obligations under the relevant Standby Swap Agreement to an appropriately rated entity (including a replacement standby swap provider that is an appropriately rated which is nominated by the LLP), obtain a guarantee of its obligations under the relevant Standby Swap Agreement from an appropriately rated guarantor and/or take such other action (which may include no action) which will result in the ratings assigned to the Covered Bonds being maintained at, or restored to, the level at which the Covered Bonds were rated immediately prior to the date on which the relevant downgrade occurred. For further information, please see the section entitled “*Key Rating Triggers Table*” below.

If there is a default by a Standby Swap Provider under a Standby Swap Agreement or a Standby Interest Rate Swap is terminated early, the LLP shall use its reasonable efforts to enter into a replacement Standby Interest Rate Swap in respect of the rates of interest payable on the relevant Mortgage Loans in the Mortgage Portfolio. Any such replacement swap must be entered into after termination of the relevant Standby Interest Rate Swap(s) and on terms acceptable to the LLP and the Security Trustee and subject to receipt of a Ratings Confirmation that the appointment of the replacement Standby Swap Provider would not cause the then current ratings of the Covered Bonds to be downgraded, withdrawn or qualified.

The Standby Interest Rate Swaps may also be terminated in certain other circumstances (each referred to as a “**Standby Interest Rate Swap Early Termination Event**”), including:

- (i) at the option of any party to a Standby Swap Agreement, if there is a failure by the other party to pay any amounts due under such Standby Swap Agreement;
- (ii) upon the occurrence of the insolvency of the Standby Swap Provider, or any guarantor and certain insolvency-related events in respect of the LLP, or the merger of the Standby Swap Provider without an assumption of the obligations under the Standby Swap Agreement;
- (iii) at the option of the LLP following the downgrade of the Standby Swap provider below a specified ratings level;
- (iv) if an amendment under the Transaction Documents is made without the consent of the Standby Swap Provider such that, in the event that the Standby Swap Provider were to replace itself as swap counterparty, would cause it to pay more or receive less, in connection with such replacement, as compared to what it would have been required to pay or would have received had such modification or amendment not been made;
- (v) if any of the Priorities of Payments are amended (other than (a) in accordance with the Deed of Charge or (b) with the prior written consent of the Standby Swap Provider), such that the LLP’s obligations to the Standby Swap Provider are further contractually subordinated to the LLP’s obligation to any other Secured Creditor (other than as a result of subordination which occurs solely as a result of an issuance of a new Series of Covered Bonds); and
- (vi) the addition of certain loans having a remaining fixed rate tenor over the agreed threshold.

The Standby Interest Rate Swap Early Termination Events described in paragraphs (i) and (ii) above will constitute Events of Default under (and as defined in) the relevant Standby Interest Rate Swap and the Standby Interest Rate Swap Early Termination Events described in paragraphs (iii), (iv), (v) and (vi) above will each constitute an Additional Termination Event under (and as defined in) the relevant Standby Swap Agreement.

Each of the Standby Interest Rate Swaps will terminate on the earlier of:

- (i) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 10(b) (*LLP Events of Default*);
- (ii) the date on which the notional amount of the relevant Standby Interest Rate Swap reduces to zero (as a result of any Final Redemption Amount being paid pursuant to Condition 7(a) (*Final redemption*) following the Final Maturity Date);
- (iii) the date on which an LLP Acceleration Notice has been served on the LLP in accordance with the terms and conditions of the Covered Bonds;
- (iv) the date of redemption pursuant to Condition 7(b) (*Redemption for taxation reasons*), Condition 7(c) (*Redemption at the option of the Issuer (Issuer Call)*) or 7(d) (*Redemption due to illegality*); and
- (v) such other date as may be specified from time to time in the relevant Standby Swap Agreement.

Upon the termination of a Standby Interest Rate Swap pursuant to a Standby Interest Rate Swap Early Termination Event, the LLP or the Standby Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Standby Swap Agreement.

Any Swap Collateral Excluded Amounts will be paid to the Standby Swap Provider directly and not via the Priorities of Payments.

If withholding taxes are imposed on payments made by the Standby Swap Provider under the Standby Swap Agreement, the Standby Swap Provider shall always be obliged to gross up these payments. If withholding taxes are imposed on payments made by the LLP to the Standby Swap Provider under the Standby Swap Agreement, the LLP shall not be obliged to gross up those payments.

If the LLP is required to sell Selected Mortgage Loans in the Mortgage Portfolio in order to provide liquidity in respect of the Earliest Maturing Covered Bonds following an Issuer Event of Default and service of a Notice to Pay on the LLP, then, to the extent practicable and desirable, the Standby Interest Rate Swap in respect of such Mortgage Loans will partially terminate and any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating the Adjusted Required Redemption Amount for the sale of the Selected Mortgage Loans.

Under the Standby Swap Agreements, the LLP's obligations are limited in recourse to the Charged Property.

The Standby Swap Agreements and any non-contractual obligation arising in out of or in relation to the Standby Swap Agreements are governed by English law.

10 Bank Account Agreement

Pursuant to the terms of the Bank Account Agreement, the LLP will maintain with HSBC Bank plc (as Account Bank) the Transaction Account, the Swap Collateral Cash Account and, to the extent required as a result of entering into one or more Swap Agreements with respect to any issue of Covered Bonds from time to time, the Swap Collateral Securities Account, each of which will be operated in accordance with the Administration Agreement, the LLP Deed and the Deed of Charge.

Amounts may be deposited by the LLP into the LLP Accounts (including, following the occurrence of an Issuer Event of Default which is not cured within the applicable grace period, all amounts received from Borrowers in respect of Mortgage Loans in the Mortgage Portfolio). All amounts held by the LLP (other than Swap Collateral Excluded Amounts) will be deposited into the Transaction Account held at the Account Bank.

Monies standing to the credit of the Transaction Account will be applied on each LLP Payment Date by the Administrator in accordance with the Priorities of Payments described below under “Cashflows”.

If at any time the rating of the Account Bank falls below the Account Bank Ratings (in the case of the Transaction Account) or the Swap Collateral Account Bank Ratings (in the case of the Swap Collateral Accounts), there are various remedial actions which may be taken in accordance with the provisions of the Bank Account Agreement. Such actions must be taken within 60 calendar days of the rating of the Account Bank falling below the Account Bank Ratings (in the case of the Transaction Account) or the Swap Collateral Account Bank Ratings (in the case of the Swap Collateral Accounts) (but shall not occur earlier than 33 calendar days following such downgrade) and include:

- (i) closing the LLP Accounts and any other account held with the Account Bank and transferring such accounts to an appropriately rated bank or financial institution on substantially similar terms to the Bank Account Agreement;
- (ii) taking necessary steps in relation to the LLP Accounts and any additional account(s) held with the Account Bank in order to avoid the current ratings of the Covered Bonds from being downgraded, withdrawn or qualified by any of the Rating Agencies; or
- (iii) taking any steps necessary in relation to the LLP Accounts and any relevant additional account(s) held with the Account Bank as may be directed by an Extraordinary Resolution of the Covered Bondholders.

The Bank Account Agreement may be terminated in other circumstances by the LLP, the Administrator or (following the service of an LLP Acceleration Notice) the Security Trustee. The Account Bank may also terminate the Bank Account Agreement in accordance with the provisions set out in the Bank Account Agreement.

The Bank Account Agreement and any non-contractual obligations arising out of or in relation to the Bank Account Agreement are governed by English law.

11 Corporate Services Agreement

The LLP, the Liquidation Member and HoldCo entered into a Corporate Services Agreement, pursuant to which the Corporate Services Provider has agreed to provide corporate services to each of the LLP, the Liquidation Member and HoldCo.

The Corporate Services Agreement and any non-contractual obligations arising in out of or in relation to the Corporate Services Agreement are governed by English law.

12 Deed of Charge

(a) *Creation of Security*

Under or pursuant to the terms of the Deed of Charge, the secured obligations of the LLP and all other obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by the following security (the “**Security**”) over the following property, assets and rights (the “**Charged Property**”):

- (i) a first fixed charge (which may take effect as a floating charge) over the LLP’s interest in the Mortgage Loans and their Related Security and other related rights comprised in the Mortgage Portfolio;
- (ii) an assignment by way of first fixed charge over the rights of the LLP in and to the Insurance Contracts;

- (iii) an assignment by way of first fixed security over all of the LLP's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party (and, in respect of the Interest Rate Swap Agreements, Standby Swap Agreements and Covered Bond Swap Agreements, after giving effect to all applicable netting provisions therein);
- (iv) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (including any Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts and such other accounts;
- (v) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the LLP Accounts; and
- (vi) a first floating charge over all the assets and undertaking of the LLP.

(b) ***Release of Security***

In the event of any sale of Mortgage Loans (including Selected Mortgage Loans, Defaulted Mortgage Loans and Mortgage Loans which do not meet the Eligibility Criteria) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents and in the event that any Mortgage Loans owned by the LLP are redeemed, such Mortgage Loans and their Related Security shall, on the date of such sale, be automatically released from the Security created by and pursuant to the Deed of Charge.

In the event of the repurchase of a Mortgage Loan and its Related Security by the Seller pursuant to and in accordance with the Transaction Documents, that Mortgage Loan shall be automatically released from the Security created by and pursuant to the Deed of Charge on the date of the repurchase.

(c) ***Enforcement***

If an LLP Acceleration Notice is served on the LLP, the Security Trustee (acting on the directions of the Bond Trustee, so long as there are any Covered Bonds outstanding, or all of the other Secured Creditors if there are no Covered Bonds outstanding) shall be entitled to appoint a receiver, and/or enforce the Security constituted by the Deed of Charge (including selling the Mortgage Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction. All proceeds received by the Security Trustee from the enforcement or realisation of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under "*Cashflows*".

(d) ***Governing law***

The Deed of Charge and any non-contractual obligation arising out of or in relation to the Deed of Charge are governed by English law.

KEY RATING TRIGGERS TABLE

Transaction Party	Required Ratings	Consequences of Ratings Trigger being breached include the following
Interest Rate Swap Provider	<p><i>Moody's</i></p> <p>Long-term counterparty risk assessment ("LT CRA") of at least A3(cr) by Moody's or, if a LT CRA is not available, a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of at least A3 by Moody's; and</p> <p><i>Fitch</i></p> <p>Long-term derivative counterparty rating ("DCR") of at least A- by Fitch or a short-term DCR of at least F1 by Fitch or, if a long-term or short-term DCR is not available, a long-term or short-term IDR by Fitch.</p>	<p>The consequences of breach are subject to the ratings of the Standby Swap Provider. In the event that the required ratings of both the Interest Rate Swap Provider and the Standby Swap Provider are breached, the consequences include a requirement to post additional collateral, and the option to replace the relevant Interest Rate Swap Provider or Standby Swap Provider or obtain a guarantee of the relevant Interest Rate Swap Provider's obligations or take such other action (which may include no action) as may be necessary to maintain or restore the rating of Covered Bonds.</p>
	<p><i>Moody's</i></p> <p>LT CRA of at least Baa3(cr) by Moody's or, if a LT CRA is not available, a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of at least Baa3 by Moody's; and</p> <p><i>Fitch</i></p> <p>Long-term DCR of at least BBB- by Fitch or a short-term DCR of at least F3 by Fitch or, if a long-term or short-term DCR is not available, a long-term or short-term IDR by Fitch.</p>	<p>Subject to the terms of the relevant Interest Rate Swap Agreement, the consequences of breach are subject to the ratings of the Standby Swap Provider. In the event that the required ratings of both the Interest Rate Swap Provider and the Standby Swap Provider are breached, the consequences include requirements to (i) post collateral, and (ii) either (a) transfer the relevant Interest Rate Swap Provider's or Standby Swap Provider's obligations to an appropriately rated entity, (b) obtain a</p>

Transaction Party	Required Ratings	Consequences of Ratings Trigger being breached include the following
Standby Swap Provider	<p><i>Moody's</i></p> <p>Long-term counterparty risk assessment ("LT CRA") of at least A3(cr) by Moody's or, if a LT CRA is not available, a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of at least A3 by Moody's; and</p> <p><i>Fitch</i></p> <p>Long-term DCR of at least A- by Fitch or a short-term DCR of at least F1 by Fitch or, if a long-term or short-term DCR is not available, a long-term or short-term IDR by Fitch.</p> <p><i>Moody's</i></p> <p>LT CRA of at least Baa3(cr) by Moody's or, if a LT CRA is not available, a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of at least Baa3 by Moody's; and</p> <p><i>Fitch</i></p> <p>Long-term DCR of at least BBB- by Fitch or a short-term DCR of at least F3 by Fitch or, if a long-term or short-term DCR is not available, a long-term or short-term IDR by Fitch.</p>	<p>guarantee of the relevant Interest Rate Swap Provider's obligations from an appropriately rated guarantor and/or (iii) take such other action (which may include no action) as may be necessary to maintain or restore the rating of Covered Bonds.</p> <p>The consequences of breach only apply following the occurrence of a Standby Swap Trigger Event and include a requirement to post collateral, and the option to replace the relevant Standby Swap Provider or obtain a guarantee of the relevant Standby Swap Provider's obligations or take such other action (which may include no action) as may be necessary to maintain or restore the rating of Covered Bonds.</p> <p>In the event that the required ratings of the Standby Swap Provider fall below Baa3 by Moody's, the LLP shall use its reasonable efforts to enter into one or more replacement Standby Interest Rate Swaps. Subject to the terms of the relevant Standby Swap Agreement, the consequences of breach only apply following the occurrence of a Standby Swap Trigger Event and include requirements to (i) post collateral, and (ii) either (a) transfer the relevant Standby</p>

Transaction Party	Required Ratings	Consequences of Ratings Trigger being breached include the following
Account Bank	<p data-bbox="480 741 740 768">Account Bank Ratings</p> <p data-bbox="480 790 576 817"><i>Moody's</i></p> <p data-bbox="480 840 1031 936">An unsecured, unsubordinated and unguaranteed deposit rating by Moody's of at least A3 (long-term); and</p> <p data-bbox="480 958 544 985"><i>Fitch</i></p> <p data-bbox="480 1008 1031 1104">a long-term deposit rating by Fitch of at least A- or a short-term deposit rating by Fitch of at least F1; or</p> <p data-bbox="480 1126 1031 1301">in each case, such other short-term or long-term rating (or, in the case of Fitch, if no deposit rating is available, short-term or long-term IDR) which will not have an adverse effect on the ratings of the Covered Bonds.</p>	<p data-bbox="1086 327 1430 719">Swap Provider's obligations to an appropriately rated entity, (b) obtain a guarantee of the relevant Standby Swap Provider's obligations from an appropriately rated guarantor and/or (iii) take such other action (which may include no action) as may be necessary to maintain or restore the rating of Covered Bonds.</p> <p data-bbox="1086 840 1430 1682">The consequences of breach may include a requirement to (i) replace the Account Bank or (ii) taking necessary steps in relation to the Transaction Account and any additional account(s) held with the Account Bank in order to avoid the current ratings of the Covered Bonds from being downgraded, withdrawn or qualified by any of the Rating Agencies, such actions must be taken within 60 calendar days of the rating of the Account Bank falling below the Account Bank Ratings (but shall not occur earlier than 33 calendar days following such downgrade), as set out in more detail in "<i>Summary of the Principal Documents – Bank Account Agreement</i>".</p>
	<p data-bbox="480 1697 927 1724">Swap Collateral Account Bank Ratings</p> <p data-bbox="480 1747 576 1774"><i>Moody's</i></p> <p data-bbox="480 1796 1031 1892">An unsecured, unsubordinated and unguaranteed deposit rating by Moody's of at least A3 (long-term); and</p>	<p data-bbox="1086 1796 1430 1892">The consequences of breach may include a requirement to (i) replace the Account Bank or</p>

Transaction Party	Required Ratings	Consequences of Ratings Trigger being breached include the following
Administrator or Issuer	Fitch	(ii) taking necessary steps in relation to the Swap Collateral Accounts and any additional account(s) held with the Account Bank in order to avoid the current ratings of the Covered Bonds from being downgraded, withdrawn or qualified by any of the Rating Agencies, such actions must be taken within 60 calendar days of the rating of the Account Bank falling below the Swap Collateral Account Bank Ratings (but shall not occur earlier than 33 calendar days following such downgrade), as set out in more detail in “ <i>Summary of the Principal Documents – Bank Account Agreement</i> ”.
	A long-term deposit rating by Fitch of at least A- or a short-term deposit rating by Fitch of at least F1 ; or in each case, such other short-term or long-term rating (or, in the case of Fitch, if no deposit rating is available, short-term or long-term IDR) which will not have an adverse effect on the ratings of the Covered Bonds.	
	Moody’s	The consequences of breach are that:
	In respect of Moody’s, a counterparty risk assessment of at least Baa3(cr) or, if a counterparty risk assessment is not available, a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of at least Baa3 ; and	
	Fitch	(i) the Administrator is required to use reasonable efforts, with the Back-Up Administrator Facilitator, to enter into a back-up administration agreement, in form and substance acceptable to the parties to the Administration Agreement, with a suitably experienced third party acceptable to and appointed by the LLP, within 60 calendar days of the Administrator ceasing to be assigned such rating, as set out in more detail in “ <i>Summary of the Principal Documents – Back-Up Administration Agreement</i> ”; and
	In respect of Fitch, a long-term IDR of at least BBB- or a short-term IDR of at least F3.	

Transaction Party	Required Ratings	Consequences of Ratings Trigger being breached include the following
Issuer	<p data-bbox="480 667 576 696"><i>Moody's</i></p> <p data-bbox="480 714 1031 781">In respect of Moody's, a short-term issuer default rating of at least P-1.</p> <p data-bbox="480 799 544 828"><i>Fitch</i></p> <p data-bbox="480 846 1031 913">In respect of Fitch, a short-term issuer default rating of at least F1.</p>	<p data-bbox="1086 324 1430 645">(ii) the Asset Monitor shall conduct the calculations performed by the Administrator in relation to the Asset Coverage Test and the Amortisation Test, as set out in more detail in “<i>Summary of the Principal Documents – Asset Monitor Agreement</i>”.</p> <p data-bbox="1086 716 1430 891">The consequences of breach are that a Reserve Fund will be required to be maintained, as set out in more detail in “<i>Credit Structure – Reserve Fund</i>”.</p>

CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Mortgage Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to the Covered Bondholders, as follows:

1. the Covered Bond Guarantee provides credit support to the Issuer;
2. the Asset Coverage Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds at all times;
3. the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP;
4. a Reserve Fund (if required) will be established in the Transaction Account, which may be funded by Cash Capital Contributions and/or Available Revenue Receipts; and
5. the Yield Reserve will be established in the Transaction Account which will be funded by Cash Capital Contributions and/or Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments. The Yield Reserve is available to cover shortfalls (by crediting the Revenue Ledger) in amounts required to pay interest on the Covered Bonds or, in certain circumstances, the Intercompany Loan, and items ranking *pari passu* and in priority thereto in the Pre-Acceleration Revenue Priority of Payments or the Guarantee Priority of Payments on an LLP Payment Date.

Certain of these factors are considered more fully in the remainder of this section.

In addition, the Issuer is required to comply with the terms of the RCB Regulations, as to which see further "*Description of the UK Regulated Covered Bond Regime*" below.

Guarantee

The Covered Bond Guarantee provided by the LLP under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any amount becoming payable for any other reason, including any accelerated payment pursuant to Condition 10 (*Events of Default and Enforcement*) following the occurrence of an Issuer Event of Default. In this circumstance (and until an LLP Event of Default occurs and an LLP Acceleration Notice is served), the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment.

See further "*Summary of the Principal Documents – Trust Deed*" as regards the terms of the Covered Bond Guarantee. See further "*Cashflows – Guarantee Priority of Payments*" as regards the payment of amounts payable by the LLP to the Covered Bondholders and other Secured Creditors following the occurrence of an Issuer Event of Default.

Asset Coverage Test

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If on any Calculation Date the Asset Coverage Test is not satisfied and such failure is not remedied on or before the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test is a formula which adjusts the Current Balance of each Mortgage Loan in the Mortgage Portfolio and has further adjustments to take account of set-off of a Borrower's deposit accounts held with the Seller in excess of the FSCS Limit and failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Mortgage Loans that are in breach of the relevant Loan Warranties where such breach could have a materially adverse effect on the relevant Mortgage Loans or their Related Security on the relevant Transfer Date. The Amortised Cost Adjustment of any Mortgage Loans does not form part of the Asset Coverage Test.

See further “*Summary of the Principal Documents – LLP Deed – Asset Coverage Test*”, above.

An Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances, may be required) to serve an Issuer Acceleration Notice. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP.

The Issuer is additionally required to ensure that the principal amount of the eligible property in the Asset Pool is greater than 108 per cent. of the Principal Amount Outstanding of the Covered Bonds in accordance with the terms of the RCB Regulations. See further “*Description of the UK Regulated Covered Bond Regime*” below.

Amortisation Test

The Amortisation Test is intended to ensure that if, following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security), the value of the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where the Covered Bondholders may not be repaid, an LLP Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that, on each Calculation Date following an Issuer Event of Default and the service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the Current Balance of each Mortgage Loan in the Mortgage Portfolio and has further adjustments to take account of Mortgage Loans in arrears. The Amortised Cost Adjustment of any Mortgage Loans is not included in the calculation of the Amortisation Test on each Calculation Date. See further “*Summary of the Principal Documents – LLP Deed – Amortisation Test*”, above.

