



**Virgin Money plc**  
(incorporated under the laws of England and Wales)

**€7 billion**

**Global Covered Bond Programme unconditionally and irrevocably guaranteed as to payments  
of interest and principal by  
Eagle Place Covered Bonds LLP**  
(a limited liability partnership incorporated in England and Wales)

Under the €7 billion covered bond programme described in this Prospectus (the "**Programme**"), Virgin Money plc (the "**Issuer**", which term shall include any Part VII Successor (as defined in the Conditions)), 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.

Eagle Place 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 €7 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 constitutes a base prospectus for the purposes of the Prospectus Directive – Directive 2003/71/EC as amended or superseded (the "**Prospectus Directive**"). Application has been made to the Financial Conduct Authority (the "**FCA**") under Part VI of the Financial Services and Markets Act 2000, as amended ("**FSMA**") for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the "**UK Listing Authority**") for the purpose of giving information with regard to the issue of Covered Bonds issued under the Programme during the period of twelve months after the date of this Prospectus to be admitted to the Official List of the UK Listing Authority (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 regulated market of the London Stock Exchange which is a regulated market for the purposes of Directive 2014/65/EU (the "**regulated 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 regulated 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. References in this Prospectus to "**Exempt Covered Bonds**" are to Covered Bonds for which no Listing Particulars are required to be published under the FSMA. The Programme permits Exempt Covered Bonds to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or that they will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer. Information contained in this Prospectus regarding Exempt Covered Bonds shall not be deemed to form part of this Prospectus and the FCA has neither approved nor reviewed information contained in this Prospectus in connection with any Exempt Covered Bonds.

On 19 July 2017, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds, under the Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended by the Regulated Covered Bonds (Amendment) Regulations 2008 (SI 2008/1714), the Regulated Covered Bonds (Amendment) Regulations 2011 (SI 2011/2859) and the Regulated Covered Bonds (Amendment) Regulations 2012 (SI 2012/2977) and as amended further from time to time (the "**RCB Regulations**").

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 and Transfer and Selling Restrictions*" The Covered Bonds may not be offered, sold or (in the case of Covered Bonds in bearer form) 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 and applicable United States state securities laws. The Covered Bonds may be offered and sold (a) in bearer form or registered form outside the United States to persons that are not U.S. persons in reliance of Regulation S and (b) in registered form within the United States to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) (each a "**QIB**") in reliance on Rule 144A, or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers who are QIBs are hereby notified that sellers of the Covered Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See "*Subscription and Sale and Transfer and Selling Restrictions*".

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 rating of certain Series of Covered Bonds to be issued under the Programme will be specified in the applicable Final Terms. The credit ratings included and referred to in this Prospectus have been issued by Fitch Ratings Limited ("**Fitch**") and/or Moody's Investor Service Ltd ("**Moody's**") each of which is a credit rating agency established in the European Union and registered under Regulation (EU) No 1060/2009 (as amended) (the "**CRA Regulation**"). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

Amounts payable on Floating Rate Covered Bonds issued under the Programme may be calculated by reference to a benchmark such as LIBOR, EURIBOR or SONIA as specified in the applicable Final Terms. The applicable Final Terms will indicate whether or not the relevant benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**"). Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Final Terms. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the Final Terms to reflect any change in the registration status of the administrator.

**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**

**BNP PARIBAS**

**HSBC**

**Dealers**

**BNP PARIBAS**

**HSBC**

*5 March 2019*

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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, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus (or the Final Terms) is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. Any information sourced from third parties contained in this Prospectus has been accurately reproduced (and is clearly sourced where it appears in 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).

### *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 and Transfer and Selling Restrictions*" 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.

### **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, Clydesdale 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, the Security Trustee and Clydesdale 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, the Security Trustee and Clydesdale 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, the Security Trustee or Clydesdale. Investors should review, *inter alia*, the most recent published financial statements of the Issuer 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 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 and Transfer and Selling Restrictions*".

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 (in the case of Covered Bonds in bearer form) 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 the registration requirements of the Securities Act.

The Covered Bonds may be offered and sold (A) in bearer form or registered form outside the United States to non-U.S. persons in reliance on Regulation S and (B) in registered form within the United States to QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Covered Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Covered Bonds, see "*Subscription and Sale and Transfer and Selling Restrictions*".

**MiFID II product governance / target market** – The Final Terms in respect of any Covered Bonds will 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 (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.

**IMPORTANT – 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 Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them 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 PRIIPs Regulation.

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.

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. Financial institutions 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.

## **SERVICE OF PROCESS AND ENFORCEMENT OF LIABILITIES**

The Issuer and the LLP are each duly incorporated under the laws of England and Wales. Substantially all of the Issuer's and the LLP's directors and executive officers are non-residents of the United States. A substantial portion of the assets of the Issuer and of its directors and officers are located outside the United States. As a result, it may not be possible for an investor to effect service of process within the United States upon those persons or to enforce against them judgements of U.S. courts based upon the civil liability provisions of the federal securities laws of the United States.

## **U.S. INFORMATION**

The Covered Bonds have not been approved or disapproved by the SEC or any other state securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved or disapproved this Prospectus or confirmed the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense in the United States.

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, or for the account or benefit of, United States persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this section have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

In making an investment decision, investors must rely on their own examination of the Issuer and the LLP and the terms of the Covered Bonds being offered, including the merits and risks involved.

This Prospectus may be provided on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with their consideration of the purchase of the Covered Bonds being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Registered Covered Bonds may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act.

Each purchaser or holder of Covered Bonds represented by a Rule 144A Global Covered Bond or any Covered Bonds issued in registered form in exchange or substitution therefor, will be deemed, by its acceptance or purchase of any such Covered Bond, to have made certain representations and agreements intended to restrict the resale or other transfer of such Covered Bonds as set out in "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Covered Bonds*".

## AVAILABLE INFORMATION

**To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" within the meaning of the Securities Act, each of the Issuer and the LLP has undertaken in the Trust Deed (as defined under "*Terms and Conditions of the Covered Bonds*") to furnish, upon the request of a holder of such Covered Bonds or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Covered Bonds remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and each of the Issuer and the LLP is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the "Exchange Act") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.**

By requesting copies of any of the documents referred to herein, each potential purchaser agrees to keep confidential the various documents and all written information clearly labelled "Confidential" which from time to time have been or will be disclosed to it concerning the LLP or the Issuer or any of their affiliates, and agrees not to disclose any portion of the same to any person.

## FORWARD-LOOKING STATEMENTS

Certain information contained in this Prospectus and any documents incorporated by reference, including any information as to Virgin Money plc's and/or Clydesdale's 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 G8 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 US 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 Virgin Money plc and/or Clydesdale 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 Virgin Money plc's and/or Clydesdale'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 and references to "**U.S.\$**", "**U.S. dollars**" or "**dollars**" are to United States dollars.

In this Prospectus, references to "**Holdings**" are to Virgin Money Holdings (UK) plc.

In this Prospectus, references to the "**Issuer**" are to Virgin Money plc or, following the Part VII Transfer (as defined below), if implemented, the Part VII Successor (as defined below) as the Issuer of the Covered Bonds under the Programme.

In this Prospectus, references to "**Clydesdale**" are to Clydesdale Bank PLC, references to "**Clydesdale Group**" are to Clydesdale and its subsidiaries, taken as a whole, references to "**CYBG**" are to CYBG PLC and references to "**CYBG Group**" are to CYBG 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 Virgin Money plc's and Clydesdale's business and the industry in which they operate and compete, some of which the Issuer has obtained from third-party sources. Virgin Money plc, Clydesdale 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 the Council of Mortgage Lenders. 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 Virgin Money plc and/or Clydesdale market share included in this Prospectus is referred to as having been estimated. All such estimates have been made by the Issuer or, as applicable, Clydesdale, 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 or Clydesdale'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 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**

Virgin Money plc's website is <https://uk.virginmoney.com>. 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.

Clydesdale's website is <https://www.cybg.com>. 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.

## PROPOSED PART VII TRANSFER

On 15 October 2018, CYBG (as defined below) acquired the entire issued share capital of Virgin Money Holdings (UK) plc ("**Holdings**") (the parent of Virgin Money plc) pursuant to a recommended all-share offer to Holding's shareholders (the "**Offer**"). The Issuer understands that the intention as of the date of this Prospectus is that all or substantially all of the business, operations, assets, liabilities and obligations of Virgin Money plc are likely to be transferred to Clydesdale pursuant to a transfer under Part VII of the FSMA (the "**Part VII Transfer**"). Whilst the timing of any such Part VII Transfer is still being considered, if and when such Part VII Transfer occurs it is anticipated that the then Virgin Money plc business and the then Clydesdale (as defined below) business will be combined to form the Part VII Successor (as defined below) and its group. The surviving entity in which all or substantially all of the business, operations, assets, liabilities and obligations of Virgin Money plc are vested immediately following completion of the Part VII Transfer is referred to in this Prospectus as the "**Part VII Successor**".

It should be noted, however, that CYBG continues to develop its plans for the Part VII Transfer and there can be no assurance that the proposed Part VII Transfer will be implemented in its current proposed form, or at all. Accordingly, investors in the Covered Bonds should be prepared to accept the risks inherent in an investment in the Issuer of the Covered Bonds over time, whether the Issuer's business includes the business, operations, assets and liabilities of Virgin Money plc alone, those of the combined Virgin Money plc and Clydesdale Bank PLC or any other combination of such businesses, operations, assets and liabilities as may be amalgamated in the Part VII Successor, should the proposed Part VII Transfer be implemented. See "*Risk Factors - Risk Factors Relating to the Proposed Part VII Transfer*".

Should such Part VII Transfer take place, the Issuer understands that it is envisaged that the Part VII Successor will be vested with all or substantially all of the rights, powers, discretions, liabilities and obligations of Virgin Money plc as appointed or acting in its various capacities (each a "**Relevant Capacity**") in connection with the Covered Bonds, the Programme, the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement, including (without limitation) in its capacities as Issuer, Administrator, Cash Manager, Collection Bank, a Seller, a Member and Designated Member of the LLP, and VM Account Bank.

The Part VII Transfer will not require any consent or approval of any holders of Covered Bonds, the Bond Trustee, any Rating Agency or any other counterparties to any of Transaction Documents, the Dealer Agreement and/or any Subscription Agreement, and, following completion of the Part VII Transfer, the rights of the holders against Virgin Money plc in respect of their Covered Bonds, and the rights of any counterparties to the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement against Virgin Money plc, will become rights against the Part VII Successor.

**With effect from the effective date of the Part VII Transfer, if implemented, references in this Prospectus, the Terms and Conditions of the Covered Bonds and all Transaction Documents, the Dealer Agreement and/or any Subscription Agreement to "Virgin Money plc", and all references to each Relevant Capacity (or to Virgin Money plc acting in such Relevant Capacity) should, unless the context otherwise requires or unless otherwise required by the final terms of the Part VII Transfer, be read as references to the Part VII Successor.**

Whilst the transfer of the business, operations, assets and liabilities of Virgin Money plc pursuant to the Part VII Transfer will operate by law, Condition 15(e) (*Part VII Transfer*) of the Terms and Conditions of the Covered Bonds provides that the Issuer may, subject to certain conditions (including the provision of a Ratings Confirmation), also make amendments to the terms of the Covered Bonds and any Transaction Documents to ensure the effective implementation of the Part VII Transfer and any modifications which the Issuer considers to be necessary or desirable in connection with any Covered Bonds and/or the Programme which are, in the sole determination of the Issuer, incidental to or consequential on the Part VII Transfer and, in each case, not materially prejudicial to the interests of the holders of Covered Bonds.

Following the Part VII Transfer, the guarantee obligation of the LLP with respect to the Covered Bonds will continue to be effective on terms which are the same (or substantially the same) in all material respects as at the date of this Prospectus.

## PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

<b>Issuer:</b>	Virgin Money plc.
<b>Proposed Part VII Transfer:</b>	<p>As further described in the section of this Prospectus entitled "<i>Proposed Part VII Transfer</i>", the Issuer understands that the intention as of the date of this Prospectus is that all or substantially all of the business, operations, assets, liabilities and obligations of Virgin Money plc are likely to be transferred to Clydesdale pursuant to the Part VII Transfer.</p> <p>The Part VII Transfer will not require any consent or approval of any holders of Covered Bonds, the Bond Trustee, any Rating Agency or any other counterparties to any Transaction Documents, the Dealer Agreement and/or any Subscription Agreement, and, following completion of the Part VII Transfer, the rights of the holders against Virgin Money plc in respect of their Covered Bonds and the rights of any counterparties to the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement against Virgin Money plc (as Issuer and in each other Relevant Capacity), will become rights against the Part VII Successor (acting as Issuer or, as the case may be, in such other Relevant Capacity).</p> <p>Following the Part VII Transfer, the guarantee obligation of the LLP with respect to the Covered Bonds will continue to be effective on terms which are the same (or substantially the same) in all material respects as at the date of this Prospectus.</p> <p>See further "<i>Proposed Part VII Transfer</i>" and "<i>Risk Factors - Risk Factors Relating to the Proposed Part VII Transfer</i>".</p>
<b>LLP:</b>	Eagle Place Covered Bonds LLP
<b>Legal Entity Identifier (LEI):</b>	Virgin Money plc: 213800NISCV8CQI6LW27
<b>Regulated Covered Bonds:</b>	On 19 July 2017, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds under the RCB Regulations.
<b>Nature of eligible property:</b>	Residential mortgage loans, Substitution Assets up to the prescribed limit and Authorised Investments
<b>Compliant with the Banking Consolidation Directive (Directive 2006/48/EC):</b>	Yes
<b>Location of eligible residential property underlying Mortgage Loans:</b>	England, Wales, Scotland or Northern Ireland
<b>Maximum Current Balance to Indexed Valuation ratio given credit under the Asset Coverage Test:</b>	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 CRD IV.
<b>Maximum Asset Percentage:</b>	92.5 per cent.
<b>Asset Coverage Test:</b>	As set out on page 190
<b>Statutory minimum overcollateralisation</b>	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
<b>Amortisation Test:</b>	As set out on page 215
<b>Extended Maturities:</b>	Available
<b>Asset Monitor:</b>	KPMG LLP
<b>Asset Segregation:</b>	Yes
<b>Single / Multi Asset Pool designation:</b>	Single Asset Pool, consisting of residential mortgage loans and liquid assets.
<b>Substitution Assets:</b>	Asset backed securities are not eligible property and cannot form part of the Asset Pool.  As set out on page 277 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

### Virgin Money

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

- (a) the audited and non-consolidated financial statements (including the auditors' report thereon and notes thereto) of Virgin Money plc in respect of the year ended 31 December 2018 (contained on pages 10 to 48 and 52 to 111 (inclusive) of Virgin Money plc's 2018 Annual Report, which can be viewed online at <https://uk.virginmoney.com/virgin/investor-relations/results/virgin-money-plc-annual-report-and-accounts-2018.pdf>) (the "VM 2018 Financial Statements"):

#### **Audited and non-consolidated financial statements for the year ended 31 December 2018**

Risk Report	Page 10-48
Independent auditors' report	Page 52-56
Income statement	Page 57
Statement of comprehensive income	Page 58
Balance sheet	Page 59
Statement of changes in equity	Page 60
Statement of cash flows	Page 61
Notes to the financial statements	Page 62-111

- (b) the audited and non-consolidated financial statements (including the auditors' report thereon and notes thereto) of Virgin Money plc in respect of the year ended 31 December 2017 (contained on pages 13 to 85 (inclusive) of Virgin Money plc's 2017 Annual Report and Accounts, which can be viewed online at <https://uk.virginmoney.com/virgin/investor-relations/results/virgin-money-plc-annual-report-and-accounts-2017.pdf>) (the "VM 2017 Financial Statements"):

#### **Audited and non-consolidated financial statements for the year ended 31 December 2017**

Independent auditors' report	Page 13-18
Income statement	Page 19
Statement of comprehensive income	Page 20
Balance sheet	Page 21
Statement of changes in equity	Page 22
Cash flow statement	Page 23
Notes to the financial statements	Page 24-85

((a) and (b) together, the "VM Financial Statements".)

### Clydesdale

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

- (c) the audited and consolidated financial statements (including the auditors' report thereon and notes thereto) of Clydesdale Bank PLC in respect of the year ended 30 September 2018 (contained on pages 67 to 146 (inclusive) of Clydesdale Bank PLC's 2017/8 Annual Report & Consolidated Financial Statements, which can be viewed online at <https://www.cybg.com/resources/36d57367-9a10-484c-ba38-2efc7f69dfad/CB+PLC++Sep+2018+Final.pdf>):

#### **Audited and consolidated financial statements for the year ended 30 September 2018**

Independent auditor's report	Page 67-74
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Consolidated income statement	Page 75
Statements of comprehensive income	Page 76
Balance sheets	Page 77
Statements of changes in equity	Page 78-79
Statement of cash flows	Page 80-81
Notes to the consolidated financial statements	Page 82-146

- (d) the audited and consolidated financial statements (including the auditors' report thereon and notes thereto) of Clydesdale Bank PLC in respect of the year ended 30 September 2017 (contained on pages 61 to 145 (inclusive) of Clydesdale Bank PLC's 2016/7 Annual Report & Consolidated Financial Statements, which can be viewed online at <https://www.cybg.com/resources/6ee90315-7f7c-44ef-a1c8-728c854c454e/2017-09-30+CB+PLC+AR%26FS+%28NO+SIGS%29.pdf>):

**Audited and consolidated financial statements for the year ended 30 September 2017**

Independent auditor's report	Page 61-68
Consolidated income statement	Page 69
Statements of comprehensive income	Page 70
Balance sheets	Page 71
Statements of changes in equity	Page 72-73
Statement of cash flows	Page 74
Notes to the consolidated financial statements	Page 75-145

((c) and (d) together, the "**CB Financial Statements**"); and

- (e) the Risk Report section from Clydesdale Bank PLC's 2017/8 Annual Report & Consolidated Financial Statements which can be viewed online at <https://www.cybg.com/resources/36d57367-9a10-484c-ba38-2efc7f69dfad/CB+PLC+-+Sep+2018+Final.pdf> (the "**CB 2018 Risk Report**):

**Section:**

Risk Report	Page 11-62
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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 Jubilee House, Gosforth, Newcastle upon Tyne NE3 4PL, 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.

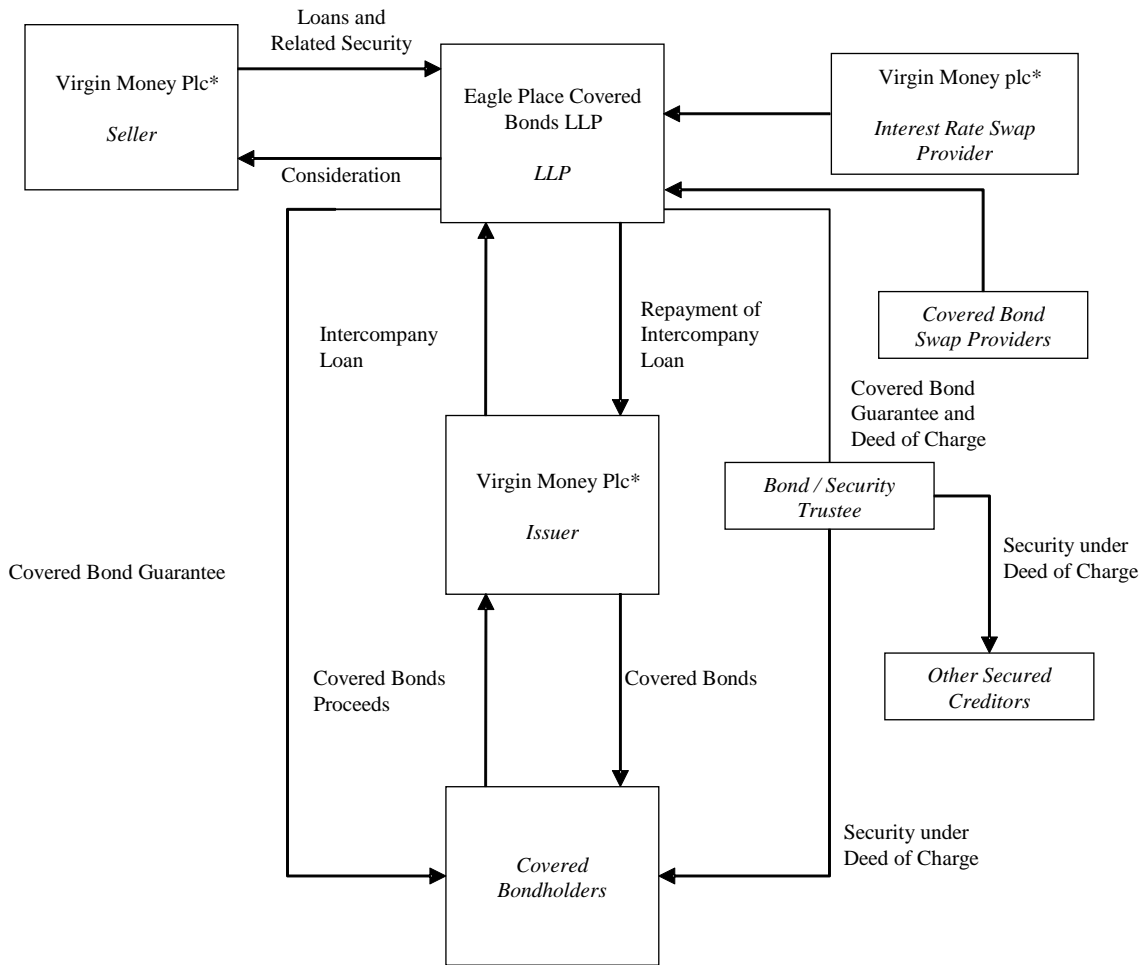
Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Virgin Money plc's website is <https://uk.virginmoney.com/virgin/investor-relations/> and Clydesdale's website is <https://www.cybg.com>. The information on these websites or any website directly or indirectly linked to these websites 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.

### Structure Diagram



\* Following the Part VII Transfer, if implemented, references herein to Virgin Money plc, and to any Relevant Capacity in which it is appointed or acts in connection with the Programme (including, without limitation, as Issuer, Seller and Interest Rate Swap Provider), should, unless the context otherwise requires, be read as references to the Part VII Successor. See "Proposed Part VII Transfer" and "Risk Factors - Risk Factors Relating to the Proposed Part VII Transfer".

### Structure Overview

- 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.
- 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 will be 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,

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 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
- (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 in the Transaction Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit) or the VM Account (in an amount not exceeding the VM Permitted Cash Amount).

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) will be 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 Current Balance 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/or (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 and any Covered Bond Swap Providers). 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 to the Issuer under the Intercompany Loan Agreement, into the Reserve Fund, 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, no payments will be made other than into the Transaction Account after exchange (if required) in accordance with the relevant Covered Bond Swap (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 use all monies (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 Cash Manager 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. Accordingly, 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 calculated on that Calculation Date. The Asset Coverage Test will be tested by the Cash Manager 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 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 Cash Manager 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 may be specified as applying in relation to a 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 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 may be paid by the LLP on any Interest 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 the Original Due for Payment Date and on the Extended Due for Payment Date in accordance with Condition 5 (*Interest*).

12. *Coupon Payments:* If Virgin Money plc is acting as Cash Manager pursuant to the Cash Management Agreement and a Cash Manager Relevant Event occurs and is continuing, the Seller will (a) within ten Business Days of the occurrence of the Cash Manager Relevant 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 a Cash Manager Relevant Event has occurred and is continuing, 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. Any surplus over and above the amount to be deposited as described above will be paid into the Interest Accumulation Ledger.

The LLP will transfer an amount equal to the Cash Capital Contribution it receives from the Seller within one Business Day of receipt of such amount into the Transaction Account and 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 and/or CUSIP, as applicable, in respect of the relevant Series of Covered Bonds) to the Account Bank and/or the VM Account Bank, as applicable, 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 Cash Manager 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.

13. *Administration:* In its capacity as Administrator, Virgin Money plc has entered into the Administration Agreement with the LLP and the Security Trustee, pursuant to which the Administrator has agreed to provide certain services in respect of the Mortgage Loans and their Related Security sold by Virgin Money plc (in its capacity as Seller) to the LLP.
14. *The RCB Regulations:* On 19 July 2017, the Issuer was admitted to the register of issuers and the Programme was 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*

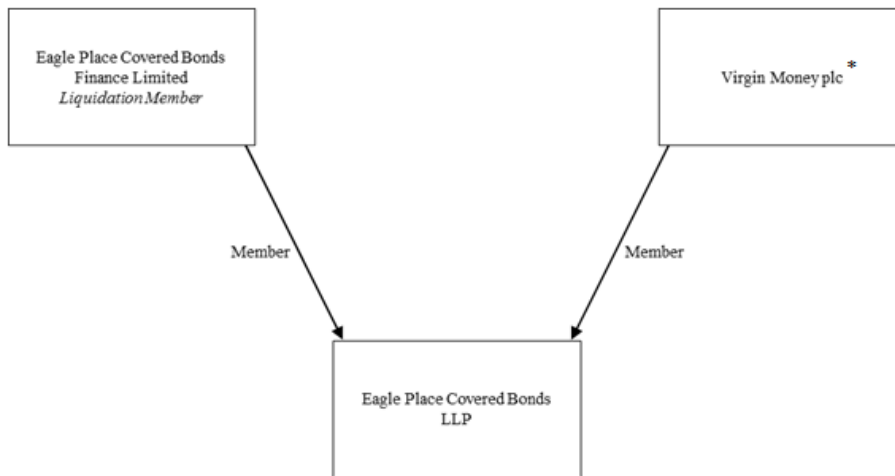
*Programme*", *"Terms and Conditions of the Covered Bonds"*, *"Summary of the Principal Documents"*, *"Credit Structure"*, *"Cashflows"* and *"The Mortgage Portfolio"*, below.

## OWNERSHIP STRUCTURE OF EAGLE PLACE 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, written confirmation from each Rating Agency that this would not adversely affect the then current ratings of all outstanding Covered Bonds.

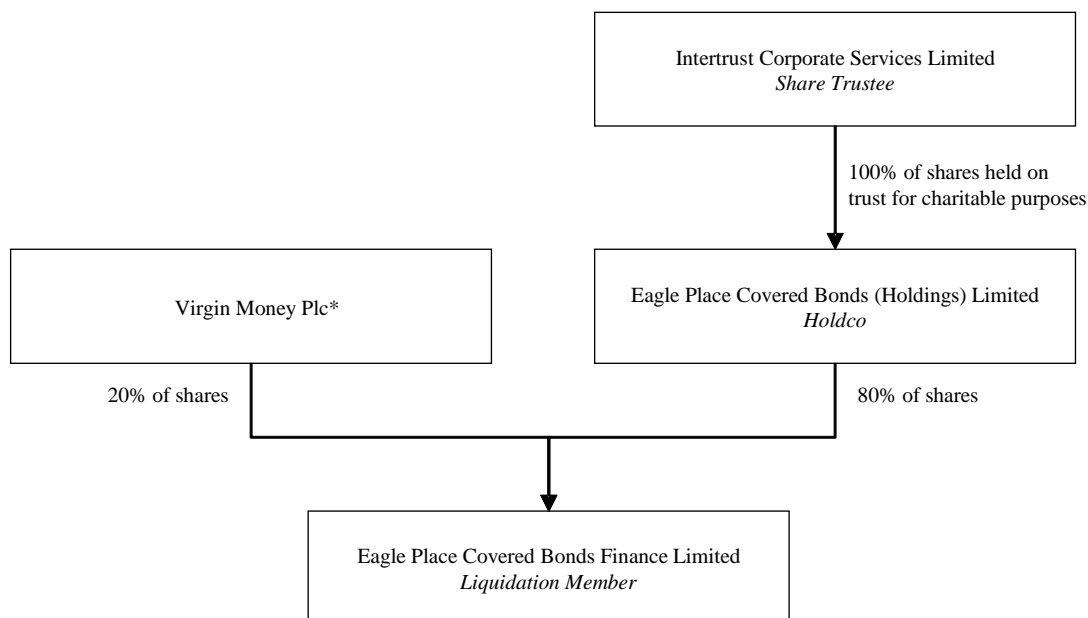
Other than in respect of those decisions reserved to the Members, the Management Committee (comprising, as at the date of this Prospectus, directors and/or employees of the Seller) will manage and conduct the business of the LLP and will have all the rights, power and authority to act at all times for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



*\* Following the Part VII Transfer, if implemented, references herein to Virgin Money plc, and to any Relevant Capacity in which it is appointed or acts in connection with the Programme (including, without limitation, as a Member or Designated Member of the LLP), should, unless the context otherwise requires, be read as references to the Part VII Successor. See "Proposed Part VII Transfer" and "Risk Factors - Risk Factors Relating to the Proposed Part VII Transfer".*

## 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 Eagle Place Covered Bonds (Holdings) Limited and 20 per cent. of the issued share capital of the Liquidation Member is held by Virgin Money plc. The entire issued capital of Eagle Place Covered Bonds (Holdings) Limited is held by Intertrust Corporate Services Limited as share trustee on trust for charitable purposes.



\* Following the Part VII Transfer, if implemented, references herein to Virgin Money plc, and to any Relevant Capacity in which it is appointed or acts in connection with the Programme (including, without limitation, as a shareholder of the Liquidation Member), should, unless the context otherwise requires, be read as references to the Part VII Successor. See "Proposed Part VII Transfer" and "Risk Factors - Risk Factors Relating to the Proposed Part VII Transfer".

## 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:** Virgin Money plc, incorporated under the laws of England and Wales.

For a more detailed description of the Issuer, see "*Virgin Money plc*" below.

Following completion of the Part VII Transfer, if implemented, the Issuer will be the Part VII Successor.

**Proposed Part VII Transfer:** As further described in the section of this Prospectus entitled "*Proposed Part VII Transfer*", the Issuer understands that the intention as of the date of this Prospectus is that all or substantially all of the business, operations, assets, liabilities and obligations of Virgin Money plc are likely to be transferred to Clydesdale pursuant to the Part VII Transfer.

The Part VII Transfer will not require any consent or approval of any holders of Covered Bonds, the Bond Trustee, any Rating Agency or any other counterparties to any Transaction Documents, the Dealer Agreement and/or any Subscription Agreement, and, following completion of the Part VII Transfer, the rights of the holders against Virgin Money plc in respect of their Covered Bonds and the rights of any counterparties to the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement against Virgin Money plc (as Issuer and in each other Relevant Capacity), will become rights against the Part VII Successor (acting as Issuer or, as the case may be, in such other Relevant Capacity).

Following the Part VII Transfer, the guarantee obligation of the LLP with respect to the Covered Bonds will continue to be effective on terms which are the same (or substantially the same) in all material respects as at the date of this Prospectus.

See further "*Proposed Part VII Transfer*" and "*Risk Factors - Risk Factors Relating to the Proposed Part VII Transfer*".

**The LLP:** Eagle Place Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (partnership no. OC412988). The Members of the LLP on the date of this Prospectus are Virgin Money plc (in its capacity as Seller) and the Liquidation Member. The LLP is a special purpose vehicle whose business is to acquire, *inter alia*, 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.

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.

For a more detailed description of the LLP, see "*The LLP*" below.

**Seller:**

Virgin Money plc, which is in the business of originating and acquiring residential mortgage loans and conducting other related activities.

For a more detailed description of the Seller, see "*Virgin Money plc*" below.

Following completion of the Part VII Transfer, if implemented, the Seller will be the Part VII Successor.

**Originators:**

The Mortgage Portfolio comprises Mortgage Loans originated by Landmark Mortgages Limited (formerly NRAM plc and Northern Rock (Asset Management) plc) (and subsequently transferred to Virgin Money plc) and originated by Virgin Money plc (respectively the "**NRAM Originator**" and the "**VM Originator**"). The Mortgage Portfolio may, from the Part VII Effective Date (subject to the provisions of the Mortgage Sale Agreement relating to the inclusion of New Mortgage Loan Types in the Mortgage Portfolio), also comprise Mortgage Loans originated by Clydesdale or any other relevant entity within the CYBG Group (each a "**Clydesdale Originator**" and together with the the NRAM Originator and the VM Originator, the "**Originators**"), as well as Mortgage Loans subsequently originated by the Part VII Successor or its group.

**Administrator:**

Pursuant to the terms of the Administration Agreement, Virgin Money plc has been appointed to administer, on behalf of the LLP, the Mortgage Loans and Related Security sold to the LLP by the Seller.

Following completion of the Part VII Transfer, if implemented, the Administrator will be the Part VII Successor.

**Cash Manager:**

Virgin Money plc has been appointed, *inter alia*, to provide cash management 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 Cash Management Agreement.

Following completion of the Part VII Transfer, if implemented, the Cash Manager will be the Part VII Successor.

**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.



<b>Bond Trustee:</b>	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.
<b>Registrar:</b>	HSBC Bank plc, acting through its offices at 8 Canada Square, London E14 5HQ, has been appointed pursuant to the Agency Agreement as Registrar.
<b>Security Trustee:</b>	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.
<b>Asset Monitor:</b>	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.
<b>Asset Pool Monitor:</b>	An eligible auditor appointed as asset pool monitor in accordance with the requirements of the RCB Regulations. The Issuer is required to appoint an asset pool monitor in advance of its annual confirmation of compliance with certain requirements of the RCB Regulations. (See " <i>Description of the UK Regulated Covered Bond Regime</i> " below).
<b>Covered Bond Swap Providers:</b>	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 and the 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 " <i>Summary of the Principal Documents – Covered Bond Swap Agreements</i> " below.
<b>Interest Rate Swap Providers:</b>	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 Mortgage Loans sold by the Seller to the LLP and a compounded daily SONIA rate (payable by the LLP under the Covered Bond Swap Agreement in respect of each Series of Covered Bonds where a Covered Bond Swap is in

place) 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 a specified ratings level, 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 and, in the case of an SVR Interest Rate Swap, reducing the notional amount of the SVR Interest Rate Swap to zero (subject to certain conditions including the receipt of regulatory approvals and satisfaction of regulatory requirements)) 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.

**VM Account Bank:**

Virgin Money plc has been appointed the VM Account Bank to the LLP pursuant to the terms of the VM Bank Account Agreement.

Following completion of the Part VII Transfer, if implemented, the VM Account Bank will be the Part VII Successor.

**Account Bank:**

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

**Liquidation Member:**

Eagle Place Covered Bonds Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 10298909). 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 Virgin Money plc.

Following completion of the Part VII Transfer, the share capital of the Liquidation Member previously held by Virgin Money plc will be held by the Part VII Successor.

**HoldCo:**

Eagle Place Covered Bonds (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 10298770). All of the shares of HoldCo are held by the Share Trustee on trust for general charitable purposes.

**Share Trustee:**

Intertrust Corporate Services Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP.

**Corporate Services Provider:**

Intertrust Management Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, has been appointed to provide certain corporate services to the LLP, Liquidation Member and HoldCo, pursuant to the Corporate Services Agreement.

**Description:**

Global Covered Bond Programme.

**Arrangers:**

BNP Paribas, London Branch and HSBC Bank plc

**Dealers:**

BNP Paribas, London Branch and HSBC Bank 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.

<b>Final Terms or Drawdown Prospectus:</b>	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.
<b>Listing and Trading:</b>	Application will be made to admit Covered Bonds (other than Exempt Covered Bonds) issued under the Programme to the Official List and to admit the Covered Bonds to trading on the regulated market of the London Stock Exchange. The Programme also permits Exempt Covered Bonds to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.
<b>The RCB Regulations:</b>	On 19 July 2017, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds under the RCB Regulations.
<b>Initial Programme Amount:</b>	Up to €7 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.
<b>Distribution:</b>	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 and Transfer and Selling Restrictions</i> " below.
<b>Issuance in Series:</b>	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.
<b>Form of Covered Bonds:</b>	Covered Bonds may be issued in bearer form (" <b>Bearer Covered Bonds</b> ") or in registered form (" <b>Registered Covered Bonds</b> ") 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.
<b>Specified Currencies:</b>	Covered Bonds may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements and as specified in the applicable Final Terms.
<b>Status of Covered Bonds:</b>	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 *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:</b>	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.
<b>Issue Price:</b>	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.
<b>Maturities:</b>	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.
<b>Interest:</b>	Covered Bonds may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate (or a fixed/floating or floating/fixed rate).
<b>Fixed Rate Covered Bonds:</b>	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 arrear on the Interest Payment Date(s) specified in the applicable Final Terms or determined pursuant to the Conditions.
<b>Fixed/Floating Rate Covered Bonds:</b>	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 " <i>Risk Factors – Fixed/Floating Rate Covered Bonds</i> ".
<b>Floating Rate Covered Bonds:</b>	Floating Rate Covered Bonds will bear interest determined separately for each Series as follows: <ul style="list-style-type: none"><li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc.; or</li><li>(ii) by reference to a reference rate appearing on the agreed screen page of a commercial quotation service,</li></ul> in any such case 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.

**Base Rate Modifications:**

If so specified in the applicable Final Terms for a Series of Covered Bonds, then 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)) for the consent of Covered Bondholders of such Series of Covered Bonds. See Condition 15(b)(iii) for further information.

**Option to issue N Covered Bonds:**

Subject to the consent of the Bond Trustee (which must be given if certain conditions are met), the Issuer may amend the Programme to allow for the issue of Covered Bonds in the form of German law governed registered bonds (*Namenschuldverschreibungen*) ("**N Covered Bonds**").

N Covered Bonds will rank *pari passu* with all other Covered Bonds and all payments of principal and interest payable under the N Covered Bonds will be guaranteed by the LLP pursuant to the terms of the Covered Bond Guarantee.

**Ratings Confirmation:**

The issuance of all Covered Bonds shall be subject to a Ratings Confirmation that the then current ratings for any outstanding Covered Bonds will not be adversely affected by the issuance of such Covered Bonds.

**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*).

**Extendable Obligations under the Covered Bond Guarantee:**

The applicable Final Terms may also 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. In such case, 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 and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each relevant Due for Payment Date and 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).

Unless otherwise stated in the applicable Final Terms, the minimum denomination of each Definitive Rule 144A Covered Bond will be U.S.\$200,000 or its approximate 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*).

**Modifications in connection with a Part**

In addition to the other rights of modification provided in the

<b>VII Transfer:</b>	Conditions (and notwithstanding that the transfer of the business, operations, assets and liabilities of Virgin Money plc pursuant to the Part VII Transfer will operate by law), in the event of a Part VII Transfer, the Transaction Documents and/or the Conditions of any Covered Bonds may be modified, subject to certain conditions (including the provision of a Ratings Confirmation), in accordance with Condition 15(e).
<b>Governing Law:</b>	English law.
<b>Selling Restrictions:</b>	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, the United Kingdom and Japan, see " <i>Subscription and Sale and Transfer and Selling Restrictions</i> " below.
<b>MiFID II product governance:</b>	The Final Terms in respect of any Covered Bonds will include a legend entitled " <i>MiFID II Product Governance</i> " which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate.
<b>PRIIPs Regulation:</b>	If the Final Terms in respect of any Covered Bonds includes a legend entitled " <i>Prohibition of Sales to EEA Retail Investors</i> ", the Covered Bonds are not intended to be, and should not be, offered, sold or otherwise made available to any retail investor in the EEA, and no key information document under the PRIIPs Regulation will be prepared.
<b>Risk Factors:</b>	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 " <i>Risk Factors</i> " from page 30 of this Prospectus.

## RISK FACTORS

*This section describes the principal risk factors associated with an investment in the Covered Bonds. This section of the Prospectus is divided into eight main sections – General Risk Factors, Risk Factors related to a particular issue of Covered Bonds, Risks relating to winding-up, insolvency and liquidation, Risk Factors relating to the Issuer, Risk Factors relating to the LLP, Risk Factors Relating to the proposed Part VII Transfer, Risk Factors relating to Clydesdale and Risk Factors relating to the Programme.*

*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 and should be used as guidance only. 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, 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.*

*Furthermore, if the proposed Part VII Transfer is implemented, then from the Part VII Effective Date, the Issuer of the Covered Bonds will be the Part VII Successor, and accordingly the ability of the Issuer to fulfil its obligations in respect of the Covered Bonds may be affected by risks relating to all businesses, operations, assets and liabilities of the Part VII Successor and its group, including, if applicable, those relating to the legacy Virgin Money business and those relating to the legacy Clydesdale Group business. Prospective investors in any Covered Bonds should consider carefully all risk factors described in this section and should note that the risks set out below relating to the Issuer may, from the Part VII Effective Date, apply equally to the Part VII Successor as Issuer.*

### GENERAL RISK FACTORS

#### ***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.

#### ***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, Clydesdale (unless and until such time as it becomes the Part VII Successor, if applicable) 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 and such obligations will not be



the obligations of their respective officers, members, directors, employees, security holders, incorporators or any holding company.

### ***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):
  - (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,  
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 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
    - (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 in the Transaction Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit) or the VM Account (in an amount not exceeding the VM Permitted Cash Amount).
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, 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.

#### ***Security Trustee's powers may affect the interests of the Covered Bondholders***

In the exercise of its powers, trusts, authorities and discretions the Security 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 may not act on behalf of the Seller.

If, in connection with the exercise of its powers, trusts, authorities or discretions, 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 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.

#### ***Extendable obligations under the Covered Bond Guarantee***

Following the 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, then the payment of such Guaranteed Amounts may be automatically deferred. The Issuer is not required to notify Covered Bondholders of such deferral. This will occur (subject to no LLP Event of Default having occurred) if the Final Terms for a relevant Series of Covered Bonds (the "**relevant Series of Covered Bonds**") provides that such Covered Bonds are subject to an Extended Due for Payment Date.

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 (where the relevant Series of Covered Bonds are subject to an 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 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.

#### ***Eurosystem Eligibility***

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

#### ***Absence of secondary market; Limited liquidity***

No assurance is provided that there is an active and liquid secondary market for the Covered Bonds (for example, Covered Bonds may be allocated to a limited pool of investors), and no assurance is provided that a secondary market for the Covered Bonds will develop or, if it does develop, that it will provide Covered Bondholders with liquidity of investment for the life of the Covered Bonds. Any investor in the Covered Bonds

must be prepared to hold their Covered Bonds for an indefinite period of time or until their Final Maturity Date or alternatively such investor may only be able to sell the Covered Bonds at a discount to the original purchase price of those Covered Bonds. Although application has been made for Covered Bonds issued under the Programme to be admitted to trading on the regulated market of the London Stock Exchange, if so specified in the relevant Final Terms, the Issuer cannot guarantee that the Covered Bonds will be accepted for listing or admitted to trading or that an active trading market will develop. Therefore, investors may not be able to sell their Covered Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed trading market.

The secondary market for mortgage-backed securities similar to the Covered Bonds has, at times, experienced limited liquidity. Limited liquidity in the secondary market may have an adverse effect on the market value of mortgage-backed securities including the Covered Bonds, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors.

Whilst central bank schemes such as the Bank of England's Discount Window Facility, Extended Term Collateral Repo Facility, Funding for Lending Scheme ("**FLS**") and Term Funding Scheme ("**TFS**") and the European Central Bank liquidity scheme provide 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 and TFS 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.

The FLS and TFS could significantly reduce the amount of UK regulated covered bond issuances to the primary market, which in turn could affect the level of liquidity in the secondary market for these securities.

#### ***Ratings of the Covered Bonds***

***A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension or withdrawal (or, as noted above, revision) at any time. A credit rating may not reflect the potential impact of all of the risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds. Any downgrade in the rating of the Issuer by each Rating Agency may have a negative impact on the ratings of the Covered Bonds.***

The expected ratings of the Covered Bonds are set out in the relevant Final Terms for each Series of Covered Bonds. Any Rating Agency may lower its ratings or withdraw its rating if, in the sole judgement of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. In addition, at any time any Rating Agency may revise its relevant rating methodology with the result that, amongst other things, any rating assigned to the Covered Bonds may be lowered. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may reduce.

The Issuer is exposed to changes in the rating methodologies applied by rating agencies. Any adverse changes of such methodologies may materially and adversely affect the Issuer's operations or financial condition, the Issuer's willingness or ability to leave individual transactions outstanding and adversely affect the Issuer's capital market standing. Furthermore, the ratings of the Covered Bonds may be affected by the Part VII Transfer, if implemented.

In general, European regulated investors are restricted under Regulation (EU) No. 1060/2009 (as amended) (the "**CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

### ***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 due consideration and consultation with such Rating Agency (including, as applicable, upon receipt of oral confirmation from an appropriately authorised person at such 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),

(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, a Ratings Confirmation does not impose or extend any actual or contingent liability on the each 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 such Ratings Confirmation 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 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 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 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.

For the avoidance of doubt, no Rating Confirmations will be required or obtained in order to effect the Part VII Transfer, although a Ratings Confirmation would be required in relation to a Part VII Modification pursuant to Condition 15(e).

### ***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.

### ***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.

If the Relevant Screen Page is not available for any reason, the Principal Paying Agent will request each of the Reference Banks, appointed by the Issuer, to provide the Principal Paying Agent with its offered quotation to leading banks or, as applicable, its rate for deposits in the relevant Specified Currency for the relevant rate for the purposes of determining the applicable Rate of Interest. However, there can be no assurance that the Issuer will be able to appoint one or more Reference Banks to provide offered quotations and no Reference Banks have been appointed at the date of this Prospectus.