Reserve Fund

The LLP will, on or prior to a Reserve Fund Funding Date, establish the Reserve Fund on the Transaction Account which will initially be funded by a Cash Capital Contribution. The Reserve Fund will thereafter, to the extent that the Reserve Fund is required to be maintained, be funded out of (i) Cash Capital Contributions and/or (ii) Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount.

In the event of a shortfall in Revenue Receipts on a Calculation Date, the Reserve Fund (where funded) shall be available to meet the senior expenses of the LLP on each LLP Payment Date.

To the extent that the Reserve Fund is funded from Available Revenue Receipts, this will happen after the LLP has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

A Reserve Ledger will be maintained by the Administrator to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund will be added to certain other income of the LLP as Available Revenue Receipts and the Reserve Fund will no longer be maintained.

The Reserve Fund will be fully funded on the first Issue Date and, subsequently, as required in accordance with the Transaction Documents.

Yield Reserve

The LLP will be required to establish the Yield Reserve in respect of the Transaction Account which will initially be credited with Cash Capital Contributions in an amount equal to the Yield Reserve Required Amount (which may be zero).

Thereafter, the Yield Reserve may be funded, in the Seller's discretion, by Cash Capital Contributions and/or Available Revenue Receipts in accordance with item (k) of the Pre-Acceleration Revenue Priority of Payments, and will be maintained in an amount equal to or greater than the Yield Reserve Required Amount, as determined by the Administrator as at each Calculation Date.

To the extent that the Yield Reserve is funded from Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments, this will happen after the LLP has paid all of its obligations in respect of items ranking higher than item (k) in the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

The Administrator will maintain the Yield Reserve Ledger to record the crediting to the Yield Reserve of Cash Capital Contributions or payments made in accordance with the Pre-Acceleration Revenue Priority of Payments and the debiting of such Yield Reserve in accordance with the terms of the LLP Deed. Amounts credited to the Yield Reserve Ledger may only be withdrawn by the Administrator and applied as Available Revenue Receipts on each LLP Payment Date at the discretion of, and as directed by, the Seller (i), if on an LLP Payment Date, there is a shortfall in amounts available to pay interest on the Intercompany Loan and items ranking *pari passu* and in priority thereto in the Pre-Acceleration Revenue Priority of Payments or, as applicable, amounts available to pay interest on the Covered Bonds and items ranking *pari passu* and in priority thereto in the Guarantee Priority of Payments or (ii), provided that the Yield Reserve continues to be funded to at least the Yield Reserve Required Amount after such withdrawal is made and (after service of a Notice to Pay on the LLP) the Yield Shortfall Test continues to be met after such withdrawal.

Coupon Payments

If Paragon Bank PLC is acting as Administrator pursuant to the Administration Agreement and an Administrator Downgrade Event occurs and is continuing and either (i) the Reserve Fund was not, as at the immediately preceding LP Payment Date, funded to at least the Reserve Fund Required Amount or (ii) the Reserve Fund Required Amount was calculated to be zero as at the immediately preceding Calculation Date, the Seller will (a) within 10 Business Days of the occurrence of the Administrator Downgrade Event and, (b) thereafter (i) (in respect of each Term Advance where there is not a Covered Bond Swap in place other than an Accumulation Series of Covered Bonds) within one Business Day of each Loan Interest Payment Date for each such Term Advance make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Term Advance for the next following Loan Interest Payment Date and/or (ii) (in respect of each Term Advance where there is a Covered Bond Swap in place) within one Business Day of each Party B payment date under each Covered Bond Swap make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Covered Bond Swap for the next following Party B payment date (each as defined in the relevant Covered Bond Swap Agreement) and/or (iii) (in the case of a Term Advance relating to an Accumulation Series of Covered Bonds), within one Business Day of each LLP Payment Date for each such Term Advance relating to an Accumulation Series of Covered Bonds make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Term Advance on the immediately subsequent LLP Payment Date.

If an Administrator Downgrade Event has occurred and is continuing and either (i) the Reserve Fund was not, as at the immediately preceding LLP Payment Date, funded to at least the Reserve Fund Required Amount or (ii) the Reserve Fund Required Amount was calculated to be zero as at the immediately preceding Calculation Date, the LLP will not be required to hold amounts in respect of the LLP Monthly Interest Amount in the relevant Interest Accumulation Ledger in respect of an Accumulation Series of Covered Bonds and may apply the payments that would otherwise be paid into the relevant Interest Accumulation Ledger in accordance with the relevant Priorities of Payments to make a payment to the Coupon Payment Ledger to fund in whole or in part, the amount to be deposited by the Seller set out above. Amounts standing to the credit of the Coupon Payment Ledger will be applied on the relevant Loan Interest Payment Date to make payments under the Term Advances or Covered Bonds, as applicable. Any surplus over and above the amount to be deposited as described above, will be paid into the Interest Accumulation Ledger.

The LLP will procure that the amount received in respect of such Cash Capital Contribution is paid into the Transaction Account and the Administrator will make a credit to the Coupon Payment Ledger. On the date of the transfer the LLP will, on the direction of the Issuer, deliver an irrevocable payment instruction (specifying the ISIN code or the relevant Series of Covered Bonds) to the Account Bank to pay such amounts (to the extent such amounts have not been paid in whole or in part by the Issuer or (following the occurrence of an Issuer Event of Default and the service of an Issuer Acceleration Notice and a Notice to Pay to the LLP) the LLP (or the Administrator on its behalf) on the relevant dates) to the Principal Paying Agent or the relevant Covered Bond Swap Provider, as applicable on the dates referred to above.

Interest Accumulation Ledger

In relation to each Series of Covered Bonds that (a) does not have a Covered Bond Swap in place and (b) does not have monthly Interest Payment Dates (each such Series, an “**Accumulation Series of Covered Bonds**”), the Administrator shall maintain an Interest Accumulation Ledger, to which the LLP Monthly Interest Amount will be credited on each LLP Payment Date. Amounts standing to the credit of the Interest Accumulation Ledger in respect of each such Accumulation Series of Covered Bonds will be applied on the relevant Loan Interest Payment Date, together with Available Revenue Receipts (applied in accordance with the relevant Priorities of Payments), to make payments under the Term Advances or Covered Bonds, as applicable.

CASHFLOWS

As described above under “*Credit Structure*”, until a Notice to Pay or LLP Acceleration Notice is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the LLP.

This section summarises the Priorities of Payments of the LLP, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts and their order of priority:

- (a) prior to service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or the realisation of the Security;
- (b) following service of an Asset Coverage Test Breach Notice (and for so long as it has not been revoked);
- (c) following service of a Notice to Pay; and
- (d) following service of an LLP Acceleration Notice, realisation of the Security and/or the commencement of Winding-Up Proceedings against the LLP.

LLP Payment Dates will occur monthly.

Allocation and distribution of Available Revenue Receipts prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice

Prior to service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice on the LLP and/or the commencement of Winding-Up Proceedings against the LLP and/or the realisation of the Security, Available Revenue Receipts will be allocated and distributed as described below.

On the Calculation Date immediately preceding each LLP Payment Date, the LLP (or the Administrator on its behalf) shall calculate (a) the amount of Available Revenue Receipts available for distribution on the immediately following LLP Payment Date, (b) the Reserve Fund Required Amount (if applicable) and (c) the Yield Reserve Required Amount.

Pre-Acceleration Revenue Priority of Payments

On each LLP Payment Date (except for amounts due to third parties by the LLP under item (b) below and any Non-LLP Amounts, which in each case shall be paid when due), the LLP or the Administrator on its behalf will apply all Available Revenue Receipts to make the following payments or provisions or credits in the following order of priority (the “**Pre-Acceleration Revenue Priority of Payments**”) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of:
 - (i) all amounts due and payable or to become due and payable to the Bond Trustee and any Appointee in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed and the other Transaction Documents together with interest and applicable VAT (or other similar taxes) thereon as provided therein; and
 - (ii) all amounts due and payable or to become due and payable to the Security Trustee and any Appointee in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge and the other Transaction Documents together with interest and applicable VAT (or other similar taxes) thereon as provided therein;

- (b) *second*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Agents under the provisions of the Agency Agreement together with applicable VAT (or other similar taxes) thereon as provided therein;
 - (ii) amounts due and payable to the Account Bank (including costs and expenses) pursuant to the terms of the Bank Account Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and
 - (iii) amounts due and payable to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon as provided therein;
- (c) *third*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of any amounts due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay and discharge any liability of the LLP for taxes;
- (d) *fourth*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Administrator and any costs, charges, liabilities and expenses then due or to become due and payable to the Administrator under the provisions of the Administration Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (ii) amounts (if any) due and payable to the FCA under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon; and
 - (iii) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in item (j) below), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (e) *fifth*, in or towards payment pro rata and *pari passu* according to the respective amounts thereof, of:
 - (i) any amount due to an Interest Rate Swap Provider pursuant to the terms of the Interest Rate Swap Agreement to which it is a party (including any termination payment (but excluding any Excluded Swap Termination Amount)); and
 - (ii) any amount due to a Standby Swap Provider pursuant to the terms of the Standby Swap Agreement to which it is a party (including any termination payment (but excluding any Excluded Swap Termination Amount));
- (f) *sixth*, in or towards payment on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Administrator may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts (other than principal) received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Administrator may reasonably determine), of:
 - (i) taking into account any amounts paid from amounts credited to the Coupon Payment Ledger of the LLP Accounts, in respect of any Term Advance with a Covered Bond Swap in place, any

amounts due and payable or to become due and payable to the Covered Bond Swap Providers (other than in respect of principal) pro rata and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment (other than in relation to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the relevant Covered Bond Swap Agreements; and

- (ii) taking into account any amounts paid from amounts credited to the Coupon Payment Ledger and, in respect of any Term Advance that relates to an Accumulation Series of Covered Bonds, any amount credited to the Interest Accumulation Ledger in respect of that Term Advance, in respect of any Term Advance without a Covered Bond Swap in place, any amounts due and payable or to become due and payable (excluding principal amounts), pro rata and *pari passu* in respect of each relevant Term Advance to the Issuer pursuant to the terms of the Intercompany Loan Agreement; and
 - (iii) in respect of any Accumulation Series of Covered Bonds, where the amount is not due and payable in respect of any related Term Advance, to, if applicable make a credit to the Interest Accumulation Ledger in respect of that Term Advance in an amount equal to the LLP Monthly Interest Amount;
- (g) *seventh*, if an Administrator Termination Event has occurred, all remaining Available Revenue Receipts to be retained in the Transaction Account (with a corresponding credit to the Revenue Ledger maintained in respect of that account) until such Administrator Termination Event is either remedied by the Administrator or waived by the Security Trustee or a new administrator is appointed to administer the Mortgage Portfolio (or the relevant part thereof);
 - (h) *eighth*, in or towards a credit to the Reserve Ledger on the Transaction Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;
 - (i) *ninth*, payment pro rata and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP under the Covered Bond Swap Agreements, the Interest Rate Swap Agreements and the Standby Swap Agreements;
 - (j) *tenth*, in or towards payment pro rata and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, and any indemnity amount due to the Members pursuant to the LLP Deed;
 - (k) *eleventh*, in or towards a credit to the Yield Reserve Ledger on the Transaction Account from the Revenue Ledger of an amount as reasonably determined by the Administrator;
 - (l) *twelfth*, in or towards repayment to the Seller of any Cash Capital Contributions made by Paragon Bank PLC (in its capacity as a Member of the LLP) and deemed as revenue items;
 - (m) *thirteenth*, in or towards payment of Deferred Consideration due to the Seller for the transfer of the Mortgage Loans and their Related Security to the LLP, to pay all remaining Available Revenue Receipts (except for an amount equal to the fee payable to the Liquidation Member in accordance with item (n) and an amount equal to the profit to be paid to the Members in accordance with item (o) below) to the Seller;
 - (n) *fourteenth*, in or towards payment of the fee due to the Liquidation Member; and

- (o) *fifteenth*, towards payment pro rata and *pari passu* to the Members of the sum of £300 (or such other sum as may be agreed by the Members from time to time), in aggregate, to be credited to the LLP Profit Ledger of each Member in proportion to the Members' respective Capital Contribution Balances as at the immediately preceding Calculation Date subject to a minimum of £1 per annum each, as their profit for their respective interests as Members of the LLP,

provided that, if an LLP Payment Date is not the same as an Interest Payment Date, Available Revenue Receipts will be applied initially on the Interest Payment Date in payment of any amount due to the Covered Bond Swap Providers under item (f)(i) above but only to the extent that adequate provision is made for any payments of a higher priority to be made in full on the immediately succeeding LLP Payment Date.

On each Loan Interest Payment Date, any amount standing to the credit of the Interest Accumulation Ledger and (without double-counting) any amount credited to the Interest Accumulation Ledger on such Loan Interest Payment Date (if such Loan Interest Payment Date is also an LLP Payment Date) in accordance with item (f)(iii) above, shall be applied in paying interest due on the Term Advance in respect of such Accumulation Series of Covered Bonds at item (f)(ii) of the Pre-Acceleration Revenue Priority of Payments to the extent such amounts are due and payable provided that if an Administrator Downgrade Event has occurred and is continuing and either (i) the Reserve Fund was not, as at the immediately preceding LLP Payment Date, funded to at least the Reserve Fund Required Amount or (ii) the Reserve Fund Required Amount was calculated to be zero as at the immediately preceding Calculation Date, the LLP shall not be required to credit amounts in respect of the LLP Monthly Interest Amount to the relevant Interest Accumulation Ledger in respect of an Accumulation Series of Covered Bonds and may apply the payments that would otherwise be credited to the relevant Interest Accumulation Ledger in accordance with the relevant Priorities of Payments to credit the Coupon Payment Ledger to fund in whole or in part, the amount to be deposited by the Seller pursuant to the LLP Deed. Any surplus over and above the amount to be deposited by the Seller pursuant to the LLP Deed shall be credited to the Interest Accumulation Ledger.

Amounts standing to the credit of the LLP Profit Ledger shall, at the discretion of the Administrator, be paid to the relevant Members of the LLP as their profit for their respective interests as Members of the LLP in accordance with item (n) of the Pre-Acceleration Revenue Priority of Payments.

Any amounts (other than in respect of principal) received by the LLP under a Covered Bond Swap on or after an LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than principal) due and payable pro rata and *pari passu* in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Administrator may reasonably determine unless an Asset Coverage Test Breach Notice has been served and has not been revoked.

Any amounts (other than in respect of principal) received under the Covered Bond Swap Agreements on an LLP Payment Date or on any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with the preceding paragraph will be credited to the Revenue Ledger on the LLP Accounts and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

Pursuant to the Intercompany Loan Agreement and the LLP Deed, the Issuer requires the LLP to direct each Covered Bond Swap Provider to pay any amounts due to the LLP under a Covered Bond Swap, the proceeds of which would otherwise be applied by the LLP directly towards payment to the Issuer in satisfaction of amounts outstanding under any relevant Term Advance (in respect of which there is a Covered Bond Swap in place), and the LLP is required to pay any other amounts otherwise to be applied by the LLP directly towards payment to the Issuer in accordance with item (f)(ii) of the Pre-Acceleration Revenue Priority of Payments or item (c)(ii) of the Pre-Acceleration Principal Priority of Payments, directly to the Principal Paying Agent, in

each case, unless (i) the Issuer has paid or discharged the corresponding payment under the relevant Series of Covered Bonds (in which case, the relevant amount shall be paid by the LLP to such account of the Issuer as is notified to the LLP by the Issuer for this purpose) or, (ii) (in respect of a Term Advance where there is not a Covered Bond Swap in place) following an Administrator Downgrade Event and for so long as an Administrator Downgrade Event is continuing, the corresponding payment under the relevant Series of Covered Bonds has been paid, at the direction of the LLP from amounts standing to the credit of the Coupon Payment Ledger on the LLP Accounts.

Any Cash Capital Contributions made by the Seller and directed by the Seller to be credited to the Yield Reserve Ledger will be credited to the Yield Reserve Ledger and treated as a revenue item but will only be withdrawn by the Administrator and applied as Available Revenue Receipts on an LLP Payment Date in accordance with the instructions of the Seller after taking into account any amounts credited to the Coupon Payment Ledger, (i) if on an LLP Payment Date, there is a shortfall in amounts available to pay interest on the Covered Bonds, and items ranking *pari passu* and in priority thereto in the Pre-Acceleration Revenue Priority of Payments or, as applicable the Guarantee Priority of Payments or (ii) provided that the Yield Reserve continues to be funded to at least the Yield Reserve Required Amount after such withdrawal is made and (after service of a Notice to Pay on the LLP) the Yield Shortfall Test continues to be met immediately after such withdrawal.

Allocation and distribution of Principal Receipts prior to service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice

Prior to service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or the realisation of the Security, Principal Receipts will be allocated and distributed as described below.

On each Calculation Date, the LLP or the Administrator on its behalf will calculate the amount of Available Principal Receipts available for distribution on the immediately following LLP Payment Date.

If an LLP Payment Date is the same as an Interest Payment Date, then the distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made scheduled interest and/or principal payments on that Interest Payment Date unless payment is made by the LLP directly to the Bond Trustee (or the Principal Paying Agent at the direction of the Bond Trustee).

Pre-Acceleration Principal Priority of Payments

On each LLP Payment Date, the LLP or the Administrator on its behalf will apply all Available Principal Receipts (which, for the avoidance of doubt, shall not include Cash Capital Contributions made from time to time by Paragon Bank PLC (in its capacity as a Member) which have not been designated Principal Receipts) to make the following payments or provisions or credits in the following order of priority (the “**Pre-Acceleration Principal Priority of Payments**”) (in each case only if and to the extent that payments or provisions of a higher priority have been paid in full to the extent the same are payable on the relevant LLP Payment Date) provided that the Administrator may, at the direction of the LLP, apply amounts standing to the credit of the Principal Ledger on any Business Day to acquire New Mortgage Loans in accordance with paragraph (a) below:

- (a) *first*, to acquire New Mortgage Loans, Further Advances and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement and/or to credit the Transaction Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that, taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test;
- (b) *second*, as the Administrator may reasonably determine, to acquire further New Mortgage Loans, Further Advances and their Related Security offered to the LLP by the Seller in accordance with the terms of the

Mortgage Sale Agreement and/or Substitution Assets and/or Authorised Investments in an amount not exceeding the prescribed limit;

- (c) *third*, in or towards repayment on the LLP Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Administrator may reasonably determine) of the corresponding Term Advance related to each Series of Covered Bonds by making the following payments:
- (i) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Providers pro rata and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment (relating solely to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreements, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
 - (ii) (where appropriate, after taking into account any amounts in respect of principal receivable from a Covered Bond Swap Provider on the LLP Payment Date or such date in the future as the Administrator may reasonably determine) the amounts (in respect of principal) due or to become due and payable to the Issuer pro rata and *pari passu* in respect of each relevant Term Advance; and
- (d) *fourth*, subject to having complied with the Asset Coverage Test at the immediately preceding Calculation Date, to make a Capital Distribution to Paragon Bank PLC (in its capacity as a Member of the LLP) by way of distribution of its equity in the LLP in accordance with the LLP Deed towards repayment of any Cash Capital Contributions and/or Capital Contributions in Kind made by Paragon Bank PLC (in its capacity as a Member of the LLP) that allowed the LLP to pay the purchase price for Mortgage Loans or Further Advances, or otherwise credited to the Principal Ledger.

Unless an Asset Coverage Test Breach Notice has been served and has not been revoked, any amounts in respect of principal received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date (provided that all Principal Amounts Outstanding under the related Series of Covered Bonds which have fallen due for repayment on such date have been repaid in full by the Issuer), to make payments in respect of principal due and payable to the Issuer in respect of the corresponding Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling in the future as the Administrator may reasonably determine.

Any amounts of principal received under the Covered Bond Swap Agreements on an LLP Payment Date or any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with item (c) above or the preceding paragraph will be credited to the Principal Ledger on the LLP Accounts and applied as Available Principal Receipts on the next succeeding LLP Payment Date.

Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice

At any time after service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), but prior to service of a Notice to Pay or service of an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or the realisation of the Security, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments save that, whilst any Covered

Bonds remain outstanding, no monies (including for the avoidance of doubt, any monies then standing to the credit of the Interest Accumulation Ledger) will be applied under item (f)(ii) (unless they are paid directly by the LLP to the Principal Paying Agent), item (j), item (l) or item (m) of the Pre-Acceleration Revenue Priority of Payments; and monies may only be applied under item (c)(i) of the Pre-Acceleration Principal Priority of Payments. In such case, any amounts due from the Covered Bond Swap Providers shall be paid directly to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent.

Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay

At any time after the service of a Notice to Pay on the LLP, but prior to service of an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of Winding-Up Proceedings in respect of the LLP, all Available Revenue Receipts and Available Principal Receipts (other than Non-LLP Amounts) will be applied as described below under “*Guarantee Priority of Payments*”.

The LLP will create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with item (f) of the Guarantee Priority of Payments below, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled repayment dates thereof.

Guarantee Priority of Payments

On each LLP Payment Date after the service of a Notice to Pay on the LLP (but prior to the occurrence of an LLP Event of Default), the LLP or the Administrator on its behalf will apply Available Revenue Receipts and Available Principal Receipts to make the following payments and provisions in the following order of priority (the “**Guarantee Priority of Payments**”) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of:
 - (i) all amounts due and payable or to become due and payable to the Bond Trustee and any Appointee in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed and the other Transaction Documents together with interest and applicable VAT (or other similar taxes) thereon as provided therein;
 - (ii) all amounts due and payable or to become due and payable to the Security Trustee and any Appointee in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge and the other Transaction Documents together with interest and applicable VAT (or other similar taxes) thereon as provided therein;
- (b) *second*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Agents under the provisions of the Agency Agreement together with applicable VAT (or other similar taxes) thereon as provided therein;
 - (ii) amounts (if any) due and payable to the Account Bank (including costs and expenses) pursuant to the terms of the Bank Account Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (iii) any amounts then due and payable to the Corporate Services Provider pursuant to the Corporate Services Agreement together with applicable VAT (or similar taxes) thereon as provided therein; and

- (c) *third*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP 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 such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for taxes;
- (d) *fourth*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Administrator and any costs, charges, liabilities and expenses then due or to become due and payable to the Administrator in the immediately succeeding LLP Payment Period under the provisions of the Administration Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (ii) amounts (if any) due and payable to the FCA under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon; and
 - (iii) amounts due and payable to the Asset Monitor (other than the amounts referred to in item (l) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable VAT (or other similar taxes) thereon as provided therein;
- (e) *fifth*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof, of:
 - (i) any amounts due and payable to an Interest Rate Swap Provider pursuant to the terms of the Interest Rate Swap Agreement to which it is a party (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreements; and
 - (ii) any amounts due and payable to a Standby Swap Provider pursuant to the terms of the Standby Swap Agreement to which it is a party (including any termination payment due and payable by the LLP under the Standby Swap Agreement but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Standby Swap Agreements;
- (f) *sixth*, to pay pro rata and *pari passu* according to the respective amounts thereof, of:
 - (i) taking into account any amounts paid from amounts credited to the Coupon Payment Ledger of the LLP Accounts, in respect of any Term Advance with a Covered Bond Swap in place, any amounts due and payable, the amounts due and payable (or to become due and payable in the immediately succeeding LLP Payment Period) to the relevant Covered Bond Swap Providers (other than in respect of principal) pro rata and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment (other than in respect of principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Covered Bond Swap Provider)) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
 - (ii) taking into account any amounts paid from amounts credited to the Coupon Payment Ledger and, in respect of any Term Advance that related to an Accumulation Series of Covered Bonds, any amount credited to the Interest Accumulation Ledger in respect of that Series of Covered Bonds, in each case, of the LLP Accounts as applicable, in respect of any Term Advance without a Covered Bond Swap in place, any amounts due and payable to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders pro rata and *pari passu* Scheduled Interest that is Due for Payment (or will become Due for Payment in

the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds; and

- (iii) in respect of any Accumulation Series of Covered Bonds, where the amount is not due and payable in respect of any related Series of Covered Bonds, to, if applicable make a credit to the Interest Accumulation Ledger in respect of that Series of Covered Bonds in an amount equal to the LLP Monthly Interest Amount,

and, in the case of any such payment or provision, after taking into account any amounts (other than in respect of principal) received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the relevant LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this item (f) (excluding any amounts received (or to be received) from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Interest that is Due for Payment in respect of each Series of Covered Bonds under item (f)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a pro rata basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Covered Bond Swap under item (f)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (g) *seventh*, to pay or provide for pro rata and *pari passu* according to the respective amounts thereof, of:
 - (i) the amounts (in respect of principal) due and payable (or to become due and payable in the immediately succeeding LLP Payment Period) to the relevant Covered Bond Swap Provider pro rata and *pari passu* in respect of each relevant Series of Covered Bonds but excluding any Excluded Swap Termination Amount pursuant to the terms of the relevant Covered Bond Swap Agreement; and
 - (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders pro rata and *pari passu* Scheduled Principal that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

but, in the case of any such payment or provision, after taking into account any principal amounts received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the relevant LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this item (g) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is Due for Payment in respect of the relevant Series of Covered Bonds under item (g)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a pro rata basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Covered Bond Swap under item (g)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (h) *eighth*, in respect of any Series of Covered Bonds to which an Extended Due for Payment Date applies and whose Final Redemption Amount was not paid in full by the Extension Determination Date (the “**Extended Covered Bonds**”) and any relevant Covered Bond Swap in respect thereof, on a pro rata and *pari passu* basis according to the respective amounts thereof:
 - (i) the amounts (in respect of principal) due and payable to each relevant Covered Bond Swap Provider (or to become due and payable in the immediately succeeding LLP Payment Period) pro

rata and *pari passu* in respect of each relevant Covered Bond Swap (but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreements; and

- (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders pro rata and *pari passu* the Final Redemption Amount or the relevant proportion thereof under the relevant Covered Bond Guarantee in respect of each relevant Series of Extended Covered Bonds,

but, in the case of any such payment, after taking into account any amounts (in respect of principal) received or receivable from the relevant Covered Bond Swap Provider in respect of the Covered Bond Swap corresponding to the Extended Covered Bonds on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this item (h) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Final Redemption Amount in respect of each relevant Series of Covered Bonds under item (h)(ii) above, the shortfall shall be divided amongst all such Series of Extended Covered Bonds on a pro rata basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement in respect of each relevant Series of Extended Covered Bonds under item (h)(i) above shall be reduced by the amount of the shortfall applicable to the Extended Covered Bonds in respect of which such payment is to be made;

- (i) *ninth*, to deposit the remaining moneys in the Transaction Account for application on the next following LLP Payment Date in accordance with the priority of payments described in items (a) to (h) (inclusive) above, until the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);
- (j) *tenth*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;
- (k) *eleventh*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds), any remaining monies will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;
- (l) *twelfth*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and
- (m) *thirteenth*, thereafter any remaining monies will be applied in accordance with the LLP Deed.

On each Interest Payment Date, any amount standing to the credit of the Interest Accumulation Ledger and (without double counting) any amount credited to the Interest Accumulation Ledger on such Interest Payment Date (if such Interest Payment Date is also an LLP Payment Date) in accordance with item (f)(iii) above of the Guarantee Priority of Payments in respect of an Accumulation Series of Covered Bonds, shall be applied in paying Scheduled Interest that is Due for Payment in respect of such Accumulation Series of Covered Bonds in accordance with item (f)(ii) of the Guarantee Priority of Payments.

Termination payments received in respect of Swaps, premiums received in respect of replacement Swaps

If the LLP receives any termination payment from a Swap Provider in respect of a Swap Agreement which includes Swap Collateral (the “**Swap Collateral Netted Amount**”), such termination payment (including any such Swap Collateral Netted Amount) will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or the realisation of the Security) to pay a replacement Swap Provider to enter into a replacement Swap with the LLP, unless a replacement Swap has already been entered into on behalf of the LLP. If the LLP receives any premium from a replacement Swap Provider in respect of a replacement Swap, such premium will first be used to make any termination payment due and payable by the LLP with respect to the terminated Swap Agreement, unless such termination payment has already been made on behalf of the LLP.

Any termination payment received by the LLP which is available to be applied to pay a replacement Swap Provider but which is not applied to pay a replacement Swap Provider(s) to enter into a replacement Swap Agreement(s) (and replacement Swap(s) thereunder) as a result of a replacement Swap already having been entered into on behalf of the LLP or no such replacement Swap being required, will be credited to the Revenue Ledger on the Transaction Account and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

Application of monies received by the Security Trustee following the service of an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of Winding-Up Proceedings against the LLP

Under the terms of the Deed of Charge, all monies received or recovered by the Security Trustee and/or any Receiver (excluding all amounts due or to become due in respect of any Non-LLP Amounts and all Swap Collateral Excluded Amounts) after the service of an LLP Acceleration Notice, the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security, for the benefit of the Secured Creditors in respect of the Secured Obligations, shall be held by it in the Transaction Account or the Swap Collateral Accounts on trust to be applied (save to the extent required otherwise by law) in the following order of priority (the “**Post-Enforcement Priority of Payments**”) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) all amounts due and payable or to become due and payable to:
 - (A) the Bond Trustee and any Appointee and/or any Receiver under or in connection with the Transaction Documents together with interest and applicable VAT (or other similar taxes) thereon as provided therein; and
 - (B) the Security Trustee and any Appointee and/or any Receiver appointed by the Security Trustee under or in connection with the Transaction Documents together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (ii) all amounts:
 - (A) due and payable to the Agents under or pursuant to the Agency Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (B) due to the Account Bank (including costs and expenses) pursuant to the terms of the Bank Account Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and

- (C) (including costs and expenses) due to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (iii) any remuneration then due and payable to the Administrator and any costs, charges, liabilities and expenses then due or to become due and payable to the Administrator under the provisions of the Administration Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (iv) all amounts:
 - (A) due and payable to an Interest Rate Swap Provider (including any termination payment (but excluding any Excluded Swap Termination Amounts)) pursuant to the terms of the Interest Rate Swap Agreement to which it is a party;
 - (B) due and payable to a Standby Swap Provider (including any termination payment (but excluding any Excluded Swap Termination Amounts)) pursuant to the terms of the Standby Swap Agreement to which it is a party;
 - (C) due and payable:
 - (a) to the relevant Covered Bond Swap Provider pro rata and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
 - (b) under the Covered Bond Guarantee, to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders pro rata and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this item (iv)(C) (excluding any amounts received from any Covered Bond Swap Provider in respect of amounts referred to in subparagraph (a) above) would be insufficient to pay the Sterling Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under subparagraph (b) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a pro rata basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under subparagraph (a) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (b) *second*, in or towards satisfaction pro rata and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;
- (c) *third*, after the Covered Bonds have been fully repaid, any remaining monies shall be applied in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;
- (d) *fourth*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed; and
- (e) *fifth*, thereafter any remaining monies shall be applied in or towards payment to the Members pursuant to the LLP Deed.

The above Post-Enforcement Priority of Payments is subject to the provisions of Regulations 28 and 29 of the RCB Regulations. In particular, costs properly incurred by an administrator, administrative receiver, a receiver, liquidator, provisional liquidator or manager of the LLP in relation to:

- (i) persons providing services for the benefit of Covered Bondholders (which pursuant to the RCB Regulations shall include the persons listed in item (a) of the Post-Enforcement Priority of Payments (excluding the Swap Providers));
- (ii) the Swap Providers in respect of amounts due to them under item (a) of the Post-Enforcement Priority of Payments; and
- (iii) any other persons providing a loan to the LLP to enable it to meet the claims of Covered Bondholders or the costs of the people described in item (a) of the Post-Enforcement Priority of Payments (e.g. liquidity loans),

will be expenses which will be payable out of the proceeds of realisation of the Security (in the case of a receivership) or the assets of the LLP (in the case of an administration, winding-up or provisional liquidation), and shall rank equally among themselves in priority to all other expenses (including the claims of Covered Bondholders). See further, “*Risk Factors – Expenses of insolvency officeholders*”.

THE MORTGAGE PORTFOLIO

The “**Mortgage Portfolio**” comprises the Initial Mortgage Portfolio and any New Mortgage Loans added to the Mortgage Portfolio from time to time in accordance with the terms of the Mortgage Sale Agreement, as more fully described under “*Summary of the Principal Documents – Mortgage Sale Agreement*”. The Seller has agreed not to sell Mortgage Loans at any time to the LLP that have potential or actual issues which require removal or replacement of the building cladding associated with the relevant property.

Origination of the Mortgage Loans

The Pre-Crisis Mortgage Loans which will be sold by the Seller to the LLP were originated by PML and MTL and subsequently sold to the Seller (although PML and MTL may remain as Legal Title Holders in respect of such Mortgage Loans). The Post-Crisis Mortgage Loans which will be sold by the Seller to the LLP have been originated by the Seller or by PM2010, and subsequently sold to the Seller. The Seller will be the Legal Title Holder in respect of all Post-Crisis Mortgage Loans. The Seller or one of the other Legal Title Holders will be the Legal Title Holder of the Mortgage Loans in the Initial Mortgage Portfolio on the First Transfer Date.

PML (being one of the Legal Title Holders and an originator of some of the Pre-Crisis Mortgage Loans) is a private limited company and from its inception was a wholly owned subsidiary of Paragon Banking Group PLC until 2017. As part of the Group’s re-organisation in 2017, for the Issuer to be recognised as the main operating company, PML became a wholly owned subsidiary of the Issuer. The registered address of PML is 51 Homer Road, Solihull, West Midlands B91 3QJ. PML’s principal activities are to originate mortgage loans secured on residential or other properties within the United Kingdom and to acquire mortgage loans from third parties. Other than the funding of Further Advances to customers, PML ceased originating buy-to-let mortgages on 29 February 2008.

MTL (being one of the Legal Title Holders and an originator of some of the Pre-Crisis Mortgage Loans) is a private limited company which, from 30 June 2003, became a wholly owned subsidiary of Paragon Banking Group PLC until 2017. As part of the Group’s re-organisation in 2017, for the Issuer to be recognised as the main operating company, MTL became a wholly owned subsidiary of the Issuer. The registered address of MTL is 51 Homer Road, Solihull, West Midlands B91 3QJ. MTL was incorporated on 21 August 1986 as Mortgage Trust Limited and on 4 September 1998 it was re-registered as a public limited company and changed its name to First Active Financial plc. On 16 February 2001 MTL changed its name to Britannic Money plc and then on 26 September 2003 was re-registered as a private limited company and renamed Mortgage Trust Limited. Since incorporation, MTL became an established centralised lender operating in a variety of niche markets in the United Kingdom and its principal activities are the origination and servicing of residential mortgage loans on properties located across the United Kingdom. Other than funding Further Advances to customers, MTL ceased originating buy-to-let mortgages on 29 February 2008.

Introduction of Mortgage Business

The Legal Title Holders derive/derived their mortgage lending business through intermediaries and by applications directly from members of the public. PML and MTL ceased originating mortgages in February 2008. The Seller continues to originate and service residential mortgage loans on properties located across the United Kingdom.

Information on the Mortgage Loans

General

The Mortgage Loans will all have had original maturities of between five years and 35 years.

All the Mortgages upon origination consist, or will consist, of Mortgage Loans which meet or will meet certain Pre-Crisis Lending Criteria or Post-Crisis Lending Criteria, and are secured by charges over freehold or leasehold properties located in England or Wales governed by English law (the “**Mortgages**”). The LLP will have the benefit of Pre-Crisis Loan Warranties and Post-Crisis Loan Warranties by the Seller in relation to the Mortgage Loans sold by it to the LLP, including warranties in relation to the relevant Lending Criteria applied in advancing the Mortgage Loans.

The Mortgaged Properties are residential properties located in England or Wales. In the case of leasehold, the lease has, where permitted under the relevant Lending Criteria, at least 30 years to run beyond the term of the relevant Mortgage.

The Borrowers, in respect of the Mortgage Loans, are either individuals resident in the United Kingdom or limited liability companies incorporated in England.

All of the Mortgage Loans are subject to standard mortgage conditions (“**Mortgage Conditions**”). These contain various covenants and undertakings by the Borrower including covenants to make the monthly interest payments as notified to the Borrower and to pay premia on buildings insurance policies (if any) effected in relation to the relevant Mortgaged Property. The Mortgage Conditions also contain provisions for the usual remedies of a mortgagee in the event of default by the borrower.

In the event of a specified material breach (potentially including unauthorised alteration to or change of use of the mortgage security, or change of operational control of a corporate borrower), the Post-Crisis Mortgage Conditions may provide for the following:

- (a) obligation on the borrower to make a capital repayment to reduce the capital balance, relative to any tracked measurement of loan to value (LTV);
- (b) variation of the interest rate in the event of specified breach; and
- (c) variation of the monthly payment in the event of specified breach.

All of the Mortgages are investment home mortgages (each an “**Investment Home Mortgage**”), which relate to property purchased by the Borrower and expected to be occupied by tenants.

The properties in respect of Investment Home Mortgages, are required by the applicable Mortgage Conditions to be used for residential purposes. It will normally be the intention that these properties will be let under an assured shorthold tenancy and in all cases that the occupier will have no statutory security of tenure. However, if the occupier’s tenancy has been approved by the lender, the lender will not be able to sell with vacant possession if it wishes to enforce its security, until such time as the tenancy comes to an end.

Repayment Types

Certain Mortgage Loans will be for Mortgages under which monthly instalments covering both interest and principal are required to be paid by the Borrower (“**Repayment Mortgage Loans**”). The payment schedule applicable to such a Mortgage Loan on origination is structured so that the principal element of the instalments is small in the early years but increases in size during the life of the Mortgage Loan until full repayment by maturity. The Originators recommend (but may not require) that Borrowers arrange term life assurance in connection with Repayment Mortgage Loans.

Some Mortgage Loans are Interest-only Mortgage Loans and some Mortgage Loans provide that the LLP or the Administrator can convert the Mortgage Loan from an Interest-only Mortgage Loan to a Repayment Mortgage Loan after the initial fixed rate period, subject to a 28 day notice period (“**Optional Repayment Mortgage Loans**”). If the Administrator or the LLP opt to convert the mortgage to a repayment basis, the monthly instalment requires both interest and principal to be paid by the Borrower. The payment schedule

applicable to such a Mortgage Loan is structured so that the principal element of the instalments is small in the early years but increases in size during the life of the Mortgage Loan until full repayment by maturity.

The Originators recommend (but may not require) that Borrowers arrange term life assurance in connection with Interest-only Mortgage Loans and Optional Repayment Mortgage Loans. The ability of any particular Borrower to repay an Interest-only Mortgage Loan may depend on such Borrower's ability to refinance the Mortgaged Property or obtain funds from another source (such as a pension policy or unit trust or an endowment policy). Neither the Seller, the Administrator, nor any of the Originators or Legal Title Holders has verified that the Borrower has any such ability or other source of funds and has not obtained security over the Borrower's right in respect of any such other source of funds. The ability of a Borrower to refinance the Mortgaged Property will be affected by a number of factors, including the value of the Mortgaged Property, the Borrower's equity in the Mortgaged Property, the financial condition of the Borrower, tax laws and general economic conditions at the time. Moreover, the Mortgage Conditions in respect of Interest-only Mortgage Loans do not require a borrower to put in place alternative funding arrangements.

Mortgage Interest Rate Types

Each Mortgage Loan will be one of the following:

- (a) a Mortgage Loan under which for a fixed period or periods the rate of interest payable by the Borrower is not capable of being reset monthly or quarterly at will by the LLP or the Administrator but the Borrower is required to pay interest at a fixed rate or a series of fixed rates (being, during each such period, a “**Fixed Rate Mortgage Loan**”). After the fixed rate period, the relevant Mortgage Loan reverts to the Seller's standard variable rate;
- (b) a Mortgage Loan which is not at the relevant time a Fixed Rate Mortgage Loan, and under which the rate of interest payable by the Borrower is variable and in each case is capable of being reset by the LLP or the Administrator (being, during each period in which interest accrues in that manner, a “**Standard Variable Rate Mortgage Loan**”);
- (c) a Mortgage Loan under which the Borrower is required to pay interest at a fixed margin over three-month term SONIA determined quarterly, for the duration of the Mortgage Loan (a “**SONIA-Linked Mortgage Loan**”);
- (d) a Mortgage Loan under which the Borrower is required to pay interest at a fixed margin over the Bank of England base rate for the duration of the Mortgage Loan (a “**Base Rate Tracker Mortgage Loan**”); or
- (e) a Mortgage Loan under which the Borrower is required to pay interest at a variable margin over the three-month term SONIA determined quarterly, for the duration of the Mortgage Loan (a “**Non-Reversionary SONIA-Linked Mortgage Loan**”).

Interest on the Mortgage Loans is payable monthly at rates which are currently set by or on behalf of the Seller (subject to the restrictions mentioned above) and, except in certain limited circumstances in which the Security Trustee will be entitled (but not obliged, in the case of the Security Trustee) to take over this function, will be set by the Administrator, on behalf of the LLP, after the sale and sub charge of the Mortgage Loans.

Redemption Provisions

The Mortgage Loans provide that the Borrower may prepay principal at any time without prior notice. For a specified period such a prepayment of principal gives rise to an obligation to pay an additional sum. The period within which such a prepayment gives rise to an obligation to pay such an additional sum, and the size of that additional sum, are specified in the relevant Mortgage Conditions.

The majority of the newly originated Mortgage Loans by the Seller are subject to a minimum Early Repayment Charge of the equivalent of between one-and-three months' interest should the Mortgage Loan be redeemed within three years of completion. However, where a Mortgage Loan has a fixed rate, or offers new borrowers an incentive (as with a discounted rate or similar) Early Repayment Charges are more substantial in order to ensure incentives are effectively repaid should this occur. There are no redemption penalties applicable to the Pre-Crisis Mortgage Loans.

The Administrator will be given the right, in its discretion (acting as a prudent mortgage lender), to waive any repayment charges payable by a Borrower.

Searches and Warranties in respect of the Mortgage Loans

Neither the LLP nor the Security Trustee has made or caused to be made (or will make or cause to be made) on its behalf in relation to the Mortgage Loans purchased by the LLP any of the enquiries, searches or investigations which a prudent purchaser of the relevant security would normally make, other than a search, prior to completion of the purchase by the LLP of the Mortgage Loans on any Transfer Date. The LLP will rely entirely on the benefit of the representations and warranties given to it under the Mortgage Sale Agreement. Neither the LLP nor the Security Trustee has made nor will make any enquiry, search or investigation prior to the making of any Further Advance or at any time in relation to compliance by the Legal Title Holders, the Seller, the Administrator or any other person with any applicable lending guidelines, criteria or procedures or the adequacy thereof or with the provisions of the Mortgage Sale Agreement, the Administration Agreement, the Deed of Charge, or with any applicable laws or in relation to the execution, legality, validity, perfection, adequacy or enforceability of any Mortgage Loans purchased on any Transfer Date or any other security or the insurance contracts relating to the Mortgaged Properties and the Mortgage Loans referred to herein.