In accordance with Condition 5(b)(ii) (*Rate of Interest*) if the Screen Page is not available and the Issuer is unable to determine the Rate of Interest by reference to the offered quotations or rates of deposit provided by the Reference Banks (due to the requisite number of Reference Banks not providing such quotations or rates), the applicable Rate of Interest for the relevant Interest Period will be the Rate of Interest in effect for the last preceding Interest Period (taking into account any change in the relevant Margin). If the Rate of Interest was determined by reference to a previously calculated Reference Rate, Covered Bondholders may be adversely affected.

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

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor of the Covered Bonds should consult its legal advisers to determine whether and to what extent (1) the Covered Bonds are legal investments for it, (2) the Covered Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Investors should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Covered Bonds under any applicable risk-based capital or similar rules. The Covered Bonds will not be "mortgage related securities" for purposes of the U.S. Secondary Mortgage Market Enhancement Act of 1984, as amended.

#### ***Investors to rely on the procedures of Euroclear, Clearstream, Luxembourg and/or DTC 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 depository for Euroclear and Clearstream Luxembourg or with DTC (each of Euroclear, Clearstream, Luxembourg and DTC, 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 or DTC.

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 depository or, as appropriate, the custodian for DTC, 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 or DTC (as applicable), 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 or by DTC 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.

#### ***Risks in relation to the UK's vote to leave the EU***

On 23 June 2016, the UK voted to leave the EU ("**Brexit**") in a referendum (the "**UK Referendum**"). Following the UK Government's decision to invoke Article 50 of the Treaty on the EU on 29 March 2017, it is expected that the UK will leave the EU in March 2019, although this deadline could be extended or a transitional

arrangement put in place, subject to agreement by all EU Member States. At this stage, the nature of the future relationship between the UK and the remaining EU countries following the UK's exit (the "EU27") has yet to be agreed and negotiations with the EU on the terms of the exit have demonstrated the difficulties that exist in reaching such an agreement. In addition to the economic and market uncertainty this brings (see "*Market uncertainty*" below), there are a number of other potential risks which may arise as a result of the UK Referendum result. If any of these risks materialise, they could have a material adverse effect on the Issuer's business, prospects or results of operations:

#### *Political uncertainty*

Following the UK Referendum, the UK has entered into a period of political uncertainty. Such uncertainty could lead to a high degree of economic and market disruption and legal uncertainty. It is not possible to ascertain how long this period will last and the impact it will have on the UK in general and the market, including market value and liquidity, for asset-backed securities similar to the Covered Bonds in particular. The Issuer cannot predict when or if political stability will return, or the market conditions relating to asset-backed securities similar to the Covered Bonds at that time.

#### *Legal uncertainty*

A significant proportion of English, Northern Irish and Scots law currently derives from or is designed to operate in concert with EU law. This is especially true of English, Northern Irish and Scots law relating to financial markets, financial services, prudential and conduct regulation of financial institutions, bank recovery and resolution, payment services and systems, settlement finality, market infrastructure and mortgage and consumer credit regulation. Depending on the timing and terms of the UK's exit from the EU, significant changes to English, Northern Irish and Scots law in areas relevant to the Issuer and the CYBG Group can be expected. The Issuer cannot predict what any such changes will be. This could increase uncertainty and compliance costs for the CYBG Group.

#### *Regulatory uncertainty*

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

Once the UK ceases to be an EU Member State, the current passporting arrangements will cease to be effective, as will the current mutual rights of access to market infrastructure and current arrangements for mutual recognition of bank recovery and resolution regimes. The ability of regulated financial institutions to continue to do business between the UK and the EU would therefore be subject to separate arrangements between the UK and the EU, in respect of which negotiations are ongoing. There can be no assurance that there will be any such arrangements concluded and, if they are concluded, on what terms. Currently, as set out in the Financial Services Register, Clydesdale has the ability to exercise passporting rights to certain EEA jurisdictions and exercises those rights. According to the Financial Services Register, the Issuer does not currently exercise passporting rights into EEA countries. The loss of passporting would, therefore, impact the CYBG Group's ability to carry out business in EEA countries. The CYBG Group would be impacted by this to the extent that it proposes to carry out regulated activities in EEA countries, but its UK customer base and operations would not be expected to be directly impacted. Such uncertainty could adversely impact the ability of third parties who are regulated financial institutions to provide services to the Issuer or the Security Trustee.

Prospective investors should also note that the regulatory position of the Covered Bonds may be affected as a result of provisions under the current regime which restrict the availability of preferential treatment (including with respect to investment limits, regulatory capital and liquidity standards – see the section "*Description of the UK Regulated Covered Bond regime*" for further information) to covered bonds issued by a credit institution with its registered office in an EEA state. It is uncertain whether such preferential treatment will remain available in respect of the Covered Bonds following the departure of the UK from the European Union and this will depend in part on the terms of the UK's exit and the impact, if any, of the grandfathering provisions coming out of the legislative proposals on the harmonisation of the EU covered bond framework (as to which, please refer to the "*Regulatory initiatives may have an adverse impact on the regulatory treatment of the Covered*

*Bonds*’ risk factor below. Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer, any Dealer or the Arrangers makes any representation to any prospective investor regarding the regulatory treatment of their investment at the time of investment or at any time in the future.

#### *Market uncertainty*

Since the UK Referendum, there has been volatility and disruption of the capital, currency and credit markets, including the market for asset-backed securities.

Potential investors should be aware that these prevailing market conditions affecting asset-backed securities could lead to reductions in the market value and/or a severe lack of liquidity in the secondary market for instruments similar to the Covered Bonds. Such falls in market value and/or lack of liquidity may result in investors suffering losses on the Covered Bonds in secondary resales even if there is no decline in the performance of the Mortgage Portfolio.

The Issuer cannot predict when these circumstances will change and whether, if and when they do change, there would be an increase in the market value and/or there will be a more liquid market for the Covered Bonds and instruments similar to the Covered Bonds at that time.

#### *Adverse economic conditions affecting Borrowers*

The uncertainty and market disruption following the UK Referendum and the implementation of the terms of the withdrawal and the framework of the future relationship between the UK and the European Union, or failure thereof, may cause investment decisions to be delayed, reduce job security and damage consumer confidence. The resulting adverse economic conditions may affect Borrowers' willingness or ability to meet their obligations under the Mortgage Loans, resulting in increased defaults in the Mortgage Portfolio and may ultimately affect the ability of the Issuer to pay interest and repay principal under the Covered Bonds.

#### *Wider UK constitutional implications*

The UK Referendum has also caused renewed constitutional debate within the UK. Majorities of voters in both Scotland and Northern Ireland voted to remain in the EU. Senior political figures in both Scotland and Northern Ireland have suggested that they have a mandate from their voters to remain in the EU and might seek to leave the UK in order to achieve that outcome. On 28 March 2017, the Scottish Parliament gave approval for a motion to grant the Scottish Government a mandate to begin discussions with the UK Government about an independence referendum for Scotland. However, the UK Prime Minister has indicated that the UK Government does not support an independence referendum for Scotland prior to the UK exit from the EU. There is therefore inherent uncertainty surrounding a potential Scottish independence referendum.

A future departure of Scotland from the UK could impact the fiscal, monetary and regulatory landscape to which the Issuer and the CYBG Group will be subject and may create additional costs for them (including changes to pension arrangements, costs of regulatory compliance and, if deemed necessary, a change of headquarters to England). While the operational consequences of Scottish independence remain uncertain, it could (1) result in changes to the economic climate in Scotland and political and policy developments, (2) have an impact on Scots law, regulation accounting or administrative practice in Scotland, and/or (3) result in Scotland ceasing to use pounds sterling as its base currency.

Risks and uncertainties associated with a departure of Scotland from the UK could materialise both before any referendum for independence takes place and, in addition, in the case of a vote for independence, after the referendum but before independence.

#### *Rating actions*

The UK Referendum has resulted in downgrades of the UK sovereign by S&P Global Ratings Europe Limited, Fitch and Moody's. S&P Global Ratings Europe Limited and Fitch have a negative outlook and watch, respectively, on the UK sovereign rating, suggesting a possibility of further negative rating action.

The rating of the sovereign may affect the ratings of entities operating in its territory, and in particular the ratings of financial institutions. Further downgrades of the sovereign rating may result in downgrades of the Issuer's ratings which may increase its borrowing costs or challenge its access to wholesale funding from capital markets.

Following a reassessment of their probability of a no-deal disruptive Brexit scenario, on 1 March 2019, Fitch placed the BBB+ long-term Issuer Default Ratings of CYBG and its subsidiaries on Rating Watch Negative. This was part of a wider action on a number of UK banking groups. None of the CYBG Group's other ratings were impacted.

Further downgrades may cause downgrades to counterparties to the Transaction Documents meaning that they cease to have the relevant required ratings to fulfil their roles and need to be replaced. If rating action is widespread, it may become difficult or impossible to replace such counterparties with others who have the required ratings on similar terms or at all.

Moreover, a more pessimistic economic outlook for the UK in general could lead to increased concerns around the future performance of the Mortgage Portfolio and accordingly the ability of the Issuer to pay interest and repay principal under the Covered Bonds and the ratings assigned to the Covered Bonds could be adversely affected.

## **RISK FACTORS RELATED TO A PARTICULAR ISSUE OF COVERED BONDS**

A wide range of Covered Bonds may be issued under the Programme. A number of these Covered Bonds may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

### ***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.

### ***Fixed Rate Covered Bonds***

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

### ***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 Covered Bonds.

### ***Covered Bonds issued at a substantial discount or premium***

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.



### ***Covered Bonds where denominations involve integral multiples: definitive Covered Bonds***

In relation to any issue of Covered Bonds that 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 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 (after deducting integral multiples of such minimum Specified Denomination) is less than the minimum Specified Denomination in his 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 such that its 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.

### ***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.

### ***The regulation and reform of benchmarks may adversely affect the value of Covered Bonds referencing such benchmarks***

Interest rates and indices which are deemed to be or are linked to or reference "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. Any such consequence could have a material adverse effect on any Covered Bonds referencing such a benchmark.

The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016 and has applied from 1 January 2018. The 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. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities (such as the Issuer) of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation 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 relevant benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability of the London interbank offered rate ("**LIBOR**") has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the

"**FCA Announcement**"). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. On 24 November 2017, the FCA confirmed that all 20 of the panel banks have agreed to support the LIBOR benchmark until 2021, although Société Générale will cease submissions to the U.S. Dollar panel and Crédit Agricole Corporate and Investment Bank will cease submissions to the Japanese Yen panel. Both banks will continue to submit to all other panels to which they currently contribute. The FCA has stated that it does not expect to see any further changes to the LIBOR panels until the end of 2021. In a further speech on 12 July 2018, the chief executive officer of the FCA, Andrew Bailey, emphasised that market participants should not rely on the continued publication of LIBOR after the end of 2021.

In addition, on 29 November 2017, the BoE and the FCA announced that, from January 2018, their Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average ("**SONIA**") over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021 (as further described under "*The market continues to develop in relation to SONIA as a reference rate*" below).

Separate workstreams are also underway in Europe to reform the euro interbank offered rate ("**EURIBOR**") using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate).

Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmarks may adversely affect such benchmarks during the term of the relevant Covered Bonds, the return on the relevant Covered Bonds and the trading market for securities based on the same benchmark. The "*Terms and Conditions of Covered Bonds*" set out below provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR (including any page on which such benchmark may be published (or any successor service)) becomes unavailable for use in connection with the Covered Bonds or associated arrangements under the Transaction Documents, including the possibility that the rate of interest on Floating Rate Covered Bonds could be determined by the Issuer or set by reference to a reference bond rate or an alternative reference rate. The fallback provisions also permit changes to the swaps and other Transaction Documents in applicable circumstances. In certain circumstances the ultimate fallback 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 was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of alternative reference rates and the involvement of the Issuer, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such 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 relevant Issuer to meet its obligations under the Floating Rate Covered Bonds or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Covered Bonds. Investors should consider these matters when making their investment decision with respect to the Covered Bonds.

In particular, investors should be aware that:

- (a) any of these reforms or pressures or any other changes to a relevant interest rate benchmark (including LIBOR or EURIBOR) could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be;
- (b) if LIBOR or EURIBOR is discontinued 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 not referencing Compounded Daily SONIA*) of the Conditions of the Covered Bonds, although such provisions, being dependent in part upon the provision by Reference Banks of offered quotations for the LIBOR or EURIBOR rate, may not operate as intended depending on market circumstances and the availability of rates information at the relevant time and may result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR or EURIBOR (as applicable) 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)(C) (*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 LIBOR, EURIBOR, SONIA or 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 in this risk factor may become relevant; and
- (e) if LIBOR, 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 LIBOR, EURIBOR, SONIA or other benchmark rate (as applicable) on the relevant Floating Rate Covered Bonds as described in paragraph (c) 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 (5) 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 (4) 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 – Risk Factors related to a particular issue of Covered Bonds – “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).

More generally, any of the above matters (including an amendment to change LIBOR or EURIBOR or other relevant benchmark rate as described in paragraph (c)) or any other significant change to the setting or existence of LIBOR or EURIBOR or any other Reference Rate could affect the ability of the Issuer to meet its obligations under the Covered Bonds and/or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Covered Bonds. No assurance may be provided that relevant changes will not be made to LIBOR, EURIBOR or any other relevant benchmark rate and/or that such benchmarks will continue to exist. Investors should consider these matters when making their investment decision with respect to the Covered Bonds.

#### ***The market continues to develop in relation to SONIA as a reference rate***

Where the relevant Final Terms for a Series of Floating Rate Covered Bonds identifies that the Rate of Interest for such Covered Bonds will be determined by reference to SONIA, the Rate of Interest will be determined on the basis of Compounded Daily SONIA (as defined in the “*Terms and Conditions of the Covered Bonds*”). Compounded Daily SONIA differs from LIBOR in a number of material respects, including (without limitation) that Compounded Daily SONIA is a backwards-looking, compounded, risk-free overnight rate, whereas LIBOR is expressed on the basis of a forward-looking term and includes a risk-element based on inter-bank lending. As such, investors should be aware that LIBOR and SONIA may behave materially differently as interest reference rates for Covered Bonds issued under the Programme. The use of Compounded Daily SONIA as a reference rate

for Eurobonds is nascent, and is subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing Compounded Daily SONIA.

Accordingly, prospective investors in any Covered Bonds referencing Compounded Daily SONIA should be aware that the market continues to develop in relation to SONIA as a reference rate in the capital markets and its adoption as an alternative to Sterling LIBOR. For example, in the context of backwards-looking SONIA rates, market participants and relevant working groups are currently assessing the differences between compounded rates and weighted average rates, and such groups are also exploring forward-looking 'term' SONIA reference rates (which seek to measure the market's forward expectation of an average SONIA rate over a designated term). The adoption of SONIA may also see component inputs into swap rates or other composite rates transferring from LIBOR or another reference rate to SONIA.

The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the "*Terms and Conditions of the Covered Bonds*" as applicable to Covered Bonds referencing a SONIA rate that are issued under this Prospectus. Furthermore, the Issuer may in future issue Covered Bonds referencing SONIA that differ materially in terms of interest determination when compared with any previous SONIA-referenced Covered Bonds issued by it under the Programme. Equally, in such circumstances it may be difficult for the Covered Bond Guarantor to find any replacement Swap Provider to hedge its interest rate exposure properly on such a Floating Rate Covered Bond should a Swap Provider need to be replaced and such Floating Rate Covered Bond at that time uses an application of SONIA that differs from products such Swap Providers are prepared to hedge at that time. 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 market 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 the Programme from time to time.

Furthermore, the Rate of Interest on Covered Bonds which reference Compounded Daily SONIA is only capable of being determined at the end of the relevant Observation Period and immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Covered Bonds which reference Compounded Daily SONIA to estimate reliably 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 factors could adversely impact the liquidity of such Covered Bonds. Further, in contrast to LIBOR-based Covered Bonds, if Covered Bonds referencing Compounded Daily SONIA become due and payable as a result of an Issuer Event of Default or an LLP Event of Default, or are otherwise redeemed early on a date which is not an Interest Payment Date, the final Rate of Interest payable in respect of such Covered Bonds shall only be determined immediately prior to the date on which the Covered Bonds become due and payable.

In addition, the manner of adoption or application of SONIA reference rates 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 SONIA reference rates 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 Compounded Daily SONIA.

Investors should carefully consider these matters when making their investment decision with respect to any such Covered Bonds.

***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 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 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 are 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.

Notwithstanding the above, 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 Loan Warranties and the Eligibility Criteria) and/or the Conditions of the Covered Bonds to enable:

- (i) the Covered Bonds issued under the Programme to qualify as regulated covered bonds under the RCB Regulations or any replacement or amended regulations;
- (ii) the Transaction Documents and/or the Conditions of the Covered Bonds to comply with or implement or reflect any change in the criteria of any Rating Agency;
- (iii) N Covered Bonds to be issued under the Programme;
- (iv) the appointment of any additional Account Bank (provided such Account Bank has at least the Account Bank Remedial 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 Substitution Assets;
- (v) the establishment of any additional or replacement Swap Collateral Account that may be required in accordance with any Interest Rate Swap Agreement or any Covered Bond Swap Agreement (provided any such Swap Collateral Account is held with a Swap Collateral Account Bank which has at least the Account Bank Remedial Ratings);
- (vi) any Interest Rate Swap Agreement to be terminated or amended from time to time, together with any consequential amendments to the Transaction Documents and/or the Conditions of the Covered Bonds for the purpose of enabling the notional amount of the SVR Interest Rate Swap to be reduced to zero at the option of the SVR Interest Rate Swap Provider following a downgrade in the relevant rating of the SVR Interest Rate Swap Provider or any guarantor of the SVR Interest Rate Swap Provider's obligations by the relevant Rating Agency, provided that (A) the relevant Rating Agency has confirmed that the ratings of the Covered Bonds would not be adversely affected or withdrawn and (B) that all necessary regulatory approvals and consents have been received;
- (vii) the Covered Bonds to be (or to remain) listed on the London Stock Exchange;
- (viii) the Issuer or the LLP to comply with FATCA (or any voluntary agreement entered into with a taxing authority in relation thereto);
- (ix) the addition of any Rating Agency to the Programme;

- (x) New Mortgage Loan Types to be sold to the LLP (including Mortgage Loans originated by a Clydesdale Originator or the Part VII Successor) 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;
- (xi) the accession of Clydesdale or any other relevant entity in the Clydesdale Group or any other New Seller as contemplated by clause 31 of the LLP Deed; and/or
- (xii) Clydesdale or any other member of the Clydesdale Group to be appointed as administrator of all or some of the Mortgage Loans to be acquired by the LLP.

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 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 paragraphs (i) to (xii) above 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 Bondholders or any Secured Creditor. Amendments may also be made without the consent of Covered Bondholders in respect of changes required to the Transaction Documents give effect to the Part VII Transfer, as set out in the Risk Factor below headed “- *The Bond Trustee and the Security Trustee shall, subject to the satisfaction of certain conditions, be required to agree to certain modifications to the Conditions of the Covered Bonds and the terms of the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent, in connection with the proposed Part VII Transfer*”.

The Bond Trustee shall, without the consent of the holders of any of the Covered Bonds or any other Secured Creditor (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 direct 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 concur with the Issuer and/or the LLP, in making any modifications to the Transaction Documents and/or the Conditions of the Covered Bonds that are requested by the Issuer and/or the LLP in order to enable the Issuer to comply with any requirements which apply to it under Regulation (EU) 648/2012 (the “**European Market Infrastructures Regulation**” or “**EMIR**”), subject to receipt by the Bond Trustee of a certificate of the Issuer (upon which the Bond Trustee may rely 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 EMIR. 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/or the Security Trustee, as applicable, would have the effect of (a) exposing 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), 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/or the Security Trustee, as applicable, in the Transaction Documents and/or the Conditions of the Covered Bonds.

***The Bond Trustee and the Security Trustee shall, subject to the satisfaction of certain conditions, be required to agree to certain modifications to the Conditions of the Covered Bonds and the terms of the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent, in connection with the proposed Part VII Transfer***

Whilst the transfer of the business, operations, assets and liabilities of the Issuer pursuant to the Part VII Transfer, if implemented, will operate by law, Condition 15(e) (*Part VII Transfer*) of the Terms and Conditions of the Covered Bonds provides that the Issuer may request the Bond Trustee and the Security Trustee to agree to amendments (other than a Series Reserved Matter) to the terms of the Covered Bonds and any Transaction Documents which the Issuer, in its sole and absolute discretion, considers to be necessary or expedient to ensure the effective implementation of the Part VII Transfer and/or incidental to or consequential on the Part VII Transfer and necessary or expedient in connection with the ongoing operation of the Programme. The Bond Trustee and the Security Trustee will agree to such modifications if certain conditions are satisfied, including that either (i) the Issuer has provided a certificate signed by a director of the Issuer certifying to the Bond

Trustee and the Security Trustee that the modifications are not materially prejudicial to the interests of the holders of Covered Bonds or any Secured Creditor or (ii) the Issuer has provided notice of the proposed modifications to the Covered Bondholders and by the relevant deadline specified in such notice, 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. Such amendments are also conditional on the Issuer providing a Ratings Confirmation and upon the Issuer and the LLP continuing to be at all times in compliance with the RCB Regulations. The amendments may include, but are not limited to, any changes to the calculation of the Asset Coverage Test and the Adjusted Loan Amount and any changes which the Issuer considers appropriate to the account bank arrangements and/or swap arrangements, timings and/or reference periods.

***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*" and "*—The Bond Trustee and the Security Trustee shall, subject to the satisfaction of certain conditions, be required to agree to certain modifications to the Conditions of the Covered Bonds and the terms of the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent, in connection with the proposed Part VII Transfer*" above, the Bond Trustee shall, without any consent or sanction of the Covered Bondholders or any of the other Secured Creditors, 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 to which it is a party or in relation to which it holds security 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 LIBOR or EURIBOR, in each case subject to the satisfaction of certain requirements, including receipt by the Bond 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.

#### ***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 at a single meeting of all the Covered Bondholders of all Series then outstanding.

#### ***EU financial transaction tax***

On 14 February 2013, the European Commission issued proposals, including a draft Directive (the "**Commission's proposal**") for a financial transaction tax ("**FTT**") to be adopted in certain participating EU member states (including Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia, although Estonia has since stated that it will not participate). If the Commission's proposal was adopted, the FTT would be a tax primarily on "financial institutions" (which would include the Issuer) in relation to "financial transactions" (which would include the conclusion or modification of derivative contracts and the purchase and sale of financial instruments).

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

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

However, the FTT proposal remains subject to negotiation between the participating member states. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate. Prospective holders of the Covered Bonds are advised to seek their own professional advice in relation to the FTT.

#### ***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 (and, in relation to the Scottish Mortgage Loans and Northern Irish Mortgage Loans, Scots law and Northern Irish Law respectively) 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, Scots law or Northern Irish 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.



## **RISKS RELATING TO WINDING-UP, INSOLVENCY AND LIQUIDATION**

### ***UK regulated covered bond regime***

On 19 July 2017, the Issuer was admitted to the register of issuers and the Programme was 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.

### ***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 investment consideration described below under "*Liquidation Expenses*".

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

The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days for the purposes of putting in place a company voluntary arrangement with the option for creditors to extend the moratorium for a further two months. This also extends to Limited Liability Partnerships by virtue of the Limited Liability Partnership (Amendment) Regulations 2005.

A "small" company is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £6.5 million; (ii) its balance sheet total is not more than £3.26 million; and (iii) the number of employees is not more than 50. The position as to whether or not a company is a "small" company may change from time to time and consequently no assurance can be given that the LLP, at any given time, will not be determined to be a "small" company. The United Kingdom Secretary of State for Business, Energy and Industrial Strategy may by regulation modify the eligibility requirements for "small" companies and can make

different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of the Covered Bondholders.

Secondary legislation excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include (a) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a "capital market arrangement" (as defined in the secondary legislation) under which a party has incurred, or when the agreement was entered into was expected to incur, a debt of at least £10 million and which involves the issue of a "capital market investment" (also defined but generally a rated, listed or traded bond) and (b) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in a foreign currency) of at least £10 million. While the LLP is expected to fall within one of the exceptions there is no guidance as to how the legislation will be interpreted and the Secretary of State for Business, Energy and Industrial Strategy may by regulation modify the exceptions. No assurance can be given that any modification of the exceptions will not be detrimental to the interests of the Covered Bondholders. Correspondingly, if the LLP is determined to be a "small" company and determined not to fall within one of the exceptions, then certain actions in respect of the LLP may, for a period, be prohibited by the imposition of a moratorium.

### ***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 "*Transaction Documents – Deed of Charge*"). In certain circumstances, including the occurrence of certain insolvency events in respect of the LLP, the ability to realise the Security may be delayed and/or the value of the Security impaired. 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 the subject of insolvency proceedings and/or that the Covered Bondholders would not be adversely affected by the application of insolvency laws (including English insolvency laws and, if appropriate, Scottish and Northern Irish insolvency laws).

### ***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 English Supreme Court has held that a flip clause as described above is valid under English law. Contrary to this however, the US Bankruptcy Court has held that such a subordination provision is unenforceable under US bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a US bankruptcy of the counterparty. The implications of this conflict remain 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 US), 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 US Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under US bankruptcy laws. Such laws may be relevant in certain circumstances with respect to a range of entities which may act as swap counterparty, including US established entities and certain non-US established entities with assets or operations in the US (although the scope of any such proceedings may be limited if the relevant non-US entity is a bank with a licensed branch in a US state). In general, if a subordination provision included in the Transaction Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the 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 Payment, 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.

### ***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 Rules 1986. 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. On the basis of and as a result of the changes described above, 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.

### **RISK FACTORS RELATING TO THE ISSUER**

*If the proposed Part VII Transfer is implemented, then from the Part VII Effective Date, the Issuer of the Covered Bonds will be the Part VII Successor, and accordingly the ability of the Issuer to fulfil its obligations in respect of the Covered Bonds may be affected by risks relating to all businesses, operations, assets and liabilities of the Part VII Successor and its group, including, if applicable, those risks relating to the legacy Virgin Money business and those risks relating to the legacy Clydesdale Group business. Prospective investors in any Covered Bonds should consider carefully the risks below, as well as the risks relating to the Part VII Transfer and should note that the risks set out below relating to the Issuer may, from the Part VII Effective Date, apply equally to the Part VII Successor as Issuer.*

***The Issuer's business and financial performance have been and will continue to be affected by general economic conditions in the United Kingdom (the "UK") and elsewhere, and any adverse developments in the UK or global financial markets could cause its earnings and profitability to decline***

As the Issuer's customer revenue is derived almost entirely from customers based in the UK, the Issuer is directly and indirectly subject to the inherent risks arising from general economic conditions in the UK, other economies which impact the UK economy and the state of the global financial markets both generally and as they specifically affect financial institutions.

Although the full implications of the UK leaving the EU are still not yet clear, the decision has introduced a significant degree of uncertainty for the UK economy. There remains considerable uncertainty about the economic and fiscal implications of different potential outcomes, including the impact of any monetary policy response that might accompany them.

If the UK's economic conditions weaken, resulting in a fall in demand for the Issuer's products, or if there is a fall in the level of customers' disposable income, or if financial markets exhibit uncertainty and/or volatility, this could have a material adverse impact on the Issuer's business, financial conditions, results of operations and/or prospects.

In addition, a deterioration in economic conditions in the Eurozone, including a return to macroeconomic or financial market instability may pose a risk to the Issuer's business, despite the Issuer having limited direct financial exposures in the Eurozone, given the influence the Eurozone has on the UK's economic performance. This may have an adverse impact on consumer confidence, spending and demand for credit in the UK, any of which could have a material negative effect on the Issuer's business, financial condition, results of operations and/or prospects. Market volatility has a material adverse impact on the ability of financial institutions to access the wholesale funding markets which, if such access becomes difficult, may have a material adverse impact on the Issuer.

Central banks in advanced economies have maintained historically low or negative levels of global interest rates. The Bank of England base rate fell to 0.25 per cent in August 2016, having previously remained at 0.5 per cent since March 2009. Despite an increase in the Bank of England base rate to 0.5 per cent in November 2017, and further increase to 0.75 per cent in August 2018, the low interest rate environment continues to put pressure on net interest income and margins throughout the UK banking industry, including the Issuer. In addition, the UK Government has provided support to UK financial institutions to support lending in the UK economy. These policies have helped to support demand at a time of pronounced fiscal tightening and balance sheet repair for most major financial institutions. Decreased levels of support for UK lending by the Bank of England and the UK Government could have a material adverse effect on the Issuer's business.

Higher interest rates could adversely impact the credit quality of the Issuer's customers and counterparties. Conversely, a deflationary economic environment could also lead to an adverse impact on the credit quality of the Issuer's customers and counterparties, through a deferral of domestic consumption leading to higher unemployment and an appreciation of debt in real terms. Both scenarios, coupled with a decline in collateral values, could lead to a reduction in recoverability and value of the Issuer's assets resulting in a requirement to increase the Issuer's level of impairment allowance. Any increase in impairment resulting from, for example, higher charge-offs to recovery in the retail book and write-offs could have a material adverse effect on the Issuer's business, financial condition, results of operations and/or prospects.

***The Issuer's earnings are exposed to the mortgages and savings market and the Issuer is exposed to risks relating to the housing market***

During the financial year ended 31 December 2018, a large proportion of the Issuer's total income was derived from its mortgage business. The UK mortgage market was severely affected by the global financial crisis, with gross residential mortgage lending in the UK falling from £363 billion in 2007 to a low of £135 billion in 2010 before recovering slightly to £197 billion at end September 2018, according to data from the Bank of England. UK Government intervention in the housing market includes both direct intervention through its Help to Buy programme and indirect intervention through provision of liquidity to the banking sector under the Bank of England's FLS and TFS).

Average house prices in the UK have generally been on the upward trend since February 2009. While the annual rate of house price growth has generally started to slow from the end of 2014, UK house price growth has slowed in 2018, particularly in London, as uncertainty around Brexit continues. If UK house prices were, in the future, to begin to follow a falling trend or if house prices in those regions to which the Issuer has significant exposure begin to follow a falling trend, in particular the South East of England and London, this would be likely to result in an increase in the Issuer's residential mortgage loan impairment charges as the value of the security underlying its mortgage loans is eroded. Higher impairment charges could reduce the Issuer's profitability, capital and its ability to engage in lending and other income generating activities and, therefore, could have a material adverse effect on the Issuer's business and potentially on its ability to implement its strategy.

In addition, the Issuer is exposed to the UK savings market as its principal source of funding for its mortgage lending. As a result, there is a risk that a temporary or permanent fall in the UK savings ratio (being the amount UK households save as a proportion of disposable income) may have a material adverse effect on the ability of the Issuer to fund its mortgage lending activity and affect the Issuer's ability to deliver its strategic income targets and its financial performance.

There are risks that competition for customers among financial institutions may increase the cost to the Issuer of acquiring the new customers it needs, through, for example, higher interest rates on its retail savings products. Savings products with higher rates without any corresponding lending rate increases could have the effect of reducing the Issuer's margins and therefore affecting the Issuer's ability to deliver its strategic income targets and its financial performance.

***Negative fair value adjustments could have a material adverse effect on the Issuer's business, financial condition, results of operations and/or prospects***

Through its treasury operations, the Issuer holds liquid assets portfolios for its own account, exposing the Issuer to interest rate risk, basis risk and credit spread risk. To the extent that volatile market conditions occur, the fair value of the Issuer's liquid asset portfolios could fall more than estimated and cause the Issuer to record mark to market losses. In a distressed economic or market environment, the fair value of certain of the Issuer's exposures may be volatile and more difficult to estimate because of market illiquidity. Valuations in future periods,

reflecting the then prevailing market conditions, may result in significant negative changes in the fair value of the Issuer's exposures, which could have a material adverse impact on the Issuer's business, financial condition, results of operations and/or prospects.

The Issuer has a portfolio of listed investment securities and there can be no assurance that fair valuations of the Issuer's investment securities in future periods will not result in other comprehensive losses or impairments which could be material. In addition, the value that the Issuer ultimately realises for its investment securities may be lower than their current fair value, resulting in losses being recorded in its income statement, which losses could be material. Any of these factors could have a material adverse effect on the Issuer's business, financial condition, results of operations and/or prospects.

***Volatility in the wholesale funding markets may have an adverse effect on the Issuer***

During the global financial crisis, wholesale funding markets were severely restricted, which led to material liquidity challenges for banks heavily reliant on that source of funding. As a result, UK banks significantly increased their demand for retail deposits as a source of funding, leading to increased competition and higher customer interest rates. Whilst wholesale funding markets have recovered significantly in recent years, a continued focus on retail funding, as evidenced by the reduced Loan-to-Deposit Ratios of the major UK retail banks, means that competition for retail deposits may continue to be elevated even in periods of benign wholesale funding markets. If the Issuer is not able to attract sufficient retail deposits, its ability to meet its lending targets may be constrained which could have a material adverse effect on the Issuer's financial and operational performance.

The Issuer has sourced a proportion of its funding in the wholesale markets, primarily through securitisation programmes which it principally uses for medium term funding, although retained notes can also be used for short term repo funding purposes. The Issuer has also accessed the wholesale funding markets through its Global Medium Term Note programme. While the Issuer does not currently rely heavily on wholesale funding, it may need to access wholesale markets where there is a residual funding requirement over and above funds held from, among other sources, personal savings accounts and other customer deposits. The availability of wholesale funding depends on a variety of factors including market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, and rating agencies' and funding markets' assessment of the Issuer's credit strength. These and other factors may limit the Issuer's ability to raise funding in wholesale markets which could, in turn, result in a significant increase in its cost of funding or result in other material adverse effects on its business, financial condition, results of operations and/or prospects.

***Rating downgrade and/or market sentiment with respect to the Issuer, the CYBG Group, the sector, the UK and/or other sovereign issuers may have an adverse effect on the Issuer***

If sentiment towards the financial institutions operating in the UK (including the Issuer) or in the Eurozone were to deteriorate, or if the UK's sovereign rating, the Issuer's ratings and/or the ratings of the major financial institutions operating within the UK or beyond were to be adversely affected, this may have a materially adverse impact on the Issuer and restrict its ability to source liquidity and funding or increase re-financing risk. In addition, any such change in sentiment or reduction in ratings could result in an increase in the costs of, and a reduction in the availability of, or access to, wholesale market funding across the financial sector which could have a material adverse effect on the business, results of operations, financial condition and prospects of all UK financial services institutions, including the Issuer.

The Issuer's long term Issuer Default Rating is currently rated BBB+ by Fitch and the Issuer's long term deposit rating and issuer rating are currently rated Baa1 by Moody's, reflecting a Baseline Credit Assessment ("BCA") of baa2, an Adjusted BCA of baa2 and a Counterparty Risk Assessment of A2(cr)/P-1(cr). Any future declines in those aspects of the Issuer's or the CYBG Group's business identified by Fitch and/or Moody's as significant or otherwise could adversely affect Fitch's and/or Moody's perception of the Issuer's credit worthiness and cause one, or both, to take negative ratings actions. Any downgrade in the Issuer's credit rating by Fitch and/or Moody's could:

- adversely affect the Issuer's liquidity and competitive position, particularly through cash outflows to meet collateral requirements on existing contracts;
- undermine confidence in the Issuer;

- increase the Issuer's borrowing costs; or
- limit the Issuer's access to the capital markets or limit the range of counterparties willing to enter into transactions with the Issuer, as many institutions require their counterparties to satisfy minimum ratings requirements.

The Issuer's credit rating is subject to change and could be downgraded by Fitch and/or Moody's as a result of many factors, including any failure by the Issuer and/or the CYBG Group to implement its strategies successfully. A downgrade of the Issuer's credit ratings could also lead to a loss of customers.

Following a reassessment of their probability of a no-deal disruptive Brexit scenario, on 1 March 2019, Fitch placed the BBB+ long-term Issuer Default Ratings of CYBG and its subsidiaries on Rating Watch Negative. This was part of a wider action on a number of UK banking groups. None of the CYBG Group's other ratings were impacted.

***Competition in the United Kingdom personal financial services markets may adversely affect the Issuer's operations***

The Issuer operates in an increasingly competitive UK personal financial services market. The Issuer competes mainly with other providers of personal financial services, including banks, building societies and insurance companies, some of which have greater scale and financial resources, broader product offerings and more extensive distribution networks than the Issuer.

Competition may intensify further in response to competitor behaviour, consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and any action taken by the Competition and Markets Authority (the "CMA"), outputs from various market studies by the FCA and the wider political environment, which is seeking to increase the level of competition in the UK retail banking market, together with other factors. If increased competition occurs as a result of these or other factors, the Issuer's business, financial condition, results of operations and/or prospects could be materially adversely affected.

Each of the main personal financial services markets in which the Issuer operates is mature and most are relatively slow growing. Material growth requires taking market share from competitors. The mortgages, savings, credit cards and personal current accounts ("PCAs") markets in particular are very concentrated. Some of the Issuer's competitors have publicly commented that they intend to grow their market share. Such banks may engage in enhanced marketing activities which may result in customers switching their products to such competitors or may limit the Issuer's ability to attract new customers. This may place elevated focus on price, service and other competitive factors as the key differentiators, each of which carries a cost to the provider. If the Issuer is unable to match the efficiency or the marketing impact of its competitors, it risks being disadvantaged and being unable to meet its strategic growth aspirations.

The credit card issuing business is highly competitive. The Issuer competes with other credit card issuers on a number of factors, including products and services, brand, network, reputation and pricing. This competition affects the Issuer's ability to obtain applicants for credit cards, encourage card members to use the Issuer's credit cards, maximise the revenue generated by card usage and generate card member loyalty and satisfaction so as to minimise the number of card members switching to other credit card brands. If the Issuer is unable to compete successfully, the Issuer's business, financial condition, results of operations and/or prospects could be materially adversely affected.

If the Issuer's customer service levels were perceived by the market to be only in line with, or materially below, those of competitor UK financial institutions, the Issuer could lose existing and potential new business. If the Issuer is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of its activities or fail to attract new business or retain existing business, which could have a material adverse effect on its business, financial condition, results of operations and/or prospects.

A feature of the market in which the Issuer operates is competition among lenders on credit standards. Should the Issuer's competitors lower their credit standards, the Issuer may lose market share of the sub sectors in which it operates in order to protect its risk appetite, which may materially adversely affect the Issuer's financial and operational performance.

## ***Financial Risk (Liquidity, Market and Credit)***

### *Liquidity*

Financial institutions, such as the Issuer, are subject to liquidity risk as an inherent part of their business. Liquidity risk is the risk that an institution may not have sufficient liquid funds at any time to make full payment in respect of liabilities falling due at that time. The Issuer has a core portfolio of liquid investments as well as a range of other assets which are a further source of liquidity to it. However, if access to liquidity is constrained for a prolonged period of time, the Issuer's cost of funding would increase as competition for retail deposits intensified, the cost of accessing the wholesale markets would rise and/or the Issuer's ability to realise its liquid investments would be constrained. This would have a material adverse effect on the Issuer's profitability.

These funding risks can be exacerbated by enterprise specific factors, such as over reliance on a particular source of funding or changes in credit ratings, or by market wide phenomena, such as market dislocation or a major disaster. There is also a risk that the funding structure employed by the Issuer may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long term for the Issuer to grow its business or even maintain it at current levels. The Issuer's ability to access retail and wholesale funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors which are outside its control.

Failure to manage these or any other risks relating to the cost and availability of liquidity and funding could compromise the Issuer's ability to deliver its strategy and, consequently, have a material adverse effect on the Issuer's business, financial condition, results of operations and/or prospects.

### *Market Risk and Interest Rate Risk on the Banking Book*

There is a risk that the value of, or net income arising from, the Issuer's assets and liabilities changes as a result of changes to market forces, specifically interest rates, exchange rates or equity prices. Principally, the Issuer faces banking book risk arising from interest rate risk, basis risk, foreign exchange risk, bond and equity index price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs.

The performance of financial markets may cause changes in the value of its investment portfolios. Although the Issuer has implemented risk management methods to seek to mitigate and control these and other market risks to which it is exposed and its exposures are constantly measured and monitored, there can be no assurance that these risk management methods will be effective, particularly in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations.

In April 2016, the Basel Committee published standards on the management of Interest Rate Risk on the Banking Book ("**IRRBB Standards**") to reflect changes in markets and supervisory practices. The Basel Committee IRRBB Standards are being implemented in two phases. Firstly, through the European Banking Authority Guidelines on the management of interest rate risk arising from non-trading book activities (published in July 2018) and through ongoing revision of the CRD IV. The manner in which the Basel Committee and European Banking Authority's statements will be translated in to UK regulation are unknown and the Issuer is monitoring suggested approaches as they develop. The regulation could lead to increased compliance costs, which may have a material adverse effect on the Issuer's business, financial condition and results of operations.

### *Credit*

Credit risk is the risk that a borrower or counterparty fails to pay interest or to repay the principal on a loan or other financial instrument. The Issuer's credit risk principally arises from its secured and unsecured loans and advances to customers, including its commitments to make such loans, from the investments in which its liquid assets are placed and from its hedging exposures. For example, the Issuer is exposed to the risk that the outstanding principal balance on interest-only or part capital repayment and part interest-only loans is not repaid in full at the contractual maturity date. The Issuer provides a variety of solutions to support customers in such instances, but these solutions may not always result in customers being able to repay their loans or to continue to service the interest payments where the capital sum remains outstanding. Where the solutions are unsuccessful in terms of their estimated impact, this could lead to an increase in impairment charges on the Issuer's residential mortgage portfolio and therefore could have a material adverse effect on its profitability.

## ***Operational Risk***

### *General*

The Issuer is exposed to many types of operational risk, including fraudulent and other criminal activities (both internal and external), the risk of breakdowns in processes, controls or procedures (or their inadequacy relative to the size and scope of the Issuer's business) information security risks arising from information leakage, loss or theft and systems failure or non-availability. The Issuer is also subject to the risk of disruption of its business arising from events that are wholly or partially beyond its control (for example natural disasters, acts of terrorism, epidemics and transport or utility failures) which may give rise to losses or reductions in service to customers and/or economic loss to the Issuer. The operational risks that the Issuer is exposed to could change rapidly and there is no guarantee that the Issuer's processes, controls, procedures and systems are sufficient to address, or could adapt promptly to, such changing risks. All of these risks are also applicable where the Issuer relies on outside suppliers or vendors to provide services to it and its customers (for example service disruption caused by the failure of a third party, corporate partner or strategic supplier).

### *Cyber-crime*

The Issuer continues to invest in its information security awareness, analysis and controls in response to emerging threats and to ensure controls for known threats remain robust. The risks associated with cyber-attacks, where an individual or group seeks to exploit vulnerabilities in IT systems for financial gain or to disrupt services, are recognised as being a material risk to the financial system. The Issuer has a robust IT infrastructure and its information security controls are designed to protect assets behind a layered series of defences. It cannot, however, be certain that its infrastructure and controls will prove effective in all circumstances. Any failure of the controls could result in significant financial losses and a material adverse effect on the Issuer's operational performance and reputation.

### *Retain/recruit key talent*

The successful management and operations of the Issuer are reliant upon the contributions of the board members of the Issuer, the senior management teams of the Issuer and other key personnel who are key to the Issuer's business. In addition, the Issuer's performance is largely dependent on the talents and efforts of highly skilled individuals. The Issuer's continued ability to compete effectively depends on its ability to attract new employees and to retain and motivate its existing employees. Although the Issuer takes steps to protect itself in relation to the loss of key personnel (such as the inclusion of succession planning, restrictive covenants and/or 'gardening leave' provisions in the employment contracts of key personnel), the loss of service of any of the Issuer's senior management team or other key personnel, or an inability of the Issuer to attract new personnel, could have a material adverse effect on the Issuer's business, financial condition, results of operations and/or prospects (see also "*Integration of the Issuer into the CYBG Group may be more time consuming and costly than expected and unforeseen difficulties may arise – Retention of key staff*").

### *Critical accounting estimates and judgements*

Accounting policies and their applications are fundamental to how the Issuer records and reports its financial condition and results of operations. The preparation of financial statements in conformity with International Financial Reporting Standards ("**IFRS**") requires the Issuer's management team to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on the Issuer's management team's best knowledge of the amount, actual results ultimately may differ from those estimates. The Issuer has identified certain areas that involve a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements in the notes to the Issuer's financial statements. There is a risk that the judgements exercised by the Issuer's management team were erroneous and this could lead to inaccuracies in the reported financial position and performance of the Issuer. As a result, the Issuer cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future and any such changes or restatements could be material in nature.

Notwithstanding the above, these risk factors should not be taken to imply that the Issuer or any other company in the CYBG Group, as applicable, is unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated under the FSMA.



***The Issuer is exposed to risks relating to relationships with key corporate partners and strategic suppliers***

The Issuer relies on a number of corporate partners and strategic suppliers which exposes the business to the risk of deterioration of the commercial, financial or operational soundness of those organisations. In general, any failure by a key third party has the potential to cause:

1. pressure on revenue;
2. deterioration in customer service; and
3. a negative impact on the Issuer's brand and investor confidence.

With mortgages being predominantly sold through intermediary partners, one of the Issuer's key relationships is with its network of professional mortgage intermediaries, of which over 11,600 actively engaged in business with the Issuer in 2017 and over 11,300 in 2018. The key risk associated with a major intermediary partner going out of business or switching allegiance to other lenders is the potential negative effect on the Issuer's lending volume. In addition, the Issuer may be exposed to many of the risks inherent in dealing with intermediaries. For example, the Issuer will have limited oversight of the intermediaries' interactions with prospective customers and, consequently, the Issuer faces certain risks related to the conduct of the mortgage intermediaries with which it does business. The intermediaries' incentives may not always align with the Issuer's, which could lead to a deterioration in the quality and performance of the Issuer's mortgage book. If mortgage intermediaries are found to have violated applicable conduct regulations or standards in the sale of the Issuer's mortgage products, the Issuer's brand and/or reputation could be harmed as a result. In addition, the structure of the intermediary market is also subject to change, for example, there may be a change in customer sentiment or regulation which favours customers dealing directly with financial institutions which would reduce the flow of business from intermediaries which may have an adverse impact on the Issuer if this business cannot be substituted. Also, there may be consolidation in the intermediary market which may change the behaviour of the residual intermediaries in ways which may adversely impact the Issuer. Any of these factors could have a negative impact on the Issuer's ability to meet its strategic objectives for its asset base and, consequently, its business, financial condition, results of operations and/or prospects.

The credit card business is reliant on a number of the Issuer's key relationships, including with Total System Services, Inc. ("TSYS") (which provides customer servicing capabilities). The Issuer's ability to issue credit cards and service customers could be impaired in the event of:

1. the failure of third party systems or technology platforms, which could cause temporary service outage, adversely affect customers and negatively impact the Issuer's reputation; and
2. any complete corporate failure of a third party, which could more significantly impact customers and the Issuer's reputation and, potentially, give rise to claims by customers for financial loss experienced and/or regulatory sanctions.

***The Issuer is reliant on its reputation and brand and therefore there are reputational risks which could cause harm to the Issuer and its business prospects***

The Issuer's reputation is one of its most important assets and its ability to attract and retain customers and staff and conduct business with its counterparties could be materially adversely affected to the extent that its reputation or the reputation of its brand is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to the Issuer and its business prospects. Reputational issues include, but are not limited to:

1. poor customer service or technology failures that impact upon customer services and accounts, see, for example, "*Operational Risk; Cyber-crime*" above;
2. failing to address potential conflicts of interest appropriately;
3. breaching or facing allegations of having breached legal and regulatory requirements in respect of the business it has originated or in respect of the business it has acquired, including Northern Rock plc. These requirements include, but are not limited to, conduct requirements, data protection, money laundering and anti-terrorism financing requirements;

4. acting or facing allegations of having acted unethically including having adopted inappropriate sales and trading practices;
5. failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record keeping;
6. failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered by the Issuer;
7. intermediaries and other third parties on whom the Issuer relies, such as clearing banks, TSYS for credit cards and third party mortgage servicing agents, failing to provide the necessary services;
8. generally poor business performance; and
9. failure to execute change properly and/or effectively.

A failure to address these or any other relevant issue appropriately could make customers and investors less willing to do business with the Issuer, which may materially adversely affect its business, financial condition, results of operations and/or prospects, and could damage its relationships with its regulators. As a result the Issuer cannot ensure that it will be successful in avoiding damage to its business from reputational risk.

The Issuer is also exposed to reputational risk through its reliance on the Virgin brand. The Virgin brand is used in a wide range of different economic sectors in the UK and internationally. Adverse publicity in relation to others associated with the Virgin brand (including Sir Richard Branson) could result in an adverse effect on the Issuer's business, financial condition, results of operations and/or prospects.

In order for the Issuer to use the "Virgin" and "Virgin Money" names and brands (which it does not own), the Issuer (via an intra-group sub-licence) is required to comply with certain obligations under the brand licence agreement entered into between CYBG and Virgin Enterprises Limited ("**Virgin Enterprises**") (the "**Brand Licence Agreement**"). The Brand Licence Agreement has a perpetual term. Virgin Enterprises has the right to terminate the Brand Licence Agreement in certain circumstances, including amongst other things: (i) if CYBG challenges Virgin Enterprises' ownership of, entitlement to license and/or the validity of the licensed trademarks; (ii) on CYBG's insolvency; (iii) upon CYBG's material, unremedied breach of the Brand Licence Agreement; (iv) if CYBG undergoes a change of control and the acquirer is a direct competitor of Virgin Enterprises (or any of its licensees) in the UK, or an entity involved in any business or activity, or possessing a reputation or financial standing which would be reasonably likely to materially damage the value or reputation of the "Virgin Money" or "Virgin" brands; and (v) CYBG's failure to comply with the must-use requirement under the Brand Licence Agreement (which requires, following a rebranding period, at least 80 per cent. of the CYBG Group's turnover to be generated under the marks licensed by Virgin Enterprises). In certain circumstances, the termination of the Brand Licence Agreement by Virgin Enterprises for cause entitles it to receive a termination fee from CYBG in lieu of a damages claim.

Loss of CYBG's rights to use the "Virgin" and "Virgin Money" names and brands under the Brand Licence Agreement could have a material adverse effect on the Issuer's business, financial condition, results of operations and/or prospects.

Virgin Enterprises may allow other Virgin Enterprises licensees to use the "Virgin" name and brand for financial products and services in certain defined circumstances. The use by any other Virgin Enterprises licensee of the "Virgin" name in relation to financial services and products may represent a dilution of the CYBG Group's exclusivity in the financial services field, and could: (i) cause customer confusion and (ii) create potential reputational damage if the Virgin Enterprises licensee providing the ancillary financial products or services does anything that damages the goodwill of the brand.

***Integration of the Issuer into the CYBG Group may be more time consuming and costly than expected and unforeseen difficulties may arise***

The integration of the Issuer into the CYBG Group may be more complex than anticipated. Successful integration will require a significant amount of management time and may affect or impair the ability of the management team of the CYBG Group to run the business effectively during the period of integration and to execute the Group's existing strategic priorities. If the integration process proves more difficult than is being anticipated there is a risk to the operational performance of the Issuer and the CYBG Group. The integration exposes the Issuer to the following risks:

### *Retention of key staff*

As noted in “*Operational Risk – Retain/recruit key talent*” above, the success of the Issuer and the CYBG Group will in part depend on its ability to retain, but also attract, hire and train qualified management as well as qualified technical personnel. In the course of the integration process, key staff may leave the Issuer or the CYBG Group in favour of competing entities. As part of the integration programme, a number of actions have been developed to mitigate the risk and minimise the potential impact on the CYBG Group’s ability to manage its day-to-day operations, deliver integration or the Issuer’s agenda, and to minimise the potential to impact customers adversely. However, the inability to recruit or retain key staff could impair the ability of the Issuer or the CYBG Group to execute the integration of the legacy Virgin Money group with the legacy CYBG group properly.

### *Integration of employee groups*

The merger of the employee groups of the Issuer and the CYBG Group will include, amongst other things, integration of unionised and non-unionised employees, restructuring of staff structures and possibly harmonisation of employment terms. Such merger and integration may result in labour related actions and employees terminating their employment with the Issuer or the CYBG Group which may in turn disrupt the integration process.

### *Disruption or failure of systems*

The integration of the Issuer into the CYBG Group may cause disruptions or failures in the IT systems of the Issuer or the CYBG Group. Such disruptions or failures could damage the reputation of the Issuer or the CYBG Group, result in loss of customers and revenues and may adversely affect the integration process. In addition, integration of the networks and IT systems of the Issuer into the CYBG Group could be subject to risks caused by cyber-enabled crime and fraud, misappropriation, misuse, leakage and accidental release or loss of information maintained in the IT systems, which may be in breach of personal data legislation, and which may result in loss of customers, customer dissatisfaction or financial claims.

### *Disruption to management*

The integration of the businesses could divert management’s time and focus from operating the business of the Issuer and the CYBG Group. Any negative impact on management’s ability to focus on running the respective businesses could have a material adverse effect on the Issuer and the CYBG Group, and the Issuer and CYBG Group’s business, results of operations, financial condition or prospects.

### *Integration of brands and legal entities*

The integration of businesses including assets, businesses and their operations, technologies and employees may expose the Issuer and the CYBG Group to operating difficulties and expenditure associated with integrating the “Virgin Money” brand. As a result, there is a risk of customer confusion, in particular during the transition period and merging of the brands may expose the Issuer or CYBG Group to increased regulatory scrutiny.

### *Impact on customer growth*

The integration of the Issuer into the CYBG Group may result in it having a higher risk portfolio due to either (i) changes in its customer base, or (ii) by targeting a more diverse set of segments. Any such negative impact on the Issuer’s or the CYBG Group’s risk portfolio could lead to a material adverse effect on the Issuer or the CYBG Group’s rate of medium term customer growth. As a result of the above and/or other risks, it is possible that the costs of integration of the Issuer into the CYBG Group may be materially higher than anticipated, which would adversely affect the expected synergy benefits and in particular exceed anticipated cost savings as a result of the Offer. In addition, the integration may take longer than is expected, or difficulties relating to the integration, including of which the board of directors of the Issuer from time to time are not yet aware, may arise. In such circumstances, the profitability of the Issuer or the CYBG Group might be detrimentally affected, which could have a material adverse effect on the business and financial condition of the Issuer and the CYBG Group.

***Recent legislative and regulatory changes and future legislative and regulatory changes are imposing or could impose operational restrictions on the Issuer, require the Issuer to raise further capital, increase the Issuer's expenses and/or otherwise have a material adverse effect on its business, financial condition, results of operations and/or prospects***

As a financial services firm, the Issuer is subject to extensive and comprehensive regulations. The Issuer conducts its business subject to ongoing regulation by the FCA and the PRA. The regulatory regime requires the Issuer to be in compliance with relevant regulations across many aspects of its activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Issuer fails to comply with any relevant regulations, there is a risk of a material adverse effect on its business due to sanctions, fines or other action imposed by the regulatory authorities.

There is an increased focus by regulators on the appropriateness and sustainability of business models of regulated firms, with the regulators having the power to restrict a firm's ability to develop existing products, enter into new product areas or make acquisitions. The regulators no longer focus exclusively on the financial strength of a regulated firm, but also consider non-financial resources available to the firm in assessing whether a firm continues to meet the threshold conditions. If the regulators were to believe that the Issuer does not meet threshold conditions, they can remove or restrict the Issuer's permissions or require a restructuring of its business.

Regulators and other policy making bodies in the UK and worldwide have produced and, in many cases, adopted a range of legislative and regulatory proposals and changes which have and could impose operational restrictions on the Issuer, cause the Issuer to raise further capital, increase the Issuer's expenses and/or otherwise have a material adverse effect on its business, financial condition, results of operations and/or prospects. Future changes in regulation, and/or fiscal or other policies, are unpredictable and beyond the Issuer's control and could have a material effect on its business or operations. In particular:

- the Financial Services (Banking Reform) Act 2013 enacted a number of reforms primarily related to the UK banking sector, including the ring-fencing of certain activities. The secondary legislation setting out the detail of the ring-fencing regime impacts those retail banks whose 'core deposits' (as defined in the secondary legislation and assessed on a UK group-wide basis) exceed £25 billion as a rolling average over a three-year period. The ring-fencing regime came into effect on 1 January 2019. The Issuer is within the scope of application of the ring-fencing regime, and was required to separate certain core retail banking services from wholesale and investment banking services. In addition, as an entity within the scope of the ring-fence regime, it also falls within the scope of the systemic risk buffer framework and may be required to hold additional regulatory capital as a result. In its statement of policy on its approach to the implementation of the systemic risk buffer (updated in December 2018), the PRA indicated it expects to announce first rates in early 2019 and apply them three months after the date of the announcement;
- the Issuer's borrowing costs and capital requirements could be affected by prudential regulatory developments. For example, CRD IV requirements adopted in the UK may change whether as a result of further changes to CRD IV agreed by EU legislators, as binding regulatory technical standards are developed by the European Banking Authority (the "EBA"), or as a result of changes to the way in which the PRA interprets and applies these requirements to UK banks (including as regards individual model approvals granted by the PRA). In addition, on 23 November 2016, the EU Commission proposed substantial changes to the CRD IV framework. The changes include reforms to the EU holding company structures, setting higher capital and additional loss absorbing capacity requirements, increasing the powers of the relevant competent authorities and incorporating regulatory definition of trading activity, standardised and advanced risk-weighted asset ("RWA") calculation methodologies for market risk and new standardised RWA rules for counterparty credit risk;
- the Issuer's ability to do business could be constrained if it fails to maintain sufficient levels of capital. Furthermore, if the Issuer fails to meet its minimum regulatory capital requirements, this could result in administrative actions or sanctions against it. Effective management of the Issuer's capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits the Issuer's ability to manage its balance sheet and capital resources effectively (including, for example, reductions in profits and retained earnings as a result of credit losses, write downs or otherwise, increases in risk weighted assets, delays in the disposal of certain assets or the inability to raise finance through wholesale markets as a result of market conditions or otherwise) could have a material adverse effect on its business, financial condition, results of operations and/or prospects;

- the Bank Recovery and Resolution Directive 2014/59/EU ("**BRRD**") established an EU-wide framework for the recovery and resolution of credit institutions and investment firms. See "*Regulatory action in the event a bank or investment firm in the CYBG Group is failing or is likely to fail could materially adversely affect the value of the Covered Bonds*" below. To support the effectiveness of bail-in and other resolution tools, the BRRD requires that all institutions must meet an individual minimum requirement for own funds and eligible liabilities ("**MREL**") requirement, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities. Items eligible for inclusion in MREL will include an institution's own funds, along with "eligible liabilities". In June 2018, the Bank of England published a policy statement updating its approach to setting MREL. The policy statement sets out the Bank of England's final policy on the scope of MREL requirements, eligible instruments, and its power to direct institutions to maintain minimum requirements for external MREL (that is, MREL issued externally by the resolution entity within the group) and internal MREL (that is, MREL issued to the resolution entity by subsidiaries within the group) under section 3A(4) of the Banking Act 2009, as amended (the "**Banking Act**");
- for institutions or groups for which bail-in is the appropriate resolution strategy and which do not have institutions classified as systemically important (including, as at the date of this Prospectus, the Issuer and its group), external MREL requirements will be introduced in two phases. From 1 January 2020, such institutions or groups will be required to meet an interim external MREL equivalent to 18 per cent. of RWAs. Such institutions or groups will be required to meet their end-state external MREL equivalent from 1 January 2022, 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. Internal MREL requirements will apply to "material subsidiaries" within a consolidation group, which broadly include, institutions that: (a) have more than 5 per cent. of the consolidated risk-weighted assets of the group; (b) generate more than 5 per cent. of the total operating income of the group; (c) have a total leverage exposure measure larger than 5 per cent. of the group's consolidated leverage exposure measure; or (d) are otherwise material to the delivery of the group's critical functions. The Bank of England expects that internal MREL for a material subsidiary will be scaled in the range of 75 per cent. to 90 per cent. of the amount of external MREL that it would be required to maintain if the subsidiary were subject to an external MREL requirement. In deciding the scale to apply for internal MREL, the Bank of England will take into account a range of factors. However, for entities within banking groups that are part of the ring-fencing regime (such as the Issuer), the Bank of England stated that it expects to scale internal MREL at 90 per cent. as a starting point unless the Bank of England is satisfied that the wider group has sufficient readily-deployable resources to justify moving it to a lower calibration. Before the end of 2020, the Bank of England expects to review its general approach to the calibration of MREL and the final transition date, prior to setting end-state MREL. In doing so, the Bank of England has stated that it will have particular regard to any intervening changes in the UK regulatory framework as well as institutions' experience in issuing MREL resources to meet their interim MREL. The Bank of England has stated that it will also take into account any changes to regulatory capital requirements and that it expects capital buffers will be excluded from its calibration of the loss absorption amount. The Bank of England's policies with respect to MREL may be subject to change, in particular, once the EU proposals in relation to MREL are finalised and depending on how the UK is then required or decides to implement them;
- In accordance with PRA policy statement PS27/15 ("**Implementing a UK leverage ratio framework**") any PRA regulated bank or building society with retail deposits equal to (or more than) £50 billion (on an individual or consolidated basis) is required to meet a 3 per cent. (increased to 3.25 per cent. in 2017) minimum leverage ratio requirement and required to confirm that they hold an amount of CET1 capital that matches (or exceeds) their countercyclical leverage ratio buffer. In-scope firms are also subject to disclosure and reporting requirements in relation to their leverage ratio. In July 2018, the PRA published Consultation Paper 14/18 ("**UK leverage ratio: applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer**"). This includes a proposal to apply leverage ratio requirements on a sub-consolidated basis to those ring-fenced bodies whose groups are already required to meet leverage requirements on a consolidated basis. Following the acquisition of Holdings, the CYBG Group crosses the PRA threshold by receiving more than £50 billion in retail deposits, and will therefore be in scope of the leverage ratio framework. This may lead to additional costs in relation to compliance and ongoing monitoring that reporting and disclosure obligations are being met;
- On 23 November 2016, the EU Commission published, among other proposals, proposals to amend the BRRD (the so-called "**BRRD2 Proposal**"), including provisions related to MREL. The majority of

these proposals are in draft form and are still subject to the EU legislative process and national implementation. Therefore, it is unclear what the effect of such proposals may be on the Issuer or the Covered Bonds;

- The BRRD 2 Proposal is one of the European legislative proposals noted in the Financial Services (Implementation of Legislation) Bill as in-flight legislation which the UK may adopt in full, in part or with modifications in the event of a hard Brexit. Accordingly, the Bank of England's approach in relation to MREL requirements may change. Consequently, it is difficult to predict the full effect MREL may have on the Issuer until MREL has been fully implemented. It is possible that the Issuer and/or other members of the Issuer's group may have to issue MREL eligible liabilities in order to meet the new requirements within the required timeframes and/or alter the quantity and type of internal capital and funding arrangements within the Issuer. During periods of market dislocation, or when there is significant competition for the type of funding that the Issuer needs, a requirement to increase the Issuer's MREL eligible liabilities in order to meet MREL targets may prove more difficult and/or costly. More generally, these measures could increase the Issuer's costs and may lead to asset sales and/or other balance sheet reductions. The effects of these measures could all adversely impact the results of operations, financial condition and prospects of the Issuer and, in turn, adversely affect the value of the Covered Bonds;
- MiFID II and the associated regulation on markets in financial instruments (together "**MiFID II/MiFIR**") entered into force on 2 July 2014 and the majority of provisions applied from 3 January 2018. MiFID II/MiFIR bans firms who provide investment advice on an independent basis or who provide portfolio management from accepting or receiving fees, commissions or any other monetary or non-monetary benefits paid or provided by any third party (unless such non-monetary benefit is minor and meets certain additional criteria). MiFID II/MiFIR overlaps with the UK retail distribution rules (the "**RDR**") which restrict commission payments to all investment advisers and not only "independent" investment advisers. The FCA has noted that the main impact of the MiFID II/MiFIR restrictions on inducements is on portfolio managers. Both the RDR and the MiFID II/MiFIR rules on inducements may affect the Issuer's financial product investment business' profitability. MiFID II/MiFIR also introduced investor protection measures which include product governance requirements and enhanced suitability requirements. These requirements could increase the cost of distributing financial products to retail clients and increase the risk of non-compliance;
- The second Payment Services Directive (Directive (EU) 2015/2366), included provisions pertaining to so-called open banking, came into force in January 2018 and the General Data Protection Regulation (Regulation (EU) 2016/679) followed in May 2018. These changes, both in isolation and in combination, will have effects on banking operations and have the potential to increase costs for the Issuer as the new legislation is embedded; and
- the ongoing reforms of derivatives markets are likely to increase the Issuer's costs in respect of its OTC derivative transactions. The requirements under EMIR in respect of the mandatory clearing of certain types of derivatives transactions and margin requirements for uncleared derivatives transactions came into force during 2016, 2017 and 2018 in respect of certain entities and are scheduled to come into force in 2019 and 2020 in respect of certain other entities. Further market reforms have been introduced by MiFID II/MiFIR. The full impact of these changes is not yet known but the Issuers' costs in respect of its derivatives transactions are likely to increase.

On several occasions the PRA has published rules which implement Financial Policy Committee ("**FPC**") recommendations in relation to the regulation of the UK residential mortgage market (for example, in relation to limits on loan to value ratios for owner-occupied residential mortgage lending). It is possible that further recommendations which the FPC may issue may affect the UK mortgage market, reduce the demand for the Issuer's mortgage products or have a material adverse impact on the Issuer's ability to meet its strategic lending targets.

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, or analogous or competing markets, in which the Issuer operates. This could result in a material adverse impact or increased operational and compliance costs to the industry and therefore on the Issuer. It is impossible to predict the effect that any of the proposed changes will have on the Issuer's business, financial condition, results of operations and/or prospects or how any of the proposals discussed above will be implemented in light of the fundamental changes to the regulatory environment proposed by the UK Government and the European Commission. Depending on the specific nature

of the requirements and how they are enforced, such changes could have a significant impact on the Issuer's operations, structure, costs and/or capital requirements. Accordingly, the Issuer cannot ensure that the implementation of any of the foregoing matters or any other regulatory or legislative changes that may be proposed will not have a material adverse effect on its business, financial condition, results of operations and/or prospects.

***The Issuer 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 regulatory response in the UK to the financial crisis of 2008 includes the imposition of levies by the Financial Services Compensation Scheme ("FSCS"). 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 Issuer's profits. In common with other financial institutions which are subject to the FSCS, the Issuer 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 further claims against the FSCS and subsequent increased FSCS levies payable by the Issuer. Any such increases in the Issuer's costs and liabilities related to the levy may have a material adverse effect on its results of operations.

The recast EU directive on deposit guarantee schemes ("DGSD2") was transposed into law and regulation by Her Majesty's Treasury ("HM Treasury") and the PRA. The PRA's rules implementing DGSD2 are set out in the Depositor Protection Part of the PRA Rulebook ("DPRs") and introduced financing requirements on banks to contribute to their national deposit guarantee scheme at least annually. By 3 July 2024 Member States are required to ensure that the available financial means of a deposit guarantee scheme have reached a target pre funded level of at least 0.8 per cent. of the amount of covered deposits that are held by the deposit guarantee scheme's member. This is a change from the previous operation of the UK financing scheme where fees were levied after a payment to depositors had occurred. In cases where this pre funded level is insufficient to cover payments to depositors, the deposit guarantee scheme can collect immediate post event contributions from the banking sector and, as a last resort, it can have access to alternative funding arrangements such as loans from third parties. In addition to a compensation costs levy, the DPRs permit management expenses levies and legacy costs levies to be imposed on deposit guarantee scheme members. It is therefore possible, as a result of DGSD2 and the DPRs, that future FSCS levies on the Issuer may differ from those at present, and could result in the Issuer incurring additional costs and liabilities, which may have a material adverse effect on its profitability.

***Regulatory action in the event a bank or investment firm in the CYBG Group is failing or is likely to fail could materially adversely affect the value of the Covered Bonds***

*The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks or investment firms and certain of their affiliates (currently including Holdings) in the event a bank or investment firm in the same group is considered to be failing or likely to fail. The exercise of any of these actions in relation to the Issuer could materially adversely affect the value of any Covered Bonds.*

The majority of the requirements of the BRRD (including the bail-in tool) were implemented by way of amendments to the Banking Act. For more information on the bail-in tool, see "*The relevant UK resolution authority may exercise the bail-in tool in respect of the Issuer and the Covered Bonds, which may result in Covered Bondholders losing some or all of their investment*" below.

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 a UK bank or investment firm and certain of its affiliates that meet the definition of a "banking group company" (each a "**relevant entity**") in circumstances in which the relevant UK resolution authority is satisfied that the resolution conditions are met. Relevant entities for these purposes include the Issuer, the Account Bank, the Swap Providers, the Principal Paying Agent or the Registrar. Such conditions include that a UK bank or investment firm or a UK banking group company is failing or is likely to fail to satisfy the FSMA's threshold conditions (within the meaning of section 55B FSMA).

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 (as described below); and (e) temporary public ownership (nationalisation).

The Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify contractual arrangements in certain circumstances, 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.

If an instrument or order were to be made under the provisions of the Banking Act currently in force in respect of the Issuer, such action may (amongst other things) affect the ability of such entity to satisfy its obligations under the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement, and/or result in (i) the transfer of the Covered Bonds, (ii) the cancellation, modification or conversion of certain unsecured liabilities of such entity under the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement, including any unsecured portion of the liability in respect of the Covered Bonds at the relevant time, (iii) the de-listing, conversion and/or replacement of the Covered Bonds and/or (iv) modifications to the terms and conditions of the Covered Bonds and/or the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement. In particular, modifications may be made pursuant to powers permitting (i) certain trust arrangements to be removed or modified, (ii) contractual arrangements between relevant entities and other parties to be removed, modified or created where considered necessary to enable a transferee in the context of a property or share transfer to operate the transferred business effectively and (iii) in connection with the modification of an unsecured liability through use of the bail-in tool (including any unsecured portion of the liability in respect of the Covered Bonds at the relevant time), the reduction of the relevant liability (including to zero) and/or the discharge of a relevant entity from further performance of its obligations under a contract. In addition, subject to certain conditions, powers would apply to require a relevant instrument or order (and related events) to be disregarded in determining whether certain widely defined "default events" have occurred (which events may include trigger events included in the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement in respect of the Issuer, including trigger events in respect of perfection of legal title to the Mortgage Loans and the Issuer Events of Default). If an instrument or order were to be made under the Banking Act in respect of a relevant entity as described above (other than the Issuer), such action may have an impact on various other aspects of the transaction, including resulting in modifications to any unsecured liability of such entity under the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement, and, more generally, affecting the ability of such entities to perform their obligations under the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement. As a result, the making of an instrument or order in respect of a relevant entity may affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee and/or otherwise adversely affect the rights and interests of the Covered Bondholders.

As noted above, the stabilisation tools may be used in respect of certain banking group companies provided certain conditions are met. If the LLP was regarded to be a banking group company and no exclusion applied, then it would be possible in certain scenarios for the relevant authority to exercise one or more relevant stabilisation tools (including the property transfer powers and/or the bail-in powers) in respect of it, which could result in reduced amounts being available to make payments under the Covered Bond Guarantee and/or in the modification, cancellation or conversion of any unsecured portion of the liability of the LLP under the Covered Bond Guarantee at the relevant time. In this regard, it should be noted that the UK authorities have provided an exclusion for covered bond vehicles, which exclusion is expected to extend to the LLP, although aspects of the relevant provisions are not entirely clear.

Holders of the Covered Bonds should assume that, in a resolution situation, financial public support will only be available to a relevant entity as a last resort after the relevant UK resolution authorities have assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool.

The exercise of any resolution power or any suggestion of any such exercise could materially adversely affect the value of any Covered Bonds and/or the ability of any relevant entity to satisfy its obligations under the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement, and there can be no assurance that Covered Bondholders will not be adversely affected as a result.



Lastly, as a result of the BRRD and any relevant national implementing measures, it is possible that an institution with its head office in an EEA state other than the UK and/or certain group companies could be subject to certain resolution actions in that other state. Once again, any such action may affect the ability of any relevant entity to satisfy its obligations under the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement and there can be no assurance that Covered Bondholders will not be adversely affected as a result.

*The SRR is designed to be triggered prior to insolvency of the Issuer, and holders of the Covered Bonds may not be able to anticipate the exercise of any resolution power by the relevant UK resolution authority*

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.

Although the Banking Act provides specific conditions to the exercise of any resolution powers and, furthermore, the EBA guidelines published in May 2015 set out the objective elements for the resolution authorities to apply in determining whether an institution is failing or likely to fail, it is uncertain how the relevant UK resolution authority would assess such conditions in any particular pre-insolvency scenario affecting the Issuer and/or other members of the CYBG Group and in deciding whether to exercise a resolution power. The relevant UK resolution authority is also not required to provide any advance notice to holders of the Covered Bonds of its decision to exercise any resolution power. Therefore, Covered Bondholders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer, the CYBG Group and the Covered Bonds.

*Covered Bondholders may have only very limited rights to challenge the exercise of any resolution powers by the relevant UK resolution authority*

Covered Bondholders may have only very limited rights to challenge and/or seek a suspension of any decision of the relevant UK resolution authority to exercise its resolution powers or to have that decision reviewed by a judicial or administrative process or otherwise.

*The relevant UK resolution authority may exercise the bail-in tool in respect of the Issuer and the Covered Bonds, which may result in Covered Bondholders losing some or all of their investment*

Although the bail-in powers are not intended to apply to secured debt (such as the rights of Covered Bondholders in respect of the Covered Bond Guarantee), the determination that securities issued by the Issuer will be subject to write-down, conversion or bail-in is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control. This determination will also be made by the relevant UK resolution authority and there may be many factors, including factors not directly related to the Issuer, which could result in such a determination. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of a bail-in power may occur which would result in a principal write off or conversion to other securities, including equity. Moreover, as the criteria that the relevant UK resolution authority will be obliged to consider in exercising any bail-in power provide it with considerable discretion, holders of the securities issued by the Issuer may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such power and consequently its potential effect on the Issuer and the securities issued by the Issuer. Potential investors in the securities issued by the Issuer should consider the risk that a holder may lose all of its investment, including the principal amount plus any accrued interest, if such statutory loss absorption measures are acted upon.

### ***The Issuer is exposed to many forms of legal and regulatory risk***

The Issuer is exposed to many forms of legal and regulatory risk, which may arise in a number of ways. In particular:

1. the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians may continue; the FCA in particular focuses retail conduct risk issues, as well as conduct of business activities through its supervision activity;
2. certain aspects of its business may be determined by the PRA, the FCA, the CMA, HM Treasury, the Financial Ombudsman Service or the courts as not being conducted in accordance with applicable laws

or regulations, or, in the case of the Financial Ombudsman Service, with what is fair and reasonable in the Ombudsman's opinion;

3. the Issuer may breach or face allegations of having breached legal and regulatory requirements in respect of business originated by it or which it has acquired, including Northern Rock plc. These requirements include, but are not limited to, conduct requirements, data protection, money laundering and anti-terrorism financing requirements;
4. the European Commission's General Data Protection Regulation 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 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). Consumers are also able to request deletion of all personal data held by the data controller and third party recipients. This change has 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;
5. as is common with many other consumer credit lenders in the UK, the Issuer's credit agreements may not in all circumstances comply in all respects with the Consumer Credit Act 1974 ("CCA") or other related or similar legislation (such as the Financial Services (Distance Marketing) Regulations 2004). In such circumstances, as a result, these agreements may only be enforceable at the discretion of the courts (and in relation to pre 6 April 2007 agreements may be entirely unenforceable) or in certain circumstances customers may have the right to cancel their agreement. In addition, it is possible, in certain circumstances, that the Issuer's mortgage contracts may also be subject to the requirements of the CCA and therefore wholly or partly regulated as credit agreements under the CCA. As a result, it is possible that these agreements may also be unenforceable for any period where the Issuer has failed to comply with the requirements of the CCA;
6. any alleged mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate, may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, all or any of which could result in the incurrence of significant costs, may require provisions to be recorded in the Issuer's financial statements and may materially adversely affect future revenues from affected products;
7. contractual obligations may either not be enforceable as intended or may be enforced against the Issuer in an adverse way;
8. intellectual property may not be protected as intended or the Issuer may use intellectual property which infringes, or is alleged to infringe, the rights of third parties; and
9. the Issuer may be liable for damages to third parties harmed by the manner in which it has conducted one or more aspects of its business.

Failure to manage these risks adequately, or a failure by the Issuer to have identified any such risks in the assets it acquired as a result of its acquisition of Northern Rock plc or as a result of any other subsequent asset portfolio acquisitions (including the further mortgage portfolio acquired from the NRAM Originator on 20 July 2012 and the acquisition of the Virgin Money branded credit card portfolio held by MBNA European Bank Limited ("MBNA")), could lead to significant liabilities or reputational damage and have a material adverse effect on the Issuer's relations with its customers. In addition, the Issuer may be subject to other penalties and injunctive relief, civil or private litigation arising out of a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions on the Issuer's business. All of these issues could have a negative effect on the Issuer's reputation and the confidence of its customers in the Issuer, as well as taking a significant amount of management time and resources away from the implementation of the Issuer's strategy.

The Issuer also faces both financial and reputational risk where legal or regulatory proceedings are brought against it or members of its industry generally in the UK High Court or elsewhere, or where complaints are made against it or members of its industry generally to the Financial Ombudsman Service or another relevant body.

There is currently a significant regulatory focus on the fairness of contract terms, sales practices and reward structures that financial institutions have used when selling financial products. Financial institutions (including the Issuer) may incur liability for past actions which are determined to have been inappropriate and any such liability incurred could be significant and have a material adverse effect on the Issuer's reputation, business, financial condition, results of operations and/or prospects.

***The Issuer is exposed to the risk of changes in tax legislation and its interpretation and to variances in the rate of corporate and other taxes***

The Issuer's activities are principally conducted in the UK and it is therefore subject to a range of UK taxes at various rates. Future actions by the UK Government to adjust tax rates or to impose additional taxes would reduce the Issuer's profitability. Revisions to tax legislation or to its interpretation might also affect the Issuer's financial condition in the future. In addition, the Issuer is subject to periodic tax audits which could result in additional tax assessments, which may be material, relating to past periods of up to six years being made. Any such assessments could be material which might also affect the Issuer's financial condition in the future.

The Issuer has not been subject to the UK bank levy provided for by the Finance Act 2011 as many of its eligible liabilities are covered by the deposit protection scheme. Growth in eligible liabilities or developments in bank levy legislation may expose the Issuer to the bank levy in the future.

***The Issuer and the CYBG Group are subject to regulatory capital requirements that are subject to change and may result in additional capital requirements for the Issuer and/or the CYBG Group***

The Issuer and the CYBG Group are subject to capital adequacy requirements set by the PRA. Each of the Issuer's and the CYBG Group's ability to do business could be constrained if its business fails to maintain sufficient levels of capital. Further, if the Issuer or the CYBG Group fails to meet its minimum regulatory capital requirements, this could result in administrative actions or sanctions against its business. Effective management of capital is critical to the Issuer's ability to operate and grow its business and to pursue its strategy. Any change that limits the Issuer's and the CYBG Group's ability to manage their respective balance sheets and capital resources effectively (including reductions in profits and retained earnings as a result of credit losses, write downs or otherwise, increases in risk weighted assets (including as a result of the changes outlined in the PRA Policy Statement PS13/17 – *Residential mortgage risk weights*), delays in the disposal of certain assets) could have a material adverse effect on each of their businesses, financial condition, results of operations and/or prospects.

Both the Issuer and the CYBG Group also face risks associated with an uncertain and evolving prudential regulatory environment. This could include changes to existing capital requirements directives and other regulatory developments affecting capital, leverage, liquidity positions, and its legal entity structure. Any future unfavourable regulatory developments could have a material adverse effect on the Issuer's and the CYBG Group's businesses, financial condition, results of operations and/or prospects.

***Changes in the Issuer's accounting policies or in accounting standards could materially affect how it reports its financial condition and results of operations***

The Issuer's financial statements are prepared in accordance with IFRS as adopted by the European Union. From time to time, the International Accounting Standards Board (the "IASB") may issue new standards, amendments to standards or interpretations in relation to IFRS which impact the preparation of the Issuer's financial statements. These changes can be difficult to predict and could materially affect how the Issuer records and reports its financial condition and results of operations.

For example, the adoption of the new accounting standard, IFRS 16 'Leases' is expected to impact the Issuer's financial statements, as it requires lessees to bring the majority of their existing operating leases onto the balance sheet for the first time. The mandatory effective date for the new standard was 1 January 2019.

The Issuer may adopt new standards or amendments to standards prior to the date on which such changes become mandatory if determined to be appropriate. As a member of the CYBG Group, any decisions made in future periods to amend the CYBG Group's accounting policies may also impact on the accounting policies applied in the Issuer's financial statements. Any change in the Issuer's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

***Climate Change***

Increasing focus on the effects of climate change may lead to increased costs arising from activities to support stress testing and loss modelling for physical risks coupled with potential additional capital requirements. There is a risk that the transition to a low carbon economy is either not effected quickly enough thereby exacerbating climate risks, or too quickly with the impact of inadvertently choking off parts of the economy and increasing levels of default and loss within certain economic sectors.

## **RISK FACTORS RELATING TO THE LLP**

### ***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, but is not obliged to, serve an Issuer Acceleration Notice unless and until 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 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), 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.

### ***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.

### ***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 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 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.

### ***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, the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash management services to the LLP, the VM Account will be held with the VM Account Bank 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 and/or the Security Trustee will be entitled to terminate the appointment of the Administrator and appoint a new administrator in its place. There can be no assurance that a substitute administrator with sufficient experience of 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, as described below, any substitute administrator will be required to be authorised under the FSMA. 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:

- (a) in respect of 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; or
- (b) in respect of Fitch, a long-term IDR of at least BBB-,

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 which shall be 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.

### ***Reliance on VM Account Bank***

As described in "*Summary of the Principal Documents – VM Bank Account Agreement*", an amount up to the VM Permitted Cash Amount may be credited to and held in the VM Account (which amount will form part of the funds available for distribution on the next following Loan Interest Payment Date or LLP Payment Date). As at the date of this Prospectus, the VM Account Bank does not have the Account Bank Remedial Ratings. Accordingly, for so long as such amounts are held in the VM Account, they are exposed to a greater risk of account bank insolvency than would be the case if such amounts were held with the Account Banks. If an Insolvency Event were to occur in relation to VM Account Bank, it is possible that such amounts could not be withdrawn and transferred to the LLP resulting in a reduction in Available Principal Receipts and Available Revenue Receipts available for distribution on the relevant Loan Interest Payment Date or LLP Payment Date.

### ***Reliance on Swap Providers***

To provide a hedge against possible variances in the rates of interest payable on the Mortgage Loans in the Mortgage Portfolio (which may, for instance, include variable rates of interest, discounted rates of interest, fixed rates of interest or rates of interest which track a base rate) and a compounded daily SONIA rate, the LLP may, from time to time, enter into Interest Rate Swaps with an Interest Rate Swap Provider. If the ratings of an Interest Rate Swap Provider fall below a specified ratings level (which level will be lower in respect of actions to be taken in relation to an SVR Interest Rate Swap than for other Interest Rate Swaps), such Interest Rate Swap Provider may be obliged to post collateral for its obligations under the relevant Interest Rate Swap, 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 and, in the case of an SVR Interest Rate Swap, reducing the notional amount of the SVR Interest Rate Swap to zero (subject to certain conditions including the receipt of regulatory approvals and satisfaction of regulatory requirements)) 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 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. Further, a Swap Provider is only obliged to make payments to the LLP as long as and to the extent that the LLP complies with its payment obligations under the relevant Swap Agreement. If a Swap Agreement terminates or the Swap Provider is not obliged to make payments or if it 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. 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 or as otherwise agreed with 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 (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.

#### ***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 will 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, the 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.

#### ***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 and the VM 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 short-term, unguaranteed and unsecured ratings ascribed to such party by each Rating Agency. 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.

#### **RISK FACTORS RELATING TO THE PROPOSED PART VII TRANSFER**

On 15 October 2018, CYBG acquired the entire issued share capital of Holdings (the parent of Virgin Money plc) pursuant to the Offer (a recommended all-share offer to Holding's shareholders). In addition to the broader risk factors relating to the integration between the legacy CYBG Group and the legacy Virgin Money group as described above under "*Integration of the Issuer into the CYBG Group may be more time consuming and costly than expected and unforeseen difficulties may arise*", prospective investors should have regard to the risks relating to the proposed Part VII Transfer, and should also carefully review the parts of this Prospectus entitled "*Proposed Part VII Transfer*" and "*Clydesdale*", including information incorporated by reference in this Prospectus.

The Issuer understands that the intention as of the date of this Prospectus is that all or substantially all of the business, operations, assets, liabilities and obligations of Virgin Money plc are likely to be transferred to Clydesdale pursuant the Part VII Transfer. Whilst the timing of any such Part VII Transfer is still being considered, if and when such Part VII Transfer occurs it is anticipated that the then Virgin Money business and the then Clydesdale business will be combined to form the Part VII Successor and its group.

It should be noted, however, that CYBG continues to develop its plans for the Part VII Transfer and there can be no assurance that the proposed Part VII Transfer will be implemented in its current proposed form, or at all. Accordingly, investors in the Covered Bonds should be prepared to accept the risks inherent in an investment in the Issuer of the Covered Bonds over time, whether the Issuer's business includes the business, operations, assets and liabilities of Virgin Money plc alone, those of the combined Virgin Money plc and Clydesdale Bank PLC or any other combination of such businesses, operations, assets and liabilities as may be amalgamated in the Part VII Successor, should the proposed Part VII Transfer be implemented.

Should such Part VII Transfer take place, the Issuer understands that it is envisaged that the Part VII Successor will be vested with all or substantially all of the rights, powers, discretions, liabilities and obligations of Virgin Money plc as appointed or acting in its various capacities (each a "**Relevant Capacity**") in connection with the Covered Bonds, the Programme, the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement, including (without limitation) in its capacities as Issuer, Administrator, Cash Manager, Collection Bank, a Seller, a Member and Designated Member of the LLP, an Originator and VM Account Bank.

Prospective investors should note that the Part VII Transfer will not require any consent or approval of any holders of Covered Bonds, the Bond Trustee, any Rating Agency or any other counterparties to any of the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement, and, following completion of the Part VII Transfer, the rights of the holders against Virgin Money plc in respect of their Covered Bonds, and the rights of any counterparties to the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement against Virgin Money plc, will become rights against the Part VII Successor.

Accordingly, prospective investors in any Covered Bonds should note that, should the proposed Part VII Transfer be implemented, a number of changes to the Programme will occur from the Part VII Effective Date, including, but not limited to, the following matters:

- the current obligations of Virgin Money plc as Issuer under the Programme will thereafter be the sole obligations of the Part VII Successor (including with respect to the obligation to pay principal and interest on the Covered Bonds in accordance with the terms and conditions);
- all other ancillary roles performed by Virgin Money plc in such Relevant Capacity in each case will thereafter be the sole obligation, responsibility and role of the Part VII Successor (with the Part VII Successor also being sole beneficiary of any rights associated with such roles); and
- the Part VII Successor will become a Seller under the Mortgage Sale Agreement automatically and without the requirement to satisfy the New Seller conditions specified in the Mortgage Sale Agreement.

For the avoidance of doubt, legacy Mortgage Loans originated by the VM Originator and the NRAM Originator will continue to be sold to the LLP following the Part VII Transfer. In addition, from the Part VII Effective Date, Mortgage Loans originated by any Clydesdale Originator or the Part VII Successor directly may (subject to the terms of the Mortgage Sale Agreement applicable to New Mortgage Loan Types), be sold to the LLP. The Transaction Documents may be modified to enable the sale of such New Mortgage Loan Types to the LLP without the consent of Covered Bondholders, subject to satisfaction of the Ratings Condition.



Whilst the transfer of the business, operations, assets and liabilities of Virgin Money plc pursuant to the Part VII Transfer will operate by law, Condition 15(e) (*Part VII Transfer*) of the Terms and Conditions of the Covered Bonds provides that the Issuer may request the Bond Trustee and the Security Trustee to agree to amendments (other than a Series Reserved Matter) to the terms of the Covered Bonds and any Transaction Documents which the Issuer, in its sole and absolute discretion, considers to be necessary or expedient to ensure the effective implementation of the Part VII Transfer and/or incidental to or consequential on the Part VII Transfer and necessary or expedient in connection with the ongoing operation of the Programme. The Bond Trustee and the Security Trustee will agree to such modifications if certain conditions are satisfied, including that either (i) the Issuer has provided a certificate signed by a director of the Issuer certifying to the Bond Trustee and the Security Trustee that the modifications are not materially prejudicial to the interests of the holders of Covered Bonds or any Secured Creditor or (ii) the Issuer has provided notice of the proposed modifications to the Covered Bondholders and by the relevant deadline specified in such notice, 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. Such amendments are also conditional on the Issuer providing a Ratings Confirmation and upon the Issuer and the LLP continuing to be at all times in compliance with the RCB Regulations. The amendments may include, but are not limited to, any changes to the calculation of the Asset Coverage Test and the Adjusted Loan Amount and any changes which the Issuer considers appropriate to the account bank arrangements and/or swap arrangements, timings and/or reference periods.

Following the Part VII Transfer, the guarantee obligation of the LLP with respect to the Covered Bonds will continue to be effective on terms which are the same (or substantially the same) in all material respects as at the date of this Prospectus.

Should the Part VII Transfer complete, no assurance can be given as to the impact of such change on the future business, operations, credit rating and/or financial performance more generally of the combined businesses, operations, assets and liabilities of the Part VII Successor and its group. In addition, no assurance can be given at this stage as to the impact on the then ratings of the Covered Bonds.