In relation to all of the foregoing matters and the circumstances in which advances were made to Borrowers prior to the purchase by the LLP of the relevant Mortgage Loans, the LLP and/or the Security Trustee will rely entirely on the Pre-Crisis Loan Warranties and the Post-Crisis Loan Warranties to be given by the Seller to the LLP and the Security Trustee contained in the Mortgage Sale Agreement.

The Pre-Crisis Loan Warranties and Post-Crisis Loan Warranties given by the Seller in respect of the Mortgage Loans sold by it to the LLP as at the relevant Transfer Date are set out in "*Summary of the Principal Documents – Mortgage Sale Agreement – Warranties*".

The sole remedy against the Seller in respect of breach of a Loan Warranty relating to a Mortgage Loan sold by the Seller shall be to require the Seller to repurchase any relevant Mortgage Loan provided that this shall not limit any other remedies available to the LLP or the Security Trustee if the Seller fails to repurchase a Mortgage Loan when obliged to do so. The Seller will also agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage Loan sold by it to the LLP is at any time on or after the First Transfer Date found by a competent court, whether on application of a borrower, the FCA or otherwise, to be an unfair term for the purposes of the Unfair Terms in Consumer Contracts Regulations 1994 or 1999 or the CRA, it shall repurchase or procure the repurchase of the Individual Mortgage Loan concerned.

The Mortgage Sale Agreement and all non-contractual obligations arising out of it is governed by, and shall be construed in accordance with, English law.

Lending Criteria

The criteria provided by the relevant Originators to help introducers of mortgage loan business to the relevant Originators to assess the suitability of a potential borrower and of the security offered, set a standard in respect of the Pre-Crisis Mortgage Loans or Post-Crisis Mortgage Loans which, at the time that any Pre-Crisis Mortgage Loan or Post-Crisis Mortgage Loan was originated was not substantially different from the following

(which although expressed in the present tense, should be read as applying at the time of origination). On occasions flexibility to the Pre-Crisis Lending Criteria or Post-Crisis Lending Criteria may have been applied for applications that may be outside of the criteria detailed below. Such occasions are exceptional and when they occur approval of the case must be made by a senior underwriter or in certain circumstances the credit committee, and only made where there are other mitigating circumstances which ensure the application remains of the highest quality.

Pre-Crisis Lending Criteria for Mortgage Loans originated by PML and MTL

Personal Details

- (a) The maximum number of applicants who may be party to the mortgage is four.
- (b) All applicants must be a minimum of 18 years of age at completion.
- (c) The identity of each applicant or guarantor (where applicable) must be established in compliance with the current Joint Money Laundering Steering Group Guidance Notes.

Corporate Mortgages

- (a) The applicant must be an unlisted limited liability company incorporated and trading under the laws of England and Wales or Scotland or Northern Ireland or the Isle of Man or the Channel Islands or Gibraltar.
- (b) The Originator may request references and/or any other information deemed necessary in connection with an application (such as company accounts, corporate searches at Companies Registry, the computerised index of winding up petitions, the manual index of High Court petitions for administration orders at the Central Registry of Winding Up Petitions, etc.).

Mortgage Requirements

- (a) Applications in respect of a single investment home property will usually be limited in accordance with the following table:

Loan Size	Maximum LTV
Up to £500,000	90 per cent. excluding fees
Up to £1,000,000	85 per cent. excluding fees
Up to £1,500,000	80 per cent. excluding fees

- (b) Multiple applications for investment home properties will be considered up to a total of £50,000,000 per borrower(s).
- (c) The maximum term for a loan is 40 years, the minimum is 5 years.
- (d) Loans may be taken on either a capital repayment or an interest only basis, or a combination of the two.

Property Details

- (a) Loans must be secured on residential property which, following a valuation by the Originator's valuer or a valuer appointed to act on the Originator's behalf, or in the case of a further advance application, an assessed valuation by reference to an applicable house price index, is considered to be suitable security.
- (b) The following are unacceptable to the Originator:
 - (i) properties located other than in the U.K.;
 - (ii) freehold flats and maisonettes (except in Scotland);

- (iii) properties designated under the Housing Act 1985 or the Housing (Scotland) Act 1987 or the Housing (Northern Ireland) Order 1983 (as amended); and
 - (iv) properties having agricultural restrictions.
- (c) The following will be considered by the Originator on an individual basis:
 - (i) properties used for part commercial purposes;
 - (ii) properties with adjoining land used for commercial purposes or having agricultural or other planning restrictions;
 - (iii) properties on which buildings insurance is not available on block policy terms;
 - (iv) flats directly attached to or directly above commercial premises;
 - (v) properties with an element of flying freehold;
 - (vi) self-build properties (pre and post completion); and
 - (vii) Local Authority flats being purchased under the Right to Buy Scheme.
- (d) Properties under 10 years old must have the benefit of an NHBC certificate or any other approved guarantee from an acceptable body. Architects' certificates must also be provided for each stage of construction together with Local Authority approval in respect of properties under 10 years old that do not have the benefit of an NHBC certificate or other approved guarantee from an acceptable body. Similar requirements may be imposed for converted properties.
- (e) Where loans are required on properties which are not to be used for owner occupation, they may be let on an assured shorthold tenancy basis or in circumstances where the occupier (which may include a body corporate, a charitable institution or public sector body) has no statutory security of tenure. Where the occupier is a body corporate, the maximum length of lease will normally be for a period no longer than 3 years. Where the occupier is a charitable institution or public sector body, the maximum length of lease will normally be for a period no longer than 5 years.
- (f) Where the tenure of the property is leasehold, the minimum length of the lease at the end of the mortgage term must be 35 years.
- (g) All properties must be insured for a minimum of the reinstatement amount shown on the valuation report, under a comprehensive insurance policy.

Credit History

- (a) A credit search will be carried out in respect of all applicants which must provide sufficient information to evidence a satisfactory credit profile. Where the search contains insufficient information to achieve this, further evidence will be required. This may include, for example, proof of mortgage payments, or satisfactory bank statements.

Income and Employment Details

- (a) In the case of an investment home property, the Originator will seek to rely upon the rental income generated from the property to be mortgaged. The normal minimum rental value will be 100 per cent. of the associated mortgage payment when calculated on an interest only basis at either the product rate or the reference rate for portfolio customers subject to individual assessment and justification. The reference rate is based upon long term loan rates and reviewed by the company's credit committee on a quarterly basis.

- (b) Where rental income from an investment home property is deemed insufficient to fulfil paragraph (a) above, evidence of additional income will be required. This may include, for example, the latest or most recent P60, an employer's reference, audited accounts, bank statements or cash flow statements.

Post-Crisis Lending Criteria for Mortgage Loans originated by the Seller and PM2010

Personal Details

- (a) The maximum number of applicants who may be party to the mortgage is four.
- (b) All applicants must be a minimum of 18 years of age at completion.
- (c) The identity of each applicant or guarantor (where applicable) must be established in compliance with the current Joint Money Laundering Steering Group Guidance Notes.
- (d) The applicant must be resident in the United Kingdom.

Corporate Mortgages

- (a) The applicant must be an unlisted limited liability company incorporated and trading under the laws of England, Wales and Scotland.
- (b) The Seller may request references and/or any other information deemed necessary in connection with an application (such as company accounts, corporate searches at Companies Registry, the computerised index of winding up petitions, the manual index of High Court petitions for administration orders at the Central Registry of Winding Up Petitions, etc.).
- (c) All amounts payable under the corporate mortgage loan must be guaranteed by an individual who is a director of the applicant corporate borrower.

Mortgage Requirements

- (a) Applications in respect of a single investment home property will usually be limited in accordance with the following table:

Loan Size	Maximum LTV
Up to £750,000	80 per cent. excluding fees
Up to £1,000,000	75 per cent. excluding fees
Up to £1,500,000	70 per cent. excluding fees
Up to £4,000,000	65 per cent. excluding fees, and excluding multi-unit blocks located in the South East and London
Up to £6,000,000	65 per cent. excluding fees, for multi- unit blocks located in the South East and London

- (b) Multiple applications for investment home properties will be considered up to a total of £25,000,000 per borrower(s).
- (c) The maximum term for a loan is 35 years, the minimum is 5 years.
- (d) Loans may be taken on either a capital repayment or an interest only basis, or a combination of the two.

Property Details

- (a) Loans must be secured on residential property which, following a valuation by the Originator's valuer or a valuer appointed to act on the Originator's behalf, or in the case of a further advance application, an assessed valuation by reference to an applicable house price index, is considered to be suitable security.
- (b) The following are unacceptable to the Seller:
 - (i) properties located other than in England, Scotland and Wales;
 - (ii) freehold flats and maisonettes;
 - (iii) properties designated under the Housing Act 1985 (as amended);
 - (iv) properties having agricultural restrictions; and
 - (v) construction loans.
- (c) The following will be considered by the Seller on an individual basis:
 - (i) properties used for part commercial purposes;
 - (ii) properties with adjoining land used for commercial purposes or having agricultural or other planning restrictions;
 - (iii) properties on which buildings insurance is not available on block policy terms;
 - (iv) flats directly attached to or directly above commercial premises;
 - (v) properties with an element of flying freehold;
 - (vi) self-build properties (post completion); and
 - (vii) Local Authority flats being purchased under the Right to Buy Scheme.
- (d) Properties under 10 years old must have the benefit of an NHBC certificate or any other approved guarantee from an acceptable body. Architects' certificates must also be provided for each stage of construction together with Local Authority approval in respect of properties under 10 years old that do not have the benefit of an NHBC certificate or other approved guarantee from an acceptable body. Similar requirements may be imposed for converted properties.
- (e) Properties may be let on an assured shorthold tenancy basis or in circumstances where the occupier (which may include a body corporate, a charitable institution or public sector body) has no statutory security of tenure. Where the occupier is a body corporate, the maximum length of lease will normally be for a period no longer than 3 years. Where the occupier is a charitable institution or public sector body, the maximum length of lease will normally be for a period no longer than 5 years.
- (f) Where the tenure of the property is leasehold, the minimum length of the lease at the end of the mortgage term must be 35 years.
- (g) All properties must be insured for a minimum of the reinstatement amount shown on the valuation report, under a comprehensive insurance policy.

Credit History

- (a) A credit search will be carried out in respect of all applicants which must provide sufficient information to evidence a satisfactory credit profile. Where the search contains insufficient information to achieve

this, further evidence will be required. This may include, for example, proof of mortgage payments, or satisfactory bank statements.

Income and Employment Details: Mortgages originated prior to December 2016

- (a) In the case of an investment home property, the Seller will seek to use the rental income generated from the property to be mortgaged within an affordability calculation. The normal minimum rental value will be 130 per cent, or in certain circumstances 125 per cent, of the associated mortgage payment when calculated on an interest only basis at either the product rate or reference rate. The reference rate is based upon long term loan rates and is reviewed by the company's credit committee on a quarterly basis. Its use removes anomalies in the affordability calculation which may be caused by, for example, specialist product rates, discounted rates, fixed rates etc.
- (b) Where rental income from an investment home property is deemed insufficient to fulfil paragraph (a) above, evidence of additional income will be required. This may include, for example, the latest or most recent P60, an employer's reference, audited accounts, bank statements or cash flow statements.

Income and Employment Details: Mortgages originated after December 2016

- (a) In the case of an investment home property, the Seller will seek to use the rental income generated from the property to be mortgaged within an affordability calculation.

- (i) ***Limited Companies***

- For landlords operating in a limited company structure who are borrowing against a single self-contained property, the normal minimum rental value will be 125 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate.

- For houses in multiple occupation, multi-unit properties and part commercial properties, the normal minimum rental value will be 130 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate.

- (ii) ***Individual Landlords: Basic Rate Tax Payers***

- For individual landlords who are on the basic tax rate at the time of application (and are reasonably expected to remain so for the foreseeable future) and are borrowing against a single self-contained property, the normal minimum rental value will be 125 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate.

- For houses in multiple occupation, multi-unit properties and part commercial properties, the normal minimum rental value will be 130 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate.

- (iii) ***Individual Landlords: Higher Rate Tax Payers***

- For individual landlords who are higher or additional rate tax payers at the time of application and are borrowing against a single self-contained property, the normal minimum rental value will be 140 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate.

- For houses in multiple occupation, multi-unit properties and part commercial properties, the normal minimum rental value will be 145 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate.

(iv) ***Reference Interest Rate***

The reference interest rate for fixed rate mortgages of an initial term of 5 years or more is currently the higher of 5 per cent or the product charging rate, but this may vary with product change or as market conditions change over time. The reference interest rate for all other mortgage products will be the higher of 5.5 per cent or the product charging rate plus 2 per cent.

- (b) Where rental income from an investment home property is deemed insufficient to fulfil paragraph (a) above, evidence of income and expenditure will be required to demonstrate that there is sufficient disposable income to maintain the loan repayments. In all cases for landlords with no more than three properties upon completion of the purchase for which the current application is being made, the property rental income must be sufficient to meet 125 per cent at 5.5 per cent or the product charging rate plus 2 per cent, before the contribution of personal income. All income must be evidenced.

DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME

The RCB Regulations and the corresponding implementation provisions, set out in the Regulated Covered Bonds Sourcebook published under the FSMA (the “**RCB Sourcebook**”), came into force in the United Kingdom on 6 March 2008. In summary, the RCB Regulations implement a legislative framework for UK covered bonds.

Supervision and registration

The FCA performs certain supervision and enforcement related tasks in respect of the regime, including admitting issuers and covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FCA has certain powers under the RCB Regulations. In particular, in certain circumstances the FCA may direct the winding-up of an owner, remove an issuer from the register of issuers and/or impose a financial penalty of such amount as it considers appropriate in respect of an issuer or owner and direct an issuer to publish information given to the FCA under the RCB Regulations. Moreover, as a body which regulates the financial services industry in the United Kingdom, the FCA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer’s ability to transfer further assets to the asset pool).

On 19 February 2025, the Issuer and the Programme were granted admission to the register of regulated covered bonds under the RCB Regulations, and pursuant to the RCB Regulations, will appear on the register within 7 days of that date.

Requirements under the legislative framework

The RCB Regulations and the RCB Sourcebook include various requirements related to registered issuers, asset pool owners, pool assets and the contractual arrangements made in respect of such assets. In this regard, issuers and owners have various initial and ongoing obligations under the RCB Regulations and the RCB Sourcebook and are responsible for ensuring they comply with them. In particular, issuers are required to (amongst other things) enter into arrangements with the owner for the maintenance and administration of the asset pool such that certain asset record-keeping obligations and asset capability and quality related requirements are met and notify the FCA of various matters (including any regulated covered bonds it issues, the assets in the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Owners are required to (amongst other things) notify the FCA of various matters (including any proposed transfer of ownership of the asset pool) and, on insolvency of the issuer, make arrangements for the maintenance and administration of the asset pool (similar to the issuer obligations described above).

The UK authorities undertook reviews of the UK legislative framework in 2011 and 2012 and certain changes were made to the regime with the intention of enhancing the attractiveness of UK regulated covered bonds to investors. These changes took effect from 1 January 2013 and include the following:

1. *Single asset pool designation* – issuers are required to designate their programme as being a single asset pool (consisting of either class one assets – public sector debt, class two assets – residential mortgage loans or class three assets – commercial loans and, in each case, liquid assets) or a mixed asset pool (consisting of all eligible property for the purposes of the RCB Regulations). The Issuer has provided the necessary certifications for the Programme to be registered as a single asset pool programme, falling in class two. As a result, the asset pool will consist solely of residential mortgage loans and certain liquid assets, being UK Government securities and cash deposits, all of which comply with regulation 2 of the RCB Regulations. In keeping with the requirements under the RCB Regulations, the asset pool will not include any asset-backed securities.
2. *Fixed minimum over-collateralisation requirement for principal and fixed minimum coverage requirement for interest* – the total principal amount outstanding on the loans constituting eligible

property in the asset pool is required to be more than the total principal amounts outstanding in relation to the regulated covered bonds by at least 8 per cent. and a minimum threshold applies in respect of interest amounts such that the total amount of interest payable in the period of twelve (12) months following any given date in respect of the eligible property in the asset pool is required to be not less than the interest which would be payable in relation to the regulated covered bonds in that period. For the purposes of calculating each of these tests, the issuer can take into account certain liquid assets up to a maximum of 8 per cent. of those covered bonds that have a maturity date of one year or more and 100 per cent. of those covered bonds that have a maturity date of less than one year.

3. *Investor reporting, including loan-level data* – issuers are required to make available detailed loan-level information relating to the asset pool following an issuance of regulated covered bonds. Issuers are also required to publish certain transaction documents relating to the programme. The information to be published by the Issuer can be accessed from <https://www.paragonbankinggroup.co.uk/investors/fixed-income/covered-bond/covered-bond-information>. The information set out on the website and the contents thereof do not form part of this Prospectus.
4. *Asset pool monitor role* – an asset pool monitor is required, on an annual basis, to inspect and assess the issuer's compliance with certain principles based requirements under the regime and to report on their findings to the FCA (with additional reporting requirements in the case of issuer non-compliance). The Issuer has appointed an asset pool monitor for the purposes of the RCB Regulations.

See also “*Risk Factors – UK regulated covered bond regime*” and “*Risk Factors – Expenses of insolvency officeholders*”.

DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS

Since 6 April 2001 it has been possible to incorporate a limited liability partnership in England and Wales under the LLPA 2000. Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

Corporate characteristics

A limited liability partnership is more like a company than a partnership. A limited liability partnership is a body corporate with its own property and liabilities, separate from its members. Like shareholders in a limited company, the liability of the members of a limited liability partnership is limited to the amount of their capital because it is a separate legal entity and when the members decide to enter into a contract, they bind the limited liability partnership in the same way that directors bind a company. Members may be liable for their own negligence and other torts or delicts, like company directors, if they have assumed a personal duty of care and have acted in breach of that duty. Third parties can assume that members, like company directors, are authorised to act on behalf of the limited liability partnership.

The provisions of the Companies Act and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships Regulations 2009 and the Limited Liability Partnerships Regulations 2001 (each as amended from time to time) so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity, a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

Limited liability partnerships must file annual returns and audited annual accounts at Companies House for each financial year in the same way as companies.

Partnership characteristics

A limited liability partnership retains certain characteristics of a partnership. It has no share capital and there are no capital maintenance requirements. The members are free to agree how to share profits, who is responsible for management and how decisions are made, when and how new members are appointed and the circumstances in which its members retire. The members' agreement is a private document and there is no obligation to file it at Companies House.

Taxation

A limited liability partnership which carries on a trade or business with a view to profit (and which is not the subject of certain insolvency proceedings) is, generally speaking, treated as a partnership for corporation tax purposes. As such, the members of a limited liability partnership, and not the limited liability partnership itself, are subject to corporation tax in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are subject to corporation tax in relation to the business of that partnership.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the LLP believe to be reliable, but none of the Issuer, the LLP, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the LLP nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. 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 depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Security Trustee, the Issuer, the LLP, the Agents, the Arrangers or any Dealer will be responsible for any performance by Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The following is a general description of certain tax considerations relating to the Covered Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Covered Bonds. Prospective purchasers of Covered Bonds should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Covered Bonds and receiving payments of interest, principal and/or other amounts under the Covered Bonds and the consequences of such actions under the tax laws of those countries. In particular, prospective Covered Bondholders should be aware that the tax legislation of any jurisdiction where a Covered Bondholder is resident or otherwise subject to taxation may have an impact on the tax consequences of an investment in the Covered Bonds including in respect of any income received from the Covered Bonds. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

UNITED KINGDOM TAXATION

The following is a summary of the Issuer's understanding of current United Kingdom tax law as applied in England and Wales and published His Majesty's Revenue & Customs ("HMRC") practice, in each case as at the latest practicable date before the date of this Prospectus, relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) by the Issuer in respect of Covered Bonds and payments by the LLP in respect of Covered Bonds, which may be subject to change, sometimes with retrospective effect, and (in the case of HMRC practice) may not be binding on HMRC. The comments do not deal with other United Kingdom tax implications of acquiring, holding or disposing of Covered Bonds. They do not necessarily apply where the income is deemed for tax purposes to be income of another person. They relate only to the position of persons who hold their Covered Bonds and Coupons as investments (regardless of whether the holder also carries on a trade, profession or vocation through a permanent establishment, branch or agency to which the bonds are attributable) and who are the absolute beneficial owners of the Covered Bonds. In particular, Covered Bondholders holding their Covered Bonds via a depositary receipt system or clearance service should note that they may not always be the beneficial owners thereof. The comments may not apply to certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer. Prospective Covered Bondholders should be aware that the particular terms of issue of any series of Covered Bonds as specified in the relevant Final Terms may affect the tax treatment of that and other series of Covered Bonds. The following is a general guide and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that might be relevant to a prospective purchaser. The United Kingdom tax treatment of prospective holders of Covered Bonds depends on their individual circumstances and may be subject to change in the future. Prospective holders of Covered Bonds who may be subject to taxation in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice. In particular, Covered Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Covered Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom. The comments below do not deal with the tax consequences of any substitution of the Issuer in accordance with Condition 15(c) (Substitution of the Issuer) of the Covered Bonds or of any consolidation, merger, amalgamation or transfer of the Issuer in accordance with Condition 15(d) (Consolidation, Merger, Amalgamation or Transfer of the Issuer) of the Covered Bonds.

United Kingdom Withholding Tax on United Kingdom Source Interest

1. Any Covered Bonds issued by the Issuer which carry a right to interest will constitute "quoted Eurobonds" provided they either are and continue to be listed on a recognised stock exchange (within the meaning of section 1005 of the Income Tax Act 2007 (the "**Act**") for the purposes of section 987 of

the Act) or admitted to trading on a multilateral trading facility operated by a regulated recognised stock exchange (within the meaning of section 987 of the Act). Whilst the Covered Bonds are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Covered Bonds may be made without withholding or deduction for or on account of United Kingdom income tax.

The London Stock Exchange is a recognised stock exchange for these purposes, and accordingly the Covered Bonds will constitute quoted Eurobonds provided they are and continue to be included in the FCA's Official List (within the meaning of and in accordance with Part 6 of the FSMA) and admitted to trading on the Main Market (excluding the High Growth Segment) or the Professional Securities Market of the London Stock Exchange.

2. In addition to the exemption set out above, interest on Covered Bonds issued by the Issuer may be paid without withholding or deduction for or on account of United Kingdom income tax provided that the Issuer is and continues to be a "bank" within the meaning of section 991 of the Act and the interest on the Covered Bonds is and continues to be paid in the ordinary course of the Issuer's business within the meaning of section 878 of the Act.
3. In all cases falling outside the exemptions described above, interest on the Covered Bonds may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to such other relief or exemption as may be available. However, such withholding or deduction will not apply if the relevant interest is paid on Covered Bonds with a maturity of less than 365 days from the date of issue and which are not issued under an arrangement the effect or intention of which is to render such Covered Bonds part of a borrowing with a total term of more than 364 days.

Other Rules Relating to United Kingdom Withholding Tax

Covered Bonds may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element of such Covered Bonds will not generally be subject to any United Kingdom withholding tax pursuant to the provisions mentioned above.

Where Covered Bonds are to be, or may fall to be, redeemed at a premium as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax as outlined above.

Where interest has been paid under deduction of United Kingdom income tax, Covered Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Covered Bonds or any related documentation. Where a payment on a Covered Bond does not constitute (or is not treated as) interest for United Kingdom tax purposes (or a repayment of principal), and the payment has a United Kingdom source, it would potentially be subject to United Kingdom withholding tax if, for example, it constitutes (or is treated as) an annual payment or a manufactured payment for United Kingdom tax purposes (which will be determined by, amongst other things, the terms and conditions specified by the Final Terms of the Covered Bond). In such a case, the payment may fall to be made under deduction of United Kingdom tax (the rate of withholding depending on the nature of the payment), subject to such relief or exemption as may be available.

The above description of the United Kingdom withholding tax position assumes (1) that there will be no substitution of the Issuer as principal debtor pursuant to Condition 15(c) (*Substitution of the Issuer*) or otherwise and does not consider the tax consequences of any such substitution; and (2) that there will be no consolidation, merger, amalgamation or transfer of the Issuer pursuant to Condition 15(d) (*Consolidation, Merger,*

Amalgamation or Transfer of the Issuer) or otherwise and does not consider the tax consequences of any such merger, amalgamation or transfer.

Payments by the LLP

The United Kingdom withholding tax treatment of payments by the LLP under the terms of the Covered Bond Guarantee in respect of the Covered Bonds (or other amounts due under the Covered Bonds other than the repayment of amounts subscribed for the Covered Bonds) is uncertain. In particular, such payments by the LLP may not be eligible for the exemptions described above in relation to payments of interest by the Issuer. Accordingly, if the LLP makes any such payments and they have a United Kingdom source, these may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.). If payments by the LLP are subject to any withholding or deduction for or on account of tax, the LLP will not be required to pay any additional amounts.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as “**FATCA**”, a “foreign financial institution” (as defined by FATCA, including an intermediary through which Covered Bonds are held) may be required to withhold at a rate of 30% on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting or related requirements. The Issuer is registered as 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 FATCA provisions and IGAs to instruments such as Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, 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 Covered Bonds, such withholding would not apply prior to the date that is two years after the date on which final regulations defining “foreign passthru payments” are published in the U.S. Federal Register and Covered Bonds issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Covered Bonds (as described under “*Terms and Conditions of the Covered Bonds – Further Issues*”) that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Covered Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Covered Bonds, no person will be required to pay additional amounts as a result of the withholding.

FATCA is particularly complex and its application is uncertain. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or which may be implemented in a materially different form. Prospective Holders should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Covered Bonds.

CERTAIN UNITED STATES REGULATORY CONSIDERATIONS

INVESTMENT COMPANY ACT

The LLP is not now, and solely after giving effect to any offering and sale of Covered Bonds pursuant to the Trust Deed 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 (“**Investment Company Act**”), and under the Volcker Rule and its related regulations may be available, the Issuer has relied on the determinations that the LLP may rely on the exemption from registration under the Investment Company Act provided by Section 3(c)(5)(C) thereunder. Accordingly, the LLP 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.

SUBSCRIPTION AND SALE

Covered Bonds may be sold from time to time by the Issuer to any one or more of Barclays Bank PLC, BNP Paribas and NatWest Markets Plc and any other dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Covered Bonds (the “**Dealers**”). The arrangements under which Covered Bonds may from time to time be agreed to be sold by the Issuer to, and subscribed by, Dealers are set out in a Dealer Agreement dated the Initial Programme Date, as amended and/or supplemented and/or restated from time to time (the “**Dealer Agreement**”) and made between the Issuer, the LLP and the Dealers. If in the case of any Tranche of Covered Bonds the method of distribution is an agreement between the Issuer and a single Dealer for that Tranche to be issued by such Issuer and subscribed by that Dealer, the method of distribution will be described in the relevant Final Terms as “Non-Syndicated” and the name of that Dealer and any other interest of that Dealer which is material to the issue of that Tranche beyond the fact of the appointment of that Dealer will be set out in the relevant Final Terms. If in the case of any Tranche of Covered Bonds the method of distribution is an agreement between the Issuer and more than one Dealer for that Tranche to be issued by such Issuer and subscribed by those Dealers, the method of distribution will be described in the relevant Final Terms as “Syndicated” and the names of those Dealers and any other interests of any of those Dealers which are material to the issue of that Tranche beyond the fact of the appointment of those Dealers (including whether any of those Dealers has also been appointed to act as Stabilising Manager in relation to that Tranche) will be set out in the relevant Final Terms.

Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Covered Bonds, the price at which such Covered Bonds will be subscribed by the Dealer(s) and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such subscription. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Covered Bonds.

Selling Restrictions

United States

Regulation S, Category 2, TEFRA D rules apply, unless TEFRA C rules are specified as applicable in the applicable Final Terms or unless TEFRA is not applicable.

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and Covered Bonds may not be offered, sold or delivered directly or indirectly within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and U.S. Treasury regulations promulgated thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver any such Regulation S Covered Bond within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time, or (ii) otherwise until 40 days after completion of the distribution of an identifiable tranche of which such

Covered Bonds are a part as determined and certified to the Principal Paying Agent by such Dealer (or in the case of a sale of an identifiable tranche of Covered Bonds to or through more than one Dealer, by such Dealers with respect to the Covered Bonds of an identifiable tranche purchased by or through it, in which case the Principal Paying Agent shall notify each Dealer) only in accordance with Rule 903 on Regulation S under the Securities Act or any other available exemption from registration under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that at or prior to confirmation of a sale of Covered Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable Tranche of Covered Bonds, an offer or sale of Covered Bonds within the United States by any dealer (whether or not participating in the offering of such Tranche of Covered Bonds) may violate the registration requirements of the Securities Act.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Covered Bonds 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 Covered Bonds 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 Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (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 Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the LLP or, in the case of the Issuer would not, if it was not an authorised person, apply to the Issuer; 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 any Covered Bonds in, from or otherwise involving the UK.

Prohibition of Sales to UK Retail Investors

Unless the Final Terms in respect of any Covered Bonds specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the UK. For the purposes of this provision the expression “**retail investor**” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as amended and as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “**EUWA**”); or

- (b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA (“**UK MiFIR**”).

Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Covered Bonds specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision the expression “**retail investor**” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
- (b) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Republic of Italy

The offering of the Covered Bonds has not been registered with the Commissione Nazionale per le Società e la Borsa (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Covered Bonds be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or delivered, and will not offer, sell or deliver any Covered Bonds or distribute any copy of this Prospectus or any other document relating to the Covered Bonds in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the “**Financial Services Act**”) and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the “**Issuers Regulation**”), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Covered Bonds or distribution of copies of this Prospectus or any other document relating to the Covered Bonds in Italy under paragraphs (a) or (b) above must be:

- (i) **made** by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”) and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time;
- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and

- (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

Singapore

Unless the Final Terms in respect of any Covered Bonds specifies “Singapore Sales to Institutional Investors and Accredited Investors only” as “Not Applicable”, each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Covered Bonds or caused the Covered Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Covered Bonds or cause the Covered Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Covered Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

If the Final Terms in respect of any Covered Bonds specifies “Singapore Sales to Institutional Investors and Accredited Investors only” as “Not Applicable”, each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Covered Bonds or caused the Covered Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Covered Bonds or cause the Covered Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Covered Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to 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.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Covered Bonds or possesses, distributes or publishes this Prospectus, any Final Terms, any Drawdown Prospectus or any related offering material and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the Security Trustee nor any of the other Dealers shall have any responsibility therefor. Other persons into whose hands this Prospectus, any Final Terms or any Drawdown Prospectus comes are required by the Issuer, the Arrangers and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they

purchase, offer, sell or deliver Covered Bonds or possess, distribute or publish this Prospectus, any Final Terms, any Drawdown Prospectus or any related offering material, in all cases at their own expense.

Furthermore, none of the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Arrangers or any of the Dealers will directly or indirectly offer, sell or deliver any Covered Bonds or distribute or publish any form of application, prospectus, advertisement or other offering material except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Covered Bonds by them will be made on the same terms.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Arrangers or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other additional or modified restrictions (if any) as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

Each Dealer will, unless prohibited by applicable law, furnish to each person to whom they offer or sell Covered Bonds a copy of the Prospectus as then amended or supplemented or, unless delivery of the 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 the Prospectus in connection with the offer and sale of Covered Bonds to which the Prospectus relates.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in a supplement to this Prospectus, in a Drawdown Prospectus or Subscription Agreement.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Dealer or any affiliate of that Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the relevant Dealer or such affiliate on behalf of the Issuer in such jurisdiction.

This Prospectus may be used by each Dealer for offers and sales related to market-making transactions in the Covered Bonds. Each Dealer 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. Each Dealer does not have any obligation to make a market in the Covered Bonds, and any market-making may be discontinued at any time without notice.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by resolutions of a delegated committee or sub-committee of the Board of Directors of the Issuer passed on 18 February 2025. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the establishment of the Programme, and the Issuer will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Covered Bonds. The giving of the Covered Bond Guarantee has been duly authorised by a resolution of the Management Committee of the LLP dated 18 February 2025.

Listing of Covered Bonds

The admission of Covered Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be admitted to the Official List and to trading on the main market of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Temporary Global Covered Bond, a Permanent Global Covered Bond, or a Registered Global Covered Bond, as the case may be, initially representing the Covered Bonds of such Tranche.

Legal and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer or the LLP is aware) in relation to the Issuer, any of its subsidiaries or the LLP which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer, any of its subsidiaries or the LLP.

Significant/Material Change

There has been no significant change in the financial performance or the financial position of the Issuer or any of its subsidiaries (other than the LLP) since 30 September 2024, being the date to which the Issuer's last published financial statements were prepared. There has been no material adverse change in the prospects of the Issuer or any of its subsidiaries (other than the LLP) since 30 September 2024 being the date to which the Issuer's last published audited financial statements were prepared.

Since 19 January 2024 (being the date of incorporation of the LLP) there has been (a) no significant change in the financial performance or the financial position or prospects of the LLP and (b) no material adverse change in the financial position or prospects of the LLP.

Auditors

The 2024 Issuer Audited Financial Statements have been audited without qualification by KPMG LLP, Chartered Accountants (a member of the Institute of Chartered Accountants in England and Wales).

The 2023 Issuer Audited Financial Statements have been audited without qualification by KPMG LLP, Chartered Accountants (a member of the Institute of Chartered Accountants in England and Wales).

The 2024 Paragon Banking Group Audited Financial Statements have been audited without qualification by KPMG LLP, Chartered Accountants (a member of the Institute of Chartered Accountants in England and Wales).

The 2023 Paragon Banking Group Audited Financial Statements have been audited without qualification by KPMG LLP, Chartered Accountants (a member of the Institute of Chartered Accountants in England and Wales).

Documents on Display

So long as Covered Bonds are capable of being issued under this Prospectus, copies of the following documents, when published, may be inspected at <https://www.paragonbankinggroup.co.uk/investors/fixed-income/covered-bond/covered-bond-information>:

- (a) the constitutive documents of the Issuer and the LLP;
- (b) the Issuer Financial Statements;
- (c) the Paragon Banking Group Financial Statements;
- (d) the Trust Deed (which contains the forms of Covered Bonds in global and definitive form);
- (e) a copy of this Prospectus;
- (f) any future prospectuses, information memoranda and supplements including Final Terms to this Prospectus and any other documents incorporated herein or therein by reference; and
- (g) each Transaction Document.

In addition, copies of this Prospectus, any documents incorporated by reference (save for the Issuer Financial Statements which are available at the website above) and each Final Terms relating to the Covered Bonds issued pursuant to this Prospectus will also be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at <https://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html>.

Clearing of the Covered Bonds

The Covered Bonds may be accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and/or the International Securities Identification Number (“**ISIN**”) in relation to the Covered Bonds of each Tranche will be specified in the relevant Final Terms. The relevant ISIN and common code will be specified in the applicable Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Covered Bonds for clearance together with any further appropriate information.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

Legal Entity Identifier

The Legal Entity Identifier (“**LEI**”) of the Issuer is 213800ZD686TR7FEP983.

Issue Price and Yield

Covered Bonds may be issued at any price. The issue price of each Tranche of Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions. In the case of different Tranches of a Series of Covered Bonds, the issue price may include accrued interest in respect of the period from and including the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to but excluding the issue date of the relevant Tranche. The yield of each Tranche of Covered Bonds set out in the applicable Final Terms will be calculated as of the relevant issue date on an annual or semi-annual basis using the relevant issue price. It is not an indication of future yield.

Banking Services

Certain of the Dealers 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 and/or the LLP and their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Covered Bonds, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and/or the LLP and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers 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, the LLP or their respective affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer or the LLP routinely hedge their credit exposure to the Issuer or the LLP consistent with their customary risk management policies. Typically, such Dealers 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 Covered Bonds issued under the Programme. Any such positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Dealers 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.

Reports

The Trust Deed provides that the Bond Trustee and the Security Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, whether or not any such report or other information, or engagement letter or other document entered into by the Bond Trustee or the Security Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

The Issuer provides monthly Investor Reports detailing compliance with the Asset Coverage Test and information relating to the characteristics of the Mortgage Portfolio. Investor Reports and copies of the applicable Final Terms shall be published on the Issuer's website at <https://www.paragonbankinggroup.co.uk/investors/fixed-income/covered-bond/covered-bond-information>.

In addition, the Issuer is required, pursuant to the terms of the RCB Regulations, to provide loan level information relating to the Mortgage Loans in the Asset Pool and to display the Transaction Documents related

to the Programme. The loan level information and the Transaction Documents shall be published on <https://www.paragonbankinggroup.co.uk/investors/fixed-income/covered-bond/covered-bond-information>. Please note that websites and URLs referred to herein do not form part of this Prospectus.

Contracts

There are no material contracts having been entered into outside the ordinary course of Issuer's business, and which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to Covered Bondholders in respect of the Covered Bonds being issued.

GLOSSARY

“Account Bank”	HSBC Bank plc as account bank under the Bank Account Agreement together with any successor or any other account bank appointed from time to time.
“Account Bank Ratings”	<ul style="list-style-type: none"> (a) an unsecured, unsubordinated and unguaranteed deposit rating by Moody’s of A3 (long-term); and (b) a long-term deposit rating by Fitch of at least A- or a short-term deposit rating by Fitch of at least F1; or (c) in each case, such other short-term or long-term rating (or, in the case of Fitch, if no deposit rating is available, short-term or long-term IDR) which will not have an adverse effect on the ratings of the Covered Bonds.
“Accrual Yield”	The meaning given in the applicable Final Terms.
“Accrued Arrears”	In respect of any Mortgage Loan, the amount of all sums which have accrued as due and payable by the Borrower in respect of such Mortgage Loan in respect of the period up to but excluding the relevant Transfer Date and which remain due and payable at the relevant Transfer Date (provided that the principal moneys payable under any such Mortgage Loan shall not be deemed to be due merely because the legal date for redemption of the relevant Mortgage Loan has passed as at the relevant Transfer Date).
“Accumulation Series of Covered Bonds”	Each Series of Covered Bonds that (a) does not have a Covered Bond Swap in place and (b) does not have monthly Interest Payment Dates.
“Additional Business Centre”	Where specified in the applicable Final Terms, T2.
“Additional Financial Centre”	Where specified in the applicable Final Terms, T2.
“Adjusted Required Redemption Amount”	The Sterling Equivalent of the Required Redemption Amount, plus the Sterling Equivalent of any swap termination amounts payable by the LLP or minus the Sterling Equivalent of any swap termination amounts payable to the LLP under the Covered Bond Swap Agreements in respect of the relevant Series of Covered Bonds less (where applicable) amounts standing to the credit of the LLP Accounts and the Sterling Equivalent of the principal balance of any Authorised Investments and Substitution Assets (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds) plus the Sterling Equivalent of any swap termination amounts payable by the LLP or minus the Sterling Equivalent of any swap termination amounts payable to the LLP under the Interest Rate Swap Agreements and (where relevant) the Standby Swap Agreements.
“Administration Agreement”	The administration agreement entered into on the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) between the

	LLP, the Administrator, the Seller, the Legal Title Holders, the Back-Up Administrator Facilitator and the Security Trustee.
“Administration Manual”	The administration manual or manuals by reference to which the Administrator will administer the Mortgage Loans and, where relevant, Relevant Security (as from time to time amended in accordance with the practice of a reasonably prudent mortgage administrator).
“Administrator”	Paragon Bank PLC in its capacity as administrator under the Administration Agreement together with any successor or replacement administrator appointed from time to time.
“Administrator Downgrade Event”	If the Administrator’s rating falls below the Administrator Required Ratings.
“Administrator Required Ratings”	<p>In respect of:</p> <ul style="list-style-type: none"> (a) Moody’s, a counterparty risk assessment of Baa3(cr) or, if a counterparty risk assessment is not available, a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of at least Baa3; and (b) Fitch, a long-term IDR of at least BBB- or a short-term IDR of at least F3.
“Affected Legal Title Holder”	A Legal Title Holder in respect of which a Relevant Event occurs or which is required to perfect legal title of Mortgage Loans to carry into effect any of the provisions of the Mortgage Sale Agreement and/or to enforce the security created by any of the Mortgage Loans.
“Affiliate”	In relation to any company, a subsidiary of that company, a holding company of that person or any other subsidiary of that holding company.
“Agency Agreement”	The agency agreement entered into on the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) made between, <i>inter alios</i> , the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Principal Paying Agent, the Agent Bank, the Registrar and the Transfer Agent.
“Amortisation Test”	The test as to whether the Amortisation Test Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date (which, for the avoidance of doubt, shall not take into account the Amortised Cost Adjustment of any Mortgage Loans).
“Amortised Cost Adjustment”	In respect of a Mortgage Loan, the difference between its Current Balance and its carrying value for accounting purposes determined on the amortised cost basis, as defined in International Financial Reporting Standards applicable at the time of the relevant Transfer Date, the measurement and recognition criteria of which are applied by the LLP in accordance with UK GAAP on the relevant Transfer Date.
“Appointee”	Any attorney, manager, agent, delegate, nominee, custodian, financial adviser or other professional adviser or other person appointed or employed by the Bond Trustee under the Trust Deed or the Security Trustee under the Deed of Charge (as applicable) to discharge any of its functions.