## **RISK FACTORS RELATING TO CLYDESDALE**

*If the proposed Part VII Transfer is implemented, then from the Part VII Effective Date, the Issuer of the Covered Bonds will be the Part VII Successor, and accordingly the ability of the Issuer to fulfil its obligations in respect of the Covered Bonds may be affected by risks relating to all businesses, operations, assets and liabilities of the Part VII Successor and its group, including, if applicable, those relating to the legacy Virgin Money business and those relating to the legacy Clydesdale Bank business. Prospective investors in any Covered Bonds should therefore consider carefully all risk factors described in this section "Risk Factors", including "Risk Factors relating to the Issuer" above and the following risk factors relating to Clydesdale.*

See pages 11 to 62 of the CB 2018 Risk Report incorporated by reference herein for risks relating to Clydesdale, including (but not limited to) risks relating to credit, risks relating to balance sheet and prudential regulation, risks relating to regulatory, compliance and conduct, and operational risks.

*In addition, the following risk factors relating to Clydesdale will also be of relevance to prospective investors in any Covered Bonds.*

### ***PPI Final Deadline***

On 2 March 2017, the FCA published its final rules and guidance on PPI complaints and confirmed a deadline of 29 August 2019 for making new PPI complaints. To encourage consumers to decide whether to complain about PPI before the deadline, the FCA is running a two-year consumer communications campaign, which was launched in August 2017. As a result of this and in line with the industry, the CYBG Group is experiencing increased PPI information requests ("**PPI IRs**") and complaint volumes both from customers and via claims management companies.

The FCA has reached agreement with the industry in relation to the treatment of PPI IRs received between 29 June and 29 August 2019. All such PPI IRs, where PPI is found, are to be converted to complaints to ensure customers do not lose the opportunity to make a complaint because the response to a PPI IR straddles the timebar date. As a result of both the FCA's communication campaign and the approach to be taken for PPI IRs from

June 2019 (a) there may be a need for the CYBG Group to significantly increase resources, and (b) the ability of the CYBG Group, to handle complaints within prescribed regulatory timescales may be affected.

### ***RBS Incentivised Switching Scheme***

The CYBG Group will participate in the Incentivised Switching Scheme, in anticipation of successful acquisition of RBS SME customers, there remains a risk that CYBG will not attract the volumes of customers assumed and/or fails to receive anticipated funds from the Capability and Innovation Fund, which could have an adverse impact on the CYBG Group's ability to further enhance the Bank's competitiveness in the business banking market.

### ***SME & Corporate Failures***

On 30 September 2018, the CYBG Group recorded £136m in relation to impairment provisions held on non-retail credit exposures. The majority of the CYBG Group's non-retail lending portfolio relates to small and medium sized enterprises ("SMEs"). Collective provisioning for the CYBG Group's SME portfolio is based on the probability that the customer defaults on the loan (the "PD") and the amount the CYBG Group expects to be irrecoverable from that customer (the "LGD"). The modelled collective assessment also considers factors such as credit quality; levels of arrears; credit utilisation; loan to collateral ratios; and other factors including the CYBG Group's internal customer rating system. These characteristics are relevant to the estimation of future cash flows for groups of such assets as they are indicative of the borrower's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Estimating the CYBG Group's collective and specific provisioning is subjective, requires the CYBG Group directors to exercise significant judgement, and incorporates the use of assumptions, the most significant of which are the PD and LGD assumptions used in the CYBG Group's collective modelling process, and the identification and judgments made in respect of loan files subject to specific assessment. The use of judgements and supportable estimates is considered by management to be an essential part of the credit impairment process. This credit impairment process, which is critical to the CYBG Group's results and financial condition, requires complex judgements, including forecasts of how changing macro-economic conditions might impair the ability of customers to repay their loans. The CYBG Group may fail to identify the relevant factors adequately or accurately estimate the impact and/or magnitude of identified factors, which could materially adversely affect their business, results of operations, financial condition and prospects.

## **RISK FACTORS RELATING TO THE PROGRAMME**

### ***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 (which may include Offset Mortgage Loans) 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 Mortgage Loan will be required to meet the Eligibility Criteria and the 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 Loan Warranties may change in certain circumstances – see "*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). 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 Cash

Manager will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

### ***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 English 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, the "prescribed part" (referred to below), 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 this regard. The Enterprise Act 2002 abolished the preferential status of certain Crown debts (including the claims of the United Kingdom tax authorities). However, 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.

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.

An equivalent risk applies under Northern Irish law in relation to the Northern Irish Mortgage Loans and their Related Security.

Under Scots law the concept of fixed charges taking effect as floating charges does not arise and accordingly there is no equivalent risk in relation to the Scottish Mortgage Loans and their Related Security.

### ***Maintenance of Mortgage Portfolio***

*Asset Coverage Test:* Pursuant to the terms of the Mortgage Sale Agreement, the Seller will agree 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. 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 to the LLP (in an amount up to the difference between the Current Balance 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.

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. 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.

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 Cash Manager, test the calculations performed by the Cash Manager 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 Cash Manager in respect of the Amortisation Test. See further "*Summary of the Principal Documents – Asset Monitor Agreement*".

The Security Trustee shall not be responsible for monitoring compliance with, nor 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.

#### ***Sale of Selected Mortgage Loans and their Related Security following the occurrence of an Issuer Event of Default***

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 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: (a) the Final Maturity Date in respect of such Covered Bonds; or (b) (if the same is specified as applicable in the relevant Final Terms) 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.

#### ***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.

#### ***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 service on the Issuer of an Issuer Acceleration Notice and the service 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. the Mortgage Loans of New Sellers being included in the Mortgage Portfolio;
4. the inclusion of legacy Mortgage Loans originated by the Clydesdale Group, as well as future Mortgage Loans originated by the Part VII Successor and its group, in the Mortgage Portfolio;
5. changes to the Lending Criteria of the Seller;
6. the LLP not having legal title to the Mortgage Loans in the Mortgage Portfolio;
7. risks in relation to some types of Mortgage Loans which may adversely affect the value of Mortgage Portfolio or any part thereof;
8. limited recourse to the Seller;
9. possible regulatory changes by the FCA, the PRA, the CMA and other regulatory authorities; and
10. regulations in the United Kingdom that could lead to some terms of the Mortgage Loans being unenforceable.

Each of these factors is 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 repay the Covered Bonds 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.

***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 service of an Asset Coverage Test Breach Notice (which has not been revoked) or the service of a Notice to Pay on the LLP (but in each case 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 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 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.

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

Borrowers may default on their obligations under the Mortgage Loans. Defaults may occur for a variety of reasons. The Mortgage Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Although interest rates are currently at a historical

low, this may change in the future and an increase in interest rates may adversely affect Borrowers' ability to pay interest or repay principal on their Mortgage Loans.

Other factors in Borrowers' personal or financial circumstances may affect the ability of Borrowers to repay Mortgage Loans. Unemployment, loss of earnings, illness, relationship breakdown and other similar factors may lead to an increase in delinquencies by and individual insolvency of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the 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, the value of that property and property values in general at the time.

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

In order to enforce a power of sale in respect of a Mortgaged Property, the relevant mortgagee (which may be the Seller or the LLP) must first obtain possession of the relevant property. Possession is usually obtained by way of a court order or decree although this can be a lengthy and costly process and will involve the mortgagee assuming certain risks. If obtaining possession of properties in such circumstances is lengthy or costly, the LLP's ability to make payments on the Covered Bonds (following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the LLP) may be reduced. The LLP's ability to make such payment may be reduced further if the mortgagee's method for obtaining possession of properties permitted by law is restricted in the future. See the risk factor entitled "*Repossessions*" below.

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

New Sellers which are members of the Clydesdale 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 obtained.

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. 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 will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

Prospective investors in the Covered Bonds should note that, following the completion of the Part VII Transfer, if implemented, the Part VII Successor will be a Seller of Mortgage Loans to the LLP, and such Mortgage Loans will be permitted to include any mortgages within the legacy mortgage portfolio of Clydesdale Group as well as the legacy Virgin Money group, and any mortgages subsequently originated by the Part VII Successor and its group, all in accordance with the terms of the Mortgage Sale Agreement (for further information see "*Risk Factors Relating to the Proposed Part VII Transfer*" above). The Part VII Successor will be deemed for all purposes to be the Seller but not a New Seller, and the inclusion of Mortgage Loans originated by Clydesdale Group and the Issuer prior to the Part VII Transfer taking effect, and any subsequent Mortgage Loans originated by the Part VII Successor or its group, will be permitted to be sold to the LLP without any requirement for the satisfaction of the conditions precedent which would be required for a New Seller to accede to the Programme and to sell Mortgage Loans to the LLP. For the avoidance of doubt, New Mortgage Loan Types originated by the Part VII Successor will only be sold to the LLP subject to the conditions of the Mortgage Sale Agreement.

#### ***Risks relating to Buy-to-Let mortgages***

The Mortgage Loans in the Mortgage Portfolio include buy-to-let loans where the relevant Mortgaged Properties are not owner-occupied and may be let by the relevant Borrower to tenants. For further information regarding the various conditions applicable to the sale of Mortgage Loans and their Related Security, please see "*Mortgage Sale Agreement – Eligibility Criteria*" below. The Borrower's ability to service payment obligations in respect of such a Mortgage Loan is likely to depend on the Borrower's ability to lease the relevant Mortgaged Properties on appropriate terms. 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 and/or that the rental income achievable from such tenancy will be sufficient to provide the Borrower with sufficient income to meet the Borrower's interest obligations in respect of the Mortgage Loan (or that there will not be any default of payment in rent). This apparent dependency on rental income may increase the likelihood during difficult market conditions of higher delinquency rates and losses on buy-to let mortgages than for owner-occupied mortgages. In relation to proposed legislation changes in relation to buy-to-let loans please see risk factor relating to "*Regulatory changes by the Office of Fair Trading, the Financial Conduct Authority and any other regulatory authorities*" below.

Upon enforcement of a Mortgage in respect of a Mortgaged Property which is subject to an existing tenancy, the Administrator may not be able to obtain vacant possession of the Mortgaged Property in which case the Administrator will only be able to sell the Mortgaged Property as an investment property with one or more sitting tenants. This may affect the amount which the Administrator can realise upon the sale of the Mortgaged Property.

However, enforcement procedures in relation to such Mortgages (excluding any Scottish Mortgage) include appointing a receiver of rent in which case such a receiver must collect any rents payable in respect of the Mortgaged Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage. Under Scots law, a receiver cannot be appointed under a fixed charge (including a standard security, which is the Scottish equivalent of a land charge) and the only enforcement action which may be taken under a standard security (such as a Scottish Mortgage) is a full enforcement of the charge (i.e. it cannot be enforced selectively by, for instance, attaching to rental payments). Accordingly, in Scotland, securing the rental flows will require the enforcement of the standard security.

In addition, the UK Government has passed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax. From 1 April 2016, a higher rate of stamp duty land tax ("**SDLT**") applies to the purchase of additional residential properties (such as buy-to-let properties). The Scottish Government has implemented similar provisions with effect from the same date in respect of land and buildings transaction tax ("**LBTT**") and the Welsh Government has implemented a new land transaction tax ("**LTT**") which contains an equivalent measure in respect of second properties (broadly speaking, the equivalents in Scotland and Wales to SDLT). The additional rate is three per cent. above the current SDLT and LTT rates, and (from 25 January 2019) four per cent. above the current LBTT rate. The introduction of these measures may adversely affect the private residential rental market in England, Wales, Scotland and Northern Ireland in general, or (in the case of the restriction of income tax relief) the ability of individual Borrowers of Mortgage Loans that are buy-to-let mortgages to meet their obligations under those Mortgage Loans.

### ***Risks related to Offset Mortgage Loans***

Offset Mortgage Loans have an additional feature of being economically linked to a borrower's current and/or savings accounts with the relevant Originator where a borrower may offset any credit balances in their current and/or savings account against money owed on their mortgage loan.

Under an Offset Mortgage Loan, the relevant Originator will not charge the borrower interest in relation to amounts outstanding under that mortgage loan to the extent such amounts equal the credit balances of the borrower's current and/or savings account, and the borrower shall not earn any equivalent amount of interest on those credit balances of their current and/or savings account. As such, a borrower may not be required to pay the full amount of interest in relation to Offset Mortgage Loans. Offset Mortgage Loans would constitute a New Mortgage Loan Type and are not at present permitted to form part of the Mortgage Portfolio. However, if Offset Mortgage Loans are accepted as a New Mortgage Loan Type in the future, any reduction in the amount of interest that the borrower is required to pay as a result of the off-set features would reduce the incoming cash flow to the LLP and may affect the LLP's ability to make payments under the Covered Bond Guarantee. Although Offset Mortgage Loans would constitute a New Mortgage Loan Type and do not at present form part of the Mortgage Portfolio, Covered Bondholders should note that following the Part VII Effective Date and subject to Offset Mortgage Loans being approved as a New Mortgage Loan Type, the Part VII Successor, in its capacity as Seller, may sell Offset Mortgage Loans to the LLP in the future.

### ***Buildings Insurance***

No assurance can be given that the LLP will always receive the benefit of any claim made under any applicable buildings insurance contracts or that the amounts received in respect of a successful claim will be sufficient to

reinstate the affected Mortgaged Property. This could adversely affect the 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.

### ***Redemption of Scottish Mortgages***

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

### ***Registration of title to Scottish Mortgages***

While it is not possible for the Transfer Order itself to be registered or recorded in the Registers of Scotland, the effect of the Transfer Order is to vest the right to the Scottish Mortgages originated by the NRAM Originator in the Seller, pursuant to which the Seller holds the unregistered (or, as applicable, unrecorded) legal title to such Scottish Mortgages. The Scottish Declaration of Trust in relation to any Scottish Mortgages transferred to the Seller pursuant to the Transfer Order will accordingly be granted by the Seller as holder of such unregistered (or unrecorded) title, and will operate so as to create a beneficial interest in such Scottish Mortgages in favour of the Security Trustee.

### ***Standard Mortgage Documentation and Further Advances***

Under the standard form mortgage conditions used in connection with the Mortgage Portfolio, a Borrower is not specifically prohibited from granting further security to third parties.

Not all of the standard form documentation requires that a note is placed on the register of the Mortgaged Property at HM Land Registry (in respect of English Mortgages) and the Land Registry of Northern Ireland (in respect of Northern Irish Mortgages) that there is an obligation to make a further advance and this reflects the characteristics of the Mortgage Loans. None of the standard form documentation sets out a maximum amount that the mortgage secures.

Where (in respect of English Mortgages that are registered at HM Land Registry or Northern Irish Mortgages that are registered at the Land Registry of Northern Ireland) a Further Advance (as described in the section "*Product Switches and Further Advances*") is to be made to the Borrower at the discretion of the Seller and at that time the Borrower has granted security to a third party there is a risk that the charge over any such Further Advance will rank behind the existing security granted to that third party if the Seller has received notice of the creation of the security in favour of the third party (or notice is treated as having been received when, in accordance with the relevant mortgage terms, it ought to have been deemed received) and has not agreed with the third party that the charge over the Further Advance shall rank in priority to the third party's security. Whilst it would be standard procedure to search at HM Land Registry and the Land Registry of Northern Ireland to establish the existence of any subsequent third party security prior to the granting of any Further Advance in order to establish whether any such agreements need to be obtained prior to the release of the Further Advance, there is a risk that procedure may not have been followed in a particular case.

Where (in respect of Scottish Mortgages) a Further Advance (as described in the section "*Product Switches and Further Advances*") is made to the borrower and at that time the borrower has granted security to a third party who has notified the Seller of the existence of such security there is a risk that the security over the Further Advance will rank behind the security granted to that third party if a ranking agreement is not entered into agreeing that the security over the Further Advance shall rank in priority to the third party's security. If the ranking agreement is not registered or recorded at the Registers of Scotland there is a risk that a purchaser of the second mortgage from the second mortgagee might claim that the deed of postponement or ranking agreement did not bind it.

### ***Equitable Interest and Declaration of Trust***

The transfer of the English Mortgage Loans and their Related Security and Northern Irish Mortgage Loans and their Related Security by the Seller to the LLP will take effect in equity only (until legal title is conveyed following the occurrence of a Relevant Event). The sale of Scottish Mortgage Loans and their Related Security



will take effect as a contractual sale only on the relevant Transfer Date. The transfer of the Scottish Mortgage Loans and their Related Security from the Seller to the LLP will be given effect by a declaration of trust by the Seller in favour of the LLP (the "**Scottish Declaration of Trust**") by which the beneficial interest in such Scottish Mortgage Loans and their Related Security will be transferred to the LLP. In each case, 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 or, in the case of land in Scotland, will not be registered or recorded as heritable creditor at the Registers of Scotland or in the case of registered land in Northern Ireland, will not be registered as the registered and legal owner.

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 of the Relevant Events, which oblige the Seller 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 Mortgages to be registered at HM Land Registry, the Registers of Northern Ireland and Registers of Scotland. The Seller shall hold the legal title to the Mortgage Loans as bare trustee for the LLP (or, in respect of Scottish Mortgage Loans, pursuant to the Scottish Declaration of Trust) who shall be the sole beneficial owner (holding such interest as bare trustee for the Beneficiaries in accordance with the terms of the Mortgages Trust Deed).

The holding of the whole beneficial interest in the Mortgage Loans and not the legal estate has five main legal consequences in England, Wales and Northern Ireland, 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 Seller and the LLP, under the Administration Agreement, the Seller has agreed that it will not vary any of the terms of the Mortgage Loans or their Related Security, it 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 the Seller were 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 the Seller for breach of contract or breach of trust;
- (c) for so long as the LLP holds only an equitable interest, it must join the Seller as a party to any legal proceedings which it may want to take against any Borrower. In this regard, the Seller will undertake for the benefit of the Issuer and the LLP that it will lend its 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 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 Seller) and can obtain a valid discharge from such person. However, the Seller 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 Seller. These rights may result in the Issuer 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 Seller (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims arising out of a transaction connected with the Mortgage Loan) will not be affected by that notice and will continue to

exist. In respect of Scottish Mortgage Loans, references in this Prospectus to "set-off" are to be read as references to analogous rights in Scotland.

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 Seller (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, the Seller will undertake 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 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, the Seller will grant to the LLP 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 following the occurrence of a Relevant Event.

The holding of a beneficial interest under a Scottish trust has (broadly) equivalent legal consequences in Scotland to the holding of an equitable interest in England and Wales, as described in the section entitled "*Equitable Interest and Declaration of Trust*" above (namely, the LLP's interest in the property held on trust may become subject to the interests of bona fide third party purchasers who have completed title to the relevant property and the Seller as trustee under such Scottish trust must lend its name in any legal proceedings). Similarly, prior to notice of the trust being given to a Borrower, the Borrower may be at risk of exercising certain rights of retention (i.e. set-off) against the Seller.

Further to the granting of the Scottish Declaration of Trust, the LLP will grant to the Security Trustee an assignation in security (i.e. a fixed charge) over, *inter alia*, its interest, under the Scottish Declaration of Trust, in the Mortgage Loans which are Scottish Mortgage Loans and their Related Security comprised in the Mortgage Portfolio, pursuant to the Deed of Charge.

If the LLP fails to comply with Scottish formalities, the security over the Scottish Mortgages may be prejudiced.

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

As described in "*Equitable Interest and Declaration of Trust*", the Seller will make an equitable assignment (in respect of English Mortgage Loans and Northern Irish Mortgage Loans) and declare Scottish Declarations of Trust (in respect of Scottish Mortgage Loans) of the relevant Mortgage Loans and Mortgages to the LLP, with legal title being retained by the Seller. Therefore, the rights of the LLP may be subject to the direct rights of the Borrowers against the Seller, including rights of set-off which occur in relation to the transactions or deposits made between the Borrower and the Seller existing prior to notification to the Borrowers of the assignment in respect of the Mortgage Loans and the Mortgages. Such set-off rights (including analogous rights in Scotland) may arise if the Seller fails to advance a Cash Borrow-back to a Borrower under a Mortgage Loan when the Borrower is entitled to such Cash Borrow-back. A Borrower's request for a Cash Borrow-back is subject to the Seller's agreement in each case. The Seller will agree to a Cash Borrow-back where the Borrower is able to demonstrate that he will continue to be able to afford the revised monthly payment following the advance of the Cash Borrow-back. Please see "Borrow-backs" below.

If the Seller fails to advance the Cash Borrow-back in accordance with the relevant Mortgage Loan, then the relevant Borrower may argue that it is entitled to set-off any damages claim (or any analogous rights in Scotland) arising from the Seller's breach of contract against the Seller's (and, as equitable assignee of or holder of the beneficial interest in the Mortgage Loans and the Mortgages, the LLP's) claim for payment of principal and/or interest under the Mortgage Loan when it becomes due.

The amount of the claim in respect of a Cash Borrow-back will, in many cases, be the cost to the Borrower of finding an alternative source of funds (although in relation to Scottish Mortgage Loans it is possible that the right of set-off could extend to the full amount due to the Borrower). The Borrower may obtain a mortgage loan elsewhere in which case the damages would be equal to any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the Borrower is unable to obtain an alternative mortgage loan, he or she may have a claim in respect of other losses arising from the Seller's breach of contract where there are special circumstances communicated by the Borrower to the Seller at the time the Borrower entered into the Mortgage Loan or which otherwise were reasonably foreseeable.

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.

A Borrower may also attempt to set-off against his or her mortgage payments an amount greater than the amount of his or her damages claim (or any analogous rights in Scotland). 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.

Certain of the standard forms of mortgage conditions used in connection with the Mortgage Portfolio do 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. The Asset Coverage Test takes into account certain set-off risks related to Cash Borrow-backs exercised by Borrowers whose Mortgage Loans are in the Mortgage Portfolio.

Following any Part VII Transfer, the set-off risks related to the Mortgage Loans would apply to claims that the Borrower may have against the Part VII Successor. Further, if Mortgage Loans originated by Clydesdale or any member of the Clydesdale Group are sold to the LLP, a Borrower may set-off against further mortgage payments an amount owed to that Clydesdale Group entity.

#### ***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 Loan Warranties given in the Mortgage Sale Agreement by the Seller.

In the event of there being a breach of any of the Loan Warranties 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 the 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 the breach of a Loan Warranty within 60 days 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 and any other Mortgage Loans of the relevant Borrower that are included in the Mortgage Portfolio, 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 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.

#### ***Certain Regulatory Considerations***

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.

#### ***Mortgages Regulated under the FSMA***

In the United Kingdom, regulation of residential mortgage business by the FCA (previously the Financial Services Authority (the "FSA")) under the FSMA came into force on 31 October 2004 (the "**Mortgage Regulation Date**"). Subject to certain exemptions, entering into as a lender, arranging or advising in respect of or administering Regulated Mortgage Contracts (or agreeing to do any of these things) is a regulated activity

under the FSMA and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (as amended) (the "**RAO**") requiring authorisation and permission from the FCA.

If a mortgage contract was entered into or varied, such that a new contract was entered into on or after the Mortgage Regulation Date but before 21 March 2016 it will be a "**Regulated Mortgage Contract**" under the RAO if (a) the borrower was an individual or trustee, (b) the contract provides for the obligation of the borrower to repay to be secured by a first legal mortgage or first ranking Standard Security on land (other than timeshare accommodation) in the UK and (c) at least 40 per cent. of that land was used, or was intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person. There have been incremental changes to the definition of Regulated Mortgage Contract over time, including the removal of the requirement for the security to be first ranking and the extension of the territorial scope to cover property in the EEA rather than just the UK. If the mortgage contract was entered into on or after 21 March 2016, it will be a Regulated Mortgage Contract if it meets the following conditions (but subject to certain relevant exclusions such as the relevant exclusions for buy-to let loans) (a) the borrower is an individual or trustee; and (b) the obligation of the borrower to repay is secured by a mortgage on land in the EEA, at least 40% of which is used, or is intended to be used, (i) in the case of credit provided to an individual, as or in connection with a dwelling; or (ii) in the case of credit provided to a trustee which is not an individual, as or in connection with a dwelling by an individual who is a beneficiary of the trust, or by a related person. A related person (in relation to a Borrower, or in the case of credit provided to trustees, a beneficiary of the trust) is broadly the person's spouse or civil partner, near relative or a person with whom the borrower (or in the case of credit provided to trustees, a beneficiary of the trust) has a relationship which is characteristic of a spouse.

Credit agreements which were originated before 21 March 2016, which were regulated by the CCA, and that would have been Regulated Mortgage Contracts had they been entered into on or after 21 March 2016 are consumer credit back book mortgage contracts and are also therefore Regulated Mortgage Contracts (see risk factor "*Regulation of residential secured lending (other than Regulated Mortgage Contracts)*").

On and from the Mortgage Regulation Date, subject to any exemption, persons carrying on any specified regulated mortgage-related activities by way of business must be authorised under the FSMA. The specified activities currently are: (a) entering into a Regulated Mortgage Contract as lender; (b) administering a Regulated Mortgage Contract (administering in this context broadly means notifying borrowers of changes in mortgage payments and/or collecting payments due under the mortgage loan); (c) advising in respect of Regulated Mortgage Contracts; and (d) arranging Regulated Mortgage Contracts. Agreeing to carry on any of these activities is also a regulated activity. If requirements as to the authorisation of lenders and brokers are not complied with, a Regulated Mortgage Contract will be unenforceable against the borrower except with the approval of a court and the unauthorised person may commit a criminal offence. An unauthorised person who carries on the regulated mortgage activity of administering a Regulated Mortgage Contract that has been validly entered into may commit an offence, although this will not render the contract unenforceable against the borrower. The regime under the FSMA regulating financial promotions covers the content and manner of the promotion of agreements relating to qualifying credit and by whom such promotions can be issued or approved. In this respect, the FSMA regime not only covers financial promotions of Regulated Mortgage Contracts but also promotions of certain other types of secured credit agreements under which the lender is a person (such as an Originator) who carries on the regulated activity of entering into a Regulated Mortgage Contract. Failure to comply with the financial promotion regime (as regards who can issue or approve financial promotions) is a criminal offence and will render the Regulated Mortgage Contract or other secured credit agreement in question unenforceable against the borrower except with the approval of a court.

The Seller holds authorisation and permission to enter into and to administer and (where applicable) to advise in respect of Regulated Mortgage Contracts. Subject to certain exemptions, brokers will be required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts. The Seller is also registered by the FCA as a consumer buy-to-let business (for lending, administration and arranging). The LLP is not and does not propose to be an authorised person under the FSMA nor is it nor does it propose to be registered as a consumer buy-to-let mortgage business. The LLP does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. The LLP does not carry on the regulated activity of administering Regulated Mortgage Contracts by having them administered pursuant to an administration agreement by an entity having the required FCA authorisation and permission. If such an administration agreement terminates, however, the LLP will be required to arrange for mortgage administration to be carried out by a replacement administrator having the required FCA authorisation and permission, and will have a period of not more than one month in which to do so. The same analysis applies in respect of consumer buy-to-let mortgages.

The LLP will not itself be an authorised person under the FSMA. However, if a mortgage is varied, such that a new contract is entered into and that contract constitutes a Regulated Mortgage Contract, then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity. In addition no variation has been or will be made to the Mortgage Loans and no Further Advance or Product Switch has been or will be made in relation to a Mortgage Loan, where it would result in the LLP arranging or advising in respect of, administering or entering into a Regulated Mortgage Contract or agreeing to carry on any of these activities, if the LLP would be required to be authorised under the FSMA to do so.

The FCA's Mortgages and Home Finance: Conduct of Business sourcebook ("**MCOB**"), which sets out the FCA's rules for regulated mortgage activities, came into force on 31 October 2004. These rules cover, *inter alia*, certain pre-origination matters such as financial promotion and pre-application illustrations, pre-contract and start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions.

If requirements as to authorisation and permission of lenders and brokers or as to issue and approval of financial promotions are not complied with, a Regulated Mortgage Contract will be unenforceable against the borrower except with the approval of a court. In addition, a borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FCA rule, and may set-off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise analogous rights in Scotland). Any such claim or set-off may reduce the amounts available to meet the payments due in respect of the Covered Bonds and may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee.

Any regulated activities carried on by an entity which is not authorised under the FSMA would be in breach of the general prohibition on conducting unauthorised regulated activities in Section 19 FSMA and would be a criminal offence. In addition to criminal offences the FCA may take civil action against a firm which breaches Section 19 FSMA with, potentially, the imposition of unlimited fines. Therefore, to the extent that the LLP or Administrator does not ensure that it acts with the necessary authorisation under the FSMA, there is a risk that such action will result in criminal or civil sanctions against the LLP or Administrator. However, this will not render the contract unenforceable against the borrower.

The Seller will give the Loan Warranties to the LLP in the Mortgage Sale Agreement. These include, among other things, that each relevant Mortgage Loan and its Related Security is enforceable (subject to certain exceptions). The Mortgage Sale Agreement provides that in respect of a material breach of a Loan Warranty (which, if capable of remedy, is not remedied within the specified time), the LLP and the Security Trustee may require the Seller to repurchase the relevant Mortgage Loan in exchange for payment of the Repurchase Price.

### ***Expansion of MCOB regulation***

Key changes to MCOB as a result of the MMR (see *The Issuer's earnings are exposed to the mortgages and savings market and the Issuer is exposed to risks relating to the housing market* and *The Issuer is exposed to many forms of legal and regulatory risk* above) include a requirement for lenders to undertake affordability assessments at origination (including verifying income in all cases) and undertake stress tests to ensure mortgages remain affordable when interest rates increase. For interest-only mortgages, lenders must check that borrowers have a credible plan to repay the capital at the end of the loan. There are also changes to disclosure requirements (the initial disclosure document is replaced with a requirement for firms to disclose key messages to customers), arrears management and the sales process.

The rules apply to a Mortgage Loan that (i) is entered into on or after 26 April 2014; or (ii) is varied so as to increase the principal amount outstanding under it (e.g. by way of further advance) on or after 26 April 2014 and MCOB applies to the Mortgage Loan generally as a Regulated Mortgage Contract. To the extent that further advances are made which constitute new Mortgage Loans, or a Mortgage Loan is varied and in so doing a new Mortgage Loan is created under the new terms and such Mortgage Loan are Regulated Mortgage Contracts, then these new rules would apply.

### ***Regulation of residential secured lending (other than Regulated Mortgage Contracts)***

The UK government had a policy commitment to move second charge lending into the regulatory regime for mortgage lending rather than the regime for consumer credit under which second charge lending fell. The UK government thought that there was a strong case for regulating lending secured on a borrower's home consistently, regardless of whether it is a first or subsequent charge. The MCD also follows this principle and

makes no distinction between requirements for first charge and second (and subsequent) charge mortgage lending. The UK government concluded that it made sense to implement the changes to second (and subsequent) charge lending alongside the implementation of the MCD. The UK government also proposed to move the regulation of second (and subsequent) charge loans already in existence before 21 March 2016 to the Regulated Mortgage Contract regime rather than keeping them within the consumer credit regime. The policy of regulating lending secured on a borrower's home consistently also meant that the UK government decided to change the regulatory regime of pre-2004 first charge loans regulated by the CCA. Mortgage regulation under FSMA began on 31 October 2004. Mortgages entered into before that date were regulated by the CCA, provided they did not exceed the financial threshold in place when they were entered into and were not otherwise exempt. In November 2015, the UK government made legislation which meant that the administration of and other activities relating to those pre-October 2004 first charge mortgages which were regulated by the CCA became regulated mortgage activities from 21 March 2017. The move of CCA regulated mortgages to the FSMA regime was implemented by the MCD Order. The government has put in place transitional provisions for existing loans so that some of the CCA protections in place when the loans were originally taken out are not removed retrospectively.

Credit agreements which were originated before 21 March 2016 which were regulated by the CCA and that would have been Regulated Mortgage Contracts had they been entered into on or after 21 March 2016 are defined by the MCD Order as "consumer credit back book mortgage contracts". The main CCA consumer protection retained in respect of consumer credit back book mortgage contracts is the continuing unenforceability of the agreement if it was rendered unenforceable by the CCA prior to 21 March 2016. Unless the agreement was irredeemably unenforceable, the lender may enforce the agreement by seeking a court order or bringing any relevant period of non-compliance with the CCA to an end in the same manner as would have applied if the agreement was still regulated by the CCA. If a consumer credit back book mortgage contract was void as a result of section 56(3) of the CCA, that agreement or the relevant part of it will remain void. Restrictions on early settlement fees will also be retained. If interest was not chargeable under a consumer credit back book mortgage contract due to non-compliance with s77A CCA (duty to serve an annual statement) or s86B CCA (duty to serve a notice of sums in arrears), once the consumer credit back book mortgage contract became regulated by FSMA under the MCD Order as of 21 March 2016, the sanction of interest not being chargeable under s77A CCA and s86D CCA ceases to apply, but only for interest payable under those loans after 21 March 2016. A consumer credit back book mortgage contract will also be subject to unfair relationship provisions described below. Certain provisions of MCOB are applicable to these consumer credit back book mortgage contracts. These include the rules relating to disclosure at the start of a contract and post-sale disclosure (MCOB 7), charges (MCOB 12) and arrears, payment shortfalls and reposessions (MCOB 13). General conduct of business standards will also apply (MCOB 2).

The Seller will give warranties to the LLP in the Mortgage Sale Agreement that, among other things, each of the respective Mortgage Loans and their Related Security is enforceable (subject to exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default cannot be or is not cured within the time periods specified in the Mortgage Sale Agreement, then the Seller will, upon receipt of notice from the LLP, be solely liable to repurchase the relevant Mortgage Loan(s) and their Related Security from the LLP in accordance with the Mortgage Sale Agreement.

Buy-to-let mortgages are excluded from the definition of "consumer credit back book mortgage contract". This means that if a buy-to-let mortgage was regulated by the CCA (because the amount of credit fell below the relevant financial limit in place at the time of origination and was not otherwise exempt), it will continue to be regulated by the CCA as it is not a "consumer credit back book mortgage contract".

This regulatory regime may result in adverse effects on the enforceability of certain Mortgage Loans and consequently the LLP's ability to make payment in full on the Covered Bond Guarantee when due.

### ***Unfair relationships***

The CCA contains an "unfair relationship" test, which applies to all existing and new credit agreements, except Regulated Mortgage Contracts under the FSMA and also applies to (as described above) "consumer credit back book mortgage contracts". Where there is an unfair relationship, the CCA explicitly permits the court to require amounts received from a borrower to be repaid by the originator and any assignee such as the LLP. 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. However, the word "unfair"

is not an unfamiliar term in UK legislation as it has been given meaning under UK unfair contract terms legislation (discussed below) and associated case law and regulatory guidance. The principle of "treating customers fairly" under the FSMA, and guidance published by the PRA and the FCA (and, prior to 1 April 2013, the FSA) on that principle and by the FCA (and, prior to 1 April 2014), the OFT on the unfair relationship test, may also be relevant. Once the debtor alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary.

If a court determined that there was an unfair relationship between the lender and the borrowers in respect of the Mortgage Loans and ordered that financial redress was made in respect of such Mortgage Loans or if redress was due in accordance with the FCA guidance on PPI complaints, such redress 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 ability of the LLP to make payments under the Covered Bond Guarantee.

### ***Regulation of buy-to-let mortgages***

The MCD requires EU member states to develop a 'national framework' for buy-to-let lending if they choose to exercise discretion afforded by the MCD not to apply the Mortgage Credit Directive to their buy-to-let mortgage markets. The UK government announced that it would use the option to have a national framework for buy-to-let lending to consumers called 'Consumer buy-to-let' ("CBTL") in order to put in place the minimum requirements to meet the UK's legal obligations, as it has stated it is not persuaded of the case for full conduct regulation of buy-to-let mortgage lending. The CBTL framework was implemented on 21 March 2016 and is only applicable to consumer borrowers, the majority of buy-to-let lending in the UK being to non-consumers.

The legislative framework is set out in the MCD Order. The MCD Order defines a CBTL mortgage contract as: "a buy-to-let mortgage contract which is not entered into by the borrower wholly or predominantly for the purposes of business carried on, or intended to be carried on, by the borrower". It provides that a firm that advises on, arranges, lends or administers CBTL mortgages must be registered to do so. The Administrator is a consumer buy-to-let mortgage firm registered as a lender, administrator and advisor in respect of consumer buy-to-let mortgages. In a HM Treasury consultation published in January 2015, the treasury gave a central estimate that CBTL would affect 11% of the buy-to-let mortgage market.

Certain buy-to-let mortgages are regulated by the CCA because buy-to-let loans only became exempt from CCA regulation on 31 October 2008. Buy-to-let loans originated prior to 31 October 2008, could be regulated by the CCA if the amount of credit was less than the relevant financial limit in place at the time and no other relevant CCA exemption applied. The financial limit for CCA regulation was abolished on 6 April 2008 in respect of all loans except buy-to-let loans. The financial limit of £25,000 in place at the time for CCA regulated loans was not removed for buy-to-let loans until 31 October 2008. As described above (see "*Regulation of residential secured lending (other than Regulated Mortgage Contracts)*"), those buy-to-let mortgages are not caught by the definition of a "consumer credit back book mortgage contract" and so any buy-to-let loans regulated by the CCA will continue to be regulated by the CCA notwithstanding the implementation of the MCDO.

If a buy-to-let mortgage is secured on a property occupied by a related person to the borrower (broadly the borrower's spouse, near relative or a person with whom the borrower has a relationship which is characteristic of a spouse) then it will be a Regulated Mortgage Contract. Otherwise, as described above, buy-to-let mortgages will either be regulated by either the CBTL regime or the CCA or will be unregulated.

The Administrator has debt collection and debt administration permissions. The LLP is excluded as lender from the regulated activities of debt administration and debt collection in respect of any unregulated, CBTL loans or CCA regulated loans. The Administrator is authorised to exercise or have the right to exercise a lender's rights and duties under a regulated credit agreement which is a necessary permission in respect of a CCA regulated agreement. The LLP is exempt from the regulated activity of exercising or having the right to exercise a lender's rights and duties under a regulated credit agreement because it has arranged administration by an authorised person pursuant to article 60I of the RAO.

### ***Distance Marketing Regulations***

In the UK, the Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after 31 October 2004 by a "consumer" within the meaning of these regulations by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A Regulated Mortgage Contract under the FSMA, if originated by a UK lender from an establishment in the UK, will not be cancellable under the Distance Marketing regulations but will be subject to

related pre-contract disclosure requirements in MCOB. 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 at any time before the end of the 14th day after the day on which the cancellable agreement is made, where all the prescribed information has been received, or, if later, the borrower receives the last of the prescribed information.

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

- (a) the borrower is liable to repay the principal and any other sums paid by the originator to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending the 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 provided in relation to the contract is to be treated as never having had effect for the cancelled agreement.

If a significant portion of the Mortgage Loans are characterised as being cancellable under these regulations, then this may reduce the amounts available to meet the payments due in respect of the Covered Bonds.

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

The Home Owner and Debtor Protection (Scotland) Act 2010 (the "**2010 Act**") enacted by the Scottish Parliament contains provisions imposing additional requirements on heritable creditors (the Scottish equivalent to mortgagees) in relation to the enforcement of standard securities over residential property in Scotland. The 2010 Act amends the Conveyancing and Feudal Reform (Scotland) Act 1970 which permitted a heritable creditor to proceed to sell the secured property where the formal notice calling up the Standard Security had expired without challenge (or where a challenge had been made but not upheld). Under the 2010 Act the heritable creditor is required to obtain a court order to exercise its power of sale, unless the borrower and any other occupier have surrendered the property voluntarily. In addition, the 2010 Act requires the heritable creditor in applying for a court order to demonstrate that it has taken various preliminary steps to resolve the borrower's position, as well as imposing further procedural requirements. This may restrict the ability of the Seller as heritable creditor of the Scottish Mortgages to exercise its power of sale and may reduce the amounts available to meet the payments due in respect of the Covered Bonds.

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

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

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

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

#### ***Private Housing (Tenancies) (Scotland) Act 2016***

The Private Housing (Tenancies) (Scotland) Act 2016 received Royal Assent on 22 April 2016 and came into force on 1 December 2017. Existing assured tenancies and short assured tenancies in place before 1 December 2017 will continue until brought to an end or converted. Each qualifying tenancy agreement from 1 December 2017 will be a "private residential tenancy" which will (except in a limited number of exceptions) provide tenants with security of tenure by restricting a landlord's ability to regain possession of the property to a number of specific eviction grounds.



Accordingly, a lender or security-holder may not be able to obtain vacant possession if it wishes to enforce its security unless one of the specific eviction grounds under the legislation applies. It should be noted though that one of the grounds on which an eviction order can be sought is that a lender or security-holder intends to sell the property and requires the tenant to leave the property in order to dispose of it with vacant possession. The effect of this legislative change will primarily be restricted to any buy-to-let loans secured over Scottish Mortgaged Property.

The above-mentioned Acts may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Mortgage Loans may result in lower recoveries and may affect the ability of the LLP to make payments under the Covered Bond Guarantee.

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

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the "UTCCR"), applies to agreements made 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. The Consumer Rights Act 2015 (the "**Consumer Rights Act**") has revoked the UTCCR as from 1 October 2015 (see "*Certain Regulatory Considerations – Consumer Rights Act 2015*" below).

The UTCCR provide that a consumer (which would include a Borrower under all or almost all of the Mortgage Loans) may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and, therefore, not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term).

Under each of the UTCCR and the Consumer Rights Act, it is possible for a consumer to challenge a term in a contract on the basis that it is unfair or for the regulator to take enforcement action to stop the use of terms which are considered to be unfair (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term).

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

For example, if a term permitting the lender to vary the interest rate (as the Seller is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee (such as the 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 loan or any other loan that the borrower has taken. Any such non-recovery, claim or set-off in respect of the Mortgage Loans entered into between 1 October 1999 and 30 September 2015 may reduce the amounts available to meet the payments due in respect of the Covered Bonds.

In March 2013, the Law Commission published a paper entitled "Unfair Terms in Consumer Contracts: Advice to the Department for Business, Innovation and Skills". This advice paper repeats the recommendation from the 2005 Report on Unfair Terms in Contracts that the Unfair Contract Terms Act 1977 and the UTCCR should be consolidated, as well as providing new recommendations, including extending the protections of unfair terms legislation to notices and some additions to the "grey list" of terms which are indicatively unfair.

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

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

The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is

therefore possible that any Mortgage Loans which have been made to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Mortgage Loans entered into between 1 July 1995 and 30 September 2015 is found to be unfair for the purpose of the UTCCR, this may reduce the amounts available to meet the payments due in respect of the Covered Bonds.

The FCA have stated that the finalised FCA guidance "Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015" (see "*Certain Regulatory Considerations – Consumer Rights Act 2015*" below) applies equally to factors that firms should consider to achieve fairness under the UTCCR.

The guidance issued by the FSA, the FCA, the OFT and the CMA (as defined below) has changed over time and it is possible that it may change in the future. No assurance can be given that any such changes in guidance on the UTCCR and the Consumer Rights Act, or reform of the UTCCR and the Consumer Rights Act, will not have a material adverse effect on the ability of the LLP to make payments under the Covered Bond Guarantee.

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

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

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

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

In addition to the general prohibition on unfair commercial practices, the CPUTRs contain provisions aimed at aggressive and misleading practices (including, but not limited to: (i) pressure selling; (ii) misleading marketing (whether by action or omission); and (iii) falsely claiming to be a signatory to a code of conduct) and a list of practices which will in all cases be considered unfair.

The CPUTRs were amended by the Consumer Protection (Amendment) Regulations 2014, which came into force on 1 October 2014 so as to give consumers a direct right of action including a right to unwind agreements within 90 days of entering into the contract if a misleading or aggressive practice under the CPUTR was a significant factor in the consumer's decision to enter into the contract. This will apply to any unregulated buy-to-let contracts in the Portfolio and any debt collection activity with regard to commercial demands for payment. The amendments to CPUTR also extend the regime so that it covers misleading and aggressive demands for payment: It applies to demands for payment for restricted-use credit (where the credit must be used to finance a particular transaction) where the misleading or aggressive commercial practice:

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

The effect (if any) of the CPUTRs on the Mortgage Loans, the Seller, the Administrator or the LLP or the Issuer and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the CPUTRs. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. In practical terms, the CPUTRs have not added significantly to the regulatory requirements already in place, such as treating customers

fairly and conduct of business rules. Breach of the CPUTRs would initiate intervention by a regulator and may lead to criminal sanctions.

No assurance can be given that the CPUTRs will not reduce the amounts available to meet the payments due in respect of the Covered Bonds.

### ***Consumer Rights Act 2015***

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

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

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

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

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

The provisions in the Consumer Rights Act governing unfair contractual terms came into force on 1 October 2015. The Unfair Contract Terms Regulatory Guide (UNFCOG in the FCA handbook) explains the FCA's policy on how it uses its formal powers under the Consumer Rights Act and the Competition and Markets Authority (the "CMA") published guidance on the unfair terms provisions in the Consumer Rights Act on 31 July 2015. This new regime does not seem to be significantly different from the regime under the UTCCR. However, this area of law is rapidly developing and we can expect new case law as a result of this new legislation. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the Seller, the LLP, 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.

In general, there is little reported case law on the UTCCR and/or the Consumer Rights Act and the interpretation of each is open to some doubt. The broad and general wording of the Consumer Rights Act makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any loans which have been made to borrowers covered by the Consumer Rights Act may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the loans entered into on or after 1 October 2015 is found to

be unfair for the purpose of the Consumer Rights Act, this may reduce the amounts available to meet the payments due in respect of the issuing entity notes.

On 19 December 2018, the FCA published finalised guidance: "Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015" (FG18/7), outlining factors the FCA considers firms should have regard to when drafting and reviewing variation terms in consumer contracts. This follows developments in case law, including at the Court of Justice of the EU. The finalised guidance relates to all financial services consumer contracts entered into since 1 July 1995. The FCA stated that firms should consider both this guidance and 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 guidance issued by the FSA, the FCA, the OFT, the Law Commission and the Scottish Law Commission has evolved over time and it is possible that a different approach may be taken in the future, including by the FCA and/or the CMA. No assurance can be given that future changes to guidance on unfair contract terms legislation will not have a material adverse effect on the ability of the LLP to make payments under the Covered Bond Guarantee.

### ***Repossessions***

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

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

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

Part I of the Home Owner and Debtor Protection (Scotland) Act 2010 came into force on 30 September 2010. Under Part I of the Act, the heritable creditor has to obtain a court order to exercise its power of sale, unless the borrower and any other occupiers have surrendered the property voluntarily. In applying for the court order, the heritable creditor has to demonstrate that it has taken various steps to resolve the borrower's position, and comply with further procedural requirements.

There can be no assurance that any delay in starting and/or completing repossession actions by the Seller would not result in the amounts recovered being less than if the Seller did not allow any such delays (which may ultimately affect the ability of the LLP to make payments of interest and principal on the Covered Bonds when Due for Payment). The protocol, the Repossession Act and MCOB requirements 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 and reduce the amounts available to meet the payments due in respect of the Covered Bonds.

***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 Seller's particular sector in that market or specifically in relation to the Seller. Any such action or developments, in particular, but not limited to, the cost of compliance, may have a material adverse effect on the Seller, the 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.

***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 Guarantor, 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.

In particular, it should be noted that the Basel Committee on Banking Supervision ("**BCBS**") has approved a series of significant changes to the Basel regulatory capital and liquidity framework under Basel III. Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the LCR and the net stable funding ratio). BCBS member countries agreed to implement the initial phase of the Basel III reforms from 1 January 2013 and the second phase from 1 January 2022, subject to transitional and phase-in arrangements for certain requirements. As implementation of Basel III requires national legislation, the final rules and the timetable for its implementation in each jurisdiction, as well as the treatment of covered bonds, may be subject to some level of national variation. It should also be noted that changes to regulatory capital requirements have been made for insurance and reinsurance undertakings through participating jurisdiction initiatives, such as the Solvency II framework in Europe.

It should be noted that in March 2018, the European Commission published legislative proposals for a more harmonised EU covered bond framework. The proposals are made up of a draft directive (replacing current article 52(4) of the UCITS Directive) and intended to establish a revised base-line definition of covered bonds for EU regulatory purposes; and a draft regulation (amending article 129 of the EU Capital Requirements Regulation and certain related provisions) intended to strengthen the requirements for covered bonds to receive preferential capital treatment. Helpfully, the draft directive provides for permanent grandfathering with respect to certain requirements for article 52(4) UCITS Directive-compliant covered bonds issued before the relevant application date, although a similar provision included in the draft amending regulation does not seem to provide for the full necessary adjustment. The proposals are now subject to the EU political negotiation process. As a result, the final position, including the date of entry into force and the date of application of the new regime (aspects of which will require transposition by member states through national laws) are not yet known. Therefore, there can be no assurances or predictions made as to the precise effect of the new regime on the Covered Bonds.

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

### ***Land Registration Reform in Scotland***

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

Title to a residential property that is recorded in the General Register of Sasines will be required to be moved to the Land Register of Scotland (a process known as 'first registration') when that property is sold or if the owner decides voluntarily to commence first registration. However, the 2012 Act sets out, in provisions which are being brought into effect in stages, additional circumstances which will trigger first registration of properties recorded in the General Register of Sasines, including the Mortgage Portfolio recorded in the General Register of Sasines and the assignation of a standard security (which would extend to any assignation granted by the Seller in favour of the LLP in respect of Scottish Mortgages in the Mortgage Portfolio recorded in the General Register of Sasines, pursuant to the terms of the Mortgage Sale Agreement following a transfer to the LLP of legal title to the Scottish Mortgage Loans and their Related Security pursuant to the Mortgage Sale Agreement (a "**Scottish Sasine Transfer**").

The relevant provisions of the 2012 Act relating to the recording of standard securities came into force on 1 April 2016 but no statutory instrument (or timetable for production of such a statutory instrument) has been prepared for the assignation of standard securities.

However, if the General Register of Sasines becomes closed to assignations of standard securities under the same provisions at any time subsequent to the Initial Programme Date then this would also have an impact on the registration of Scottish Sasine Transfers executed following the transfer of legal title to the Scottish Mortgage Loans and their Related Security to the LLP being perfected in accordance with the Mortgage Sale Agreement, with the probability of higher legal costs and a longer period required to complete registration than would currently be the case.

As noted above, such events will only occur following the transfer of legal title to the Scottish Mortgage Loans and their Related Security to the LLP being perfected in accordance with the Mortgage Sale Agreement and, given that the proportion of residential properties in Scotland which remain recorded in the General Register of Sasines continues to decline (Registers of Scotland estimate that in December 2016 61.4 per cent. of property titles in Scotland were registered in the Land Register of Scotland), it is likely that only a minority of the Scottish Mortgages will be recorded in the General Register of Sasines.

### ***Limited Liability Partnerships***

The LLP is a limited liability partnership. Limited liability partnerships, created by statute pursuant to 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 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.

### ***Pensions Act 2004***

Under the Pensions Act 2004, a person that is 'connected with' or an 'associate' of an employer under an occupational pension scheme can be subject to either a contribution notice or a financial support direction. The Issuer is an employer under an occupational scheme and also a member of the LLP. On this basis, the LLP is likely to be treated as 'connected to' the Issuer.

A contribution notice could be served on the LLP if it was party to an act, or a deliberate failure to act (a) which has caused a material detriment to the pension scheme (whether or not intentionally); or (b) the main purpose or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) otherwise than in good faith, to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due.

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

As a result of the English Supreme Court decision in *Re Nortel, Re Lehman Companies* [2013] UKSC 52, if The Pensions Regulator issued a financial support direction or contribution notice against the LLP then, depending on when such a direction or notice was issued (and regardless of whether the LLP was in liquidation or administration, as the case may be, at that time), any corresponding liability would not be treated as an expense of the administration or liquidation (as the case may be). As a result, such a claim would be treated as an ordinary unsecured debt and such claim would not rank in priority to, or pari passu with, the rights and claims of the Security Trustee under the Deed of Charge with respect to any charged asset.

If a contribution notice or financial support direction were to be served on the LLP this could adversely affect investors in the Covered Bonds.

### ***Volcker Rule***

Section 13 of the Bank Holding Company Act of 1956, as amended, and Regulation VV (12 C.F.R. Section 248) promulgated thereunder by the Board of Governors of the Federal Reserve System (such statutory provision together with such implementing regulations, the **Volcker Rule**) generally prohibit "banking entities" (which term is broadly defined to include any U.S. bank or savings association whose deposits are insured by the Federal Deposit Insurance Corporation, any company that controls any such bank or savings association, any foreign bank treated as a bank holding company for purposes of Section 8 of the International Banking Act of 1978, as amended, and any affiliate or subsidiary of any of the foregoing entities) from (i) engaging in proprietary trading as defined in the Volcker Rule, (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund" and (iii) entering into certain relationships with such funds. The Volcker Rule became effective on 21 July 2012, and final regulations implementing the Volcker Rule were adopted on 10 December 2013 and became effective on 1 April 2014. Conformance with the Volcker Rule and its implementing regulations has been required since 21 July 2017). 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 advisors regarding such matters and other effects of the Volcker Rule.

## **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 in either bearer form, without interest coupons attached, or registered form, without interest coupons attached. Bearer Covered Bonds will be issued outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act ("**Regulation S**") and Registered Covered Bonds will be issued both outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S and within the United States or to, or for the account or benefit of U.S. persons in reliance on Rule 144A or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

### **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**"); and
- (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 depository (the "Common Depository") 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-US 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 (ii) 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 or interest coupons 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 or interest coupons.

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**

The Registered Covered Bonds of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global covered bond in registered form (a "**Regulation S 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 Regulation S 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 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Regulation S Global Covered Bond will bear a legend regarding such restrictions on transfer.

Subject to the consent of the Bond Trustee (which must be given if certain conditions are met), the Issuer may amend the Programme to allow for the issue of Registered Covered Bonds in the form of N Covered Bonds (*Namenschuldverschreibungen*) governed by German law and evidenced by a certificate made out in the name of the holder of the N Covered Bond, as further specified in the applicable Final Terms for the relevant Series. N Covered Bonds will be in definitive form and not cleared through any clearing system.

The Registered Covered Bonds of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions exempt from registration under the Securities Act to QIBs who agree to purchase the Covered Bonds for their own account or for the benefit of other QIBs and not with a view to distribution thereof.

The Registered Covered Bonds of each Tranche sold to QIBs will be represented by a global covered bond in registered form (a "**Rule 144A Global Covered Bond**" and, together with a Regulation S Global Covered Bond, the "**Registered Global Covered Bonds**").

Registered Global Covered Bonds will either (i) in the case of a Rule 144A Global Covered Bond which is not intended to be held under the new safekeeping structure ("**NSS**" or "**New Safekeeping Structure**"), be deposited with a custodian for, and registered in the name of a nominee of, the Depository Trust Company ("**DTC**") for the accounts of Euroclear and Clearstream, Luxembourg; (ii) in the case of a Rule 144A Global Covered Bond which is intended to be held under the New Safekeeping Structure be deposited with a custodian for, and registered in the name of a nominee of the common safekeeper for Euroclear and/or Clearstream, Luxembourg; (iii) in the case of a Regulation S Global Covered Bond which is not intended to be held under the New Safekeeping Structure, be deposited with a common depository for, and registered in the name of a nominee of, Euroclear and/or Clearstream, Luxembourg; or (iv) in the case of a Regulation S 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.

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 interest coupons 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 DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Covered Bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act; (ii) in the case of Covered Bonds registered in the name of a nominee for a common depository 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 (iii) 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, DTC, 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 (iii) 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.

Definitive Rule 144A Covered Bonds will be issued only in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

### **Transfer of Interests**

Interests in a Rule 144A Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in a Regulation S Global Covered Bond representing the same Series and Tranche of Covered Bonds and vice versa. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Covered Bonds are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see *Subscription and Sale and Transfer and Selling Restrictions*.

### **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 and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS 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 DTC, 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 Virgin Money plc (the "**Issuer**") constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated as at the date hereof and as further modified and/or supplemented and/or restated from time to time, the "**Trust Deed**") dated 9 April 2018 (the "**Initial Programme Date**") made between the Issuer, Eagle Place 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 schedule signed for the purpose of identification by Allen & Overy LLP and Freshfields Bruckhaus Deringer LLP (as the same may be amended and/or supplemented and/or restated from time to time, the "**Master Definitions and Construction Schedule**"), 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.

In the event of implementation of a Part VII Transfer, references in these Conditions (and in each Transaction Document) to "Virgin Money plc", the "Issuer" and each other Relevant Capacity in which Virgin Money plc acts or is appointed pursuant to the Programme shall be deemed to be references to the Part VII Successor, subject to and as further described in Condition 15(e) (*Part VII Transfer*).

- (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 as at the date hereof and as further modified and/or supplemented and/or restated from time to time, the "**Agency Agreement**") originally dated the Initial Programme Date and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee and HSBC Bank plc, as issuing and principal paying agent and agent bank (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**" and together with the Registrar, the "**Transfer Agents**", which expression shall include any additional or successor transfer agents. As used herein, "**Agents**" shall mean the Paying Agents and the Transfer Agents).

- (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 as at the date hereof and as further modified and/or supplemented and/or restated from time to time, the "**Deed of Charge**") originally 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 Schedule, 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 are obtainable during normal business hours at the specified office of each of the Paying Agents and any Covered Bondholder must produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may be, the relevant Paying Agent as to its holding of Covered Bonds and identity. 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 Schedule, 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*: Subject to confirmation from each Rating Agency prior to the issuance of this Covered Bond that the then current rating of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this 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.
- (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 depository (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**") or so long as The Depository Trust Company ("**DTC**") or its nominee is the registered holder of a Registered Global Covered Bond, each person (other than Euroclear or Clearstream, Luxembourg or DTC) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or DTC 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 or DTC 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, and, in the case of DTC or its nominee, voting, giving consents and making requests, 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 DTC, Euroclear and Clearstream, Luxembourg, as the case may be.

References to DTC, 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.

### 3. **Transfers of Registered Covered Bonds**

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

Transfers of beneficial interests in Rule 144A Global Covered Bonds (as defined below) and Regulation S Global Covered Bonds (as defined below) (together, the "**Registered Global Covered Bonds**") will be effected by DTC, 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 or for a beneficial interest in another Registered Global Covered Bond 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 DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

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

Subject as provided in Conditions 3(e) (*Transfers of interests in Regulation S Global Covered Bonds*), 3(f) (*Transfers of interests in Rule 144A Covered Bonds*) and 3(g) 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 6 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) ***Transfers of interests in Regulation S Global Covered Bonds***

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Covered Bond to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a "**Transfer Certificate**"), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Covered Bond or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with the Securities Act and any applicable securities laws of any State of the United States,

and, in each case, in accordance with the Securities Act and any applicable securities laws of any State of the United States or any other jurisdiction. Such transferee may only take delivery through a Rule 144A Covered Bond in global or definitive form.

Prior to the end of the applicable Distribution Compliance Period beneficial interests in Regulation S Covered Bonds registered in the name of a nominee for DTC may only be held through the accounts of Euroclear and Clearstream, Luxembourg. After expiry of the applicable Distribution Compliance Period: (i) beneficial interests in Regulation S Global Covered Bonds registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC or indirectly through a participant in DTC; and (ii) such certification requirements will no longer apply to such transfers.

(f) ***Transfers of interests in Rule 144A Covered Bonds***

Transfers of Rule 144A Covered Bonds or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Covered Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Rule 144A Covered Bond where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with the Securities Act and any applicable securities laws of any State of the United States,

and, in each case, in accordance with the Securities Act and any applicable securities laws of any State of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Rule 144A Covered Bonds, or upon specific request for removal of the legend therein, the Registrar shall deliver only Rule 144A Covered Bonds or refuse to

remove the legend therein, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(g) ***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.

(h) ***Definitions***

In these Conditions, the following expressions shall 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;

"**QIB**" means a "qualified institutional buyer" within the meaning of Rule 144A;

"**Regulation S**" means Regulation S under the Securities Act;

"**Regulation S Global Covered Bond**" means a Registered Global Covered Bond representing Covered Bonds sold outside the United States in reliance on Regulation S;

"**Rule 144A**" means Rule 144A under the Securities Act;

"**Rule 144A Global Covered Bond**" means a Registered Global Covered Bond representing Covered Bonds sold in the United States to QIBs in reliance on Rule 144A; and

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

**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, the 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) 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 any Additional Business Centre specified in the applicable Final Terms; and
- (B) in the case of any sum payable, either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively or (2) in relation to any Covered Bonds denominated or payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto (the "**TARGET2 System**") 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) *ISDA Determination for Floating Rate Covered Bonds*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the "**ISDA Definitions**") and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms; and
- (2) the Designated Maturity is the period specified in the applicable Final Terms.

For the purposes of this subparagraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**" and "**Designated Maturity**" have the meanings given to those terms in the ISDA Definitions.

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 not referencing Compounded Daily SONIA*

*If Relevant Screen Page is available*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, and unless the Reference Rate in respect of the relevant Series of Floating Rate Covered Bonds is specified in the applicable Final Terms as being "Compounded Daily SONIA", the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

*If Relevant Screen Page not available, no offered quotation or fewer than three offered quotations*

If the Relevant Screen Page is not available or if, in the case of (1) above, no offered quotation appears or if, in the case of (2) above, fewer than three offered quotations appear, in each case as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR), the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question.

If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the relevant Interest Period shall be the arithmetic mean (rounded if necessary to the eighth decimal place, with 0.00000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

*If fewer than two Reference Banks provide offered quotations*

If fewer than two of the Reference Banks provide the Principal Paying Agent with offered quotations, the Principal Paying Agent shall request at least two of the Reference Banks to provide the Principal Paying Agent with its rates (expressed as a percentage rate per annum) for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London interbank market (if the Reference Rate is LIBOR) or the Euro-zone inter-

bank market (if the Reference Rate is EURIBOR), at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question.

If two or more of the Reference Banks provide the Principal Paying Agent with such rates, the Rate of Interest for the relevant Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of such offered rates plus or minus (as appropriate) the Margin (if any).

If fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the Rate of Interest for the relevant Interest Period shall be the offered rate or the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, any one or more bank (which bank(s) are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any).

*If Rate of Interest cannot be determined in accordance with the above*

If the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Condition 5(b)(ii)(B), the Rate of Interest shall be determined 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).

*Minimum Rate of Interest*

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

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

Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined and 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 during the Observation Period corresponding to such Interest Accrual Period (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) as calculated by the Principal Paying Agent (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):

$$\left[ \prod_{i=1}^{d_o} \left( 1 + \frac{SONIA_{i-pLBD} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

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

"**d<sub>0</sub>**" is the number of London Banking Days in the relevant Interest Accrual Period;

"**i**" is a series of whole numbers from one to **d<sub>0</sub>**, 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<sub>i</sub>**", for any London Banking Day "**i**", means the number of calendar days from (and including) such London Banking Day "**i**" up to (but excluding) the following London Banking Day;

"**Observation Period**" means the period from (and including) the date falling "**p**" London Banking Days prior to the first day of the relevant Interest Accrual Period to (but excluding) the date falling "**p**" London Banking Days prior to (A) (in the case of an Interest Period) the Interest Payment Date for such Interest Period or (B) (in the case of any other Interest Accrual Period) the date on which the relevant payment of interest falls due;

"**p**" is the number of London Banking Days by which an Observation Period precedes the corresponding Interest Accrual Period, being the number of London Banking Days specified as the "SONIA Lag Period (**p**)" in the applicable Final Terms (or, if no such number is so specified, five London Banking Days);

the "**SONIA reference rate**", in respect of any London Banking Day ("**LBD<sub>x</sub>**"), is a reference rate equal to the daily Sterling Overnight Index Average ("**SONIA**") rate for such **LBD<sub>x</sub>** 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 **LBD<sub>x</sub>**; and

"**SONIA<sub>i-p,LBD</sub>**" means the SONIA reference rate for the London Banking Day falling "**p**" London Banking Days prior to the relevant London Banking Day "**i**".

#### *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 Principal Paying Agent (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), 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 Principal Paying Agent (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<sub>i</sub> 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 Period had the Covered Bonds been in issue for a period equal in duration to the first scheduled Interest 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 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) 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 Principal Paying Agent, 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 Principal Paying Agent (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;

"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;

"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 Principal Paying Agent (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 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)) thereafter by the Principal Paying Agent (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 Principal Paying Agent (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 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 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), whether by the Principal Paying Agent or the Bond Trustee shall (in the absence of wilful default, negligence or fraud) be binding on the Issuer, the LLP, the Principal Paying Agent, the other Paying Agents, the Bond Trustee and all the Covered Bondholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the LLP, the Covered Bondholders or the Couponholders shall attach to the Principal Paying Agent or the Bond Trustee 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 and 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.

## 6. Payments

### (a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or electronic transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (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 or, at the option of the payee, by a euro cheque.

In the case of Bearer Covered Bonds, payments in U.S. dollars will be made by transfer to a U.S. Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 6 (*Payments*), 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), or by cheque drawn on a United States bank. In no event will payment in respect of Bearer Covered Bonds be made by a cheque mailed to an address in the United States. All payments of interest in respect of Bearer Covered Bonds will be made to accounts located outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

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 and its possessions)).

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 Registrar or any 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 Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a "**Designated Account**" or (ii) the principal amount of the Covered Bonds held by a holder is less than U.S.\$200,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a "**Designated Bank**" and identified as such in the Register 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 (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day in the city where the specified office of the Registrar is located 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**") at the holder's address shown in the Register on the Record Date and at the holder's risk. Upon application of the holder to the specified office of the Registrar not less than three Business Days in the city where the specified office of the Registrar 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 Registrar 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.

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than U.S. dollars shall be paid by electronic transfer by the Registrar to an account in the relevant Specified Currency on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

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 DTC, 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 DTC, 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.

Notwithstanding the foregoing provisions of this Condition, payments of principal and/or interest in U.S. dollars in respect of the Bearer Covered Bonds will only be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of interest on the Bearer Covered Bonds in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the LLP, adverse tax consequences to the Issuer or the LLP.

(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) the relevant place of presentation;
  - (B) London; and
  - (C) any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (iii) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(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 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));
- (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 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.

"**Established Rate**" means the rate for the conversion of the relevant Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty.

"**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, if:

- (i) an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds; and
- (ii) 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)); and
- (iii) 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 (subject as provided below) 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 Extension Determination Date may be paid by the LLP on any Interest 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.

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), 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. 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. The obligation of the LLP to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above. Such failure to pay 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 relation to any Series of Covered Bonds, the date, if any, 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 Trust Deed.

**"Rating Agency"** means Moody's Investors Service Limited and/or Fitch Ratings Ltd. 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 Programme and any 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 30 nor more than 60 days' notice to the Bond Trustee and, in accordance with Condition 14, 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 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. Covered Bonds redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in Condition 7(e) 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 30 nor more than 60 days' notice 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, 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 the Minimum Redemption Amount or a Higher Redemption Amount.
- (ii) the Covered Bonds to be redeemed (the "**Redeemed Covered Bonds**") will be selected:
  - (A) individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and
  - (B) in accordance with the rules of DTC, Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of DTC, 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 60 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 not less than 30 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 at least 30 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 30 nor more than 60 days' notice to the Bond Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 14, 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) 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) above and 7(h) below and Condition 10, 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 (i) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than euro, 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) 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 Conditions 7(a), (b) or (c) above or upon its becoming due and repayable as provided in Condition 10 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) 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 or individually.

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

Prior to the publication of any notice of redemption pursuant to Conditions 7(b) and 7(d), the Issuer shall deliver to the Bond Trustee a certificate signed by two Authorised Signatories (as defined in the Master Definitions and Construction Schedule) 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:

- (a) 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
- (b) 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
- (c) 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.

(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) therefor, subject in each case to the provisions of Condition 6.

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 or any Talon which would be void pursuant to Condition 6.

**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,

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 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) (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction) 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 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 7 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 7 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 that in its opinion the breach is materially prejudicial to the interests of the holders of such Covered Bonds or Coupons 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, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 10(c).

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 (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction):

(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,

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 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) 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; 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 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 shall be appointed (whether out of court or otherwise) in relation to the LLP 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 if the LLP 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, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; 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 each of the Bond Trustee and the Security Trustee may or shall (in the case of a direction by Covered Bondholders in accordance with Condition 10(c) take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 10(c) and the Covered Bondholders shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 8) 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 and the Coupons, but it shall not be bound to take any such enforcement proceedings 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 all 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 and may, at any time after the Security has become enforceable, take such steps as it may think fit to enforce the Security, but it shall not be bound to take any such steps unless (i) it shall have been so directed by an Extraordinary Resolution of all 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, 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 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**

In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Principal Paying Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint the London office of such other bank as may be approved by the Bond Trustee to act as such in its place. The Principal Paying Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid.

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

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(e). 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' prior notice shall have been given to the Covered Bondholders in accordance with Condition 14 (*Notices*).

In acting under the Agency Agreement, the Agents 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 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 regarding the Bearer Covered Bonds will be valid if published in the Financial Times or any other daily newspaper in London approved by the Bond Trustee or, if this is not possible, in one other English language daily newspaper approved by the Bond Trustee with general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Covered Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers or where published in such newspapers on different dates, the last date of such first publication.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the 40 day after mailing and, in addition, for so long as any Registered Covered Bonds are listed, quoted or traded on a stock exchange or are admitted to listing by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

So long as the Covered Bonds are represented in their entirety by any Global Covered Bonds held on behalf of DTC and/or Euroclear and/or Clearstream, Luxembourg, there may be substituted for such publication in such newspaper(s) the delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg for communication by them to the Covered Bondholders and, in addition, for so long as any Covered Bonds are listed on a stock exchange or admitted to listing by any other relevant authority and the rules of the stock exchange, or as the case may be, other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or, as the case may be, or any other relevant authority. Any such notice shall be deemed to have been given to the Covered Bondholders on the day on which the said notice was given to DTC and/or Euroclear and/or Clearstream, Luxembourg.

### **15. Meetings of Covered Bondholders, Modification and Waiver**

#### **(a) *Meetings of Covered Bondholders***

The Trust Deed contains provisions for convening meetings 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 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 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 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 Condition 15(b)(i) and 15(e) (*Part VII Transfer*):

- (A) the Issuer, the LLP and the Principal Paying Agent may agree, without the consent of the Bond Trustee, the Security Trustee, the Covered Bondholders or 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 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 as regulated covered bonds under the RCB Regulations or any replacement or amended regulations;
  - (2) the Transaction Documents and/or these Conditions of the Covered Bonds to comply with or implement or reflect any change in criteria of the Rating Agencies;

- (3) N Covered Bonds to be issued under the Programme;
- (4) the appointment of an additional Account Bank (provided such Account Bank has at least the Account Bank Remedial 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;
- (5) the establishment of any additional or replacement Swap Collateral Account that may be required in accordance with any Interest Rate Swap Agreement or any Covered Bond Swap Agreement (provided any such Swap Collateral Account is held with a Swap Collateral Account Bank which has at least the Account Bank Remedial Ratings);
- (6) any Interest Rate Swap Agreement to be terminated or amended from time to time, together with any consequential amendments to the Transaction Documents and/or these Conditions of the Covered Bonds for the purpose of enabling the notional amount of the SVR Interest Rate Swap to be reduced to zero at the option of the SVR Interest Rate Swap Provider following a downgrade in the relevant rating of the SVR Interest Rate Swap Provider or any guarantor of the SVR Interest Rate Swap Provider's obligations by the relevant Rating Agency, provided that (A) the relevant Rating Agency has confirmed that the ratings of the Covered Bonds would not be adversely affected or withdrawn and (B) that all necessary regulatory approvals and consents have been received;
- (7) the Covered Bonds to be (or to remain) listed on the London Stock Exchange;
- (8) the Issuer or the LLP to comply with FATCA (or any voluntary agreement entered into with a taxing authority in relation thereto);
- (9) the addition of any Rating Agency to the Programme;
- (10) New Mortgage Loan Types to be sold to the LLP (including from the Part VII Effective Date Mortgage Loans originated by a Clydesdale Originator and the Part VII Successor) 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;
- (11) the accession of Clydesdale or any other relevant entity in the Clydesdale Group or any other New Seller as contemplated by clause 31 of the LLP Deed; and/or
- (12) Clydesdale or any other member of the Clydesdale Group to be appointed as administrator of all or some of the Mortgage Loans to be acquired by the LLP.

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, 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 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 (i) that 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 (12) above and (ii) that the requested amendments are not, in the opinion of the Issuer (in the case of the certificate furnished on behalf of the Issuer) and the LLP (in the case of the certificate furnished on behalf of the LLP), materially

prejudicial to the interests of any Covered Bondholders, Couponholders or any Secured Creditor; and

- (C) the Bond Trustee shall, without the consent of the holders of any of the Covered Bonds or any other Secured Creditor, (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 of the Covered Bonds that are requested by the Issuer and/or the LLP in order to enable the Issuer 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 (as amended, modified and/or restated from time to time) under the European Market Infrastructures Regulation ("**EMIR**"), 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 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 EMIR.
- (iii) *Base Rate Modifications:* The Bond Trustee, the Security Trustee 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 (and for this purpose the Bond Trustee and the Security Trustee may disregard whether any such modification relates to a Series Reserved Matter)) 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 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 LIBOR, EURIBOR, Compounded Daily SONIA or such 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 judgment of the Issuer to facilitate such change (a "**Base Rate Modification**"), provided that:
- (A) the Issuer certifies to the Bond Trustee in writing (such certificate, a "**Base Rate Modification Certificate**") that such Base Rate Modification is being undertaken due to:
- (1) a material disruption to the relevant Reference Rate, an adverse change in the methodology of calculating the relevant Reference Rate or the relevant Reference Rate ceasing to exist or be published;
  - (2) the occurrence of the circumstances specified in Condition 15(b)(iii)(II) above;
  - (3) 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) and such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable;

- (4) 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 will be changed in an adverse manner and such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable;
- (5) a public statement by the supervisor of the administrator of the relevant Reference Rate that means such Reference Rate may no longer be used, is no longer representative or that its use is subject to restrictions or adverse consequences;
- (6) a public statement or publication of information by the administrator of such Reference Rate that it has invoked or will invoke, permanently or indefinitely, its insufficient submissions policy; or
- (7) the reasonable expectation of the Issuer that any of the events specified in sub-paragraphs (1), (2), (3), (4), (5), or (6) above will occur or exist within six months of the proposed effective date of such Base Rate Modification,

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 Bank of England, any regulator in the United States, the United Kingdom or the European Union 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;
- (2) in relation to LIBOR, the Sterling Over Night Index Average (or any rate which is derived from, based upon or otherwise similar to either of the foregoing);
- (3) 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 (for these purposes, unless agreed otherwise by the Bond Trustee, five (5) such issues shall be considered material); or
- (4) a base rate utilised in a publicly-listed new issue of floating rate covered bonds where the issuer (or, in the case of asset backed securities, the originator of the relevant assets) is the Issuer or an Affiliate of the Issuer;

(C) at least 30 days' prior written notice of any Base Rate Modification has been given to the Bond Trustee;

(D) a Base Rate Modification Certificate is provided to the Bond Trustee both at the time the Bond 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 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 due consideration and consultation with such Rating Agency (including, as applicable, upon receipt of oral confirmation from an appropriately authorised person at such 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 "**Rating Confirmation**";

- (F) the Issuer pays (or arranges for the payment of) all reasonable and documented fees, costs and expenses (including legal fees) properly incurred by the Bond Trustee and the Security Trustee 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*).

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

- (I) the Bond Trustee shall not consider the interests of the Covered Bondholders, any other Secured Creditor 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 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 nor the Security Trustee shall be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and/or the Security Trustee would have the effect of (i) exposing the Bond Trustee and/or the Security Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights, powers, authorisations, discretions, indemnification or protections, of the Bond Trustee and/or the Security Trustee in the Transaction Documents and/or these Conditions.



- (iv) *Part VII Transfer:* In addition to the provisions of Conditions 15(b)(i), (ii) and (iii), in the event of a Part VII Transfer, the Transaction Documents and/or these Conditions of the Covered Bonds may be modified subject to and in accordance with Condition 15(e).
- (v) *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 of the Covered Bonds.
- (vi) *Waiver or authorisation of breach:* The Bond Trustee may also agree, without the consent of the Covered Bondholders of any Series, 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, 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.
- (vii) *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.
- (viii) *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.
- (ix) *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 (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 have regard to the general interests of the Covered

Bondholders of each Series 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 and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 8 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) above) 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 or to the re-substitution of the Issuer (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 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);
  - (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; and
  - (H) the Issuer and (where applicable) the New Company comply with such other reasonable requirements as the Bond Trustee or the Security Trustee may direct in the interests of the Covered Bondholders.
- (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 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);
  - (H) the Directors of the New Entity shall certify that the New Entity is solvent (viii) 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; and
  - (I) the Issuer and (where applicable) the New Entity comply with such other reasonable requirements as the Bond Trustee or the Security Trustee may direct in the interests of the Covered Bondholders;
- (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 relevant 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) **Part VII Transfer**

- (i) This Condition 15(e) shall apply in the event that all or substantially all of the business, operations, assets and liabilities of Virgin Money plc is (or is to be) transferred to, or otherwise combined and amalgamated with, all or substantially all of the business, operations, assets and liabilities of Clydesdale Bank PLC and/or any other subsidiary of CYBG PLC, pursuant to a transfer under Part VII of the Financial Services and Markets Act 2000, as amended (the "**Part VII Transfer**"). The surviving entity in which all or substantially all of the business, operations, assets, liabilities and obligations of Virgin Money plc are vested immediately following completion of the Part VII Transfer is referred to in these Conditions as the "**Part VII Successor**", and the date on which the Part VII Transfer becomes effective (being, for these purposes, the first day on which the relevant businesses, operations, assets and liabilities are combined pursuant to the Part VII Transfer) is referred to as the "**Part VII Effective Date**".
- (ii) With effect on and from the Part VII Effective Date, all references in these Conditions and in any Transaction Document to "Virgin Money plc" or to any role or capacity (each a "**Relevant Capacity**") in which Virgin Money plc acts or is appointed for the time being in connection with the Programme (including, but not limited to, its capacities as Issuer, Administrator, Cash Manager, Collection Bank, a Seller, a Member and Designated Member of the LLP and VM Account Bank) shall, unless the context otherwise requires or the terms of the relevant Part VII Transfer provide otherwise, be deemed to be references to the Part VII Successor, without the need for any consent or approval of any Covered Bondholders, Couponholders, the Bond Trustee, the Security Trustee or any other party to any Transaction Document and without any further action being required on the part of the Issuer or any other person.
- (iii) In addition to (and without prejudice to) the provisions of Conditions 15(b)(i), (ii) and (iii), in the event of a Part VII Transfer, the Issuer 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 any and all modifications to the Transaction Documents and/or these Conditions of the Covered Bonds which the Issuer (which term, for the avoidance of doubt, includes the Part VII Successor as aforesaid), in its sole and absolute discretion, considers to be:
  - (A) necessary or expedient to ensure the effective implementation of the Part VII Transfer; and/or
  - (B) incidental to, or consequential on, the Part VII Transfer and necessary or expedient in connection with the ongoing operation of the Programme;

(each such modification a "**Part VII Modification**").

The Issuer may request that any Part VII Modification be implemented at any time on or after the Part VII Effective Date. Part VII Modifications may include, but are not limited to, changes to the calculation and/or quantum of the Asset Coverage Test and the Adjusted Loan

Amount and changes to the administration or cash management processes, account bank arrangements, swap arrangements, timings and/or reference periods.

- (iv) 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 Part VII Modifications (other than in respect of a Series Reserved Matter) without the consent or sanction of any of the Covered Bondholders, the Couponholders and without the consent or sanction of any other Secured Creditors, provided that:
- (A) the Issuer has provided a Ratings Confirmation to the Bond Trustee and the Security Trustee;
  - (B) the Issuer has provided a certificate signed by a director of the Issuer to the Bond Trustee and the Security Trustee confirming that:
    - (1) the proposed Part VII Modification is not in respect of a Series Reserved Matter; and
    - (2) it considers the proposed Part VII Modifications to be (I) necessary or expedient to ensure the effective implementation of the Part VII Transfer and/or incidental to or consequential to the Part VII Transfer and (II) necessary or expedient to the ongoing operation of the Programme;
  - (C) prior to the Bond Trustee agreeing to any such Part VII Modification pursuant to this Condition 15(e), the Issuer must provide a certificate signed by a director of the Issuer certifying to the Bond Trustee that such Part VII Modification will 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:
    - (1) such Part VII Modification will not require the FCA to be notified in accordance with Regulation 20 of the RCB Regulations; or
    - (2) if such Part VII Modification 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 Part VII Modification;
  - (D) either:
    - (1) the Issuer provides a certificate signed by a director of the Issuer certifying to the Bond Trustee and the Security Trustee that the Part VII Modifications are not, in the opinion of the Issuer, materially prejudicial to the interests of (A) any Covered Bondholder or Couponholder and (B) any Secured Creditor, provided that no such certification in relation to a Secured Creditor shall be required if the Issuer obtains confirmation in writing from the relevant Secured Creditor that it consents to the Part VII Modifications (and a copy of such confirmation from Secured Creditors is provided to the Bond Trustee); or
    - (2) (A) the Issuer has provided at least 30 days' notice to the Covered Bondholders of any Series of Covered Bonds in relation to which the certification in Condition 15(e)(iv)(D)(1)(A) has not been made of the proposed Part VII Modifications in accordance with Condition 14 (*Notices*) and by publication on Bloomberg on the "Company News" screen relating to the relevant Covered Bonds (in each case specifying the date and time by which the relevant Covered Bondholders must respond) and (B) 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 proposed Part VII Modifications or, as the case may be, any part(s) of the proposed Part VII Modifications specifically identified by such Covered Bondholder).

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 proposed Part VII Modifications, then the proposed Part VII Modifications will not be made unless an Extraordinary Resolution of the Covered Bondholders of the relevant Series then outstanding is passed in favour of the Part VII Modifications in accordance with Condition 15 (*Meetings of Covered Bondholders, Modification and Waiver*);

- (E) at least 30 days' prior written notice of any Part VII Modification has been given to the Bond Trustee; and
  - (F) the Issuer pays (or arranges for the payment of) all reasonable and documented fees, costs and expenses (including legal fees) properly incurred by the Bond Trustee and the Security Trustee in connection with such Part VII Modification.
- (v) The Issuer shall, not later than 14 days after the Part VII Effective Date, give notice of the Part VII Transfer to the Covered Bondholders in the manner provided in Condition 14 (Notices) (although any delay or failure in giving such notice shall not constitute a default on the part of the Issuer, the LLP or any other person).

(f) **Definitions**

For the purposes of this Condition 15:

**"N Covered Bond"** means a Registered Covered Bond in definitive form made out in the name of a specified N Covered Bondholder issued or to be issued by the Issuer, in the form of "*Namenschuldverschreibungen*" governed by German law (with certain provisions and parts of the documentation relating to the N Covered Bonds governed by English law) and having the N Covered Bond Conditions applicable to it annexed thereto;

**"N Covered Bond Conditions"** means the terms and conditions of each N Covered Bond;

**"N Covered Bondholder"** means the holder of an N Covered Bond;

**"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) (*Base Rate Modifications*));
- (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, 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 paragraphs (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 (other than each Scottish Declaration of Trust) and certain documents to be granted pursuant to the Deed of Charge) 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. Each Scottish Declaration of Trust and certain supplemental security documents to be granted pursuant to the Deed of Charge will be governed by, and construed in accordance with, Scots law. Those aspects of the Transaction Documents specific to Northern Irish Mortgage Loans will be governed by, and construed in accordance with, Northern Irish law.
- (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.

## FORM OF FINAL TERMS

**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 [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them 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 PRIIPs Regulation.

[Date]

[**VIRGIN MONEY PLC**]/[*INSERT NAME*]<sup>1</sup>

Legal entity identifier (LEI): [213800NISCV8CQI6LW27 ]/[●]<sup>2</sup>

**Issue of Regulated [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds] irrevocably and unconditionally guaranteed as to payment of principal and interest by Eagle Place Covered Bonds LLP under the €7 billion Global 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 Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectus. Copies of the Prospectus [and the supplemental Prospectus] 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](http://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 Prospectus Directive (Directive 2003/71/EC) as amended or superseded (the "**Prospectus Directive**"). This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer and the LLP and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms and the Prospectus dated [current date] [and the supplemental Prospectus dated [date]]. Copies of such Prospectus(es) is/are

<sup>1</sup> Insert name of Part VII Successor following Part VII Effective Date

<sup>2</sup> Insert LEI of Part VII Successor following Part VII Effective Date

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](http://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 U.S. Regulatory Considerations" in the Prospectus dated [●].]

1. (i) Issuer: [Virgin Money plc]/[●]
- (ii) Guarantor: Eagle Place 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: [●]/[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: [[●]/[Interest Payment Date falling in or nearest to [●]]/[Not Applicable]

under the Covered Bond Guarantee:

10. Interest Basis: [[●] per cent. Fixed Rate]  
[LIBOR/EURIBOR/Compounded Daily SONIA]  
[+/- [●] per cent.]  
[Floating Rate]  
[Zero Coupon]  
[Combination]
- (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 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], [●]
- (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) or [●]]
- (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], [●]
(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[●]
(vi)	Screen Rate Determination:	[Applicable/Not Applicable]
	– Reference Rate, Specified Time and Relevant Financial Centre:	Reference Rate: [Compounded Daily SONIA] / [●] month [[ <i>Currency</i> ] LIBOR/EURIBOR]  Specified Time: [11.00a.m./[●]]  Relevant Financial Centre: [London/Brussels]
	– Interest Determination Date(s):	[●][TARGET/[●]] Business Days [in [●]] prior to the [●] day in each Interest Period/each Interest Payment Date][The [first/[●]] London Banking Day falling after the last day of the relevant Observation Period] [●]
	– Relevant Screen Page:	[●] [Not Applicable]
	– SONIA Lag Period ( <i>p</i> )	[5 / [●] London Banking Days] [Not Applicable]
(vii)	ISDA Determination:	[Applicable/Not Applicable]
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
(viii)	Margin(s):	[+/-] [●] per cent. per annum.
(ix)	Minimum Rate of Interest:	[●] per cent. per annum
(x)	Maximum Rate of Interest:	[●] per cent. per annum
(xi)	Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 360/360 Bond Basis 30E/360 Eurobond Basis] [●]
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], [●]
- (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: [●]
- 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: [Bearer Covered Bonds:
  - [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]
  - [Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds only after an Exchange Event]
  - [Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event]
  - Registered Covered Bonds:
    - [Regulation S Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg]]

[Rule 144A Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/ a common depository for Euroclear and Clearstream, Luxembourg]]

23. 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] [include this text for Registered Covered Bonds which are to be held under the NSS] 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] [include this text for Registered Covered Bonds]. 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.]
24. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [●]/ Not Applicable]
25. 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 regulated market of the London Stock Exchange and to the Official List of the UK Listing Authority 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 regulated market of the London Stock Exchange and to the Official List of the UK Listing Authority 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**")]: [●]

[**Moody's Investor Service Ltd** ("**Moody's**")]: [●]

[[Other]: [●]]

[Each of] [Fitch] [and [Moody's] is established in the EEA and registered under Regulation (EU) No.1060/2009, as amended (the "**CRA Regulation**")].

There is no assurance that the Rating Agencies will rate the Covered Bonds up to their Final Maturity Date.

**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**

ISIN: [●]

CUSIP: [●] [Not Applicable]

Common Code: [●]

[FISN	[●]
[CFI Code	[●]
Any clearing system(s) other than Euroclear and/or Clearstream, Luxembourg and the relevant identification number(s):	[●] [Not Applicable]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[●]
[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.]
Relevant Benchmark[s]:	[[ <i>specify benchmark</i> ] is provided by [ <i>administrator legal name</i> ]]. As at the date hereof, [[ <i>administrator legal name</i> ][appears]/[does not appear]] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmarks Regulation]/[As far as the Issuer is aware, as at the date hereof, [ <i>specify benchmark</i> ] does not fall within the scope of the Benchmarks Regulation]/[Not Applicable]

6. **DISTRIBUTION**

- (i) Method of Distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated:
  - (a) Names of Dealers: [●]
  - (b) Stabilising Manager(s) (if [Not Applicable/[●]])

any):

- (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] – [Not] Rule 144A Eligible
- (v) [Prohibition of Sales to Belgian Consumers: [Applicable/Not Applicable]  
*(N.B. Advice should be taken from Belgian counsel before disapplying this selling restriction.)*

Signed on behalf of the Issuer:

Signed on behalf of the LLP:

By:

By:

Duly authorised

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,

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 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
- (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 in the Transaction Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit) or the VM Account (in an amount not exceeding the VM Permitted Cash Amount).

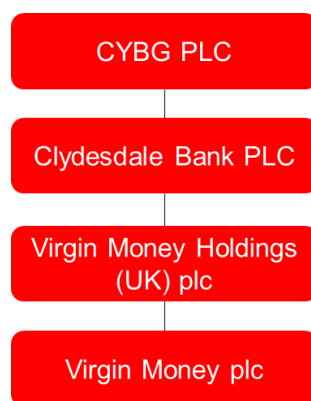
## VIRGIN MONEY PLC

### INFORMATION ON THE ISSUER

The Issuer is a public limited company registered in England and Wales, under number 06952311 and is regulated by the Financial Conduct Authority ("FCA") and Prudential Regulation Authority ("PRA").

The whole of the issued ordinary share capital of the Issuer is beneficially owned by Holdings. On 15 October 2018, CYBG acquired the entire issued share capital of Holdings (the parent of Virgin Money plc) pursuant to the Offer (a recommended all-share offer to Holding's shareholders). As at the date of this Prospectus, CYBG is the ultimate holding company of the Issuer and the CYBG Group. The Issuer understands that the intention as of the date of this Prospectus is that the business, operations, assets, liabilities and obligations of the Issuer are likely to be transferred to Clydesdale pursuant to a transfer mechanic under Part VII of FMSA. Whilst the timing of any such Part VII Transfer is still being considered, if and when such Part VII Transfer occurs it is anticipated that Virgin Money's business will form part of the newly combined entity. For more information about CYBG, the CYBG Group and the Part VII Transfer please see the sections entitled "*Proposed Part VII Transfer*" and "*Clydesdale*" in this Prospectus.