“Arrears Mortgage”	A Mortgage Loan in respect of which, on the relevant Transfer Date, the Accrued Arrears exceeds in aggregate an amount equal to one current monthly payment under that Mortgage Loan.
“Asset Coverage Test”	The test as to whether the Adjusted Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date (which, for the avoidance of doubt, shall not take into account the Amortised Cost Adjustment of any Mortgage Loans).
“Asset Coverage Test Breach Notice”	The notice required to be served by the Bond Trustee if the Asset Coverage Test has not been met on two consecutive Calculation Dates as notified to it in writing by the LLP (or the Administrator on its behalf).
“Asset Monitor”	A reputable institution appointed as such under the Asset Monitor Agreement.
“Asset Monitor Agreement”	The asset monitor agreement entered into on the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) between the Asset Monitor, the LLP, the Administrator, the Issuer and the Security Trustee.
“Asset Monitor Report”	The results of the tests conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Administrator, the LLP, the Issuer and the Security Trustee.
“Asset Pool”	All assets of the LLP from time to time including but not limited to the Mortgage Portfolio, any Substitution Assets, any Authorised Investments, the rights of the LLP in the Transaction Documents, the Dealer Agreement, the LLP Accounts (apart from the Swap Collateral Accounts) and all amounts standing to the credit thereto and any other assets referred to in Regulation 3(1) (Asset Pool) of the RCB Regulations, provided that all such assets are recorded as comprising the asset pool under the RCB Regulations.
“Assigned Rights”	In relation to any Mortgage Loan, all estates, rights, title, interest and benefit of the LLP in and to the relevant Mortgage Loan and any Related Security, which has been assigned to the LLP under or pursuant to the Mortgage Sale Agreement.
“Authorised Investments”	Sterling gilt-edged securities and Sterling demand or time deposits provided that in all cases such investments have a remaining maturity date of 30 days or less and mature on or before the next following LLP Payment Date and 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 unsecured, unguaranteed and unsubordinated debt obligation rating of at least P-1 by Moody’s and an IDR of at least F1 by Fitch, provided that such Authorised Investments comply with the requirements of Regulation 2(1A) of the RCB Regulations.
“Authorised Signatory”	<ul style="list-style-type: none"> (a) in relation to the Bank Account Agreement, any authorised signatory;; (b) in relation to the Mortgage Sale Agreement, an officer or officers of the Seller authorised to act as an authorised signatory on behalf of such company; and (c) in all other cases, an officer of the Issuer, or the LLP, or such other person appointed by the Issuer or the LLP to act as authorised signatory.

“Available Principal Receipts”

On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

- (a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger less any Principal Receipts that have been used in such Calculation Period to acquire New Mortgage Loans or Further Advances (but, for the avoidance of doubt, excluding any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);
- (b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Term Advance (where such proceeds have not been applied to acquire New Mortgage Loans or invest in Substitution Assets) and/or Authorised Investments, (ii) any Cash Capital Contributions received from a Member and (iii) the proceeds from any sale of Selected Mortgage Loans pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement but excluding any amount of principal received under the Covered Bond Swap Agreements; and
- (c) any Excess Proceeds.

“Available Revenue Receipts”

On a relevant Calculation Date, an amount equal to the aggregate of:

- (a) the amount of Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger;
- (b) amounts received or to be received by the LLP under the Interest Rate Swap Agreements and (where relevant) the Standby Swap Agreements from (but excluding) the immediately preceding LLP Payment Date to (and including) the immediately following LLP Payment Date;
- (c) other net income of the LLP including all amounts of interest received on the LLP Accounts, the Substitution Assets and Authorised Investments in the previous Calculation Period but excluding amounts received by the LLP in respect of interest received by the LLP under each Covered Bond Swap Agreement;
- (d) subject to paragraph (e) below, prior to the service of a Notice to Pay, the lesser of the amount standing to the credit of the Reserve Ledger (if any) and the amount equal to the shortfall in Available Revenue Receipts (excluding this limb (d)) required to pay or provide for the amounts referred to in items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments;
- (e) prior to the service of a Notice to Pay, amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
- (f) any other Revenue Receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the LLP Accounts;
- (g) following the service on the LLP of a Notice to Pay, amounts standing to the credit of the Reserve Ledger (if any) other than any amounts referred to in paragraph (d) above;
- (h) amounts standing to the credit of the Coupon Payment Ledger in excess of the Required Coupon Amount for (i) each Interest Payment Date for

those Series of Covered Bonds that do not have a Covered Bond Swap in place and are not an Accumulation Series of Covered Bonds, or (ii) each Party B payment date in respect of those Series of Covered Bonds that have a Covered Bond Swap in place and/or (iii) each LLP Payment Date for an Accumulation Series of Covered Bonds immediately succeeding such Calculation Date less, in the case of an Accumulation Series of Covered Bonds, any amount to be paid into the Interest Accumulation Ledger to ensure that the amount credited thereto is equal to the aggregate of all LLP Monthly Interest Amounts that should have been credited for the relevant Interest Period;

- (i) excess amounts (if any) standing to the credit of the Interest Accumulation Ledger;
- (j) amounts withdrawn from the Yield Reserve on the instruction of (and at the discretion of) the Seller to cure any shortfall in amounts required to pay interest on the Intercompany Loan and items ranking *pari passu* or in priority thereto under the Pre-Acceleration Revenue Priority of Payments or, as applicable, interest on the Covered Bonds and items ranking *pari passu* or in priority thereto under the Guarantee Priority of Payments; and any amount by which the Yield Reserve exceeds the Yield Reserve Required Amount, as reasonably determined by the Administrator on such Calculation Date; and
- (k) any Available Revenue Receipts that were retained by the LLP in accordance with the section entitled “*Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*” on any LLP Payment Date falling after the service of an Asset Coverage Test Breach Notice but prior to such Asset Coverage Test Breach Notice being revoked,

less

- (l) Non-LLP Amounts, which shall be paid on receipt in cleared funds to the Seller,

and excluding:

- (m) amounts standing to the credit of the Coupon Payment Ledger and the Interest Accumulation Ledger (and which do not form part of Available Revenue Receipts pursuant to (h) or (i) above);
- (n) Swap Collateral Excluded Amounts;
- (o) any swap termination payments applied or to be applied by the LLP in the purchase of one or more replacement Interest Rate Swaps, Standby Interest Rate Swaps or Covered Bond Swaps;
- (p) any swap replacement premium applied or to be applied by the LLP in making any swap termination payment from it to a Swap Provider; and
- (q) any amounts in respect of Swap Tax Credits.

**“Back-Up Administrator
Facilitator”**

CSC Capital Markets UK Limited, which has its office at 10th Floor, 5 Churchill Place, London, E14 5HU together with any successor or replacement back-up administrator facilitator appointed from time to time.

“Bank Account Agreement”	The bank account agreement entered into on the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) between the LLP, the Account Bank, the Administrator and the Security Trustee.
“Bearer Definitive Covered Bond”	A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Dealer Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 of Schedule 2 (<i>Form of Bearer Definitive Covered Bond</i>) to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer (in the case of a non-syndicated issue) or lead manager (in the case of a syndicated issue) and having the Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bonds in bearer form) having Coupons attached thereto on issue.
“Block Buildings Policies”	A block buildings policy and any substitute, other additional, substitute or replacement insurance contracts or policies arranged by or on behalf of the Seller or relevant Legal Title Holder from time to time relating to the Mortgage Loans in the Mortgage Portfolio which are properties in possession and/or where a receiver of rent has been appointed.
“Borrower”	In relation to each Individual Mortgage Loan, the person defined as the “Borrower” in the Mortgage Loan Conditions applicable to that Individual Mortgage Loan and, in relation to each Corporate Mortgage Loan, the company defined as the “Company” or the “Borrower” in the Mortgage Loan Conditions applicable to that Corporate Mortgage Loan.
“Business Day”	<p>(a) when used in the context of the Conditions, the meaning given to it in Condition 5(b) (<i>Interest on Floating Rate Covered Bonds</i>); and</p> <p>(b) when used in any other context, a day (other than a Saturday or a Sunday) on which commercial banks are generally open for business in London.</p>
“Business Day Convention”	The meaning given in the applicable Final Terms.
“Calculation Date”	The day falling two Business Days prior to the LLP Payment Date (or, if that day is not a Business Day, then the immediately succeeding Business Day).
“Calculation Period”	The period from, and including, the first day of each month to, and including, the last day of each month.
“Capital Account Ledger”	The ledger maintained by the Administrator on behalf of the LLP in respect of each Member to record the balance of each Member’s Capital Contributions from time to time.

“Capital Contribution”	In relation to each Member, the amount of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contribution in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed.
“Capital Contribution Balance”	The balance of each Member’s Capital Contributions as recorded from time to time in the relevant Member’s Capital Account Ledger.
“Capital Contribution in Kind”	A contribution of Mortgage Loans and their Related Security to the LLP in an amount equal to (a) the aggregate of the Current Balance of those Mortgage Loans and the Amortised Cost Adjustment as at the relevant Transfer Date plus (b) the amount of any Further Advances minus (c) any cash payment paid by the LLP on the Transfer Date and if the Mortgage Loans have not been purchased in accordance with the Pre-Enforcement Principal Priority of Payments for such Mortgage Loans, Further Advances and their Related Security on that Transfer Date or date on which a Further Advance is made and, without double-counting, any increases in the Current Balance of the relevant account.
“Capital Distribution”	Any return on a Member’s Capital Contribution in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration).
“Capitalised Interest”	For any Mortgage Loan at any date, interest which is overdue in respect of that Mortgage Loan and which as at that date has been added to the Capital Balance of that Mortgage Loan in accordance with the Mortgage Loan Conditions or otherwise by arrangement with the relevant Borrower (excluding any arrears of interest which have not been so capitalised on that date).
“Cash Capital Contribution”	A Capital Contribution made in cash.
“CCA”	Consumer Credit Act 1974, as amended.
“CCA 2006”	Consumer Credit Act 2006, as may be amended from time to time.
“CMA”	Competition and Markets Authority.
“Collection Accounts”	Each of the PML Collection Account, the PB Collection Account and the MTS Collection Account.
“Companies Act”	The Companies Act 2006 (including the Companies Act 2006 as it applies to limited liability partnerships) and any regulations made pursuant to that Act.
“Conditions”	The meaning given on page 1.
“Corporate Mortgage Loan”	A Mortgage Loan where the Borrowers are limited liability companies.
“Corporate Services Agreement”	The corporate services agreement entered into by each of the LLP, the Liquidation Member and HoldCo, with the Corporate Services Provider, the Share Trustee and the Security Trustee dated the Initial Programme Date (as amended and/or supplemented and/or restated from time to time).
“Corporate Services Provider”	CSC Capital Markets UK Limited, a company incorporated in England and Wales in its capacity as corporate services provider to the LLP, HoldCo and to the Liquidation Member under a Corporate Services Agreement, together

	with any successor or replacement corporate services provider appointed from time to time.
“Coupon Payment Ledger”	The ledger maintained by the Administrator pursuant to the Administration Agreement, to record the crediting of Required Coupon Amounts and any debiting of the same.
“Covered Bond Swap”	Swap transactions which are intended to hedge against certain interest rate and currency risks in respect of amounts received by the LLP under the Mortgage Loans, the relevant Interest Rate Swaps and (where relevant) the Standby Interest Rate Swaps and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP) and under the Covered Bond Guarantee in respect of Covered Bonds (after the service of a Notice to Pay on the LLP).
“Covered Bond Swap Agreement”	Each ISDA Master Agreement including a schedule and credit support annex thereto and each confirmation thereunder entered into between the LLP and a Covered Bond Swap Provider.
“Covered Bond Swap Observation Period”	An Interest Rate Swap Observation Period as defined in the relevant Covered Bond Swap Agreement.
“Covered Bond Swap Provider”	Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement.
“Covered Bond Swap Rate”	In relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if the Covered Bond Swap Agreement has terminated and no replacement Covered Bond Swap Agreement has been entered into, the applicable spot rate of exchange offered by a bank selected by the Administrator for the purchase of the applicable Specified Currency with Sterling, provided that in no event shall the Administrator be liable to the LLP or any other person for the spot rate of exchange so obtained (including if a spot rate of exchange more favourable to the LLP could have been obtained from another bank).
“CRA”	Consumer Rights Act 2015.
“Current Balance”	In relation to a Mortgage Loan at a particular date the outstanding balance, including arrears of interest and all other sums due and payable but unpaid in relation to such Mortgage Loan.
“Day Count Fraction”	In the case of a Fixed Rate Covered Bond, the meaning given in Condition 5(a) (<i>Interest on Fixed Rate Covered Bonds</i>) in “ <i>Terms and Conditions of the Covered Bonds</i> ” and in the case of a Floating Rate Covered Bond, the meaning given in Condition 5(b) (<i>Interest on Floating Rate Covered Bonds</i>) in “ <i>Terms and Conditions of the Covered Bonds</i> ”.
“Defaulted Mortgage Loan”	With respect to a Calculation Date, a Mortgage Loan in the Mortgage Portfolio which is more than three months in arrears on such Calculation Date (measured as at the last working day of the preceding Calculation Period).
“Defaulted Mortgage Loans Notice”	A notice from the Administrator to the Seller identifying any Defaulted Mortgage Loan.

“Deferred Consideration”	The consideration payable to a Seller in respect of the Mortgage Loans sold to the LLP from time to time, which is payable after making payments of a higher order of priority as set out in the relevant Priorities of Payments.
“Definitive Covered Bond”	A Bearer Definitive Covered Bond and/or, as the context may require, a Registered Definitive Covered Bond.
“Determination Date”	The meaning given in the applicable Final Terms.
“Discretionary Further Advance”	Each further advance in respect of a Mortgage Loan other than a Mandatory Further Advance that may be secured as a second charge over the Mortgaged Property.
“Due for Payment Date”	An Original Due for Payment Date or the Extended Due for Payment Date, as applicable.
“Earliest Maturing Covered Bond”	At any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the LLP Accounts) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of an LLP Event of Default).
“Early Redemption Amount”	The meaning given in the relevant Final Terms.
“Early Repayment Charge”	Any charge or fee which the Mortgage Loan Conditions require the relevant Borrower to pay in the event that all or part of that Mortgage Loan is repaid before a certain date.
“EEA”	European Economic Area.
“ECB”	European Central Bank.
“Eligibility Criteria”	Has the meaning given on page 198.
“EURIBOR”	The interest rate benchmark known as the Euro interbank offered rate which is administered and published by the European Money Market Institute (or any other person which takes over the administration of that rate).
“EU Benchmarks Regulation”	Regulation (EU) 2016/1011 as amended.
“EU CRA Regulation”	Regulation (EC) No. 1060/2009 as amended.
“EUWA”	European Union (Withdrawal) Act 2018 (as amended by the European Union (Withdrawal Agreement) Act 2020) as amended, varied, superseded or substituted from time to time.
“Excluded Scheduled Interest Amounts”	The meaning given in the definition of “Scheduled Interest”.
“Excluded Scheduled Principal Amounts”	The meaning given in the definition of “Scheduled Principal”.
“Excluded Swap Termination Amount”	In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider.

“Extension Determination Date”	In respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days following (and including) the Final Maturity Date of such Series of Covered Bonds.
“Extraordinary Resolution”	<p>In respect of the Covered Bondholders:</p> <ul style="list-style-type: none"> (a) a resolution passed at a meeting of the Covered Bondholders duly convened and held in accordance with the 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; (b) a resolution in writing signed by or on behalf of the Covered Bondholders holding not less than 75 per cent. in aggregate Principal Amount Outstanding of the Covered Bonds, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Covered Bondholders; (c) a resolution passed by way of electronic consents through the Clearing System(s) (in a form satisfactory to the Bond Trustee) by or on behalf of Covered Bondholders holding not less than 75 per cent. in aggregate Principal Amount Outstanding of the Covered Bonds.
“Fidelity Insurance Policy”	The insurance policy in relation to loss suffered as a result of fraud, forgery or computer crime, the acts or omissions of the Administrator or the Administrator’s employees and any similar policy in relation to the acts or omissions of any person performing the Services or any part of them on behalf of the Administrator or any other insurance policy of similar effect.
“Final Maturity Date”	The Interest Payment Date on which each Series of Covered Bonds will be redeemed at their Principal Amount Outstanding in accordance with the Conditions.
“Final Redemption Amount”	The meaning given in the relevant Final Terms.
“First Transfer Date”	The date on which the Initial Mortgage Portfolio is transferred to the LLP pursuant to the Mortgage Sale Agreement.
“Fixed Rate Covered Bond”	Covered Bonds paying a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s).
“Fixed Rate Covered Bond Provisions”	The meaning given in the relevant Final Terms.
“Fixed Rate Mortgage Loans”	Mortgage Loans subject to a fixed interest rate for a specified period of time and at the expiration of that period are generally subject to the Seller’s or Legal Title Holder’s standard variable rate.
“Floating Rate Covered Bonds”	Covered Bonds which bear interest at a rate determined separately for each Series by reference to a reference rate appearing on the agreed screen page of a commercial quotation service, as adjusted for any applicable margin specified in the applicable Final Terms.

“Floating Rate Covered Bond Provisions”	The meaning given in the relevant Final Terms.
“FSMA”	Financial Services and Markets Act 2000, as amended.
“Further Advance”	In relation to a Mortgage Loan, any further amount to be lent to the relevant Borrower which is secured by the same Mortgaged Property as the initial advance under the Mortgage Loan, being either a Mandatory Further Advance or a Discretionary Further Advance.
“Group”	Paragon Bank PLC and its subsidiaries taken as a whole.
“Guarantee”	Each guarantee in support of the obligations of a Borrower under a Corporate Mortgage Loan.
“Guaranteed Amount”	Prior to the service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, the Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, the Extended Due for Payment Date, or after service of an LLP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds, including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the LLP under the Trust Deed.
“Higher Redemption Amount”	The meaning given in the relevant Final Terms.
“HoldCo”	Paragon Covered Bonds (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 15427078).
“IDR”	The issuer default rating assigned to an entity by any Rating Agency as a benchmark measure of probability of default.
“Indexed Valuation”	At any date in relation to any Mortgage Loan secured over any Mortgaged Property: <ul style="list-style-type: none"> (a) where the Latest Valuation of that Mortgaged Property is equal to or greater than the Nationwide Price Indexed Valuation as at that date, the Nationwide Price Indexed Valuation; or (b) where the Latest Valuation of that Mortgaged Property is less than the Nationwide Price Indexed Valuation as at that date, the Latest Valuation plus 85 per cent. of the difference between the Latest Valuation and the Nationwide Price Indexed Valuation.
“Individual Mortgage Loan”	A Mortgage Loan where the Borrowers are individuals resident in the United Kingdom.
“Initial Mortgage Portfolio”	The portfolio of Mortgage Loans and their Related Security, particulars of which were delivered on the First Transfer Date pursuant to the Mortgage Sale Agreement (other than any mortgage loans and their related security which have been redeemed in full prior to the First Transfer Date or which did not otherwise comply with the terms of the original Mortgage Sale

	Agreement as at the First Transfer Date) and beneficially assigned to the LLP on the First Transfer Date.
“Initial Programme Date”	24 February 2025.
“Insolvency Event”	<p>In respect of the Seller or the Administrator:</p> <ul style="list-style-type: none"> (a) an order being made or an effective resolution being passed for winding up of such company; (b) such company ceasing or threatening to cease to carry on its business or a substantial part of its business or stopping payment or threatening to stop payment of its debts or such company being deemed unable to pay its debts within the meaning of Section 123(1)(a) or (d) of the Insolvency Act 1986 (as that section may be amended) or becoming unable to pay its debts as they fall due or the value of its assets falling to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becoming insolvent; or (c) Winding-Up Proceedings being initiated against such company.
“Insurance Contract”	The Block Buildings Policies, the Mortgage Impairment Contingency Policy, the Fidelity Insurance Policy (in each case, to the extent that such policies relate to the Mortgaged Properties) and any other buildings insurance policies on the Mortgaged Properties (not being any of the Block Buildings Policies) where, among others, the Seller, the Legal Title Holders, the LLP or the Security Trustee, or one of more of them is a named insured or where any of their respective interests are noted, or any other additional, substitute or replacement insurance contracts or policies arranged by the Seller from time to time relating to the Mortgage Loans in the Mortgage Portfolio.
“Intercompany Loan Agreement”	The term loan agreement dated the Initial Programme Date between the Issuer, the LLP and the Security Trustee (as amended and/or supplemented and/or restated from time to time).
“Intercompany Loan Ledger”	The ledger maintained by the Administrator pursuant to the Administration Agreement to record all payments of interest and repayments of principal on each of the Term Advances.
“Interest Accumulation Ledger”	The ledger maintained on the LLP Accounts which shall record the LLP Monthly Interest Amounts accumulated on each LLP Payment Date in respect of a relevant Accumulation Series of Covered Bonds in accordance with the relevant Priorities of Payments, such amounts to be applied, together with Available Revenue Receipts in accordance with the Priorities of Payments (i) prior to the service of a Notice to Pay in payment of interest on the relevant Term Advance and (ii) following service of a Notice to Pay in payment of Scheduled Interest that is Due for Payment in respect of such Accumulation Series of Covered Bonds.
“Interest Basis”	The meaning given in the relevant Final Terms.
“Interest Determination Date”	The meaning given in the relevant Final Terms.
“Interest-Only Mortgage Loan”	A Mortgage Loan on which interest (but not principal) is paid by the Borrower on a monthly basis to the maturity date for that Mortgage Loan.

“Interest Payment Date”	A date for paying Interest under the Covered Bonds.
“Interest Rate Conversion”	<p>Any variation to the terms of a Mortgage Loan, including a change in an interest rate or interest type, excluding the following variations:</p> <ul style="list-style-type: none"> (a) a change between Interest-Only Mortgage Loans or Optional Repayment Mortgage Loans and Repayment Mortgage Loans, or vice versa; (b) a change of a party to a Mortgage Loan or a release of part of the land subject to the Mortgage; (c) any change in the frequency with which the interest payable in respect of the Mortgage Loan is charged; (d) any change in the maturity date of a Mortgage Loan; (e) any variation imposed by law, regulation or the rules of an association of which the Issuer and/or Administrator is a member and with whose rules they are accustomed to comply; and (f) any variation agreed with Borrowers to control or manage arrears on a Mortgage Loan.
“Interest Rate Swaps”	Swap transactions (excluding Standby Interest Rate Swaps) with a periodically adjusted notional amount which are intended to hedge against possible variances in the rates of interest payable on some or all of the Fixed Rate Mortgage Loans in the Mortgage Portfolio and a compounded daily SONIA rate.
“Interest Rate Swap Agreements”	Each ISDA Master Agreement including a schedule and credit support annex thereto and each confirmation thereunder entered into between the LLP and an Interest Rate Swap Provider excluding any Standby Swap Agreements.
“Interest Rate Swap Providers”	Each provider of an Interest Rate Swap under an Interest Rate Swap Agreement.
“Investor Report”	<p>The monthly report made available to the Covered Bondholders, the Security Trustee, the Bond Trustee and any Rating Agency detailing <i>inter alia</i> compliance with the Asset Coverage Test and which are to be published on the Paragon website at https://www.paragonbankinggroup.co.uk/investors/fixed-income/covered-bond/covered-bond-information.</p>
“ISDA”	International Swaps and Derivatives Association, Inc.
“ISDA Master Agreement”	The 1992 ISDA Master Agreement, as published by ISDA.
“Issue Date”	Each date on which the Issuer issues Covered Bonds to the Covered Bondholders.
“Issue Price”	The meaning given in the relevant Final Terms.
“Issuer Call”	The meaning given in the relevant Final Terms.
“Latest Valuation”	In relation to any Mortgaged Property, the value given to that Mortgaged Property by the most recent valuation addressed to the Seller.
“Ledgers”	Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Coupon Payment Ledger, the Swap Collateral Ledger, the Intercompany Loan

	Ledger, the Yield Reserve Ledger, the Interest Accumulation Ledger, the LLP Profit Ledger and the Capital Account Ledger.
“Legal Title Holders”	Each of the Issuer, PML and MTL.
“Lending Criteria”	As applicable, the Pre-Crisis Lending Criteria and/or the Post-Crisis Lending Criteria, as may be amended from time to time in accordance with the practices of a reasonably prudent lender.
“Liquidation Member”	Paragon Covered Bonds Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 15427074).
“LLP Accounts”	The Transaction Account and any additional or replacement accounts opened in the name of the LLP, including each Swap Collateral Account.
“LLP Deed”	The limited liability partnership deed entered into on the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) between the LLP, the Issuer, the Liquidation Member, the Bond Trustee and the Security Trustee.
“LLP Monthly Interest Amount”	On any relevant LLP Payment Date in respect of each Accumulation Series of Covered Bonds, an amount equal to the interest actually accrued on the relevant Accumulation Series of Covered Bonds up to (but excluding) such LLP Payment Date.
“LLP Monthly Payment Amount”	On any relevant LLP Payment Date in respect of each Accumulation Series of Covered Bonds, an amount equal to: A+B Where: “A” is the amount of interest expected to be accrued on the relevant Accumulation Series of Covered Bonds in the immediately following LLP Payment Period (excluding any amounts calculated under “B”); provided that if the applicable rate of interest for calculating such amount is to be determined by reference to a compounded daily SONIA rate determined after the date on which the relevant Cash Capital Contribution is required to be made, then “A” will be an estimate of the amount of expected interest for such immediately following LLP Payment Period, such estimate to be calculated on the basis of an assumed interest rate for the relevant LLP Payment Period equal to the sum of (x) the SONIA Spot Rate published on the London Banking Day immediately preceding the relevant Calculation Date on which the relevant Cash Capital Contribution is required to be determined, compounded daily over the relevant LLP Payment Period, (y) the Margin and (z) 0.25 per cent.; and “B” is an amount equal to the interest actually accrued on the relevant Accumulation Series of Covered Bonds and not yet paid to the relevant Coupon Payment Ledger (excluding any estimated amounts pursuant to A above) since the previous Interest Payment Date.
“LLP Payment Date”	The 20 th day of each month or, if such a day is not a Business Day, the next following Business Day.
“LLP Payment Period”	The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date.

“LLP Profit Ledger”	The ledger maintained by the Administrator on behalf of the LLP in respect of each Member to record amounts paid to the relevant Members of the LLP as their profit for their respective interests as Members of the LLP.
“LLP Standard Variable Rate”	The Standard Variable Rate applicable to Mortgage Loans in the Mortgage Portfolio as set, other than in limited circumstances, by the Administrator, in accordance with Clause 5 (<i>Mortgage Rate</i>) of the Administration Agreement.
“Loan Interest Payment Date”	In respect of any Term Advance, each Interest Payment Date in respect of the corresponding Series or Tranche of Covered Bonds that funded such Term Advance.
“Loan Warranties”	The meaning given on page 190.
“London Banking Day” or “LBD”	Any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London.
“London Stock Exchange”	London Stock Exchange plc.
“Losses”	All realised losses on the Mortgage Loans.
“Management Committee”	The management committee which will act on behalf of the LLP and to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding-up of the LLP, which requires a unanimous decision of the Members) the Members delegate all matters, consisting of, at the date of this Prospectus, those persons listed in Schedule 1 (<i>Representatives of the Members at Meetings of the Management Committee</i>) of the LLP Deed, and thereafter their successors or such other persons appointed from time to time to the committee of management of the LLP in accordance with the LLP Deed and having the powers delegated to them under that clause or by the Designated Members from time to time.
“Mandatory Further Advance”	Each further advance in respect of a Mortgage Loan representing any part of the original advance retained pending completion of construction or refurbishment.
“Margin”	The meaning given in the relevant Final Terms.
“Master Definitions and Construction Agreement”	The master definitions and construction agreement dated the Initial Programme Date signed by, among others, the Issuer, the LLP, the Bond Trustee and the Security Trustee (as the same may be amended and/or supplemented and/or restated from time to time).
“Maximum Rate of Interest”	The meaning given in the relevant Final Terms.
“Minimum Rate of Interest”	The meaning given in the relevant Final Terms.
“Minimum Redemption Amount”	The meaning given in the relevant Final Terms.
“Mortgage”	For any Mortgage Loan, the first priority legal charge over a freehold or leasehold Mortgaged Property.
“Mortgage Account”	An account maintained by the Administrator in respect of a particular Mortgage Loan (including Further Advances) to record all amounts due in respect of that Mortgage Loan (and Further Advance, if applicable) (whether

	by way of principal, interest or otherwise) and all amounts received in respect thereof.
“Mortgage Deed”	In respect of any Mortgage, the deed creating the relevant Mortgage.
“Mortgage Impairment Contingency Policy”	A mortgage impairment contingency policy which indemnifies the insured for damage to a Mortgaged Property occurring as a direct result of the inadvertent failure of the Borrower to effect or renew adequate insurance cover, or any other additional, substitute or replacement insurance contracts or policies arranged by the Seller from time to time relating to the Mortgage Loans in the Mortgage Portfolio.
“Mortgage Loan”	A buy-to-let residential mortgage loan originated by an Originator that forms part of the Mortgage Portfolio and is beneficially assigned by the Seller to the LLP from time to time under the terms of the Mortgage Sale Agreement (including, without limitation, any Mortgage Loan which is the subject of an Interest Rate Conversion and/or a Further Advance).
“Mortgage Loan Agreement”	In relation to any Mortgage Loan, the agreement, any Mortgage Loan Conditions, facility letter or accepted formal loan offer pursuant to which the moneys secured by the relevant Mortgage were advanced to the Borrower (as varied from time to time in accordance with its applicable terms and conditions).
“Mortgage Loan Conditions”	In relation to any Mortgage Loan the conditions applicable to that Mortgage Loan (including without limitation any set out in the relevant formal loan offer letter to Borrower) each as varied from time to time by the relevant Mortgage Loan Agreement and the relevant Mortgage Deed.
“Mortgage Loan Documents”	In relation to any Mortgage Loan, the Mortgage Loan Agreement, Mortgage Loan Conditions, Mortgage Deed, and any other related document.
“Mortgage Loan Files”	In relation to each Mortgage Loan, the scanned file or files (including files kept in microfiche format or similar electronic data retrieval system) containing scanned correspondence between the Borrower and the Seller and including the scanned Standard Mortgage Documentation applicable to that Mortgage Loan, each scanned letter of offer in respect of such Mortgage Loan and other relevant documents.
“Mortgage Payment”	The amount which the applicable mortgage conditions require the Borrower to pay in respect of its Mortgage Loan on each date on which the Borrower is required to make payments of interest and/or principal (and, to the extent applicable, any building insurance premium) under the applicable mortgage conditions.
“Mortgage Portfolio”	The meaning given on page 261.
“Mortgage Sale Agreement”	The mortgage sale agreement entered into on the Initial Programme Date (as amended and/or supplemented and/or restated from time to time) between the Seller, the Legal Title Holders, the LLP and the Security Trustee.
“Mortgaged Property”	A freehold, leasehold or commonhold property which is subject to a Mortgage.
“MTL”	Mortgage Trust Limited.

“MTS Collection Account”	The account of Mortgage Trust Services PLC (“MTS”), a member of the Paragon Banking Group, with Barclays Bank PLC into which payments by Borrowers in respect of Mortgage Loans are initially made and/or such other account (or accounts) of MTS, which is (or are) held with Barclays Bank PLC or HSBC UK Bank plc, and which has (or have) been notified in writing to the Security Trustee in accordance with the Administration Agreement.
“Nationwide Index”	The index of increases or decreases in house prices issued by Nationwide Building Society in relation to residential properties in the United Kingdom.
“Nationwide Price Indexed Valuation”	In relation to any Mortgaged Property at any date, the Latest Valuation of that property increased or decreased as appropriate by the increase or decrease in the Nationwide Index since the date of that Latest Valuation.
“New Member”	Any new member admitted to the LLP after the Initial Programme Date.
“New Mortgage Loan(s)”	Mortgage Loans, other than the Mortgage Loans comprised in the Initial Mortgage Portfolio, which the Seller may assign or transfer to the LLP after the First Transfer Date pursuant to the Mortgage Sale Agreement.
“New Mortgage Loan Type”	A new type of mortgage loan originated or acquired by the Seller, which the Seller intends to transfer to the LLP, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Mortgage Loans. For the avoidance of doubt, a mortgage loan will not constitute a New Mortgage Loan Type if it differs from the Mortgage Loans due to it having a different origination date, different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any rate guarantees.
“New Safekeeping Structure”	A structure whereby a Registered Global Covered Bond which is registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg will be deposited on or about the relevant Issue Date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.
“New Seller”	Any member of the Group that is a “connected person” as defined in Regulation 5 of the RCB Regulations and that accedes to the relevant Transaction Documents (and Dealer Agreement, if applicable) and sells Mortgage Loans and their Related Security to the LLP in the future.
“Non-LLP Amounts”	<p>(a) amounts received from a Borrower in respect of:</p> <ul style="list-style-type: none"> (i) payments of insurance premia, (if any) due to the Seller in respect of any Seller-arranged insurance policy to the extent not paid or payable by the Seller (or, to the extent that such insurance premia have been paid by the Seller in respect of any Further Advance granted in respect of any Mortgage Loan which is not re-purchased by the Seller, to reimburse the Seller); and (ii) amounts under a direct debit which are repaid to the bank making such payment if such bank is unable to recoup that amount itself from its customer’s account, which amounts may be paid daily from monies on deposit in the LLP Accounts;

	<p>(b) any amount which represents an amount received from a Borrower which does not form part of that Borrower's Mortgage Account or which comprises Retained Pre Purchase Accruals and Arrears as and when identified by the Administrator, which amount shall be for the account of the Seller; and</p> <p>(c) any amount which the LLP receives in respect of Cross-collateral Mortgage Loans which it is not entitled to retain under the terms of the relevant Cross-collateral Mortgage Rights Deed.</p>
"Official List"	Official list of the FCA.
"Opening Capital Contribution Balance"	The Capital Contribution Balance of each Member on the Initial Programme Date and, in the case of New Members, on the date any such New Member is admitted to the LLP in accordance with the LLP Deed.
"Optional Redemption Amount"	The meaning given in the relevant Final Terms.
"Optional Redemption Date"	The meaning given in the relevant Final Terms.
"Originator"	Each of the Issuer, PML, MTL and PM2010.
"Outstanding"	<p>In relation to the Covered Bonds of all or any Series, all the Covered Bonds of such Series issued other than:</p> <p>(a) those Covered Bonds which have been redeemed pursuant to the trust presents;</p> <p>(b) those Covered Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Covered Bondholders in accordance with Condition 14 (<i>Notices</i>)) and remain available for payment of the relevant Covered Bonds and/or Coupons;</p> <p>(c) those Covered Bonds which have been purchased and cancelled in accordance with Conditions 7(f) (<i>Purchases</i>) and 7(g) (<i>Cancellation</i>);</p> <p>(d) those Covered Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 9 (<i>Prescription</i>);</p> <p>(e) those mutilated or defaced Covered Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 11 (<i>Replacement of Covered Bonds and Coupons</i>);</p> <p>(f) (for the purpose only of ascertaining the Principal Amount Outstanding of the Covered Bonds outstanding and without prejudice to the status for any other purpose of the relevant Covered Bonds) those Covered Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 11 (<i>Replacement of Covered Bonds and Coupons</i>); and</p>

- (g) any Global Covered Bond to the extent that it shall have been exchanged for definitive Covered Bonds or another Global Covered Bond pursuant to its provisions, the provisions of the trust presents and the Agency Agreement;

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the holders of the Covered Bonds of any Series;
- (ii) the determination of how many and which Covered Bonds of any Series are for the time being outstanding for the purposes of Clause 11 (*Proceedings, Action and Indemnification*) of the Trust Deed, Conditions 10 (*Events of Default and Enforcement*) and 15 (*Meetings of Covered Bondholders, Modification and Waiver*) and paragraphs 2, 5, 6, and 9 of Schedule 4 (*Provisions of Meetings for Covered Bond Holders*) to the Trust Deed;
- (iii) any discretion, power or authority (whether contained in the trust presents or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Covered Bonds of any Series; and
- (iv) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series,

those Covered Bonds of the relevant Series (if any) which are for the time being held by or on behalf of the Issuer (or any Affiliate), or the LLP in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

“Paragon Banking Group Company”

Paragon Banking Group PLC and its subsidiary undertakings.

“Partial Mortgage Portfolio”

Part of any portfolio of Selected Mortgage Loans.

“PB Collection Account”

The account of the Issuer which is held with National Westminster Bank Plc into which payments by Borrowers in respect of Mortgage Loans are initially made and/or such other account (or accounts) of the Issuer, which is (or are) held with Barclays Bank PLC or HSBC UK Bank plc, and which has (or have) been notified in writing to the Security Trustee in accordance with the Administration Agreement.

“Performing Fixed Rate Mortgage Loans”

With respect to a Calculation Date, any underlying loan or loan part that is a Fixed Rate Mortgage Loan from time to time, save for any Fixed Rate Mortgage Loan that is in arrears by 90 or more calendar days (measured as at the last working day of the preceding Calculation Period).

“PFPLC”

Paragon Finance PLC.

“PM2010”

Paragon Mortgages (2010) Limited.

“PML”

Paragon Mortgages Limited.

“PML Collection Account”

The account of PML with Barclays Bank PLC into which payments by Borrowers in respect of Mortgage Loans are initially made and/or such other account (or accounts) of PML, which is (or are) held with Barclays Bank PLC

	or HSBC UK Bank plc, and which has (or have) been notified in writing to the Security Trustee in accordance with the Administration Agreement.
“Post-Crisis Lending Criteria”	The lending criteria for the Post-Crisis Mortgage Loans as set out in the section entitled <i>“Lending Criteria”</i> .
“Post-Crisis Loan Warranties”	The Loan Warranties in respect of the Post-Crisis Mortgage Loans.
“Post-Crisis Mortgage Conditions”	The Mortgage Conditions for the Post-Crisis Mortgage Loans.
“Post-Crisis Mortgage Loan(s)”	The Mortgage Loans originated by the Issuer and PM2010 during and after September 2010.
“PRA”	The Prudential Regulation Authority.
“Pre-Crisis Lending Criteria”	The lending criteria for the Pre-Crisis Mortgage Loans as set out in the section entitled <i>“Lending Criteria”</i> .
“Pre-Crisis Loan Warranties”	The Loan Warranties in respect of the Pre-Crisis Mortgage Loans.
“Pre-Crisis Mortgage Loan(s)”	The Mortgage Loans originated by PML and MTL prior to 29 February 2008.
“Principal Ledger”	The ledger on the LLP Accounts of such name maintained by the Administrator pursuant to the Administration Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the LLP Deed.
“Principal Receipts”	Any payment which the records of the Administrator show is received in respect of principal in respect of any Mortgage Loan, whether as all or part of a Mortgage Payment in respect of such Mortgage Loan, on redemption (including partial redemption) of such Mortgage Loan, on enforcement or on the disposal of such Mortgage Loan or otherwise (including payments pursuant to any insurance policy and such portion of the Repurchase Price in respect of any repurchases of Mortgage Loans by the Seller pursuant to the Mortgage Sale Agreement that represents the principal amount outstanding of such Mortgage Loan) (and which may include the amount of any overpayment in respect of any Mortgage Loan) but excluding any Non-LLP Amounts.
“Priorities of Payments”	The Pre-Acceleration Revenue Priority of Payments, the Pre-Acceleration Principal Priority of Payments, the Guarantee Priority of Payments and the Post-Enforcement Priority of Payments.
“Purchaser”	Any third party or the Seller to whom the LLP offers to sell Selected Mortgage Loans.
“Rating Agency”	Moody’s Investors Service Limited and/or Fitch Ratings Limited and/or any other credit rating agency that may be appointed by the Issuer from time to time (collectively, the “Rating Agencies”), or their successors, to the extent they provide ratings in respect of the Covered Bonds, provided at all times, there is at least one rating agency rating the Covered Bonds then outstanding.
“Rating Event”	An event under a Swap Agreement arising from a downgrade by a Rating Agency of the rating of the relevant Swap Provider (or the Swap Provider’s

	<p>guarantor or other relevant party) which triggers an obligation on the Swap Provider to do one or more of the following: (i) provide collateral under the relevant Swap Agreement, (ii) obtain a guarantee of its obligations, (iii) transfer the relevant Swap Agreement or (iv) take such other action (as confirmed by that Rating Agency) as will result in the rating of the Covered Bonds assigned by that Rating Agency following the taking of such action being maintained at, or restored to, the level at which it was immediately prior to such Rating Event;</p>
“Ratings Condition”	<p>The condition that will be satisfied in respect of an event or matter if the LLP or the Issuer has received a Ratings Confirmation in respect of such event or matter (unless there is no requirement for such a Ratings Confirmation in accordance with Clause 31 (<i>Non-Responsive Rating Agency</i>) of the Trust Deed).</p>
“Ratings Confirmation”	<p>In respect of a proposed action or step under or in connection with the “<i>Terms and Conditions of Covered Bonds</i>” or any Transaction Document:</p> <ul style="list-style-type: none"> (a) the Issuer obtains from each Rating Agency written confirmation that such action or step would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the relevant Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent) and delivers a copy of each such confirmation to the Bond Trustee and the Security Trustee; or (b) the Issuer provides a certificate signed by an Authorised Signatory of the Issuer certifying to the Bond Trustee and the Security Trustee that it has notified each Rating Agency of the proposed action or step and, in its opinion, formed on the basis of (i) due consideration of any oral or other confirmation from an appropriately authorised person at such Rating Agency or (ii) the lack of contrary indication from that Rating Agency, such action or step would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent).
“Receiver”	<p>Any attorney or persons appointed (and any additional person or persons appointed or substituted) as an administrative receiver, receiver manager, or receiver and manager of the Charged Property by the Security Trustee pursuant to the Deed of Charge.</p>
“Reference Banks”	<p>In the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market, in each case selected by the Administrator.</p>
“Reference Price”	<p>The meaning given in the relevant Final Terms.</p>
“Reference Rate”	<p>The meaning given in the relevant Final Terms.</p>
“Registered Covered Bonds”	<p>Covered Bonds in registered form.</p>

“Registered Definitive Covered Bonds”	A Registered Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Dealer Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed either on issue or in exchange for a Registered Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Registered Covered Bond in definitive form being in the form or substantially in the form set out in Part 8 of Schedule 2 (<i>Form of Registered Definitive Covered Bond</i>) to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and having the Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Conditions by reference (where applicable to the Trust Deed) as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a form of transfer endorsed thereon.
“Registered Global Covered Bonds”	A Global Covered Bond in registered form representing a Registered Covered Bond of a Tranche sold to non-U.S. persons outside the United States in reliance on Regulation S and in the form or substantially in the form set out in Part 7 of Schedule 2 (<i>Form of Registered Global Covered Bond</i>) to the Trust Deed.
“Related Security”	The security for repayment of a Mortgage Loan including the relevant Mortgage and all other matters applicable to the Mortgage Loan, acquired as part of the Mortgage Portfolio assigned to the LLP.
“Relevant Event”	The meaning given on page 202.
“Relevant Financial Centre”	The meaning given in the relevant Final Terms.
“Relevant Screen Page”	The meaning given in the relevant Final Terms.
“Rent Act”	The Rent Act 1977.
“Repayment Mortgage Loan”	A Mortgage Loan on which principal and interest is paid by the Borrower on a monthly basis to the maturity date for that Mortgage Loan.
“Required Coupon Amount”	<p>An aggregate amount equal to the Sterling Equivalent of:</p> <p>(i) (in the case of each Term Advance where a Covered Bond Swap is not in place other than in respect of an Accumulation Series of Covered Bonds), interest due from the LLP on a relevant Term Advance for the relevant Loan Interest Payment Date; provided that if the applicable rate of interest for calculating such amount is to be determined by reference to a compounded daily SONIA rate determined after the date on which the relevant Cash Capital Contribution is required to be made, the Required Coupon Amount will be an estimate of the amount of interest that will be due from the LLP on the relevant Term Advance on the relevant Loan Interest Payment Date, such estimate to be calculated on the basis of an assumed interest rate for the relevant Loan Interest Period equal to the sum of (x) the SONIA Spot Rate published on the London Banking Day immediately preceding the date on which the relevant</p>

- (ii) (in the case of each Term Advance where a Covered Bond Swap is in place) an amount equal to the net amount due from the LLP under a Covered Bond Swap Agreement on a relevant Party B payment date (other than those amounts due in respect of an Interim Exchange Date or Final Exchange Date) (each as defined in the relevant Swap Agreement) under the relevant Covered Bond Swap Agreement; provided that if the applicable rate of interest for calculating such amount is to be determined by reference to a compounded daily SONIA rate determined after the date on which the relevant Cash Capital Contribution is required to be made, the Required Coupon Amount will be an estimate of the net amount due from the LLP on the relevant Party B payment date under the relevant Covered Bond Swap Agreement, such estimate to be calculated on the basis of an assumed interest rate for the relevant Covered Bond Swap Observation Period equal to the sum of (x) the SONIA Spot Rate published on the London Banking Day immediately preceding the date on which the relevant Cash Capital Contribution is required to be made, compounded daily over the relevant Covered Bond Swap Observation Period, (y) the margin in relation to the relevant Covered Bond Swap and (z) 0.25 per cent.; and
- (iii) (in the case of a Term Advance relating to an Accumulation Series of Covered Bonds), the LLP Monthly Payment Amount payable by the LLP on that relevant Term Advance for the relevant LLP Payment Date.