The chart below sets out the current ownership structure of the Issuer as at the date of this Prospectus:



The registered office of the Issuer is at Jubilee House, Gosforth, Newcastle upon Tyne NE3 4PL, United Kingdom. Virgin Money plc's internet address is [www.virginmoney.com](http://www.virginmoney.com) (it should be noted that the content of the [www.virginmoney.com](http://www.virginmoney.com) website does not form part of this Prospectus) and its telephone number is +44 345 600 8401.

### HISTORY

Set out below are certain key milestones in Virgin Money's development.

- 1965 Northern Rock Building Society formed following the merger of the Northern Counties Permanent Building Society and the Rock Building Society.
- 1995 Virgin Money, a group of UK financial services businesses now under the common ownership of CYBG, was established by Virgin Direct Personal Financial Service Limited ("VDPFS"). VDPFS initially offered tax efficient savings in the form of Personal Equity Plans ("PEPs") and later personal pensions, life insurance and unit trust products and subsequently credit cards and general insurance.
- 1997 Virgin Direct Limited entered into a joint venture with The Royal Bank of Scotland plc ("RBS") to establish and operate the Virgin One Account ("VOA"), an innovative current account mortgage, through Virgin Direct Personal Finance Limited. This business was sold to RBS in 2001.  
  
Northern Rock Building Society was converted to a public limited company, when it was also listed on the London Stock Exchange.
- 2002 VDPFS went on to launch a credit card product in partnership with MBNA and sold its own branded life insurance business. VDPFS was subsequently rebranded as Virgin Money.

- 2008 The original Northern Rock plc entered temporary public ownership.
- 2010 Northern Rock's business was separated into two entities: a new entity, Northern Rock plc, which held all of the customer retail savings and current accounts and a core portfolio of high quality performing mortgage assets, and the original entity renamed Northern Rock (Asset Management) plc and, subsequently, NRAM plc (and now, following its acquisition by Cerberus Capital Management in May 2016, Landmark Mortgages Limited) (the "**NRAM Originator**"), which retained all remaining and securitised assets and which was owned by HM Treasury through UK Asset Resolution. In addition, all branches, mortgage origination capabilities and information technology were transferred to the new Northern Rock plc. Following the separation, Northern Rock plc carried on business as a mortgage and savings bank, primarily funded by retail deposits.
- 2012 In January 2012, Virgin Money Holdings (UK) Limited acquired the entire issued share capital of Northern Rock plc from HM Treasury. As a result, Northern Rock plc became part of the Virgin Money group.
- Also in January 2012, Northern Rock plc acquired Virgin Money Cards Limited (formerly Virgin Money Limited) from Virgin Money Holdings (UK) Limited, the principal business of which was the marketing of personal credit cards which were distributed pursuant to partnership agreements with MBNA.
- In July 2012, the Issuer entered into a transaction to acquire a mortgage portfolio from the NRAM Originator for a cash consideration of £466.4 million.
- Northern Rock plc was renamed Virgin Money plc in October 2012.
- 2014 In July 2014, Virgin Money Holdings (UK) Limited changed its name to Virgin Money Holdings (UK) plc and was re-registered as a plc. In November 2014, Holdings was listed on the London Stock Exchange via an initial public offering.
- 2018 In October 2018, CYBG PLC acquired Holdings and each Holdings share was exchanged for 1.2125 CYBG PLC shares. As a result, Holdings was delisted from the London Stock Exchange and Virgin Money plc became a subsidiary of CYBG PLC.

## **RECENT FINANCIAL PERFORMANCE**

Any financial information in this section is based on the audited financial statements of the Issuer as at 31 December 2017 (the "**2017 Annual Report**") and 31 December 2018 (the "**2018 Annual Report**"). The 2017 Annual Report and the 2018 Annual Report were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the EU, including interpretations issued by the IFRS Interpretations Committee, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Based on the 2017 Annual Report, the Issuer had total assets of £41,018.9 million, total gross loans and advances to customers of £37,115.6 million, total customer deposits of £30,808.4 million and total equity of £1,879.2 million. Statutory profit before tax was £263.1 million for the year ended 31 December 2017. Net interest income was £594.7 million and non-interest income was £44.7 million, resulting in total operating income of £639.4 million. Total operating and administrative expenses were £332.1 million, leading to a Statutory Cost: Income Ratio of 51.9 per cent. for the year ended 31 December 2017. The impairment charge to average customer loans (Cost of Risk) was 0.13 per cent. in the twelve months to 31 December 2017. The return on assets was 0.47 per cent. for the year ended 31 December 2017.

Based on the 2018 Annual Report, the Issuer had total assets of £44,790.9 million, total gross loans and advances to customers of £38,963.2 million, total customer deposits of £32,429.9 million and total equity of £1,798.3 million. Statutory profit before tax was £108.6 million for the year ended 31 December 2018. Net interest income was £601.2 million and non-interest income was £51.1 million, resulting in total operating income of £652.3 million. Total operating and administrative expenses were £472.4 million, leading to a Statutory Cost: Income Ratio of 72.4 per cent. for the year ended 31 December 2018. The impairment charge to average customer loans (Cost of Risk) was 0.19 per cent. in the twelve months to 31 December 2018. The return on assets was 0.16 per cent. for the year ended 31 December 2018.

## **BANKING ACTIVITIES**

The Issuer currently offers a range of banking services and products to customers throughout the UK.

### ***Residential mortgage lending***

The Issuer's core lending activity is the provision of residential mortgages to individuals secured on residential properties located in the UK and represented 91.3 per cent. of gross retail loans and advances to customers as at 31 December 2018. This lending is principally to prime borrowers who are owner and occupier of the mortgaged property (79.5 per cent.), with a proportion (20.5 per cent.) being to borrowers who are landlords.

The primary distribution channel for mortgages is through intermediary partners, supplemented by direct distribution and supported by excellent service. The Issuer's intermediary partners gave the Issuer a 4.4 out of 5 rating for service in real-time feedback, reflecting the continued focus on delivering a high-quality proposition to the intermediary market.

The Issuer had over 365,000 mortgage customers at the end of 2018 and grew mortgage balances by £1.7 billion in 2018 as the Issuer moderated gross lending in the year to £6.8 billion, focussing on growing assets at the right margin and quality. Mortgage balances grew 4.9 per cent. to £35.3 billion as at 31 December 2018 (£33.7 billion at 31 December 2017), this compared to market growth of 3.0 per cent. The Issuer's market share of balances increased from 2.45 per cent. to 2.49 per cent.

Customer retention remained consistent in the twelve months to 31 December 2018 with 72 per cent. of mortgage customers with maturing fixed or tracker products choosing to remain with the Issuer at the end of their existing deal (72 per cent. in the year ended 31 December 2017).

The Issuer continued using its innovative Mortgage Lab to deliver new products, support intermediary partners and develop its customer proposition. The Issuer expanded its reach into new customer segments with significant improvements to the buy-to-let offering, including the launch of a portfolio landlord proposition, new 7 and 10 year residential fixed rate products and the extension of shared ownership lending nationwide.

The weighted average loan-to-value ratio ("**LTV**") of the Issuer's new lending in 2018 was 68.3 per cent., and the weighted average indexed LTV of the portfolio was 56.2 per cent. as at 31 December 2018, remaining stable compared to the previous year.

As at 31 December 2018, 83.5 per cent. of the Issuer's mortgage portfolio had an indexed LTV of 75 per cent. or less, based on value. Only 1.8 per cent. of the Issuer's mortgage portfolio as at 31 December 2018 had an indexed LTV in excess of 90 per cent., based on value.

The Issuer has experienced historically low losses in its total residential mortgage portfolio. As at 31 December 2018, loans over three months in arrears were 0.13 per cent. of the book, compared to the UK Finance industry average of 0.79 per cent. as at Q4 2018.

Secured credit impaired loans as a proportion of total secured loans have decreased to 0.4 per cent. (1 January 2018: 0.5 per cent.), with balances reducing by £31.2 million to £132.4 million as at 31 December 2018. Secured impairment allowances increased from £12.1 million to £13.8 million during 2018.

### ***Retail savings***

The Issuer offers its 1.3 million savings and current account customers a range of instant access and fixed term products. These are also available as ISAs and are distributed primarily through digital channels, supplemented by stores and contact centres.

The Issuer is predominantly funded through customer deposits, with total deposit balances growing by £1.6 billion in 2018 or 5.3 per cent. to £32.4 billion (compared to £30.8 billion at 31 December 2017) as retention levels on fixed rate maturities remained strong at 87 per cent. and the Issuer enhanced its proposition and broadened its reach, including the launch of SME and Virgin Atlantic deposit products. SME deposit balances reached £603 million by the year ended 31 December 2018 and the Issuer's Cash ISA proposition also performed strongly, achieving £2.7 billion of inflows across 2018.

### ***Credit cards***

The Issuer provides credit card products, predominantly online, to over 1.45 million customers. The portfolio is a mix of balance transfer and retail credit cards, and continued to develop with the launch of Virgin Atlantic products in the first half of 2018.

The prime credit card portfolio represented 8.7 per cent. of gross retail loans and advances to customers, with credit card balances growing £0.24 billion, an increase of 7.9 per cent. to £3.3 billion at 31 December 2018 (compared to £3.0 billion at 31 December 2017). In 2018 just under 340,000 new accounts were opened, of which more than two-thirds were retail-led (compared to circa 40 per cent. in 2017). Spend per active account across the portfolio was 87 per cent. higher than in 2017.

The credit quality of the new Virgin Atlantic card customers is superior to that of the existing portfolio reflecting the more affluent nature of the customer base. This has supported the already high-quality credit characteristics of the cards book, and unsecured two month plus arrears levels remained low at 1.08 per cent. as at 31 December 2018 (31 December 2017: 0.88 per cent.), better than industry benchmarks, with the small increase reflecting the maturing of the portfolio.

Unsecured credit-impaired loans as a proportion of retail unsecured loans have increased marginally to 1.2 per cent. (1 January 2018: 1.0 per cent.) with balances increasing by £12.4 million to £41.8 million as at 31 December 2018. This is primarily due to expected seasoning of the portfolio.

## **LIQUIDITY AND FUNDING**

The CYBG Group has a diversified funding mix, a strong base of predominantly lower-cost retail customer deposits, proven access to wholesale unsecured and secured funding and limited reliance on short-term wholesale funding.

The Issuer's treasury function ("**Treasury**") manages liquidity, funding and balance sheet risks. The Issuer does not manage Treasury as a profit centre and Treasury is not engaged in trading activities.

### ***Liquidity***

The CYBG Group undertakes a conservative approach to liquidity management by imposing internal limits, including limits based on stress and scenario testing, in addition to regulatory requirements. The CYBG Group manages liquidity risk by maintaining sufficient net liquid assets as a percentage of liabilities to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the CYBG Group and to enable the CYBG Group to meet its financial obligations.

The CYBG Group maintains a portfolio of liquid assets, predominantly in high-quality unencumbered securities issued by the UK Government or Supranationals and deposits with the Bank of England. The CYBG Group manages this portfolio to meet PRA liquidity requirements while diversifying the mix to reduce basis risk and optimise the yield on liquid assets.

As at 31 December 2018, the Issuer had total liquid assets of £6.0 billion of which £5.5 billion were high quality liquid assets (this compared to £5.9 billion and £5.3 billion, respectively, as at 31 December 2017). Total liquidity as at 31 December 2018 included total Level 1 assets of £5.3 billion, of which £3.4 billion were held in cash and balances held at central banks, £708.7 million were held in UK Government securities, £593.2 million were held in Supranational securities, £587.8 million were held in Level 1 eligible covered bonds and £63.1



million in other HQLA Level 1 eligible securities. Total Level 2a and 2b assets and other liquidity resources were £177.3 million. These included eligible Residential Mortgage Backed Securities ("**RMBS**"). Self-issued RMBS amounted to a further £485.1 million.

The repayment in full of off-balance sheet FLS drawings with the final TFS drawing, which is held on balance sheet, resulted in an increase in on balance sheet liquidity. At 173.8 per cent., the Issuer's Liquidity Coverage Ratio (LCR) remained significantly above the regulatory minimum of 100%.

#### *Wholesale funding*

The CYBG Group has a diversified funding base, with the majority of the CYBG Group's funding for its loan portfolio generated through customer deposits in the form of current accounts and savings accounts.

The Issuer adopts a prudent wholesale funding strategy which is planned and controlled by a series of balance sheet metrics to limit concentration and refinancing exposures. Access to wholesale funding supplements the core retail deposit base in order to extend tenor, ensure appropriate diversification of the funding base and optimise funding costs.

As at 31 December 2018, the Issuer had total wholesale funding of £10.3 billion (£8.0 billion as at 31 December 2017).

In early 2018, the Issuer repaid remaining Funding for Lending Scheme (FLS) balances in full, using the final drawing from the Term Funding Scheme (TFS). TFS drawings totalled £6.4 billion at the closure of the scheme at the end of February 2018 and a schedule for the staged repayment of TFS ahead of contractual maturity is in place.

In 2015, the Issuer and Holdings established a £3,000,000,000 Global Medium Term Note programme (the "**Global Medium Term Note Programme**") under which the Issuer issued £300 million 2.25 per cent. Notes due 2020 in April 2015, and Holdings issued £350 million 3.375 per cent. Fixed Rate Reset Callable Senior Notes due 2026 in April 2018.

The Issuer established the Programme in April 2018.

The Issuer has also raised funding through the issuance of RMBS. The outstanding transactions are as set out in the table below.

<u>Date of issue</u>	<u>Principal amount sold<sup>(3)</sup></u>	<u>Issuer</u>
12 September 2014.....	£1,388,900,000	Gosforth Funding 2014-1 plc <sup>(1)</sup>
8 June 2015 .....	£1,388,900,000	Gosforth Funding 2015-1 plc <sup>(1)</sup>
25 January 2016 .....	£1,553,158,602 <sup>(2)</sup>	Gosforth Funding 2016-1 plc <sup>(1)</sup>
9 May 2016 .....	£1,026,053,995 <sup>(2)</sup>	Gosforth Funding 2016-2 plc <sup>(1)</sup>
25 September 2017.....	£1,151,817,734 <sup>(2)</sup>	Gosforth Funding 2017-1 plc <sup>(1)</sup>
24 September 2018.....	£1,427,246,293 <sup>(2)</sup>	Gosforth Funding 2018-1 plc <sup>(1)</sup>

Notes:

- (1) These securities were sold primarily to raise funding although certain securities have been retained for contingent funding purposes.  
 (2) GBP Equivalent.  
 (3) Reflects the amount sold at the date of issue. This amount will have reduced as the RMBS amortises over the life of the transaction.

## **CAPITAL**

The Issuer seeks to maintain a strong capital base which both meets its regulatory requirements and supports the growth of the business.

The Issuer's capital position under CRD IV as at 31 December 2018:

- Total Capital ratio was 20.3 per cent. (19.1 per cent. as at 31 December 2017);
- Common Equity Tier 1 ratio was 17.5 per cent. (16.4 per cent. at 31 December 2017); and

- Leverage ratio was 3.7 per cent. (4.1 per cent. at 31 December 2017).

During 2018, the Issuer made a submission to the PRA seeking approval for improvements to its mortgage risk-weight models. These improvements were approved and, as a result, the Common Equity Tier 1 capital ratio for Virgin Money plc increased materially.

## RATINGS

As at the date of this Prospectus, the Issuer has been assigned:

- By Fitch, a short-term Issuer Default Rating of F2 and a long-term Issuer Default Rating of BBB+ (placed on Rating Watch Negative), and
- By Moody's a long-term domestic currency Bank Deposit Rating of Baa1, with the outlook changed to Positive from Rating under Review, and a long-term domestic and foreign currency Issuer Rating of Baa1, with the outlook changed to Positive from Rating under Review, and a CRA of A2(cr)/Prime-1(cr). The BCA and adjusted BCA were confirmed at baa2 and the short-term domestic currency Bank Deposit and short-term local and foreign currency Issuer Ratings were affirmed at Prime-2.

## ALTERNATIVE PERFORMANCE MEASURES

The financial measures presented by the Issuer in this section are not defined in accordance with IFRS accounting standards. Statutory Cost: Income Ratio, Cost of Risk and Return on Assets are commonly reported metrics used and reported throughout the banking industry, as these provide relevant information to external stakeholders. It is to be noted that, since not all companies calculate financial measurements in the same manner, these are not always comparable to measurements used by other companies (even if similarly labelled). Accordingly, these financial measures should not be seen as a substitute for measures defined according to IFRS. The list below describes alternative performance measures used in this Prospectus, along with their basis of calculation and reconciliation to the extent that such information is not defined according to IFRS.

<b>Financial Measure</b>	<b>Definition</b>
<b>Statutory Cost: Income Ratio</b>	Operating and administrative expenses divided by total operating income.
<b>Cost of Risk</b>	Impairment charges, net of debt recoveries, divided by simple average gross loans for the period.
<b>Return on Assets</b>	Profit attributable to equity holder divided by closing total assets.

## VM PLC BOARD OF DIRECTORS

The below table lists the directors of the Issuer, each of whose business address is 40 St Vincent Place, Glasgow, G1 2HL, apart from Geeta Gopalan and Darren Pope, each of whose business address is Jubilee House, Gosforth, Newcastle Upon Tyne, NE3 4PL and Amy Stirling whose business address is The Battleship Building, 179 Harrow Road, London, W2 6NB.

### Directors of the Issuer

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James Pettigrew  
 Clive Adamson  
 David Bennett  
 Paul Coby  
 David Duffy  
 Geeta Gopalan  
 Adrian Grace  
 Fiona MacLeod  
 Darren Pope  
 Dr Teresa Robson-Capps  
 Ian Smith  
 Amy Stirling

Timothy Wade

The directors' month and year of birth, dates of appointment, functions within Virgin Money plc and principal directorships are as set out below.

<b>Name (and month and year of birth)</b>	<b>Date of appointment</b>	<b>Business functions within Virgin Money plc</b>	<b>Principal directorships</b>
James Pettigrew (July 1958)	15 October 2018	Chairman, Non-Executive Director, Virgin Money plc	BlueBay Asset Management (Services) Ltd; BlueBay Asset Management LLP; Milton Group PLC; RBC Europe Limited; Rathbone Brothers PLC; Rathbone Investment Management Limited; Lydekker Mews Residents Association Limited; CYBG PLC; Clydesdale Bank PLC
David Bennett (March 1962)	15 October 2018	Senior Independent Non-Executive Director, Virgin Money plc	Ashmore Group PLC; Paypal (Europe) S.à.r.l et Cie S.C.A.; CYBG PLC; Clydesdale Bank PLC
Clive Adamson (March 1956)	15 October 2018	Independent Non-Executive Director, Virgin Money plc	The Prudential Assurance Company Limited; J.P. Morgan Securities plc; Ashmore Group PLC; CYBG PLC; Clydesdale Bank PLC
Paul Coby (October 1955)	15 October 2018	Independent Non-Executive Director, Virgin Money plc	CYBG PLC; Clydesdale Bank PLC
Geeta Gopalan (July 1964)	25 June 2015	Independent Non-Executive Director, Virgin Money plc	Ultra Electronics Holdings plc; Wizink Bank, S.A.; CYBG PLC; Clydesdale Bank PLC
Adrian Grace (May 1963)	15 October 2018	Independent Non-Executive Director, Virgin Money plc	Aegon UK Corporate Services Limited; Aegon UK Services Limited; Scottish Equitable plc; Aegon UK IT Services Limited; Scottish Equitable Holdings Limited; Aegon Investment Solutions Ltd.; Aegon Investment Solutions Nominee 1 – (Gross) Ltd; Aegon Investment Solutions – Nominee 2 (Net) Ltd; Aegon Investment Solutions – Nominee 3 (ISA) Ltd.; Aegon UK

			Plc; Aegon Holdings (UK) Limited; Aegon Pension Trustee Limited; Aegon UK Property Fund Limited; Scottish Equitable (Managed Funds) Limited; Scottish Equitable Life Assurance Society; Aegon SIPP Nominee Ltd; Aegon SIPP Guarantee Nominee Limited; Newcastle Property Developments (One) Limited; Newcastle Property Developments (Two) Limited; Momentum Group Limited; Cofunds Limited; Cofunds Nominees Ltd; Cofunds Leasing Ltd; Minster Nominees Ltd; Dorset Nominees Ltd; Aegon Investments Ltd; Andrews Nominees Limited; Victoria Nominees Limited; Lochside Nominees Limited; Witham Institutional Nominee Limited; Aegon SIPP Nominee 2 Limited; Origen Trustee Services Limited; CYBG PLC; Clydesdale Bank PLC
Fiona MacLeod (July 1967)	15 October 2018	Independent Non-Executive Director, Virgin Money plc	Denholm Oilfield Services Limited; CYBG PLC; Clydesdale Bank PLC
Darren Pope (August 1965)	1 March 2017	Independent Non-Executive Director, Virgin Money plc	Equiniti Group plc; CYBG PLC; Clydesdale Bank PLC
Dr Teresa Robson-Capps (March 1955)	15 October 2018	Independent Non-Executive Director, Virgin Money plc	Hastings Group Holdings PLC; FIL Holdings (UK) Limited; CYBG PLC; Clydesdale Bank PLC
Amy Stirling (August 1969)	15 October 2018	Non-Executive Director, Virgin Money plc	RIT Capital Partners plc; VM Advisory Limited; Barfair Limited; Classboss Limited; Virgin Management Limited; Virgin Holdings Limited; VEL Holdings Limited; Virgin.com Limited; Virgin UK Holdings Limited; CYBG PLC; Clydesdale Bank

Name	Date	Position	Other Roles
Timothy Wade (December 1959)	15 October 2018	Independent Non-Executive Director, Virgin Money plc	PLC Macquarie Bank International Limited; The Access Bank UK Limited; The Access Group Hong Kong Limited; The Coeliac Trading Company Limited; The AB EBT Limited; ACE Europe Life Limited; Chubb European Group Plc; Chubb Underwriting Agencies Limited; CYBG PLC; Clydesdale Bank PLC
David Duffy (September 1961)	15 October 2018	Group Chief Executive Officer, Virgin Money plc	UK Finance Limited; CYBG PLC; Clydesdale Bank PLC; Virgin Money Holdings (UK) plc; Virgin Money Unit Trust Managers Limited; Virgin Money Personal Financial Service Limited
Ian Smith (March 1966)	15 October 2018	Group Chief Financial Officer, Virgin Money plc	67 Pall Mall Limited; CYBG PLC; Clydesdale Bank PLC; Virgin Money Holdings (UK) plc; Yorkshire Bank Home Loans Limited; Yorkshire Bank PLC

## MANAGEMENT

Whilst the Issuer's board of directors is responsible for the strategy and policy of the Issuer, implementation of policy and day-to-day management of the Issuer is delegated to the senior managers (the "**Senior Managers**"):

Name	Age	Position
David Duffy	57	Group Chief Executive Officer
Ian Smith	52	Group Chief Financial Officer
Mark Thundercliffe	53	Group Chief Risk Officer
Fraser Ingram	51	Acting Group Chief Operating Officer
James Peirson	40	Group General Counsel
Hugh Chater	58	Group Mortgages Director
Fergus Murphy	55	Group Retail Director
Gavin Opperman	53	Group Business Banking Director
Enda Johnson	39	Group Corporate Development Director
Peter Bole	49	Integration Director
Kate Guthrie	55	Group Human Resources Director
Helen Page	49	Group Brand and Marketing Director

The business address of the Senior Managers is 40 St Vincent Place, Glasgow, G1 2HL.

There exist no potential conflicts of interest between (i) any duties owed to the Issuer by any member of the board of directors or any of the Senior Managers listed above and (ii) their private interests and/or other duties.

## PROPOSED PART VII TRANSFER

### *Background*

On 15 October 2018, CYBG acquired the entire issued share capital of Holdings (the parent of Virgin Money plc) pursuant to the Offer (a recommended all-share offer to Holding's shareholders). The Issuer understands that the intention as of the date of this Prospectus is that all or substantially all of the business, operations, assets, liabilities and obligations of the Issuer are likely to be transferred to Clydesdale pursuant to the Part VII Transfer. Whilst the timing of any such Part VII Transfer is still being considered, if and when such Part VII Transfer occurs it is anticipated that the then Virgin Money business and the then Clydesdale business will be combined to form the Part VII Successor and its group.

It should be noted, however, that CYBG continues to develop its plans for the Part VII Transfer. As at the date of this Prospectus, there can be no assurance that the proposed Part VII Transfer will be implemented in its current proposed form, or at all.

This section briefly outlines the indicative operation of a transfer of banking business under Part VII of FSMA.

### *Part VII Transfer*

Part VII of the FSMA provides for a process to facilitate transfers of certain types of regulated business, including banking business, from one entity to another, without the requirement to obtain the consent of the transferor's customers, any Rating Agency or any other counterparty.

The process involves a court-sanctioned scheme which transfers the business, operations, assets and liabilities of the transferor to an appropriately authorised and regulated transferee, and the court must be satisfied that it is appropriate to sanction the scheme. Whilst the PRA and the FCA, as the prudential and conduct regulators of a UK bank, will not be required formally to approve a Part VII transfer, in practice satisfying the PRA and the FCA will be an integral part of securing the court's approval for a Part VII transfer of a banking business. The transferee will be required to be appropriately capitalised and have sufficient financial resources.

The proposed Part VII Transfer will involve the preparation by CYBG of a scheme document detailing the terms of the proposed transfer and various supporting notices and documents. The scheme must be advertised in accordance with prescribed rules, and a formal application must be made to the court. The court will hold an initial directions hearing, in which the court will sanction the publication of the required scheme notices and will set a date for the final sanctions hearing. The scheme must be advertised in order to ensure that persons who might be adversely affected by the scheme are put on notice and have the opportunity to participate in the final court hearing if they so choose. At the final hearing, the court will consider any objections raised, and will determine whether or not to approve the scheme and make any consequential orders.

When deciding whether or not to approve a scheme for a Part VII transfer, the court will assess whether certain procedural formalities have been satisfied, as well as having regard to well-established broader principles of fairness to determine whether or not it considers it appropriate to sanction the scheme.

The court has wide powers and can approve the transfer of the whole or part only of the relevant undertaking, including any rights, assets and liabilities (including in circumstances which override contractual restrictions on transfer, termination or default provisions or terms which purport to provide for other consequences in the event of a transfer), and any incidental matters which the court considers necessary in order to ensure the scheme is fully and effectively carried out.

### *Relevance to the Programme*

The Issuer understands that, as at the date of this Prospectus, the intention of CYBG is that the whole or substantially the whole of the business, operations, assets and liabilities of Virgin Money plc will be transferred to Clydesdale as Part VII Successor pursuant to the Part VII Transfer. The Part VII Successor will thereby become vested with all or substantially all of the rights, powers, assets and liabilities of Virgin Money plc. This would include all rights and obligations of Virgin Money plc in its capacity as Issuer of Covered Bonds under the Programme and in its various other Relevant Capacities in connection with the Covered Bonds and the Programme.

The Part VII Transfer will not require any consent or approval of any holders of Covered Bonds, the Bond Trustee, any Rating Agency or any other counterparties to any of the Transaction Documents, the Dealer

Agreement and/or any Subscription Agreement, and following completion of the Part VII Transfer, the rights of the holders against Virgin Money plc in respect of their Covered Bonds, and the rights of any counterparties to the Transaction Documents, the Dealer Agreement and/or any Subscription Agreement against Virgin Money plc, will become rights against the Part VII Successor.

Whilst the transfer of business, operations, assets and liabilities pursuant to the Part VII Transfer will operate by law, Condition 15(e) (*Part VII Transfer*) of the Terms and Conditions of the Covered Bonds provides that the Issuer may request the Bond Trustee and the Security Trustee to agree to amendments (other than a Series Reserved Matter) to the terms of the Covered Bonds and any Transaction Documents which the Issuer, in its sole and absolute discretion, considers to be necessary or expedient to ensure the effective implementation of the Part VII Transfer and/or incidental or consequential to the Part VII Transfer and necessary or expedient in connection with the ongoing operation of the Programme. The Bond Trustee and the Security Trustee will agree to such modifications if certain conditions are satisfied, including that either (i) the Issuer has provided a certificate signed by a director of the Issuer certifying to the Bond Trustee and the Security Trustee that the modifications are not materially prejudicial to the interests of the holders of Covered Bonds or any Secured Creditor, or (ii) the Issuer has provided notice of the proposed modifications to the Covered Bondholders and, by the relevant deadline specified in such notice, 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. Such amendments are also conditional on the Issuer providing a Ratings Confirmation and upon the Issuer and the LLP continuing to be at all times in compliance with the RCB Regulations.

Following the Part VII Transfer, the guarantee obligation of the LLP with respect to the Covered Bonds will continue to be effective on terms which are the same (or substantially the same) in all material respects as at the date of this Prospectus.

The Part VII Transfer forms part of the wider integration plan CYBG is developing to integrate Virgin Money plc into the CYBG Group and deliver cost synergies. A phased migration of systems and customers and re-branding approach is being adopted which will be separated into several distinct phases aligned to transaction events that minimise the complexity to deliver and any impact on customers. This will be achieved in particular by leveraging product maturities and limiting the use of large-scale automated transfers, thereby avoiding any large migration events within the process. It is envisaged that the retail brand for the CYBG Group will transition to Virgin Money using a phased approach over a period of 36 months following completion of the Offer and that all Virgin Money plc products and customers will be migrated in phases over time to CYBG's IT platform, with the exception of credit cards where CYBG card customers will be migrated to the TSYS platform used by Virgin Money plc.

See further "*Risk Factors - Risk Factors Relating to the Proposed Part VII Transfer*".

## CLYDESDALE

### **Clydesdale Bank PLC**

Clydesdale was established in 1838, was registered as a public limited company on 11 January 1982 and changed to its current name, "Clydesdale Bank", on 16 December 2005.

In December 2004 all property and liabilities of Yorkshire Bank PLC transferred to Clydesdale. Clydesdale continues to use the "Yorkshire Bank" brand as a trading name.

Clydesdale is registered with the Registrar of Companies in Scotland under registration number SC001111. The registered office of Clydesdale is 30 St. Vincent Place, Glasgow G1 2HL, Scotland. Its telephone number is 0141 248 7070.

In February 2016, a demerger of Clydesdale from National Australia Bank Limited became effective.

Clydesdale is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, Financial Services Register No 121873. Clydesdale was admitted to the register of regulated covered bonds under the RCB Regulations on 1 December 2010.

Clydesdale operates under the Clydesdale Bank, Yorkshire Bank and B brands. It offers a range of banking services for both personal and business customers through retail branches, Business Banking centres, direct and online banking including B and brokers. One of Clydesdale's core businesses is the provision of residential mortgages primarily funded in the retail markets.

As at the date of this Prospectus, Clydesdale has (i) a long-term IDR of "BBB+" (placed on Rating Watch Negative) from Fitch, a long-term deposit rating of "Baa1" (positive outlook) and a long-term Counterparty Risk Assessment (CR Assessment) of A2 (cr) from Moody's and a long-term rating of "BBB+" (with stable outlook) from Standard & Poor's, and (ii) a short-term IDR of "F2" (with a stable outlook) from Fitch, a short-term counterparty risk assessment of "P-1(cr)" (outlook stable) from Moody's and a short-term rating of "A-2" from Standard & Poor's.

The ultimate parent company of Clydesdale is CYBG, which indirectly owns 100 per cent. of the ordinary shares of Clydesdale. CYBG is a public limited company, incorporated and domiciled in England and Wales, whose principal activity is to act as the holding company for CYB Investments Limited (formerly National Australia Group Europe Limited) and Clydesdale. Following completion of the demerger and the Initial Public Offering, on 8 February 2016 CYBG PLC became an independent company listed on the London Stock Exchange and the Australian Securities Exchange.

For further information, please see the information incorporated by reference into this Prospectus.

### *Recent Events*

Please refer to the sub-section entitled "*Virgin Money plc*" for information on the acquisition of Virgin Money by CYBG.



## THE LLP

### Introduction

The LLP was incorporated in England and Wales on 27 July 2016 as a limited liability partnership (partnership number OC412988) with limited liability under the LLPA 2000, with Virgin Money plc and the Liquidation Member as its Members. The principal place of business of the LLP is at Jubilee House, Gosforth, Newcastle upon Tyne NE3 4PL (telephone number: +44 (0)34 5600 8401). 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 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, filing a notification under the Data Protection Act 1998 and other matters which are incidental or ancillary to the foregoing.

The LLP was dormant until it commenced operations on 9 April 2018. On 9 April 2018, pursuant to the terms of the Mortgage Sale Agreement, the LLP acquired the Initial Mortgage Portfolio with an aggregate Current Balance of £1,060 million (to the nearest million) from the Seller, which was funded by a Capital Contribution of an equal amount made by Virgin Money pursuant to the terms of the LLP Deed. On 9 April 2018 the LLP also received a Capital Contribution from Virgin Money of £1.1 million (to the nearest million) to fund the Reserve Fund.

Between 9 April 2018 and 31 December 2018, the LLP has acquired additional Mortgage Loans and Related Security with an aggregate Current Balance of £596 million (to the nearest million). The acquisition was funded by a further Capital Contribution of an equal amount from Virgin Money.

Between 9 April 2018 and 31 December 2018, the aggregate Current Balance of the Mortgage Portfolio has been reduced as a result of principal mortgage repayments and repurchases by the Seller in anticipation of Product Switches in the amount of £343 million (to the nearest million). These Principal Receipts have been used to reduce the Capital Contribution from Virgin Money on each LLP Payment Date in accordance with the Pre-Acceleration Principal Priority of Payments.

As at 31 December 2018, the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio (to the nearest million) was £1,313 million and the Reserve Fund Required Amount was £1.2 million (to the nearest million).

Further to commencing operations, the LLP will produce audited annual financial statements, starting with audited financial statements for the period ending 31 December 2018. Once published, the Issuer and the LLP intend to comply with their obligations under the Prospectus Directive with regard to the incorporation of the LLP's financial statements into the Prospectus.

### Members

The members of the LLP as at the date of this Prospectus are and their principal offices are:

<u>Name</u>	<u>Principal Office</u>
Virgin Money plc	Jubilee House Gosforth Newcastle upon Tyne NE3 4PL United Kingdom
Liquidation Member	35 Great St. Helen's London EC3A 6AP

## United Kingdom

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.

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Intertrust Directors 1 Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Director
Intertrust Directors 2 Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Director
Daniel Jaffe	35 Great St. Helen's, London EC3A 6AP	Director

The directors of Virgin Money plc are set out under "*Virgin Money plc – VM PLC Board of Directors*" above.

The directors of Intertrust Directors 1 Limited and Intertrust Directors 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 Virgin Money plc, 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 Intertrust Directors 1 Limited and Intertrust Directors 2 Limited

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director
Michelle O'Flaherty	35 Great St. Helen's, London EC3A 6AP	Director
Andrea Williams	35 Great St. Helen's, London EC3A 6AP	Director
Clive Short	35 Great St. Helen's, London EC3A 6AP	Director
Susan Abrahams	35 Great St. Helen's, London EC3A 6AP	Director

No potential conflicts of interest exist between any duties to the LLP of the individual directors of Intertrust Directors 1 Limited and Intertrust Directors 2 Limited and their private interests or other duties in respect of their management roles.

## 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, if applicable, 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.

In the event that the proposed Part VII Transfer is implemented, the guarantee obligation of the LLP with respect to the Covered Bonds will continue to be effective on terms which are the same (or substantially the same) in all material respects as at the date of this Prospectus.

(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 is 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 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,

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 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
- (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 in the Transaction Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit) or the VM Account (in an amount not exceeding the VM Permitted Cash Amount).

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 between Virgin Money plc (in its capacity as Seller), the LLP and the Security Trustee.

(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, subject to the satisfaction of the Eligibility Criteria on such Transfer Date. In addition to providing for the sale and assignment of the Initial Mortgage Portfolio and New Mortgage Loans, 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 a Product Switch or in respect of which a Further Advance is made;
- (iii) the repurchase of Mortgage Loans together with their Related Security where the Seller has materially breached any of the Loan Warranties in respect of such Mortgage Loans or their

Related Security (the repurchase to include all Mortgage Loans of a Borrower included in the Mortgage Portfolio if such a breach occurs in respect of any Mortgage Loan of such Borrower);

- (iv) the making of Borrow-backs in respect of Mortgage Loans comprised in the Mortgage Portfolio; and
- (v) the circumstances for the transfer of legal title to the Mortgage Loans and their Related Security to the LLP.

In respect of English Mortgage Loans and Northern Irish Mortgage Loans, the assignment will be an assignment which takes effect in equity only. In respect of Scottish Mortgage Loans, the Mortgage Sale Agreement will provide for the transfer and assignment of the beneficial interest in such Mortgage Loans and their Related Security to be effected by the Scottish Declaration of Trust by the Seller in favour of the LLP (and in relation to Scottish Mortgage Loans, references in this Prospectus to the "assignment" of Mortgage Loans are to be read as references to the transfer of the beneficial interest therein by the making of such declaration of trust and the terms "assign" and "assigned" shall in that context be construed accordingly). 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 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 Seller are required to ensure that the Mortgage Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager 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 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 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 (i) the Current Balance for such Mortgage Loans as of the relevant Transfer Date and (ii) the cash payment (if any) made by the LLP; and
- (iii) Deferred Consideration.

(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 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. Subject to agreed exceptions and materiality qualifications, the Seller's warranties under the Mortgage Sale Agreement (the "**Loan Warranties**") include, *inter alia*, the following:

- (1) The particulars of each Mortgage Loan and its related Mortgage in the Mortgage Portfolio provided to the LLP pursuant to the Mortgage Sale Agreement are complete, true and accurate in all material respects.
- (2) Immediately prior to the relevant Transfer Date, the Seller was the absolute beneficial and legal owner of the Mortgage Loans, the Related Security and the other property to be assigned and transferred by the Seller to the LLP under this Deed at the relevant Transfer Date and the Seller has not assigned (whether by way of absolute assignment, assignation or by way of

security only), transferred, conveyed, charged, disposed of or dealt with the benefit of any of the Mortgage Loans or their related Mortgages, any of the other rights relating thereto or any of the property, rights, titles, interests or benefits to be sold or assigned pursuant to the Mortgage Sale Agreement.

- (3) The Mortgage Loan Conditions and the Mortgage Loan Agreement for each Mortgage Loan and its related Mortgage and the Related Security constitute a valid and binding obligation of the Borrower enforceable in accordance with its terms (save any term which is not binding by virtue of the Unfair Terms in Consumer Contracts Regulations 1994, the Unfair Terms in Consumer Contracts Regulations 1999 or the Consumer Rights Act 2015) and is non-cancellable and each such related Mortgage and the Related Security secures the repayment of all advances, interest, costs and expenses payable by the relevant Borrower to the Seller under the relevant Mortgage Loan in priority to any other charges registered against the relevant Mortgaged Property.
- (4) At the time that it was made, each Mortgage Loan complied in all material respects with applicable laws, regulations and rules including, without limitation, with respect to consumer protection and data protection.
- (5) The registration or recording of each Mortgage has been completed or is pending at HM Land Registry or the Registers of Northern Ireland or the Registers of Scotland. If the registration or recording has been completed, the Seller (or, in the case of Scottish Mortgages, the relevant Originator) is registered or recorded as the legal title holder or heritable creditor in respect of each Mortgage. If the registration or recording is pending, so far as the Seller is aware, there is no caution, notice, inhibition, restriction or other matter which would prevent the registration or recording of the Mortgage as a first priority charge or, in Scotland, first ranking standard security and application has been made to HM Land Registry or the Registers of Northern Ireland or the Registers of Scotland within the applicable priority period.
- (6) Each Mortgage constitutes a first ranking charge by way of legal mortgage (in England and Wales), a first ranking Standard Security (in Scotland) or a valid and subsisting first charge (in relation to registered land) or a valid and subsisting first mortgage (in relation to unregistered land) (in Northern Ireland) over the relevant Mortgaged Property.
- (7) Each relevant Mortgaged Property is located in England, Wales, Scotland or Northern Ireland.
- (8) No lien or right of set off or counterclaim has been created or arisen between the Seller and any Borrower which would entitle such Borrower to reduce the amount of any payment otherwise due under the relevant Mortgage Loan Conditions and the Mortgage Loan Agreement save in relation to the Unfair Terms in Consumer Contracts Regulations 1994, the Unfair Terms in Consumer Contracts Regulations 1999 or the Consumer Rights Act 2015 or in relation to section 75 of the CCA.
- (9) (a) where the related Mortgage is not covered by a valid title and/or local search insurance policy, save where the mortgage loan is a refinancing (of a loan originated by a third party) originated either through the intermediary/broker network of the relevant Originator using the panel solicitors of the relevant Originator (a "**third party refinancing**"), prior to making a Mortgage Loan to a Borrower, the relevant Originator instructed or required to be instructed on its behalf solicitors, licensed conveyancers or (in Scotland) qualified conveyancers to carry out in relation to the relevant Mortgaged Property all investigations, searches and other actions that would have been undertaken by the relevant Originator acting in accordance with standards consistent with those of a reasonable and prudent mortgage lender, lending to Borrowers in England and Wales in relation to English Mortgage Loans, in Scotland in relation to Scottish Mortgage Loans and in Northern Ireland in relation to the Northern Irish Mortgage Loans when advancing money in an amount equal to such advance to an individual to be secured on a property of the relevant kind and a report on title was received by or on behalf of the relevant Originator from such solicitors which, either initially or after further investigation revealed no material matter which would cause the relevant Originator, acting reasonably, to decline the Mortgage Loan having regard to its Lending Criteria in force at that time, or (b) where the mortgage loan is a third party refinancing and where the related mortgage is not covered by a valid title and/or local search insurance policy, prior to making

the mortgage loan, then the relevant Originator instructed, or required to be instructed on its behalf, solicitors, licensed conveyancers or, in Scotland, qualified conveyancers to carry out, in relation to the relevant mortgaged property, a limited form of investigation of title for residential property in England and Wales or Scotland, as applicable, confirming that the name of the borrower is that shown on the relevant title deeds and such other matters as may be required by a reasonable prudent mortgage lender in relation to loans that are equivalent to third party refinancing, or (c) where the related Mortgage Loan is covered by a valid title and/or local search insurance policy, then the title and/or local search insurance policy has been issued by a reputable title insurance company that has previously been approved by the Seller, is in full force and effect and all premiums thereon due on or before the relevant Transfer Date have been paid in full and the Seller is not aware of any circumstances giving the insurer under the policy the right to avoid or terminate such policy.

- (10) In relation to each English Mortgage Loan and Northern Irish Mortgage Loan, the Borrower has a good and marketable title to, and absolute unencumbered legal ownership of, the relevant Mortgaged Property and in relation to each Scottish Mortgage Loan the Borrower has a valid and marketable heritable or long lease title to, and absolute unencumbered legal ownership of, the relevant Mortgaged Property (in each case, subject to any prior encumbrances that are permitted pursuant to the loan terms and noted in initial variations).
- (11) Prior to making a Mortgage Loan (other than a Further Advance) the relevant property was valued by an independent valuer from the panel of valuers from time to time appointed by the relevant Originator, by an employee valuer of the relevant Originator or by a desktop valuation by an employee valuer of the relevant Originator (including by way of automated valuation methodology), and the results of such valuation would be acceptable to a reasonable and prudent mortgage lender. In respect of a Further Advance, such Originator valued the relevant Mortgaged Property by using either an indexed valuation figure provided by a UK pricing index, a desktop valuation by an employee valuer of the relevant Originator (including by way of automated valuation methodology) or by using the then current valuation of the Mortgaged Property.
- (12) Prior to making a Mortgage Loan, the nature and amount of such Mortgage Loan, the circumstances of the relevant Borrower and nature of the relevant Mortgaged Property satisfied the Lending Criteria in force at that time in all material respects.
- (13) The exercise of any discretion by the relevant Originator in the making of any Mortgage Loan has been consistent with the practice of a reasonable and prudent residential mortgage lender.
- (14) Each Mortgage Loan and its related Mortgage has been made on the terms of the Standard Mortgage Documentation applicable thereto at the time of origination (so far as applicable) which has not been varied in any material respect other than in respect of any variations which were consistent with the practice of a reasonable and prudent residential mortgage lender.
- (15) No agreement for any Mortgage Loan (other than to the extent it relates to the funding of buildings insurance premia) is or has ever been, wholly or partly regulated by the CCA (other than by Sections 137 to 140 of the CCA) or constitutes an unfair relationship or, to the extent it is so regulated or partly regulated, all the requirements of the CCA have been met in full.
- (16) Interest on each Mortgage Loan: (a) is charged on the capital balance of each Mortgage Loan in accordance with the provisions of the applicable Mortgage Loan Conditions and the Mortgage Loan Agreement and its related Mortgage; (b) is not in any event adjusted by reference to the principal amount due thereunder; (c) is payable monthly in arrears; and (d) is calculated by reference to the Standard Variable Rate or the Bank of England base rate, subject to any applicable caps, discounts and fixed rates and the Base Rate Pledge; and (e) subject to (d) above, may be set by the Seller and its successors, assigns or assignees to that Mortgage Loan.
- (17) No payment of interest (or in the case of Repayment Mortgage Loans, principal and interest) equivalent to an amount in excess of one month's instalment at the applicable rate in respect of a Mortgage Loan was at any time during the 12 months before the relevant Transfer Date in



arrears, or if the relevant Mortgage Loan was originated less than 12 months prior to the relevant Transfer Date, since the date of origination.

- (18) So far as the Seller is aware, no Borrower is in material breach of its Mortgage Loan Conditions.
- (19) So far as the Seller is aware, the underwriting, origination and completion of each Mortgage Loan is not the subject of fraud by any person (including, without limitation, the Borrower or any professional or third party employed or engaged on behalf of the relevant Originator).
- (20) As at the relevant Transfer Date, the first payment due has been paid by the relevant Borrower in respect of each Mortgage Loan and each Mortgage Loan was fully performing.
- (21) The Mortgage Loan Conditions and the Mortgage Loan Agreement for each Mortgage Loan and its related Mortgage and its Related Security require the Borrower to arrange and maintain appropriate buildings insurance cover over the Mortgaged Property, and the relevant Originator took all reasonable steps to ensure that at the date of completion of the relevant Mortgage Loan each Mortgaged Property was:
  - (a) insured under a buildings policy in the names of *inter alia* the Borrower; or
  - (b) with respect to leasehold properties, insured by the relevant landlord with the relevant Originator's approval,and in all cases against risks usually covered by a comprehensive buildings policy and to an amount not less than the full reinstatement cost of such Mortgaged Property as determined by an independent valuer or a valuer employed by the relevant Originator.
- (22) The Insurance Contracts are in full force and effect and, as far as the Seller is aware, all premia thereon due on or before the date of this Deed have been paid in full and the Seller is not aware of any circumstances giving the insurer under the Insurance Contracts the right to avoid or terminate such policy insofar as it relates to the Mortgaged Properties or the Mortgage Loans.
- (23) To the extent that a Guarantee was required under the Lending Criteria in force at that time in relation to a particular Mortgage Loan, that Guarantee constitutes the valid, binding and enforceable obligations of the guarantor thereunder (save to the extent that any term of the Guarantee is not valid, binding or enforceable by virtue of the Unfair Terms in Consumer Contracts Regulations 1994 or the Unfair Terms in Consumer Contracts Regulations 1999).
- (24) If a Mortgaged Property is leasehold or long leasehold, written notice has been served to the landlord of the creation of the Mortgage.
- (25) So far as the Seller is aware, any person who at the date when the Mortgage Loan was made has been identified by the Borrower to the Seller as residing or about to reside in the relevant Mortgaged Property is either named as joint Borrower or, in the case of a Buy-to-Let Mortgage Loan, a tenant, or (i) in relation to the English Mortgage Loans and the Northern Irish Mortgage Loans, has signed a form of consent declaring that he or she agrees that any present or future rights or interests as he or she may have or acquire over or in respect of the relevant Mortgaged Property shall be postponed and made subject to the rights, interests and remedies of the Seller under the relevant Mortgage and that he or she shall not claim any such rights or interests against the Seller and (ii) in relation to each Scottish Mortgage, all necessary MHA/CP Documentation has been obtained to ensure that neither the relevant Mortgage nor the relevant Mortgaged Property is subject to a right of occupancy other than, in the case of a Buy-to-Let Mortgage Loan, under the relevant tenancy.
- (26) No Borrower was under 18 years of age at the time of completion of the relevant Mortgage Loan.
- (27) Each Mortgage Loan had an initial term of between 2 and 50 years.

- (28) At all times since each Mortgage Loan was acquired by the Seller (in the case of Mortgage Loans originated by the NRAM Originator) or since their origination (in the case of Mortgage Loans originated by the relevant Originator), the Seller has procured that full and proper accounts, books and records have been kept showing clearly all material transactions, payments, receipts and proceedings relating to that Mortgage Loan and its Mortgage and all such accounts, books and records are up to date and in the possession of the Seller or held to its order (subject to the provisions of the Mortgages Trust Deed).
- (29) The origination practices employed by the relevant Originator with respect to the Mortgage Loans have been, in all respects, legal and consistent with the practice of a reasonable and prudent residential mortgage lender.
- (30) The collection and administration practices employed by the Seller with respect to the Mortgage Loans have been, in all respects, legal and consistent with the practice of a reasonable and prudent mortgage lender.
- (31) So far as the Seller is aware it has not received written notice of any litigation or claim calling into question in any material way its title to any Mortgage Loan and its Mortgage or the value of any security. So far as the Seller is aware it has not engaged in any litigation, and no litigation is pending or threatened by the Seller against any person in connection with any report, valuation, opinion, certificate, consent or other statement of fact or opinion given in connection with any Mortgage Loan received by the Seller in connection with the origination of any Mortgage Loan.
- (32) In respect of any Mortgaged Property which is subject to a second or subsequent mortgage or Standard Security, the Seller has first priority for the full amount of the Mortgage Loan and all costs, fees and expenses relative thereto.
- (33) All Title Deeds and Mortgage Loan Files are held by, or to the order of, the Seller.
- (34) Each Borrower is a natural person, and no Borrower is at the relevant Transfer Date an employee or an officer of the Seller.
- (35) All Mortgage Loans were originated by or on behalf of the relevant Originator in the ordinary course of the relevant Originator's residential secured lending activities.
- (36) The Mortgage Loan Conditions and the Mortgage Loan Agreement in relation to each Mortgage Loan contain no obligation on the part of the Seller to make any Further Advance, Borrow-back or Product Switch and all costs, fees and expenses incurred in making, completing or registering the Mortgage Loans and the Related Security have been paid in full.
- (37) To the extent that the Unfair Terms in Consumer Contracts Regulations 1999 or the Consumer Rights Act 2015 apply to any mortgage loan between the Seller and the relevant borrower, so far as the Seller is aware, none of the terms of the agreement for the mortgage loan and its related mortgage have been found by a court to be unfair terms within the meaning of the Unfair Terms in Consumer Contracts Regulations 1999 or the Consumer Rights Act 2015 (as applicable) in any material respect save those which impose early repayment charges.
- (38) No Mortgage Loan has a Current Balance of more than £1,500,000.
- (39) Each Mortgage Loan was originated by the relevant Originator in Sterling and is denominated in Sterling and is currently repayable in Sterling.
- (40) As far as the Seller is aware all Cash Borrow-backs to which the Seller has consented have been made as required by the Seller.
- (41) Each Originator's Lending Criteria in force at the time of origination of each Mortgage Loan were consistent with the criteria that would have been used by a reasonable and prudent mortgage lender at that time.
- (42) The Seller is not aware of any material claim outstanding under any of the buildings policies relating to a Mortgaged Property.

- (43) No Related Security consists of stock or marketable securities (in either case for the purposes of Section 122 of the Stamp Act 1891) chargeable securities (for the purpose of Section 99 of the Finance Act 1986) or a "chargeable interest" (for the purposes of Section 48 of the Finance Act 2003).
- (44) To the best of the Seller's knowledge and belief, at the time of origination of each Mortgage Loan each Mortgaged Property was a flat or a house and was, other in respect of Buy-to-Let Mortgage Loans, owner-occupied.
- (45) No Mortgage Loan is a Help to Buy Mortgage Loan.
- (46) In relation to each Right to Buy Mortgage Loan:
  - (a) except in relation to the Scottish Mortgage Loans, the relevant Originator was, at the time of origination of such Right to Buy Mortgage Loan, an approved lending institution within the meaning given to that expression in the Housing Act 1985 (as amended by the Housing Act 2004) or the Housing (Northern Ireland) Order 1983 (as amended by the Housing (Northern Ireland) Order 1986, the Housing (Northern Ireland) Order 1992 and the Housing (Northern Ireland) Order 2003);
  - (b) the original advance was made to the person exercising the right to buy;
  - (c) the original advance was made wholly for the purposes of enabling the recipient thereof to purchase the relevant Mortgaged Property, home improvements and solicitors or licensed or qualified conveyancer's fees only; and
  - (d) is not subject to a shared ownership arrangement where the related Mortgage is only secured over part (rather than the whole) of the beneficial interest in the Mortgaged Property.
- (47) No Mortgage Loan is an Equity Release Mortgage Loan.
- (48) None of the provisions of the agreement in respect of the mortgage loan were (at the time any such agreement was entered into) or have since been waived, altered or modified except a change to the terms of the mortgage loan to which a reasonable and prudent mortgage lender would have agreed.
- (49) Each Mortgage Loan was made to a Borrower who was resident in the United Kingdom or EEA at the time of origination.
- (50) To the best of the Seller's knowledge, no Borrower had ever filed for bankruptcy or been sequestrated or had a county court judgment or court decree in excess of £500 entered or awarded against him in the six year period prior to the date they executed the relevant Mortgage.
- (51) Each Mortgage Loan and its Related Security will be "eligible property" for the purposes of Regulation 2 of the RCB Regulations.

If New Mortgage Loan Types (including Offset Mortgage Loans) are to be sold to the LLP, then the 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.

**Equity Release Mortgage Loan** means a mortgage loan originated under an equity release plan in the form of either a lifetime mortgage or a home reversion plan and where repayment of such mortgage loan is due on the earlier to occur of the death of the borrower and the sale of the relevant property.

(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 from the Seller, subject to satisfaction of the following criteria (the "**Eligibility Criteria**") on the relevant Transfer Date:

- (i) no New Mortgage Loan being in breach of the Loan Warranties as at the relevant Transfer Date;
- (ii) 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;
- (iii) the LLP, acting on the advice of the Cash Manager, 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;
- (iv) the weighted average yield 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, after taking into account (i) the average yield on the Mortgage Loans and (ii) the margins on the Interest Rate Swaps and (iii) the average yield on any Substitution Assets held by the LLP;
- (v) 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;
- (vi) 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; and
- (vii) the aggregate Current Balance of all Buy-to-Let Mortgage Loans in the Mortgage Portfolio (including the New Mortgage Loans) will not exceed 15 per cent. of the aggregate Current Balance of all Mortgage Loans in the Mortgage Portfolio as calculated at the end of the previous Calculation Period.

provided that if the relevant Transfer Date is an Issue Date, only conditions (i), (ii), (iv), (v), (vi) and (vii) are required to be satisfied to effect an assignment and transfer of the mortgage loans that are proposed to be New Mortgage Loans. If New Mortgage Loan Types (including Offset Mortgage Loans) 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 will agree in the Mortgage Sale Agreement to repurchase any Mortgage Loan (including any accrued interest thereon) together with its Related Security and all other Mortgage Loans in the relevant Mortgage Account if a Mortgage Loan or its Related Security does not materially comply on the First Transfer Date (or, in the case of any New Mortgage Loans, on the relevant Transfer Date) with Loan Warranties given by the Seller under the Mortgage Sale Agreement and the Seller does not remedy such breach within 60 days 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.

The Seller will have no other liability for breach of a Loan Warranty other than the obligation to repurchase.

For so long as the Seller is the Administrator, it must notify the LLP and the Security Trustee of any material breach of a Loan Warranty as soon as it becomes 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 Current Balance plus accrued interest on such Mortgage Loan as of the date of completion of such repurchase plus expenses payable thereon to the date of repurchase (provided always that in relation to a Mortgage Loan which is required to be repurchased as a result of a Product Switch of such Mortgage Loan enabling the Borrower to "offset" mortgage payments against other amounts on deposit with the Seller, the Current Balance and all accrued interest for the repurchase of such Mortgage Loan shall be calculated on the basis that no offset occurred whilst such Mortgage Loan was sold and assigned by the Seller to the LLP pursuant to the Mortgage Sale Agreement) (the "**Repurchase Price**").

(f) ***Additional circumstances where Seller may repurchase***

*Repurchase of Mortgage Loans subject to a Product Switch or a Further Advance*

The Seller will be required to repurchase Mortgage Loans and their Related Security where the Seller has accepted an application from or issued an offer to the relevant Borrower for a Product Switch or a Further Advance as described under "*Product Switches and Further Advances*" below.

*Defaulted Mortgage Loans*

If a Seller receives a Defaulted Mortgage Loans Notice from the Cash Manager 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 equal to the greater of the then Current Balance plus accrued and unpaid interest on the Selected Mortgage Loan plus expenses payable thereon and the Adjusted Required Redemption Amount, subject to the offer being accepted by the Seller within ten 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) ten 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) ***Product Switches and Further Advances***

Under the Administration Agreement, the Administrator shall not accept an application, or make an offer, for a Product Switch or a Further Advance without first having received confirmation that the Seller will repurchase the relevant Mortgage Loan(s) together with the Related Security from the LLP in accordance with the terms of the Mortgage Sale Agreement. No Product Switch or a Further Advance will be made or effected unless and until the Seller has repurchased the Mortgage Loan(s)

together with its Related Security from the LLP in accordance with the terms of the Mortgage Sale Agreement. The LLP may not itself offer or make any Product Switch or Further Advances.

If the Administrator and the LLP are notified or are otherwise aware that a Borrower has requested a Product Switch or a Further Advance and the Administrator and the LLP have received confirmation that the Seller will repurchase the relevant Mortgage Loan and its Related Security, the LLP shall at any time upon notice from the Seller assign to the Seller and the Seller shall repurchase such Mortgage Loan together with its Related Security (and, for the avoidance of doubt, together with any other Mortgage Loans secured on the same property) in accordance with the Mortgage Sale Agreement at the Repurchase Price.

In considering whether to grant a request of a Borrower for a Product Switch or a Further Advance, or whether to offer a Product Switch 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 "*Administration Agreement*" below).

(h) ***Borrow-backs***

*Cash Borrow-backs*

The Seller is solely responsible for funding all future Cash Borrow-backs in respect of Mortgage Loans comprising the Mortgage Portfolio. The amount of the Seller's Capital Contribution will increase by the amount of the funded Cash Borrow-backs.

*Non-Cash Borrow-backs*

In the event that the Seller permits a Borrower to make a Non-Cash Borrow-back, the Seller will be required to pay to the LLP an amount equal to the unpaid interest associated with that Non-Cash Borrow-back and the amount of any such payment representing capitalised interest in respect of that Non-Cash Borrow-back shall constitute a Cash Capital Contribution by the Seller to the LLP.

(i) ***Transfer of legal title to the LLP***

The Mortgage Loans and their Related Security will be assigned to the LLP by way of an assignment which takes effect in equity or (in relation to Scottish Mortgage Loans and their Related Security) by the declaration of the Scottish Declaration of Trust. As a result, legal title to the Mortgage Loans and their Related Security will remain with the Seller until such time as certain additional steps have been taken including the giving of notices of the assignment to the Borrowers or (in relation to Scottish Mortgage Loans and their Related Security) the execution of assignments by the Seller in favour of the LLP together with notification of the assignment to the Borrowers.

In relation to the mortgages of registered land in England or Wales or Northern Ireland or over any land in Scotland, which will be transferred to the LLP on the First Transfer Date or on a subsequent Transfer Date, until such time as transfers of such Mortgages have been completed and registered at HM Land Registry or the Land Registry of Northern Ireland or the Registers of Scotland, the sale to the LLP will take effect in equity and transfer beneficial title only or, in the case of the Scottish Mortgages, the LLP will hold the beneficial interests therein under the Scottish Declaration of Trust. In the case of Mortgages of unregistered land in England and Wales or in Northern Ireland, in order for legal title to pass to the LLP, conveyances or assignments of the relevant Mortgages would have to be completed in favour of the LLP.

Under the Mortgage Sale Agreement, none of the Seller, the LLP or the Security Trustee will require the execution and completion of such transfers, assignments and conveyances in favour of the LLP or the registration or recording of such transfers or service of notice on Borrowers in order to effect the transfer of legal title to the Mortgage Loans and their Related Security (including, where appropriate, their registration), except in the limited circumstances described below.

The Seller shall be obliged to give notice of assignment of the Mortgage Loans to the Borrower following the occurrence of a Relevant Event (as described below). The execution of transfers or assignments of legal title to the Mortgage Loans and their Related Security to the LLP (together with the relevant notices to the Borrowers) will be required to be completed by the Seller within 60 Business

Days of receipt of written notice from the LLP or the Security Trustee upon the occurrence of any of the following (each a "**Relevant Event**"):

- (i) 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 within the prescribed time) or an LLP Acceleration Notice;
- (ii) following the termination of the Seller's role as Administrator under the Administration Agreement, the failure of any substitute Administrator to administer the Mortgage Portfolio in accordance with the terms of the Administration Agreement;
- (iii) the Seller being required by a court of competent jurisdiction, or by a change in law occurring after the First Transfer Date, or by a regulatory authority or organisation whose members include mortgage lenders of which the Seller is a member or with whom it is customary for the Seller to comply, to perfect the transfer of legal title to the Mortgage Loans and Related Security in favour of the LLP;
- (iv) the security under or pursuant to the Deed of Charge or any material part of such security being in jeopardy and it being necessary to perfect the transfer of legal title to the Mortgage Loans and their Related Security in favour of the LLP in order to materially reduce such jeopardy;
- (v) notice in writing from the Seller to the LLP (with a copy to the Security Trustee) requesting such a transfer or assignation;
- (vi) the occurrence of an Insolvency Event in relation to the Seller (including without limitation the taking of any action for the appointment of any receiver, administrator or liquidator of the Seller); or
- (vii) in respect of Selected Mortgage Loans only, at the request of 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.

If such transfer of legal title is not completed within this period, the Seller, if in its reasonable opinion it is able to do so, shall continue to seek such transfer until it is completed. The LLP shall, following a Relevant Event, register any transfer or assignation of the legal title to a Mortgage at HM Land Registry or the Land Registry of Northern Ireland or Registers of Scotland as soon as reasonably practicable following receipt (or execution by the LLP) of such transfer or assignation and shall respond expeditiously to all requisitions raised by HM Land Registry or the Land Registry of Northern Ireland or Registers of Scotland.

(j) ***All Monies Mortgage Trust***

In relation to those Mortgages for the Mortgage Loans which constitute all monies security ("**All Monies Mortgages**") which secure the repayment of Associated Debt as well as the relevant Mortgage Loan (for these purposes "**Associated Debt**" means the indebtedness a Borrower owes or may owe to the Seller from time to time which is not a Mortgage Loan) and which the Seller will contract to sell and assign to the LLP on the First Transfer Date or on a subsequent Transfer Date, the proceeds of enforcement of such All Monies Mortgages will not form part of the Mortgage Portfolio so long as there is Associated Debt outstanding. Instead, following the enforcement of any All Monies Mortgage, the proceeds of such enforcement will be held upon trust by the LLP for itself and the Seller as beneficiaries, as applicable (the "**All Monies Mortgage Trust**"), the LLP being, in such capacity, the "**All Monies Mortgage Trustee**".

The Mortgage Sale Agreement will provide that the All Monies Mortgage Trustee, upon receipt of the proceeds of enforcement of any All Monies Mortgage, shall distribute such proceeds (a) first, to the All Monies Mortgage Trustee in an amount sufficient to pay in full all amounts due and payable under such Mortgage Loan and (b) second, to the Seller in or towards discharge of the Associated Debt, such amounts in (b) referred to as the "**All Monies Mortgage Consideration**".

(k) ***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 will undertake 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. 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.

(l) ***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 will not be obtained to the accession of a New Seller to the Programme.



Following the completion of the proposed Part VII Transfer, if implemented, the Part VII Successor will become a Seller under the Mortgage Sale Agreement automatically and without the requirement to satisfy the New Seller conditions summarised above. For the avoidance of doubt, Mortgage Loans originated by the Originators (including the Clydesdale Originators and the Part VII Successor) may be sold by the Part VII Successor to the LLP in accordance with the terms of the Mortgage Sale Agreement from the Part VII Effective Date and the conditions (i) to (vii) above will not apply to any such sale but the conditions to the sale of New Mortgage Loan Types will apply.

(m) ***Governing Law***

The Mortgage Sale Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law (other than certain aspects relating to (i) the Scottish Mortgage Loans and their Related Security, which are construed according to Scots law and (ii) the Northern Irish Mortgage Loans and their Related Security, which are governed by Northern Irish law).

**4. Administration Agreement**

(a) ***Appointment***

Pursuant to the terms of the Administration Agreement originally entered into on the Initial Programme Date by, amongst others, the LLP, Virgin Money plc (in its capacity as Seller, Administrator and Cash Manager) and the Security Trustee, as amended and/or supplemented and/or restated from time to time, 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 will continue to administer the Mortgage Loans which have not been transferred beneficially to the LLP. The Administrator will agree to administer the Mortgage Loans transferred beneficially to the LLP in the same manner as it administers the Mortgage Loans which have not been transferred beneficially to the LLP but remain on the books of the Seller.

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 will agree to comply with any direction, order and instruction 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 has agreed to administer and service the Mortgage Loans and their Related Security in accordance with:

- (i) the terms and conditions of the Mortgage Loans;
- (ii) the Administrator's administration procedures. The Administrator's administration procedures are the administration, arrears and enforcement policies and procedures, as amended from time to time pursuant to which the Administrator administers and enforces Mortgage Loans and their Related Security which are beneficially owned by the Seller; and
- (iii) the terms and provisions of the Administration Agreement.

(b) ***Undertakings by the Administrator***

Under the Administration Agreement, the Administrator will undertake, among other things:

- (i) not to accept an application from, or make an offer for a Further Advance without having received confirmation that the Seller will repurchase the relevant Mortgage Loan(s) together with the Related Security from the LLP in accordance with the terms of the Mortgage Sale Agreement and not to make a Further Advance unless and until the Seller has repurchased the relevant Mortgage Loan(s) together with the Related Security from the LLP in accordance with the terms of the Mortgage Sale Agreement;

- (ii) to take all steps necessary under the mortgage conditions and applicable law to notify Borrowers of each change in interest rates, whether due to a change in the standard variable rate (including any such change effected at the request of the LLP or the Seller or as a consequence of the mortgage conditions). The Administrator will also notify the LLP and the Seller of any change in the standard variable rate, and shall notify the Security Trustee if required to do so;
- (iii) to maintain such records as are necessary to enforce each Mortgage Loan and its Related Security and to keep and maintain, on a loan by loan basis, records and accounts on behalf of the LLP in relation to the Mortgage Loans;
- (iv) to keep or cause to be kept the Mortgage Loan Files and Title Deeds (if any) in safe custody and to the order of the LLP and in such a manner that they are readily identifiable and accessible;
- (v) to provide the LLP, the Seller and the Security Trustee and their agents with access to the Title Deeds if any and Mortgage Loan Files at all reasonable times;
- (vi) to take all reasonable steps to recover all sums due to the LLP, including without limitation instituting proceedings and enforcing any relevant Mortgage Loan, or any Related Security; and
- (vii) not knowingly fail to comply with any legal requirements in the performance of its obligations under the Administration Agreement.

(c) ***Setting of Standard Variable Rate and other discretionary rates and margins***

The Administrator determines the standard variable rate applicable to Mortgage Loans from time to time. In the case of variable rate Mortgage Loans, except in certain limited circumstances, the Administrator will continue to determine the standard variable rate applicable to such Mortgage Loans on behalf of the LLP. The Administrator will take all necessary steps to notify Borrowers of any change in the interest rates applicable to the Mortgage Loans (whether or not due to a change in the standard variable rate).

***Interest Shortfalls***

On each Calculation Date the Administrator shall determine, having regard to:

- (i) the income which the LLP would expect to receive during the succeeding LLP Payment Period (the "**Relevant LLP Payment Period**");
- (ii) the LLP Standard Variable Rate, any other discretionary rates or margins applicable in relation to any Mortgage Loan which the Administrator proposes to set for the Calculation Period in which such Calculation Date falls (the "**Relevant Calculation Period**") under the Administration Agreement; and
- (iii) the other resources available to the LLP including those under the Interest Rate Swap Agreements and the relevant Covered Bond Swap Agreements and the Reserve Fund,

whether the LLP would receive an amount of income during the Relevant LLP Payment 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 LLP Payment Period and 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 the LLP Payment Date of each Series of Covered Bonds immediately following the Relevant LLP Payment Period and (2) the other senior expenses payable by the LLP 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, the Cash Manager and the Security Trustee, within one Business Day, of the amount of the Interest Shortfall.

If, following a notification pursuant to Clause 5.3(b) of the Administration Agreement, the Cash Manager (on behalf of the LLP) notifies the Administrator and the Seller that, having regard to the obligations of the LLP and the amount of the Interest Shortfall, further Mortgage Loans and their Related Security should be sold by the Seller to the LLP, 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 which have a Standard Variable Rate and/or other discretionary rates or margins which would be sufficient such that there would not be an Interest Shortfall on future Calculation Dates.

#### *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 discretionary rate or margin which the Administrator proposes to set for the Relevant Calculation Period under the Administration Agreement; and
- (ii) the other resources available to the LLP under the Interest Rate Swap Agreements,

whether the LLP would receive an aggregate amount of interest on the Mortgage Loans and amounts under the Interest Rate Swap Agreements during the Relevant LLP Payment 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**").

If the Administrator determines that the Yield Shortfall Test will not be met, it will within one Business Day of such determination give written notice to the LLP and the Security Trustee of the amount of the shortfall and the LLP Standard Variable Rate and/or any other discretionary rate or margin applicable in relation to any Mortgage Loan sold by the Seller to the LLP and in the Mortgage Portfolio which would (taking into account the applicable Mortgage Loan Conditions), in the Administrator's reasonable opinion, need to be set in order for no shortfall to arise, and the Yield Shortfall Test to be met, having regard to the date(s) (which shall be specified in the notice) on which such change to the LLP Standard Variable Rate and discretionary rate or margin applicable in relation to any other Mortgage Loan sold by the Seller to the LLP and in the Mortgage Portfolio would take effect and at all times acting in accordance with the standards of a reasonable, prudent mortgage lender as regards the competing interests of Borrowers with Standard Variable Rate Mortgage Loans and Borrowers with Mortgage Loans with any other discretionary rate or margin.

If the Cash Manager (on behalf of the LLP) notifies the Administrator that, having regard to the obligations of the LLP, the LLP Standard Variable Rate and/or any other discretionary rate or margin applicable in relation to any Mortgage Loans sold by the Seller to the LLP and in the Mortgage Portfolio should be increased, the Administrator shall take all steps which are necessary, including publishing any notice which is required in accordance with the Mortgage Loan Conditions, to effect such change in the LLP Standard Variable Rate and/or any other discretionary rate or margin on the date(s) specified in the notice referred to in Clause 5.4(b) of the Administration Agreement, but subject at all times to compliance with the relevant Mortgage Loan Conditions.

The LLP and/or the Security Trustee may terminate the authority of the Administrator to determine and set the Mortgage Rates 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 will agree to appoint the replacement administrator to set the LLP Standard Variable Rate and the other discretionary rates or margins itself in accordance with this sub-section.

#### (d) **Redemption**

Pursuant to the Administration Agreement, the Administrator is responsible for handling the procedures connected with the redemption of Mortgage Loans and is authorised to release the relevant

Title Deeds (if any) to the person or persons entitled thereto upon redemption. The Administrator is also responsible for submitting the EDS-1 to HM Land Registry in order to release any legal charge(s) held over the property in respect of an English Mortgage, for submitting a discharge to the Registers of Scotland in the case of a Scottish Mortgage and for submitting a deed of release to the Registers of Northern Ireland in the case of a Northern Irish Mortgage.

(e) ***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.

(f) ***Removal or Resignation of the Administrator***

The appointment of the Administrator may be terminated by the LLP or the Security Trustee immediately upon written notice to the Administrator, on the occurrence of certain events (each an "**Administrator Termination Event**") and, each of the events listed at (i) to (iv) below, an ("**Administrator Event of Default**") including:

- (i) the Administrator defaults 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 Administrator becomes aware of such default;
- (ii) the Administrator defaults in the performance or observance of any of its other covenants, undertakings and material obligations under the Administration Agreement or any of the other Transaction Documents which 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) is materially prejudicial to the interests of the Covered Bondholders and such default continues unremedied for a period of 20 Business Days after the Administrator becomes aware of such event provided however that where 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 constitute an Administrator Termination Event if within such 20 Business Day period the Administrator terminates the relevant sub-contracting or delegation arrangements and indemnifies the LLP and the Security Trustee against the consequences of such default;
- (iii) the Administrator fails to obtain or maintain the necessary licences or regulatory approval enabling it to continue administering Mortgage Loans;
- (iv) the Administrator becomes subject to an Insolvency Event; or
- (v) the LLP resolves that the appointment of the Administrator should be terminated.

Following the occurrence of an Administrator Termination Event, the Back-Up Administrator Facilitator shall use its best efforts to identify and thereafter appoint an alternative successor administrator on substantially the same terms as the Administration Agreement and at fees which are consistent with those payable generally at the relevant time for the provision of property loan administration services.

Subject to the fulfilment of certain conditions including, without limitation, that a substitute administrator has been appointed, the Administrator may voluntarily resign by giving not fewer than 12 months' notice of termination to the LLP and the Security Trustee.

Any such substitute administrator will be required to, if possible, have experience administering mortgage loans secured on residential mortgaged properties in England and Wales, Scotland, and Northern Ireland and enter into an agreement on substantially the same terms as the Administration Agreement.

Forthwith upon termination of the appointment of the Administrator, the Administrator must deliver the Title Deeds, the Mortgage Loan Files and all books of account and other records maintained by the Administrator relating to the Mortgage Loans and/or the Related Security to, or at the direction of, the

LLP and shall take such further action as 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 reasonably direct to enable the services due to be performed by the Administrator under the Administration Agreement to be performed by the substitute administrator.

The Administration Agreement will terminate automatically when the LLP has no interest in any of the Mortgage Loans or their Related Security any longer.

(g) ***Delegation by the Administrator***

The Administrator may sub contract or delegate the performance of any of its obligations under the Administration Agreement to sub-contractors and delegates, provided that the Administrator shall act as a reasonable and prudent mortgage administrator in selecting any such delegate or sub-contractor and in agreeing the terms on which such delegation or sub-contracting takes place. Upon the appointment of any such delegate or sub-contractor the Administrator will nevertheless remain responsible for the performance of those duties to the LLP and the Security Trustee.

(h) ***Back-Up Administration Agreement***

If the Administrator ceases to be assigned:

(i) in respect of 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; or

(ii) in respect of Fitch, a long-term IDR of at least BBB-,

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 which shall be appointed by, the LLP within 60 days of the Administrator ceasing to be assigned such rating.

(i) ***Replacement of Collection Bank***

Under the Administration Agreement, the Administrator may replace the Collection Bank from time to time. If the Collection Bank is replaced, the Administrator shall procure that a replacement collection bank shall have a rating of at least the same or equivalent rating as the existing Collection Bank at the date of such replacement.

(j) ***Governing Law***

The Administration Agreement and any non-contractual obligation arising out of or in relation to the Administration Agreement will be 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 Cash Manager, the Asset Monitor shall as soon as reasonably practicable (and in any event not later than ten Business Days following receipt of such information from the Cash Manager), test the arithmetic accuracy of the calculations performed by the Cash Manager on the first Issue Date or on the Calculation Date immediately preceding each anniversary of the Initial Programme Date, as applicable, with a view to confirmation of compliance by the LLP with the Asset Coverage Test or the Amortisation Test, as applicable, on the first Issue Date or on that Calculation Date, as applicable.

If and for so long as:

(i) in respect of Moody's, the counterparty risk assessment of the Cash Manager or the counterparty risk assessment of the Issuer fall below Baa3(cr) (or, if a counterparty risk

assessment is not available, the long-term unsecured, unguaranteed and unsubordinated debt obligation ratings of the Cash Manager 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 Cash Manager or the long-term IDR of the Issuer falls below BBB-; 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 Cash Manager's calculations referred to above, as applicable, in respect of the first Issue Date or every Calculation Date, as soon as reasonably practicable (and in any event not later than ten Business Days following receipt of the relevant information from the Cash Manager). If the tests reveal arithmetic errors in the relevant calculations performed by the Cash Manager such that the reported Asset Coverage Test or Amortisation Test had been failed on the relevant Calculation Date (where the Cash Manager had recorded it as being satisfied) or the reported Adjusted Aggregate Loan Amount or the reported Amortisation Test Aggregate Loan Amount, as applicable, was mis-stated by the Cash Manager 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), the Asset Monitor shall conduct such tests of the Cash Manager'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 Cash Manager 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. The Asset Monitor Report will be delivered to the Cash Manager, the LLP, the Issuer and the Security Trustee.

The LLP will pay to the Asset Monitor for its services a fee in an amount equal to £4,000 (excluding VAT) for each time that the Asset Monitor is required to perform the tests set out above.

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, and the Asset Monitor may, at any time, resign from its appointment upon providing the LLP, the Issuer and the Security Trustee (copied by the LLP to each Rating Agency) 60 days' prior written notice. 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.

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 Virgin Money 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.

Virgin Money 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 to Virgin Money 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 Virgin Money plc (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 Virgin Money plc (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:

$$\mathbf{A - B - C + D + E + F}$$

Where,

- A** = the Capital Contribution Balance of the Seller on the last day of the immediately preceding Calculation Period (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 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;
- D** = any increase in the Current Balance of Mortgage Loans in the immediately preceding Calculation Period due to Capitalised Interest accruing on that Mortgage Loan, where that Mortgage Loan was sold by the Seller to the LLP;
- E** = any increase in the Current Balance of Mortgage Loans in the immediately preceding Calculation Period due to the Seller making a Borrow-back to a Borrower, where that Mortgage Loan was sold by the Seller to the LLP; and
- F** = any Capital Contribution (other than those set out in items D and E above and any contributions constituting the payment of the Offset Benefit Contribution Amount) made by the Seller to the LLP in the immediately preceding Calculation Period.

If at any time, Virgin Money plc is acting as the Cash Manager and a Cash Manager Relevant Event occurs and is continuing the Seller will:

- (i) within three Business Days after the occurrence of a Cash Manager Relevant Event notify the LLP, the Account Bank, the VM Account Bank and each Covered Bond Swap Provider, of such event;
- (ii) within ten Business Days of the occurrence of a Cash Manager Relevant Event, make a Cash Capital Contribution to the LLP in an aggregate amount equal to:

- (A) (in the case of each Term Advance where a Covered Bond Swap is not in place other than 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.

Within one Business Day of receipt of such Cash Capital Contribution from the Seller, the LLP shall transfer to the Transaction Account an amount equal to the amount of the Cash Capital Contribution received by the LLP from the Seller in respect of items (ii) and (iii) above.

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, 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 on the relevant 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 Cash Manager 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*") or provide Cash Capital Contributions 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 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 as follows:

$$A+B+C+D+E - (V+W+X+Y+Z)$$

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 and (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 CRD IV (the "**Maximum LTV Amount**"), for all Mortgage Loans that are three months or more in arrears and have a Current Balance to Indexed Valuation ratio of less than or equal to Maximum LTV Amount, M = 0.40 and for all Mortgage Loans that are three months or more in arrears and have a Current Balance to Indexed Valuation ratio of more than the Maximum LTV Amount, M = 0.25; 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; for all Mortgage Loans that are three months or more in arrears and have a Current Balance to Indexed Valuation ratio of less than or equal to the Maximum LTV Amount, N = 0.40 and for all Mortgage Loans that are three months or more in arrears and have a Current Balance to Indexed Valuation ratio of more than the Maximum LTV Amount, N = 0.25;

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, in breach of the Loan Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Mortgage Loan and its Related Security, and in each case the Seller has not repurchased the Mortgage Loan or Mortgage Loans of the relevant Borrower and its or their 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) of the relevant Borrower; 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 Cash Manager 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 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 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 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 Capital Contributions (to the extent not falling within (C) above) otherwise standing to the credit of the LLP Accounts as at the end of the immediately preceding Calculation Period (without double counting);
- V = the sum of the aggregate cleared credit balance of all applicable accounts linked to any Offset Mortgage Loans in the Mortgage Portfolio in respect of the relevant Calculation Period or part of any such Calculation Period;
- W = (a) if the ratings of the VM Account Bank are at least equal to the Account Bank Remedial Ratings, zero; or  
 (b) if the ratings of the VM Account Bank are less than the Account Bank Remedial Ratings, the lower of: (i) all cash standing to the credit of the VM Account as at the end of the immediately preceding Calculation Period and (ii) the sum of items B+C+E above;
- X = the product of (i) and (ii), where (i) is 24% and (ii) is the "flexible Cash Borrow-back capacity", being an amount equal to the difference between (1) the maximum amount of Cash Borrow-backs that Borrowers may make under Mortgage Loans included in the Asset Pool (whether or not drawn) as at the end of the immediately preceding Calculation Period and (2) the aggregate current balance of all drawn Cash Borrow-backs on Mortgage Loans included in the Asset Pool as at the end of the immediately preceding Calculation Period;
- Y = either:  
 (a) zero, for so long as the Issuer's credit rating from each Rating Agency is at least A (long term) or F1 (short term) 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) in respect of each Mortgage Loan where the aggregate amount of the relevant Borrower's deposit account balances exceeds the FSCS Limit but the Current Balance of the relevant Mortgage Loan does not exceed 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  
 (ii) in respect of each Mortgage Loan where the aggregate amount of the relevant Borrower's deposit account balances exceeds the FSCS Limit and the Current Balance of the relevant Mortgage Loan also 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 as at the end of the immediately preceding Calculation Period, each as calculated on the relevant Calculation Date, 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 credit rating from each Rating Agency is at least A (long term) or F1 (short term) by Fitch or 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 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 with each Rating Agency, the "**Asset Percentage**" on any Calculation Date shall be the lowest of:

- (i) save where paragraph (ii) or (iii) below applies, 92.5 per cent.; or
- (ii) save where paragraph (iii) below applies, the percentage figure as selected at the option of the LLP (or the Cash Manager 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 Cash Manager 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 Cash Manager 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 (i) 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 Cash Manager 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.

Save where otherwise agreed with each Rating Agency, the Asset Percentage will be adjusted in accordance with various Rating Agency methodologies to ensure that sufficient credit enhancement will be maintained. Notwithstanding the above, the Asset Percentage may not, at any time, exceed 92.5 per cent. unless otherwise agreed with each Rating Agency.

In addition, the LLP or the Cash Manager 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 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 Cash Manager 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 on each Calculation Date 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 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 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 or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents plus amounts standing to the credit of the Reserve Ledger as at the end of the immediately preceding Calculation Period;

C = the aggregate outstanding principal balance of any Substitution Assets 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) **Offset Mortgage Loans**

If the Current Balance of any Offset Mortgage Loan in the Mortgage Portfolio is reduced by the application of the amount of any Offset Benefit to such Offset Mortgage Loan, then pursuant to the terms of the LLP Deed, the Seller will agree to make a contribution to the LLP on each Calculation Date of an amount equal to the Offset Benefit Contribution Amount as calculated on such date. The Capital Contribution Balance will not increase by the amount of the Offset Benefit Contribution Amount.

In respect of any Offset Mortgage Loans in the Mortgage Portfolio, on each Calculation Date, the Seller shall make payment of a contribution to the LLP in an amount equal to the Offset Benefit Contribution Amount as calculated on such Calculation Date. The "**Offset Benefit Contribution Amount**" will be determined on each Calculation Date (referred to as the "**Relevant Calculation Date**") and calculated in accordance with the following formula:

A – B

where:

- A = the aggregate amount of the Offset Benefit applied during the Calculation Period immediately preceding the relevant Calculation Date in reduction of the Current Balance of the Offset Mortgage Loans in the Mortgage Portfolio; and
- B = the amount (if any) standing to the credit of the Offset Benefit Reserve Ledger on the Relevant Calculation Date (not including any Offset Benefit Contribution Amount paid by the Seller on such date).

The Offset Benefit Contribution Amount paid by the Seller to the LLP will be credited to the Offset Benefit Reserve Ledger.

In determining the Available Revenue Receipts on a Calculation Date, the Cash Manager will include an amount equal to the lesser of (a) the amount calculated in accordance with item "A" above for the relevant Calculation Date, and (b) the aggregate amount (if any) standing to the credit of the Offset Benefit Reserve Ledger on the relevant Calculation Date (including any Offset Benefit Contribution Amount paid by the Seller on such date).

(f) ***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 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 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 Payment and the Pre-Acceleration Principal Priority of Payment, 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.

(g) ***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.

(h) ***Method of sale of Selected Mortgage Loans***

If the LLP is required to sell Selected Mortgage Loans and their Related Security to Purchasers 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 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 arrears of interest and accrued interest thereon, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the LLP 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:

$$N \times \frac{\text{Current Balance of all the Mortgage Loans in the Mortgage Portfolio}}{\text{the Sterling Equivalent of the Adjusted Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where "N" is an amount equal to the Sterling Equivalent of the Adjusted Required Redemption Amount in respect of the Earliest Maturing Covered Bond then outstanding.

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 plus arrears of interest and accrued interest thereon; and
- (ii) following service of a Notice to Pay, for an amount not less than the Adjusted Required Redemption 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, as applicable, (a) the Final Maturity Date (where the Covered Bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee) or (b) 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) (where the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee), 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.

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.

The LLP is also permitted to offer for sale to Purchasers a Partial Mortgage Portfolio. Except in circumstances where the portfolio of Selected Mortgage Loans is being sold within six months of 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 Series of Covered Bonds to be repaid from such proceeds, the sale price of the Partial Mortgage Portfolio (as a proportion of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Mortgage Portfolio bears to the relevant portfolio of Selected Mortgage Loans.

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.

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 Security Trustee will not be required to release the Selected Mortgage Loans from the Security unless the conditions relating to the release of the Security (as described under – "*Deed of Charge – Release of Security*", below) are satisfied.

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 next following 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 next following 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.

(i) ***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, 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, standard security, assignation, 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;
- (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 or premises or subsidiaries;
- (vii) acquire any assets other than pursuant to the terms of the Mortgage Sale Agreement, the Cash Management 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 (the "**EU 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; and
- (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; and
- (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.

(j) ***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 Mortgage Portfolio pursuant to the terms of the RCB Regulations or, if higher CRD IV, and provided that such investments are made in accordance with the terms of the Cash Management Agreement. Depositing such amounts 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 Cash Manager 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 Cash Management Agreement.

There is no limit on the amounts that the LLP shall be entitled to invest in Authorised Investments.

(k) **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 Virgin Money plc, 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, 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 Cash Manager 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.

(l) **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. Cash Management Agreement**

The Cash Manager will provide certain cash management services to the LLP pursuant to the terms of the Cash Management Agreement.

The Cash Manager's 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 Payment described under *Cashflows*, below;
- (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) 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;
- (vii) preparation of Investor Reports for the Covered Bondholders, each Rating Agency and the Bond Trustee; and

- (viii) making the necessary notifications and procuring the necessary payments with respect to any Cash Capital Contributions which are to be credited to the Coupon Payment Ledger.

In relation to each Series of Covered Bonds that (a) does not have monthly Interest Payment Dates and (b) does not have a Covered Bond Swap in place, the Cash Manager shall maintain the 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 which have accumulated in respect of a Series of Covered Bonds will be applied (i) prior to the service of a Notice to Pay, on the immediately following Loan Interest Payment Date or where the Loan Interest Payment Date is also an LLP Payment Date, on such LLP Payment Date in making interest payments, in accordance with the terms of the Intercompany Loan Agreement and the Cash Management Agreement or (ii) following the service of a Notice to Pay, on the immediately following Interest Payment Date, or where the Interest Payment Date is also an LLP Payment Date on that Interest Payment Date (together with any applicable Available Revenue Receipts) in making payments in respect of interest due on the Covered Bonds.

In certain circumstances the LLP and the Security Trustee will each have the right to terminate the appointment of the Cash Manager in which event the LLP will appoint a substitute (the identity of which will be subject to the Security Trustee's written approval). Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager (although the fee payable to the substitute cash manager may be higher).

If the Cash Manager ceases to be assigned:

- (i) in respect of 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; or
- (ii) in respect of Fitch, a long-term IDR of at least BBB-,

it will, use reasonable efforts to enter into a back-up cash management agreement, in form and substance acceptable to the parties to the Cash Management Agreement, with a suitably experienced third party acceptable to, and which shall be appointed by, the LLP within 60 days of the Cash Manager ceasing to be assigned such rating.

(b) ***Governing law***

The Cash Management Agreement and any non-contractual obligations arising out of or in relation to the Cash Management Agreement are governed by English law.

**8. 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. 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 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 Mortgage Loans in the Mortgage Portfolio.

On the Initial Programme Date, the LLP and Virgin Money plc (in its capacity as an Interest Rate Swap Provider) entered into Interest Rate Swap Agreements and entered into Interest Rate Swaps which have notional amounts which cover the (i) fixed rate assets, (ii) SVR linked assets, and (iii) Bank of England base rate linked assets. The Interest Rate Swap Agreements were updated on 5 March 2019 in connection with the transition of certain of the swap arrangements from a LIBOR basis to a SONIA basis.

On each LLP Payment Date (subject to the amounts being paid net of one another), the LLP will pay an amount equal to the product of:

- (i) the balance of the Performing Mortgage Loans in the Mortgage Portfolio which are hedged by an Interest Rate Swap for the related Calculation Period; and
- (ii) the weighted average interest rate in respect of the Performing Mortgage Loans which are hedged by an Interest Rate Swap for the related Calculation Period,

and the relevant Interest Rate Swap Provider will pay an amount equal to the product of:

- (i) the balance of the Performing Mortgage Loans in the Mortgage Portfolio which are hedged by an Interest Rate Swap for the related Calculation Period; and
- (ii) GBP\_SONIA\_COMPOUND (as defined in the relevant Interest Rate Swap Agreement) plus a spread.