In respect of a Series of Covered Bonds, the amount calculated as follows:

the Principal Amount Outstanding of the relevant Series of Covered Bonds	x	(1+ Negative Carry Factor x (days to maturity of the relevant Series of Covered Bonds/365))
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The reserve fund that the LLP will be required to establish in the Transaction Account, on or prior to a Reserve Fund Funding Date, which will initially be credited with a Cash Capital Contribution and thereafter funded out of (i) Cash Capital Contributions and/or (ii) Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount.

Any date on which:

- (a) the Issuer's short-term issuer default rating is not rated at least F1 by Fitch;
- (b) the Issuer's short-term issuer default rating is not rated at least P-1 by Moody's; or
- (c) a Rating Agency or the FCA requires the Issuer and/or the LLP to fund the Reserve Fund up to the Reserve Fund Required Amount from time to time in order to avoid a potential downgrade of one or more Series of Covered Bonds.

Prior to the occurrence of a Reserve Fund Funding Date or if a Reserve Fund Funding Date has occurred but is no longer continuing, nil or such other

amount as the Issuer shall direct the LLP from time to time and otherwise an aggregate amount equal to the Sterling Equivalent of:

- (a) in relation to each Series of Covered Bonds where there is a Covered Bond Swap in place, the aggregate of amounts due to each Covered Bond Swap Provider in the immediately following three months; plus
- (b) in relation to each Series of Covered Bonds where there is no Covered Bond Swap in place, the aggregate amount of interest due on each Series of Covered Bonds in the immediately following three months; plus
- (c) an amount equal to one-quarter of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (e) of the Pre-Acceleration Revenue Priority of Payments, plus £600,000,

provided that in determining the amount of the Reserve Fund Required Amount, where any amount in respect of the Covered Bonds or the Covered Bond Swaps is determined by reference to a floating rate, then:

- (i) (unless the floating rate is determined by reference to a compounded daily SONIA rate) the interest rate for the purpose of such calculation shall be the then current floating rate as at the date on which the amount is calculated; or
- (ii) (if the floating rate is determined by reference to a compounded daily SONIA rate), the interest rate for the purpose of such calculation shall be deemed to be equal to the sum of (x) the SONIA Spot Rate published on the date on which the amount is calculated (or, if such day is not a London Banking Day, on the immediately preceding London Banking Day), compounded daily over the relevant period and (y) the Margin or the margin in relation to the Covered Bond Swaps, as applicable, for such period.

“Reserve Ledger”

The ledger on the Transaction Account of such name maintained by the Administrator pursuant to the Administration Agreement, to record the credits to the Reserve Fund and the debiting of such Reserve Fund to cure interest shortfalls and pay senior expenses from time to time in accordance with the terms of the LLP Deed.

**“Retained Pre Purchase
Accruals and Arrears”**

In respect of any Mortgage Loan, the Accrued Arrears in respect of such Mortgage Loan and the amount of any interest (including capitalised interest (if any)) or other sum due to be paid or accrued in respect of any period up to the relevant Transfer Date under or in respect of such Mortgage Loan.

“Revenue Ledger”

The ledger on the LLP Accounts of such name maintained by the Administrator pursuant to the Administration Agreement to record credits and debits of Revenue Receipts and other revenue items in accordance with the terms of the LLP Deed.

“Revenue Receipts”

Any payment received in respect of any Mortgage Loan, whether as all or part of a monthly payment in respect of such Mortgage Loan, on redemption (including partial redemption) of such Mortgage Loan, on enforcement of such Mortgage Loan (including the proceeds of sale thereof), on the disposal of such Mortgage Loan or otherwise (including payments pursuant to any insurance policy and payments of Repurchase Price by the Seller) which in

	any such case is not a Principal Receipt in respect of such Mortgage Loan, other than any Non-LLP Amounts.
“Sale Proceeds”	The cash proceeds realised from the sale of Selected Mortgage Loans and their Related Security.
“Scheduled Interest”	On any Interest Payment Date, an amount equal to the amount in respect of interest which would have been due and payable under the Covered Bonds on such Interest Payment Date as specified in Condition 5 (<i>Interest</i>) (but excluding any additional amounts relating to premiums, default interest or interest upon interest (“Excluded Scheduled Interest Amounts”) payable by the Issuer following an Issuer Event of Default, but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date or, where applicable, the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date), less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 8 (<i>Taxation</i>).
“Scheduled Payment Date”	In relation to payments under the Covered Bond Guarantee, each Interest Payment Date or the Final Maturity Date as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date.
“Scheduled Principal”	An amount equal to the amount in respect of principal which would have been due and repayable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 7(a) (<i>Final redemption</i>) and Condition 7(e) (<i>Early Redemption Amounts</i>) (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest (“Excluded Scheduled Principal Amounts”) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date.
“Screen Rate Determination”	The meaning given in the relevant Final Terms.
“Secured Creditors”	The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), any Receiver or Appointee, the Covered Bondholders, the Couponholders, the Issuer, the Seller, the Administrator, the Account Bank, the Swap Providers, the Corporate Services Provider, the Back-Up Administrator Facilitator, the Paying Agents, the Transfer Agent, the Agent Bank, the Registrar and the Calculation Agent and any other person which becomes a Secured Creditor pursuant to the Deed of Charge.
“Selected Mortgage Loans Offer Notice”	A notice from the LLP served on the Seller (or a third-party purchaser) offering to sell Selected Mortgage Loans and their Related Security for an

	offer price not less than, at the point of such sale, (a) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay), the Current Balance of the Selected Mortgage Loans plus accrued interest thereon; and (b) following service of a Notice to Pay, the Adjusted Required Redemption Amount (subject to the Selected Mortgage Loans having an aggregate Current Balance of not less than the Required Current Balance Amount).
“Selected Mortgage Loan Repurchase Notice”	A notice from the Seller served on the LLP accepting an offer set out in a Selected Mortgage Loans Offer Notice.
“Selected Mortgage Loans”	Mortgage Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed having in aggregate the Required Current Balance Amount.
“Seller”	Paragon Bank PLC and any New Seller.
“Share Trustee”	CSC Corporate Services (UK) Limited, having its registered office at 10th Floor, 5 Churchill Place, London, E14 5HU.
“SONIA”	The Sterling Overnight Index Average.
“SONIA Screen Page”	The Reuters Screen SONIA Page (or, if such page is no longer available, any replacement or successor page showing the relevant information).
“SONIA Spot Rate”	With respect to publication on any London Banking Day, the daily Sterling Overnight Index Average (SONIA) published on such London Banking Day (and relating to the immediately preceding London Banking Day) as provided by the administrator of SONIA to authorised distributors and as then published on the SONIA Screen Page (or, if the SONIA Screen Page is unavailable, as otherwise published by such authorised distributors).
“Specified Currency”	Subject to any applicable legal or regulatory restrictions, euro or Sterling, as specified in the applicable Final Terms.
“Specified Denomination”	In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms.
“Specified Interest Payment Date”	The meaning given in the applicable Final Terms.
“Specified Period”	The meaning given in the applicable Final Terms.
“Stabilising Manager”	The meaning given in the applicable Final Terms.
“Standard Custody Terms and Conditions”	The Account Bank’s standard terms and conditions applying to the custody of investments as are in force for the time being.
“Standard Mortgage Documentation”	The standard documentation, either (a) listed in the Mortgage Sale Agreement or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a reasonable and prudent mortgage lender or (b) referred to in any legal opinion received by the LLP and the Security Trustee as a condition precedent (as set out in the Mortgage Sale Agreement) to the inclusion of New Mortgage Loan Types in the Mortgage Portfolio.
“Standard Variable Rate”	The standard variable mortgage base rate applicable to Mortgage Loans in accordance with the Mortgage Loan Conditions.

“Standby Interest Rate Swap”	Replacement or novated swap transactions with a periodically adjusted notional amount which are intended to hedge against possible variances in the rates of interest payable on some or all of the Fixed Rate Mortgage Loans in the Mortgage Portfolio and a compounded daily SONIA rate following the occurrence of a Standby Swap Trigger Event.
“Standby Swap Agreement”	Each ISDA Master Agreement including a schedule and credit support annex thereto and each confirmation thereunder which is either entered into between the LLP and a Standby Swap Provider in replacement of an Interest Rate Swap Agreement or is an Interest Rate Swap Agreement which has been novated from the Interest Rate Swap Provider to the Standby Swap Provider upon the occurrence of a Standby Swap Trigger Event.
“Standby Swap Provider”	NatWest Markets Plc in its capacity as standby swap provider to the LLP, under a Standby Swap Agreement, together with any successor or replacement standby swap provider appointed from time to time.
“Standby Swap Trigger Event”	<p>The occurrence of any of the following with respect to the Interest Rate Swap Provider:</p> <ul style="list-style-type: none"> (a) the failure by the Interest Rate Swap Provider to pay to the LLP any amounts when due in accordance with Section 5(a)(i) (Failure to Pay) of the Interest Rate Swap Agreement; or (b) the insolvency of the Interest Rate Swap Provider in accordance with Section 5(a)(vii) (Bankruptcy) (as amended in the schedule) of the Interest Rate Swap Agreement.
“Sterling Equivalent”	<ul style="list-style-type: none"> (a) In relation to a Term Advance which is denominated in (i) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Term Advance and (ii) Sterling, the applicable amount in Sterling. (b) In relation to a Covered Bond which is denominated in (i) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Covered Bond and (ii) Sterling, the applicable amount in Sterling.
“Subscription Agreement”	An agreement supplemental to the Dealer Agreement (by whatever name called) in or substantially in the form set out in the Dealer Agreement or in such other form as may be agreed between the Issuer, the LLP and the Dealers.
“Subsidiary”	Any company which is for the time being a subsidiary (within the meaning of Section 1159 of the Companies Act).
“Substitution Assets”	<p>Each of:</p> <ul style="list-style-type: none"> (a) Sterling gilt-edged securities; (b) Sterling demand or time deposits provided that in all cases such investments have a remaining period to maturity of one year or less and 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 unsecured, unguaranteed and unsubordinated debt obligation rating or, as applicable, a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of P-1/Aa3 by Moody’s and

	<p>a short-term IDR or, as applicable, a long-term IDR of F1+/AA- by Fitch; and</p> <p>(c) Sterling denominated government and public securities, as defined from time to time in accordance with the RCB Regulations, provided that such investments have a remaining period to maturity of one year or less and which are rated at least Aaa by Moody's and F1+ by Fitch,</p> <p>provided that such Substitution Assets comply with the requirements of Regulation 2(1A) of the RCB Regulations.</p>
"Swap Agreements"	The Covered Bond Swap Agreements together with the Interest Rate Swap Agreements and the Standby Swap Agreements, and each a "Swap Agreement" .
"Swap Collateral"	At any time, any Swap Collateral Cash or Swap Collateral Securities which are paid or transferred by a Swap Provider to the LLP as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed.
"Swap Collateral Accounts"	The Swap Collateral Cash Account and any Swap Collateral Securities Account.
"Swap Collateral Account Bank Rating"	<p>(a) an unsecured, unsubordinated and unguaranteed deposit rating by Moody's of A3 (long-term); and</p> <p>(b) a long-term deposit rating by Fitch of at least A- or a short-term deposit rating by Fitch of at least F1; or</p> <p>(c) in each case, such other short-term or long-term rating (or, in the case of Fitch, if no deposit rating is available, short-term or long-term IDR) which will not have an adverse effect on the ratings of the Covered Bonds.</p>
"Swap Collateral Cash"	Swap Collateral in cash form standing from time to time to the credit of any Swap Collateral Cash Account.
"Swap Collateral Cash Account"	Any account in the name of the LLP held with the Account Bank into which Swap Collateral Cash in respect of any Interest Rate Swap(s), Covered Bond Swap(s) or Standby Interest Rate Swap(s) may be deposited in accordance with the terms of any applicable Swap Agreement.
"Swap Collateral Cash Ledger"	Any ledger maintained by the Administrator with respect to the Swap Collateral Cash Account, to record the crediting of any Swap Collateral Cash and any debiting of the same.
"Swap Collateral Excluded Amounts"	At any time, the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the LLP, including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement.
"Swap Collateral Ledger"	The Swap Collateral Cash Ledger and Swap Collateral Securities Ledger (in each case including any sub-ledgers) maintained by the Administrator pursuant to the Administration Agreement.

“Swap Collateral Securities”	Swap Collateral in securities form standing from time to time to the credit of any Swap Collateral Securities Account.
“Swap Collateral Securities Account”	Any account in the name of the LLP held with the Account Bank into which Swap Collateral Securities in respect of the Interest Rate Swap, Covered Bond Swap or Standby Interest Rate Swap may be deposited in accordance with the terms of any applicable Swap Agreement and the Standard Custody Terms and Conditions.
“Swap Collateral Securities Ledger”	Any ledger maintained by the Administrator with respect to any Swap Collateral Securities Account, to record the crediting of any Swap Collateral Securities and any debiting of the same.
“Swap Provider Default”	The occurrence of an Event of Default or Termination Event (each as defined in the relevant Swap Agreement) where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in the relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event.
“Swap Provider Downgrade Event”	The occurrence of an Additional Termination Event or an Event of Default (each as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement.
“Swap Providers”	The Covered Bond Swap Providers, the Interest Rate Swap Providers and the Standby Swap Provider, and each a “Swap Provider” .
“Swap Tax Credits”	Has the meaning given to such term in the Swap Agreements.
“Swaps”	The Covered Bond Swaps together with the Interest Rate Swaps and the Standby Interest Rate Swaps, and each a “Swap” .
“Term Advance”	Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement.
“Title Deeds”	In relation to each Mortgage Loan and its Related Security and the Mortgaged Property relating thereto, all conveyancing deeds and documents which make up the title to the Mortgaged Property and the security for the Mortgage Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage.
“Transaction Account”	Any account designated as such in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Deed of Charge or such other account as may for the time being be in place with the prior consent of the Security Trustee and designated as such.
“Transaction Documents”	<ul style="list-style-type: none"> (a) Mortgage Sale Agreement; (b) Administration Agreement; (c) Asset Monitor Agreement; (d) Intercompany Loan Agreement; (e) LLP Deed; (f) each Interest Rate Swap Agreement; (g) each Standby Swap Agreement; (h) each Covered Bond Swap Agreement;

	<ul style="list-style-type: none"> (i) Bank Account Agreement; (j) Corporate Services Agreement; (k) Deed of Charge; (l) Trust Deed; (m) Agency Agreement; (n) each set of Final Terms (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement); (o) Master Definitions and Construction Agreement; (p) each document, agreement or indenture ancillary or supplemental to any of the documents specified in paragraphs (a) to (o) (inclusive) above; and (q) any other agreement or document from time to time designated as such by the Issuer, the LLP and the Bond Trustee and/or the Security Trustee.
“Transfer Date”	As applicable, the First Transfer Date and the date of transfer of any New Mortgage Loans to the LLP in accordance with the Mortgage Sale Agreement.
“UK Benchmarks Regulation”	Regulation (EU) No. 2016/1011, as amended and as it forms part of the UK domestic law by virtue of the EUWA.
“UK CRA Regulation”	Regulation (EC) No. 1060/2009 as amended and as it forms part of UK domestic law by virtue of the EUWA.
“UK CRR”	Regulation (EU) No. 575/2013 as amended and as it forms part of UK domestic law by virtue of the EUWA.
“UK EMIR”	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 as amended and as it forms part of UK domestic law by virtue of the EUWA.
“UK MiFIR”	Regulation (EU) No 600/2014 as amended and as it forms part of UK domestic law by virtue of the EUWA.
“UK Prospectus Regulation”	Regulation (EU) 2017/1129 as amended and as it forms part of UK domestic law by virtue of the EUWA.
“VAT” and “Value Added Tax”	Value added tax as imposed by: (a) the United Kingdom under the Value Added Tax Act 1994 and legislation (whether delegated or otherwise) replacing the same or supplemental thereto; or (b) any primary or subordinate legislation promulgated by the European Union or any official body or agency thereof, and (in both cases) any similar turnover tax replacing or introduced in addition to any of the same.
“VAT Group”	A group for the purposes of the VAT Grouping Legislation.
“VAT Grouping Legislation”	(a) Sections 43 to 43D (inclusive) of VATA and (b) the Value Added Tax (Groups: eligibility) Order 2004 (SI 2004/1931).
“Winding-Up Proceedings”	Proceedings being initiated under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator

(whether out of court or otherwise)); or a receiver and/or manager, administrative receiver, administrator, trustee or other similar official is appointed (whether out of court or otherwise) in relation to the company or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or such company shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of, or shall enter into any composition with, its creditors generally, save where (in each case) such proceedings are being contested in good faith by the company, or an administrative or other receiver, administrator or other similar official is appointed in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of such company, or a distress, execution, diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of such company and in any of the foregoing cases such proceedings or claims are not vexatious or frivolous or are not discharged within 15 days.

“Yield Reserve”

The yield reserve fund that the LLP will be required to establish in the Transaction Account which will be credited with a Cash Capital Contribution (in the Seller’s discretion) and/or Available Revenue Receipts and will be maintained in an amount equal to or greater than the Yield Reserve Required Amount, as reasonably determined by the Administrator as at each Calculation Date.

“Yield Reserve Ledger”

The ledger in connection with the Transaction Account of such name maintained by the Administrator pursuant to the Administration Agreement, to record the credits to the Yield Reserve and the debiting of such Yield Reserve in accordance with the terms of the LLP Deed.

“Yield Reserve Required Amount”

The amount notified by the Administrator to the LLP from time to time equal to the amount necessary to ensure that condition (d) of the Eligibility Criteria is met for the following 12 months on each Calculation Date.

“Yield Shortfall Test”

The test, on each Calculation Date, as to whether the aggregate amount of interest on the Mortgage Loans, amounts available to be credited to and/or withdrawn from the Yield Reserve, amounts under the Interest Rate Swap Agreements and (where relevant) amounts under the Standby Swap Agreements to be received by the LLP during the Calculation Period in which such Calculation Date falls would give an annual yield on the Mortgage Loans of at least 0.40 per cent. plus the SONIA Spot Rate published on the final London Banking Day in the previous Calculation Period.

“Zero Coupon Covered Bonds”

Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.

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THE ISSUER

Paragon Bank PLC
51 Homer Road
Solihull
West Midlands B91 3QJ
United Kingdom

THE LLP

Paragon Covered Bonds LLP
51 Homer Road
Solihull
West Midlands B91 3QJ
United Kingdom

ARRANGERS AND DEALERS

Barclays Bank PLC
1 Churchill Place
London E14 5HP
United Kingdom

BNP Paribas
16, boulevard des Italiens
75009
Paris
France

NatWest Markets Plc
250 Bishopsgate
London EC2M 4AA
United Kingdom

SECURITY TRUSTEE AND BOND TRUSTEE

HSBC Corporate Trustee Company (UK) Limited
8 Canada Square
London E14 5HQ
United Kingdom

PRINCIPAL PAYING AGENT, AGENT BANK, REGISTRAR AND TRANSFER AGENT

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

LEGAL ADVISERS

To the Issuer, the LLP and the Seller as to English law:

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

To the Arrangers and the Dealers as to English law:

Ashurst LLP
1 Duval Square
London Fruit And Wool Exchange
London E1 6PW
United Kingdom

To the Security Trustee and the Bond Trustee as to English law:

Ashurst LLP

1 Duval Square
London Fruit And Wool Exchange
London E1 6PW
United Kingdom

AUDITORS TO THE ISSUER

KPMG LLP

15 Canada Square
London E14 5LG
United Kingdom