If the ratings of an Interest Rate Swap Provider fall below a specified ratings level (which level will be lower in respect of actions to be taken in relation to an SVR Interest Rate Swap than for other Interest Rate Swaps), such Interest Rate Swap Provider may be required to post collateral for its obligations under the relevant Interest Rate Swap Agreement, 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 and, in the case of an SVR Interest Rate Swap, reducing the notional amount of the SVR Interest Rate Swap to zero (subject to certain conditions including the receipt of regulatory approvals and satisfaction of regulatory requirements)) 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 Tables*" below.

If there is a default by an Interest Rate Swap Provider under an Interest Rate Swap Agreement or an Interest Rate Swap is terminated early, 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 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.

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 any 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 (for the avoidance of doubt, no such failure to pay by the Issuer will entitle the relevant Interest Rate Swap Provider to terminate an Interest Rate Swap, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full);
- (ii) upon the occurrence of the insolvency of the Interest Rate Swap Provider, or any guarantor 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; and

- (iii) if an amendment to or waiver under the Transaction Documents is made that materially and adversely affects the rights of an Interest Rate Swap Provider without such Interest Rate Swap Provider's consent.

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.

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 the reduction for the amount of any Early Redemption Amount paid in respect of the Series pursuant to Condition 10(b) (LLP Events of Default) or any Final Redemption Amount paid pursuant to Condition 7(a) (Final redemption) following the Final Maturity Date);
- (iii) the date of redemption pursuant to Conditions 7(b) (Redemption for taxation reasons) or 7(d) (Redemption due to illegality); and
- (iv) 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.

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 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; 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 in out of or in relation to the Interest Rate Swap Agreements are governed by English law.

## **9. Covered Bond Swap Agreements**

The LLP may enter into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers. Each 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 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) other than in respect of Floating Rate Covered Bonds denominated in pounds Sterling which bear interest calculated by reference to Compounded Daily SONIA.

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 an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the 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:

- (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); and
- (ii) 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).

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 or as otherwise agreed with 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.

#### **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, which will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge.

Amounts may be deposited by the LLP into the Transaction Account (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). To the extent that the Cash Manager has not exercised its discretion to instruct any payment to be paid into the VM Account (for further information please see "*The VM Bank Account Agreement*" immediately below), all amounts held by the LLP will be deposited into the Transaction Account held at the Account Bank.

Monies standing to the credit of the Transaction Account and VM Account will be transferred on each LLP Payment Date and applied by the Cash Manager 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, 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 (but shall not occur earlier than 30 calendar days following such downgrade) and include:

- (i) closing the Transaction Account 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) electing that the Account Bank Remedial Ratings will apply to the Account Bank;
- (iii) 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; or
- (iv) taking any steps necessary in relation to the Transaction Account and any relevant additional account(s) held with the Account Bank as may be directed by an Extraordinary Resolution of the Covered Bondholders.

At any time the Account Bank may, having elected to apply the Account Bank Remedial Ratings to the Bank Account Agreement, revoke such application by notice to the Cash Manager and the Issuer.

If at any time the Account Bank Remedial Ratings apply to the Account Bank and at such time the rating of the Account Bank falls below the Account Bank Remedial Ratings, 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 30 calendar days of the rating of the Account Bank falling below the Account Bank Remedial Ratings and include closing the Transaction Account 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.

The Bank Account Agreement may be terminated in other circumstances by the LLP, the Cash Manager 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 "**Account Bank Ratings**" means:

- (i) an unsecured, unsubordinated and unguaranteed deposit rating by Moody's of A2 (long-term) and P-1 (short-term); and



- (ii) a long-term IDR by Fitch of AA- or a short-term IDR by Fitch of F1+; or
- (iii) in each case, such other short-term or long-term rating (or, in the case of Fitch, short-term or long-term IDR) which will not have an adverse effect on the ratings of the Covered Bonds.

The "**Account Bank Remedial Ratings**" means:

- (i) an unsecured, unsubordinated and unguaranteed deposit rating by Moody's of A3 (long-term); and
- (ii) a long term IDR by Fitch of A or a short-term IDR by Fitch of F1; or
- (iii) in each case, such other short-term or long-term rating (or, in the case of Fitch, short-term or long-term IDR) which will not have an adverse effect on the ratings of the Covered Bonds.

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. VM Bank Account Agreement**

Pursuant to the terms of the VM Bank Account Agreement, the LLP will maintain with Virgin Money plc (the "**VM Account Bank**") the VM Account, which will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge.

The Cash Manager may at any time transfer an amount up to the VM Permitted Cash Amount into the VM Account instead of into a Transaction Account. Such amounts, with respect to any Calculation Date, Loan Interest Payment Date or LLP Payment Date, shall nevertheless constitute Available Revenue Receipts or, as applicable, Available Principal Receipts and be applied by the Cash Manager in the manner described under "*Cashflows*" below. For so long as the VM Account Bank does not have the Account Bank Remedial Ratings, the Reserve Fund shall not be permitted to be held in the VM Account.

Following the recalculation of the VM Permitted Cash Amount on a Calculation Date, the Cash Manager shall procure that any amount already standing to the credit of the VM Account in excess of the recalculated VM Permitted Cash Amount shall be transferred to the Transaction Account within three Business Days of the date of such recalculation. Failure to arrange for transfer of any such excess amount from the VM Account to a Transaction Account within such three Business Day period shall result in the termination of the appointment of the Cash Manager.

If a VM Account Bank Transfer Event occurs, the Cash Manager shall procure that all amounts standing to the credit of the VM Account are transferred to a Transaction Account as soon as reasonably practicable, and subject to any requirements of law. The Cash Manager shall ensure that no amounts are transferred into the VM Account whilst any VM Account Bank Transfer Event is continuing.

The LLP (or the Cash Manager on its behalf) may invest sums standing to the credit of the VM Account in Substitution Assets or Authorised Investments.

The VM Bank Account Agreement and any non-contractual obligations arising out of or in relation to the VM Bank Account Agreement are governed by English law.

#### **12. Swap Collateral Account Agreement**

Pursuant to the terms of the Swap Collateral Account Agreement, the LLP will maintain with the Swap Collateral Account Bank the Swap Collateral Accounts, which will be operated in accordance with the Swap Collateral Account Agreement, the LLP Deed and the Deed of Charge.

The Swap Collateral Account Agreement and any non-contractual obligations arising out of or in relation to the Swap Collateral Account Agreement are governed by English law.

### 13. Corporate Services Agreement

The LLP, the Liquidation Member and HoldCo entered into a Corporate Services Agreement with, *inter alios*, Intertrust Management Limited (as Corporate Services Provider) on the Initial Programme Date (as subsequently amended and/or supplemented and/or restated), 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.

### 14. 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 English Mortgage Loans, Northern Irish 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) a first ranking assignation in security of the LLP's interest in the Scottish Mortgage Loans and their Related Security (comprising the LLP's beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust);
- (iv) 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 and Covered Bond Swap Agreements, after giving effect to all applicable netting provisions therein);
- (v) 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;
- (vi) 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
- (vii) a first floating charge over all the assets and undertaking of the LLP (including the assets and undertaking of the LLP located in Scotland or governed by Scots law).

In respect of the property, rights and assets referred to in paragraph (iii) above, fixed security will be created over such property, rights and assets sold to the LLP since the Initial Programme Date by means of Scottish Supplemental Charges pursuant to the Deed of Charge.

#### (b) *Release of Security*

In the event of any sale of Mortgage Loans (including Selected Mortgage Loans) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the LLP), release those Mortgage Loans from the Security created by and pursuant to the Deed of Charge on the date of such sale but only if:

- (i) the Security Trustee provides its prior written consent to the terms of such sale as described under "*LLP Deed – Method of sale of Selected Mortgage Loans*" above; and

- (ii) in the case of the sale of Selected Mortgage Loans, the LLP provides to the Security Trustee a certificate confirming that the Selected Mortgage Loans being sold have been selected on a random basis.

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, the Security Trustee will release that Mortgage Loan 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 is governed by English law (other than each Scottish Supplemental Charge granted pursuant and supplemental to the Deed of Charge and certain other provisions relating to the property, rights and assets referred to in paragraph (iii) above which will be governed by Scots law).

## KEY RATING TRIGGERS TABLE

Transaction Party	Required Ratings	Consequences of Ratings Trigger being breached include the following
<b>Interest Rate Swap Provider</b>	<b>Fixed or Tracker Interest Rate Swap</b>	<b>SVR Interest Rate Swap</b>
	<p><i>Moody's</i></p> <p>Long-term counterparty risk assessment ("<b>LT CRA</b>") of at least <b>A3(cr)</b> by Moody's or, if a LT CRA is not available, a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of at least <b>A3</b> by Moody's; and</p> <p><i>Fitch</i></p> <p>Long-term IDR (or, if assigned, derivative counterparty rating) of at least <b>A</b> by Fitch or a short-term IDR of at least <b>F1</b> by Fitch.</p> <p><i>Moody's</i></p> <p>LT CRA of at least <b>Baa1(cr)</b> by Moody's or, if a LT CRA is not available, a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of at least <b>Baa1</b> by Moody's; and</p> <p><i>Fitch</i></p> <p>Long-term IDR (or, if assigned, derivative counterparty rating) of at least <b>BBB-</b> by Fitch or a short-term IDR of at least <b>F3</b> by Fitch.</p>	<p><i>Moody's</i></p> <p>LT CRA of at least <b>Baa3(cr)</b> by Moody's or, if a LT CRA is not available, a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of at least <b>Baa3</b> by Moody's; and</p> <p><i>Fitch</i></p> <p>Long-term IDR (or, if assigned, derivative counterparty rating) of at least <b>BBB-</b> by Fitch.</p> <p><i>Moody's</i></p> <p>LT CRA of at least <b>Ba3(cr)</b> by Moody's or, if a LT CRA is not available, a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of at least <b>Ba3</b> by Moody's; and</p> <p><i>Fitch</i></p> <p>Long-term IDR (or, if assigned, derivative counterparty rating) of at least <b>BB-</b> by Fitch.</p> <p>The consequences of breach include a requirement to post collateral, and the option to replace the relevant Interest Rate 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>Subject to the terms of the relevant Interest Rate Swap Agreement, the consequences include requirements to (i) post collateral, and (ii) either (a) transfer the relevant Interest Rate Swap Provider's obligations to an appropriately rated entity, (b) obtain a 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 and, in the case of an SVR Interest Rate Swap, reducing the notional amount of the SVR Interest Rate Swap to zero (subject to certain conditions including the receipt of regulatory approvals and satisfaction of regulatory requirements)) as may be necessary to maintain or restore the rating of Covered Bonds.</p>

Transaction Party	Required Ratings	Consequences of Ratings Trigger being breached include the following
<b>Account Bank</b>	<b>Account Bank Ratings</b>	
	<i>Moody's</i>	
	An unsecured, unsubordinated and unguaranteed deposit rating by Moody's of at least A2 (long-term) and P-1 (short-term); and	The consequences of breach may include a requirement to (i) replace the Account Bank, (ii) electing that the Account Bank Remedial Ratings will apply to the Account Bank or (iii) 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 30 calendar days following such downgrade), as set out in more detail in " <i>Summary of the Principal Documents – Bank Account Agreement</i> ".
	<i>Fitch</i>	
	a long-term IDR by Fitch of at least AA- or a short-term IDR by Fitch of at least F1+; or	
	in each case, such other short-term or long-term rating (or, in the case of Fitch, short-term or long-term IDR) which will not have an adverse effect on the ratings of the Covered Bonds	
	<b>Account Bank Remedial Ratings</b>	
	<i>Moody's</i>	
	An unsecured, unsubordinated and unguaranteed deposit rating by Moody's of at least A3 (long-term); and	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 30 calendar days of the rating of the Account Bank falling below the Account Bank Remedial Ratings, as set out in more detail in " <i>Summary of the Principal Documents – Bank Account Agreement</i> ".
	<i>Fitch</i>	
	a long term IDR by Fitch of at least A or a short-term IDR by Fitch of at least F1; or	
	in each case, such other short-term or long-term rating (or, in the case of Fitch, short-term or long-term IDR) which will not have an adverse effect on the ratings of the Covered Bonds.	

<b>Transaction Party</b>	<b>Required Ratings</b>	<b>Consequences of Ratings Trigger being breached include the following</b>
<b>VM Account Bank</b>	A long term IDR by Fitch of at least BBB-.	The consequences of breach are that the Cash Manager shall procure that all amounts standing to the credit of the VM Account are transferred to a Transaction Account as soon as reasonably practicable, and subject to any requirements of law and for so long as it is breached, the Cash Manager shall ensure that no amounts are transferred into the VM Account.
<b>Swap Collateral Account Bank:</b>	<p><i>Moody's</i></p> <p>An unsecured, unsubordinated and unguaranteed deposit rating by Moody's of at least A3 (long-term); and</p> <p><i>Fitch</i></p> <p>a long term IDR by Fitch of at least A or a short-term IDR by Fitch of at least F1; or</p> <p>in each case, such other short-term or long-term rating (or, in the case of Fitch, short-term or long-term IDR) which will not have an adverse effect on the ratings of the Covered Bonds.</p>	The consequences of breach may include a requirement to (i) replace the Swap Collateral Account Bank or (ii) taking necessary steps in relation to the Swap Collateral Accounts and any additional account(s) held with the Swap Collateral 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 30 calendar days of the rating of the Swap Collateral Account Bank falling below the Account Bank Remedial Ratings, as set out in more detail in " <i>Summary of the Principal Documents – Bank Account Agreement</i> ".
<b>Administrator</b>	<p><i>Moody's</i></p> <p>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</p> <p><i>Fitch</i></p> <p>In respect of Fitch, a long-term IDR of at least BBB-.</p>	The consequences of breach are that 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 which shall be appointed by, the LLP within 60 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> ".

Transaction Party	Required Ratings	Consequences of Ratings Trigger being breached include the following
Cash Manager	<p data-bbox="432 338 951 577"><i>Moody's</i></p> <p data-bbox="432 398 951 577">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</p> <p data-bbox="432 607 951 719"><i>Fitch</i></p> <p data-bbox="432 663 951 719">In respect of Fitch, a long-term IDR of at least BBB-.</p>	<p data-bbox="1002 398 1406 853">The consequences of breach are that the Cash Manager is required to use reasonable efforts to enter into a back-up cash management agreement, in form and substance acceptable to the parties to the Cash Management Agreement, with a suitably experienced third party acceptable to, and which shall be appointed by, the LLP within 60 days of the Cash Manager ceasing to be assigned such rating, as set out in more detail in "<i>Summary of the Principal Documents – Cash Management Agreement</i>".</p>
Cash Manager or Issuer	<p data-bbox="432 887 959 1126"><i>Moody's</i></p> <p data-bbox="432 943 959 1126">In respect of Moody's, a counterparty risk assessment of at least Baa3(cr) (or, if a counterparty risk assessment is not available, the long-term unsecured, unguaranteed and unsubordinated debt obligation ratings of at least Baa3); or</p> <p data-bbox="432 1155 959 1267"><i>Fitch</i></p> <p data-bbox="432 1211 959 1267">In respect of Fitch, the long-term IDR of at least BBB-.</p>	<p data-bbox="1002 943 1406 1211">The consequences of breach are that the Asset Monitor shall conduct the calculations performed by the Cash Manager 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>
Virgin Money plc	<p data-bbox="432 1357 943 1447">A short term unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch and at least P-1 by Moody's.</p>	<p data-bbox="1002 1357 1406 1496">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; and
4. a Reserve Fund (unless Virgin Money plc's short term unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch and P-1 by Moody's) will be established in the Transaction Account to trap Available Revenue Receipts.

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 on a Borrower's savings accounts held with the Seller and failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Mortgage Loans that do not materially comply with the Loan Warranties on the relevant Transfer Date.



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. See further "*Summary of the Principal Documents – LLP Deed – Amortisation Test*", above.

### **Reserve Fund**

The LLP has established the Reserve Fund on the Transaction Account or the VM Account, subject to the VM Permitted Cash Amount which will be credited with part of the Term Advance (at the LLP's discretion) and Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount. The LLP will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default or if Virgin Money plc's short term unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch and P-1 by Moody's.

The Reserve Fund is funded from Available Revenue Receipts 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 Cash Manager 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 in calculating Available Revenue Receipts.

### **Coupon Payments**

If Virgin Money plc is acting as Cash Manager pursuant to the Cash Management Agreement and a Cash Manager Relevant Event occurs and is continuing, the Seller will (a) within 10 Business Days of the occurrence of the Cash Manager Relevant 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 1 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 1 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 1 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 a Cash Manager Relevant Event has occurred and is continuing, 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. Any surplus over and above the amount to be deposited as described above, will be paid into the Interest Accumulation Ledger.

The LLP will transfer an amount equal to the Cash Capital Contribution it receives from the Seller within one Business Day of receipt of such amount into the Transaction Account and 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 and/or CUSIP as applicable or the relevant Series of Covered Bonds) to the Account Bank and/or the VM Account Bank, as applicable, 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 Cash Manager 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 Cash Manager 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 Cash Manager on its behalf) shall calculate (a) the amount of Available Revenue Receipts available for distribution on the immediately following LLP Payment Date and (b) the Reserve Fund Required Amount (if applicable).

### ***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 Cash Manager 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 in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed 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 in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed 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 and the Swap Collateral Account Bank (including costs) pursuant to the terms of the Bank Account Agreement or the Swap Collateral

Account Bank Agreement, as applicable, 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) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (iii) amounts (if any) due and payable to the VM Account Bank (including costs) pursuant to the terms of the VM Bank Account Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and
  - (iv) 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* of 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));
- (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 Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts receivable from an Interest Rate Swap Provider under the relevant Interest Rate Swap Agreement and, if applicable, 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 Cash Manager 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 each case, of the LLP Accounts, 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 Event of Default has occurred, all remaining Available Revenue Receipts to be credited to the Transaction Account (with a corresponding credit to the Revenue Ledger maintained in respect of that account) until such Administrator Event of Default 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 and the Interest Rate 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 repayment to the Seller of any Cash Capital Contributions made by Virgin Money plc (in its capacity as a Member of the LLP) and deemed as revenue items or otherwise made to credit the Coupon Payment Ledger of the Transaction Account;
- (l) *twelfth*, 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 (m) and an amount equal to the profit to be paid to the Members in accordance with (n) below) to the Seller;
- (m) *thirteenth*, in or towards payment of the fee due to the Liquidation Member; and
- (n) *fourteenth*, 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 relevant sub-ledger of the Capital Account Ledger 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 including 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)(i) 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 a Cash Manager Relevant Event has occurred and is continuing, 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.

On the first Business Day of the month following the month in which the statutory accounts of the LLP are filed, amounts standing to the credit of LLP Profit Ledger shall be paid to the relevant Members of the LLP as their profit for their respective interests as Members of the LLP.

Any amounts received by the LLP under the Interest Rate Swap Agreement 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, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap under the Covered Bond Swap Agreements or, as the case may be, in respect of each relevant Term Advance under the Intercompany Loan Agreement unless an Asset Coverage Test Breach Notice has been served and has not been revoked 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 Cash Manager may reasonably determine.

Any amounts (other than 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, 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 Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and has not been revoked.

Any amounts received under an Interest Rate Swap Agreement and any amounts (other than in respect of principal) received under the Covered Bond Swap Agreements on the 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 item (d) of the Pre-Acceleration Revenue Priority of Payments or the preceding two paragraphs 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 a Cash Manager Relevant Event and for so long as a Cash Manager Relevant 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.

**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 Cash Manager 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 Cash Manager on its behalf will apply all Available Principal Receipts (other than Cash Capital Contributions made from time to time by Virgin Money 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):

- (a) *first*, to acquire New Mortgage Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement 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 and thereafter to acquire Substitution Assets;
- (b) *second*, to deposit the remaining Principal Receipts in the LLP Accounts (with a corresponding credit to the Principal Ledger and in the case of the VM Account in an amount not exceeding the VM Permitted Cash Amount) 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;
- (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 Cash Manager 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 Cash Manager 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 complying with the Asset Coverage Test, to make a Capital Distribution to Virgin Money 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.

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 Cash Manager may reasonably determine.

Any amounts of principal received under the Covered Bond Swap Agreements on the 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, on or before the LLP Payment Date, 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) (to the extent only that such amounts are payable to the Members), item (k) or item (l) of the Pre-Acceleration Revenue Priority of Payments or item (a), item (c)(ii) (unless they are paid directly by the LLP to the Principal Paying Agent) or item (d) 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*".

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts and Available Principal Receipts from the Revenue Ledger, the Reserve Ledger, the Principal Ledger or the Capital Account Ledger, as the case may be, to the Coupon Payment Ledger on the LLP Accounts, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such ledgers on the LLP Accounts.

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 (e) 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 Cash Manager 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 in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed 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 in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge 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 and the Swap Collateral Account Bank (including costs) pursuant to the terms of the Bank Account Agreement or the Swap Collateral Account Bank Agreement, as applicable, 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
  - (iv) 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;
- (c) *third*, 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) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (iii) amounts (if any) due and payable to the VM Account Bank (including costs) pursuant to the terms of the VM Bank Account Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (iv) 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
  - (v) amounts due and payable to the Asset Monitor (other than the amounts referred to in item (k) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable VAT (or other similar taxes) thereon as provided therein;
- (d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of 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;
- (e) *fifth*, 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,

but, in the case of any such payment or provision, after taking into account any amounts received or receivable from the Interest Rate Swap Providers in respect of the relevant Interest Rate Swap and, if applicable, 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 (e) (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 (e)(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 (e)(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;

- (f) *sixth*, 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 (f) (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 (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*, 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 (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 Final Redemption Amount in respect of each relevant Series of Covered Bonds under item (g)(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 (g)(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;

- (h) *eighth*, 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 (g) (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);
- (i) *ninth*, 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;
- (j) *tenth*, 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;
- (k) *eleventh*, 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
- (l) *twelfth*, 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 (e)(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 (e)(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, such termination payment 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 the realisation of the Security) to pay a replacement Swap Provider(s) to enter into a replacement Swap Agreement(s) with the LLP, unless a replacement Swap Agreement(s) 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 Agreement, such premium will first be used to make any termination payment due and payable by the LLP with respect to the previous Swap Agreement(s), unless such termination payment has already been made on behalf of the LLP.

Any amounts received by the LLP which are not applied to pay a replacement Swap Provider(s) to enter into a replacement Swap Agreement(s) will be credited to the Revenue Ledger on the LLP Accounts 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 (or a receiver appointed on its behalf) (excluding all amounts due or to become due in respect of any Non-LLP Amounts) following the enforcement of the Security, realisation of the Security and/or the commencement of winding-up proceedings against the LLP will be applied 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 all amounts due and payable or to become due and payable to:
  - (i) the Bond Trustee under or in connection with the Transaction Documents together with interest and applicable VAT (or other similar taxes) thereon as provided therein; and
  - (ii) the Security Trustee and 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;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts 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; and
  - (ii) amounts (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;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts in 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, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and
  - (iii) amounts due to the Account Bank, the VM Account Bank and the Swap Collateral Account Bank (including costs) pursuant to the terms of the Bank Account Agreement, the VM Bank Account Agreement or the Swap Collateral Account Bank Agreement, as applicable, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts 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;
  - (ii) all amounts 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 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 (d)(ii) (excluding any amounts received from any Covered Bond Swap Provider in respect of amounts referred to in (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 (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 (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;

- (e) *fifth*, 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;
- (f) *sixth*, 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;
- (g) *seventh*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed; and
- (h) *eighth*, thereafter any remaining monies shall be applied in or towards payment to the Members pursuant to the LLP Deed.

Pursuant to Regulation 14 of the RCB Regulations, 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 items (a) and (b) 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 with full title guarantee and, in relation to any Scottish Mortgage Loans, with absolute warrandice and, in relation to any Northern Irish Mortgage Loans, as beneficial owner, shall assign to the LLP:

- (a) (subject to the subsisting rights of redemption of Borrowers) all right, title, interest and benefit of the Seller (both present and future) in, to and under the relevant Mortgage Loans and their Related Security including for the avoidance of doubt as at the relevant Transfer Date:
  - (i) all sums of principal, interest or any other sum payable under such Mortgage Loans on or after or in respect of any period on or after the relevant Transfer Date, all sums of interest and other sums payable (but not paid before the relevant Transfer Date), in respect of any period before the relevant Transfer Date and the right to demand, sue for, recover, receive and give receipts for all such sums;
  - (ii) the benefit of all securities for such principal monies and interest and other sums payable, the benefit of all consents to mortgage signed by occupiers of the Mortgaged Properties, the benefit of all rights under MHA/CP Documentation and the benefit of and the right to sue on all covenants and undertakings in favour of the Seller in each such Mortgage Loan and any Guarantee in respect of such Mortgage Loan and the right to exercise all powers of the Seller in relation to each such Mortgage Loan;
  - (iii) all the estate and interest in the Mortgaged Properties in favour of the Seller subject to redemption or cesser;
  - (iv) to the extent that they are assignable all causes and rights of action in favour of the Seller against any person in connection with any report, valuation, opinion, certificate, consent or other statement of fact or opinion given in connection with any such Mortgage Loans or received by the Seller in connection with the origination of any Mortgage Loan;
  - (v) all arrears payable under the Mortgage Loans; and
  - (vi) all proceeds from the enforcement of the Mortgage Loans and the Related Security; and
- (b) all right, title, interest and benefit in favour of the Seller (both present and future) in the Insurance Contracts (including the right to receive the proceeds of any claims) in so far as they relate to such Mortgage Loans.

For the purposes hereof:

"**Initial Mortgage Portfolio**" means 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.

"**New Mortgage Loans**" means 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.

See also the following risk factors under "*Risk Factors – Risk Factors relating to the LLP – Limited description of the Mortgage Portfolio – Maintenance of Mortgage Portfolio*".

### Product Types

The Mortgage Loans in the Mortgage Portfolio fall into the categories described below.

- (a) **Fixed Rate and Everyday 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 standard variable rate. Everyday Fixed Rate Mortgage Loans additionally give the borrower the ability to make overpayments of up to 10 per cent. of the outstanding mortgage balance per calendar year without incurring an early repayment charge and the borrower can also apply for a payment holiday (one-month payment holiday for every nine consecutive full monthly payments made. The maximum payment holiday period is three months, which can be applied for following the completion of 27 consecutive full monthly payments). Borrow-backs and underpayments are not permitted.
- (b) **Standard Variable Rate Mortgage Loans:** Mortgage Loans subject to the Seller's standard variable rate.
- (c) **Discount Rate Mortgage Loans:** Mortgage Loans which allow the Borrower to pay interest at a specified discount to the Seller's standard variable rate for a specified period of time up to the life of the mortgage loan.
- (d) **Flexible Tracker Rate Mortgage Loans:** Mortgage Loans which are subject to a variable rate of interest that is currently linked to the Bank of England base rate plus an additional fixed percentage. This mortgage loan gives the Borrower a range of flexible features including the ability to make unlimited overpayments without incurring an early repayment charge. Subject to agreement the Borrower can also borrow back amounts previously overpaid, use previous overpayments to fund underpayments and/or apply for a payment holiday (see Fixed Rate and Everyday Fixed Rate Mortgage loans for payment holiday rules).
- (e) **Everyday Tracker Mortgage Loans:** Mortgage Loans which are subject to a variable rate of interest that is currently linked to the Bank of England base rate plus an additional fixed percentage. This mortgage loan gives the Borrower the ability to make over payments of up to 10 per cent. of the outstanding mortgage balance per calendar year without incurring an early repayment charge. The Borrower can also apply for a payment holiday (see Fixed Rate and Everyday Fixed Rate Mortgage loans for payment holiday rules). Borrow-backs and underpayments are not permitted.

### Repayment Terms

Loans are typically repayable on one or a combination of both of the following bases:

- (a) **repayment:** the borrower makes monthly payments of both interest and principal so that, when the loan matures, the full amount of the principal of the loan will have been repaid; and
- (b) **interest-only:** the borrower makes monthly payments of interest but not of principal; when the loan matures, the entire principal amount of the loan is still outstanding and is payable typically but not necessarily in one lump sum (such Mortgage Loans, "**Interest-Only Mortgage Loans**").

The required monthly payment in connection with repayment Mortgage Loans or Interest-Only Mortgage Loans may vary from month to month for various reasons, including changes in interest rates.

The Seller does not (and in some cases cannot) take security over repayment plans.

### Flexible Mortgage Loans

Most of the Mortgage Loans included in the Mortgage Portfolio give the borrower greater flexibility in the timing and amount of payments under each loan, offering certain of the flexible features described below.

- (a) **Overpayments:** borrowers may either increase their regular monthly payments above the normal monthly payment then applicable or make lump sum payments at any time subject to payment of early repayment charges where appropriate.
- (b) **Underpayments:** where borrowers have previously overpaid, they may reduce their monthly payments below the amount of the applicable monthly payment or make an irregular underpayment. Borrowers are not permitted to make underpayments that exceed the total of previous overpayments less the total of previous underpayments. Any underpayment made by a Borrower (i) which cannot be funded by

prior overpayments and (ii) where the Borrower is not entitled to a payment holiday (an "**Unauthorised Underpayment**") will be treated by the Seller as arrears.

- (c) **Payment Holidays:** A Borrower that has made nine consecutive scheduled monthly payments (or an equivalent sum of payments) on its Mortgage Loan may apply for a one month payment holiday even if that Borrower has not made prior overpayments. A Borrower may apply for this payment holiday facility once in each rolling nine month period and may accumulate the right to take up to a maximum of three monthly payment holidays in any one calendar year if the Borrower has not used the payment holiday facility in a given 27-month period. In addition, a Borrower may apply for a payment holiday of up to six months in certain limited cases (generally, where the Borrower can demonstrate an extenuating circumstance). Any payment holiday will be funded solely by the Seller.
- (d) **Cash Borrow-backs:** A Borrower may request a "**Cash Borrow-back**" of overpayments that the Borrower has made on its Mortgage Loan by requesting that the Seller refund some or all of such overpayments in cash, subject to certain conditions. Any Cash Borrow-backs will be funded solely by the Seller.

Under the mortgage conditions, a Borrower must receive permission from the Seller to make an Authorised Underpayment or take a payment holiday on a Mortgage Loan.

The Seller retains the discretion whether to provide a further advance or grant a Cash Borrow-back to a Borrower on a Mortgage Loan, and also maintains discretion in some cases to grant a payment holiday to a Borrower, depending on the facts associated with the Borrower's request.

### **Offset Mortgage Loans**

An Offset Mortgage Loan allows the relevant Borrower to link the relevant Mortgage Loan with certain deposit and/or current accounts that are held with the relevant Originator. If a Borrower elects to take an Offset Mortgage Loan, the interest due from the Borrower on the Offset Mortgage Loan will be calculated (on a daily basis throughout the relevant period) on the difference between the total of the daily outstanding balance (being the outstanding principal balance of the Offset Mortgage Loan plus any capitalised arrears) on the Offset Mortgage Loan and the daily balances of amounts held in the linked deposit/current accounts held with the relevant Originator. For the avoidance of doubt, the deposit and/or current accounts which are linked to an Offset Mortgage Loan will not form part of the Mortgage Loan or its Related Security.

The terms of Offset Mortgage Loans also permit Borrowers to make small annual increases in the amount of their repayments, thereby further accelerating the pace at which the Mortgage Loan is repaid. Despite the foregoing, the Borrower is nevertheless obligated to make his Mortgage Payment of principal (if any) and interest in full.

The connection between a Borrower's Mortgage Loan and any linked account or accounts of the Borrower may be ended by the relevant Originator giving the Borrower 30 days notice in writing at any time.

As at the date of this Prospectus, Offset Mortgage Loans are not permitted to be included in the Mortgage Portfolio, however they may be included as a New Mortgage Loan Type subject to satisfaction of the conditions relating to New Mortgage Loan Types.

### **Credit Underwriting and Debt Management**

#### *Introduction*

The following is a description of some of the characteristics of the VM Originator's underwriting processes, lending criteria and debt management processes. Mortgage loans originated by the NRAM Originator followed similar underwriting processes and lending criteria (including the discretion to lend outside its lending criteria (described below)). The VM Originator reserves the right to amend its underwriting process, lending criteria and debt management processes from time to time.

#### *Underwriting*

The decision to offer a mortgage loan to a potential borrower is made by one of the VM Originator's underwriters and/or mandate holders located in its mortgage service centres, in Gosforth or another location, who may have liaised with the intermediaries. Each underwriter and/or mandate holder is required to pass the



VM Originator's formal training programme to gain the authority to approve mortgage loans. Mandates are awarded in line with the VM Originator's documented and approved allocation procedures and the VM Originator has established various levels of authority for its underwriters who approve mortgage loan applications. The levels are related to system rules which are differentiated by, among other things, degree of risk, value of the property, amount of the mortgage loan and LTV ratio in the relevant application. The VM Originator monitors the quality of underwriting decisions on a regular basis.

### *Lending Criteria*

To obtain a mortgage loan, each borrower must complete an application form (or have submitted an application on-line) which includes information about the applicant's income, current employment details, bank account information, if any, current mortgage information, if any, and certain other personal information, including known and future changes to credit commitments and household expenditure of the borrower(s).

The general approval process uses credit acceptance scorecards and involves a review of an applicant's previous credit history using information held by credit reference agencies. The VM Originator assesses the borrower's expenditure and affordability under stressed scenarios including increased interest rates. In addition, the VM Originator has in place limits on permitted indebtedness which take into account the debt customers hold with other lenders.

The VM Originator rejects any application for a product where a customer is registered as bankrupt or insolvent, or showing any signs of financial difficulty. In addition, the VM Originator's approach to underwriting applications and assessing customer affordability takes into account the total unsecured debt held by a customer and their ability to afford the mortgage loan in addition to repaying the existing debt.

The VM Originator's lending policy has maximum percentage LTV limits which depend upon the loan purpose, loan type, repayment term and loan size.

On a case-by-case basis, and within approved limits as detailed in the VM Originator's lending policy from time to time, the VM Originator may determine that, based upon compensating factors, a prospective borrower that did not strictly qualify under its lending criteria at that time warranted an underwriting exception. The VM Originator may take into account compensating factors including, but not limited to, a low LTV ratio, stable employment and time in residence at the applicant's current residence.

### *Debt Management and Forbearance*

The VM Originator provides a number of arrangements to assist borrowers who are experiencing financial distress. The VM Originator has categorised its potential arrangements as follows:

- **Payment Arrangements:** A temporary arrangement for customers in financial distress where arrears may accrue while the contractual payment amount remains unchanged; for example, short-term arrangements to pay less than the contractual payment or short-term arrangements to pay more to clear arrears;
- **Transfers to Interest Only:** An account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment amount. Instead, any arrears of capital repayment existing at the commencement of the arrangement remain outstanding;
- **Term Extensions:** A permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment; and
- **Discretionary Payment Holidays:** A temporary account change to assist customers through periods of financial difficulty where arrears do not accrue on the original contractual payment amount.

The VM Originator's aim in offering forbearance and other assistance to retail customers in financial distress is to benefit both the customer and the VM Originator by discharging the VM Originator's responsibilities to support customers and act in their best long-term interests. This allows customer credit facilities to be brought back to a sustainable position. The VM Originator offers a range of tools and assistance to support customers who are encountering financial difficulties. Cases are managed on an individual basis, with the circumstances of each customer considered separately and the action taken designed to be affordable and sustainable for the customer.

Customers are assisted by the VM Originator's debt management function where tailored repayment programmes can be agreed. Customers are actively supported and referred to free money advice agencies in instances where they have multiple credit facilities, including those at other lenders, which require restructuring.

Specific tools are available to assist customers which vary by product and the customer's status.

Income and expenditure assessments are undertaken for all customers entering into a long-term repayment plan. This ensures that customers are provided with a sustainable and affordable solution that allows them a realistic opportunity to repay their debt in the short to medium term. In addition, the VM Originator will advise customers to contact debt advice companies such as Citizens Advice Bureau, StepChange and PayPlan. These companies do not charge any fees and will offer free, impartial debt advice to customers as well as work with creditors to agree affordable repayment plans. Understanding what has changed and establishing the customers' current and future financial situation is imperative to ensuring that the right level of support is offered and that customers receive the appropriate solution to help them manage their debt when in financial difficulty.

## 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. The framework is intended to meet the requirements set out in Article 52(4) of EU Directive 2009/65/EC on undertakings for collective investment in transferable securities (the "**UCITS Directive**"). In general, covered bonds which are UCITS Directive-compliant benefit from higher prudential investment limits and may be ascribed a preferential risk weighting.

### *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).

The Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds under the RCB Regulations on 19 July 2017.

### *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 paragraph 68(a) or (b) of Annex VI to the Banking Consolidation Directive (2006/48/EC). 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 found at [www.virginmoney.com](http://www.virginmoney.com). The information set out in 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, Wales and Scotland under the Limited Liability Partnership Act 2000 (the "**LLPA 2000**"). The LLPA 2000 does not apply to Northern Ireland however it is possible to incorporate a limited liability partnership in Northern Ireland under the Limited Liability Partnership Act (Northern Ireland) 2002. 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 2006, the Insolvency Act 1986 and the Insolvency (Northern Ireland) Order 1989 (as applicable) have been modified by the Limited Liability Partnerships Regulations 2009, the Limited Liability Partnerships Regulations 2001 and the Limited Liability Partnerships Regulations (Northern Ireland) 2004 (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

#### *DTC*

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerised book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Direct Participants or Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each Covered Bond ("**Beneficial Owner**") is in turn to be recorded on the Direct Participant's and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed

by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to the Issuer as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Principal Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participant and not of DTC or its nominee, the Principal Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

### ***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.

### **Book-entry Ownership of and Payments in respect of DTC Covered Bonds**

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial

interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such participant and not the responsibility of DTC, the Bond Trustee, the Security Trustee, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

### **Transfers of Covered Bonds Represented by Registered Global Covered Bonds**

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a Direct Participant or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian ("**Custodian**") with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, 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 DTC, 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 DTC, 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. 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 law and published Her Majesty's Revenue & Customs (HMRC) practice, relating only to 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. The comments relate only to the position of persons who are absolute beneficial owners of the Covered Bonds and may not apply to certain classes of persons, such as dealers. 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.*

#### ***Payment of interest by the Issuer on the Covered Bonds***

The Issuer will be entitled to make payments of interest on the Covered Bonds without deduction of or withholding on account of United Kingdom income tax, provided that:

- (a) the Issuer is and continues to be a "bank" within the meaning of section 991 of the Income Tax Act 2007 (ITA 2007); and
- (b) 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 ITA 2007.

Payments of interest on the Covered Bonds may be paid without deduction of or withholding on account of United Kingdom tax provided that the Covered Bonds are and continue to be listed on a "recognised stock exchange", within the meaning of section 1005 of the ITA 2007. The London Stock Exchange is a recognised stock exchange for this purpose. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) and admitted to trading on the London Stock Exchange). Provided, therefore, that the Covered Bonds are and remain so listed, interest on the Covered Bonds will be payable without withholding or deduction for or on account of United Kingdom income tax, whether or not the Issuer carries on a banking business in the United Kingdom and whether or not the interest is paid in the ordinary course of its business.

Interest on the Covered Bonds may also be paid without withholding or deduction for or on account of United Kingdom income tax where the maturity of the Covered Bonds is less than 365 days and those Covered Bonds

do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Covered Bonds that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a holder of Covered Bonds, HMRC can issue a notice to the Issuer to pay interest to the Covered Bondholder without withholding or deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

### ***Payments by the LLP***

The United Kingdom withholding tax treatment of payments by the LLP under the terms of the Covered Bond Guarantee which have a United Kingdom source is uncertain. In particular, such payments by the LLP may not be eligible for the exemptions described above in relation to payments of interest. Accordingly, if the LLP makes any such payments, these may be subject to United Kingdom withholding tax at the basic rate. 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, commonly known as "**FATCA**", a "foreign financial institution" (as defined by FATCA) may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of 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 published 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.

## CERTAIN UNITED STATES REGULATORY CONSIDERATIONS

### ERISA

Unless otherwise specified in the applicable Final Terms, the Covered Bonds may not be acquired by, or on behalf of, a "Benefit Plan Investor" or a governmental, church or non-U.S. plan which is subject to U.S. federal, state, local or non-U.S. laws or regulations which are substantially similar to the prohibited transaction provisions of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"). A "**Benefit Plan Investor**" is defined as (i) an employee benefit plan as defined in Section 3(3) of ERISA, which is subject to Title I of ERISA, (ii) a plan described in and subject to Section 4975 of the Code, or (iii) an entity whose underlying assets include plan assets by reason of any such employee benefit plan's or plan's investment in the entity under U.S. Department of Labor Regulations § 2510.3-101 (29 C.F.R. § 2510.3-101) as modified by Section 3(42) of ERISA. Each investor will be required to represent that it is not, and is not using the assets of, a Benefit Plan Investor or such governmental, church or non-U.S. plan.

### 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 AND TRANSFER AND SELLING RESTRICTIONS

Covered Bonds may be sold from time to time by the Issuer to any one or more of BNP Paribas, London Branch and HSBC Bank 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 originally dated 4 April 2018, as amended and/or supplemented and/or restated from time to time (the "**Dealer Agreement**") and made between the Issuer 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.

### Transfer Restrictions

*As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.*

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another or from global to definitive form or *vice versa*, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware and each beneficial owner of such Covered Bond has been advised that any sale to it is being made in reliance on Rule 144A or (b) it is outside the United States and is not a U.S. person and it is not purchasing (or holding) the Covered Bonds for the account or benefit of a U.S. person;
- (ii) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or any applicable U.S. State securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth in this section;
- (iii) it agrees that neither the Issuer nor the LLP has any obligation to register the Covered Bonds or the Covered Bond Guarantee under the Securities Act;
- (iv) that, unless it holds an interest in a Regulation S Global Covered Bond and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities

Act or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

- (v) that it is not, and is not acting on behalf of, and for so long as it holds a Covered Bond (or any interest therein) will not be, and will not be acting on behalf of, (a) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (b) a "plan" as defined in and subject to Section 4975 of the Code, (c) an entity whose underlying assets include the assets of any such employee benefit plan subject to ERISA or other plan subject to Section 4975 the Code, or (d) a governmental, church or non-U.S. plan which is subject to any U.S. federal, state, local or non-U.S. law or regulation that is substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code.
- (vi) it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (iv) above, if then applicable;
- (vii) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Covered Bonds, and that Covered Bonds initially offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;
- (viii) that the Covered Bonds represented by a Rule 144A Global Covered Bond and Definitive Rule 144A Covered Bonds, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A "**QUALIFIED INSTITUTIONAL BUYER**" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE "**AGENCY AGREEMENT**") AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL

FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

BY ITS ACQUISITION AND HOLDING OF THIS SECURITY (OR ANY INTEREST HEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT IT IS NOT, AND IS NOT ACTING ON BEHALF OF, AND FOR SO LONG AS IT HOLDS THIS SECURITY (OR ANY INTEREST HEREIN) WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF, (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**) THAT IS SUBJECT TO TITLE I OF ERISA, (B) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (D) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAW OR REGULATION THAT IS SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE.

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.";

- (ix) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the lead manager, in the case of a syndicated issue), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE "**AGENCY AGREEMENT**") AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE COVERED BONDS OF THE TRANCHE OF WHICH THIS COVERED BOND FORMS PART, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OR REGULATION S UNDER THE SECURITIES ACT OR (II) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT.

BY ITS ACQUISITION AND HOLDING OF THIS SECURITY (OR ANY INTEREST HEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT IT IS NOT, AND IS NOT ACTING ON BEHALF OF, AND FOR SO LONG AS IT HOLDS THIS SECURITY (OR ANY INTEREST HEREIN) WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF, (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**) THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (IV) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAW OR

REGULATION THAT IS SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE; and

- (x) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Rule 144A Covered Bonds in the United States to any one purchaser will be for less than U.S.\$200,000 (or the approximate equivalent in another Specified Currency) principal amount and no Rule 144A Covered Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$200,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Covered Bonds.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.\$200,000 (or the approximate equivalent in another Specified Currency). To the extent that either the Issuer or the LLP is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer and the LLP have agreed to furnish to holders of Covered Bonds and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

### **Selling Restrictions**

#### *United States*

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 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, US 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. Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer, sell or deliver a Covered Bond in bearer form within the United States or to United States persons except as permitted by the Dealer Agreement. 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.

In connection with any Regulation S Covered Bond, 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 once all Dealers have so certified) only in accordance with Rule 903 on Regulation S under the Securities Act, Rule 144A 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 other than resales pursuant to Rule 144A relating thereto, 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 if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.\$200,000 (or the approximate equivalent in another Specified Currency). To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" within the meaning of the Securities Act, each of the Issuer and the LLP has undertaken in the Trust Deed to furnish, upon the request of a holder of such Covered Bonds or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Covered Bonds remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and each of the Issuer and the LLP is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

Each Dealer appointed under the Dealer Agreement will be required to represent and agree in respect of transactions under Rule 144A that it has not (and will not), nor has (nor will) any person acting on its behalf, (a) made offers or sales of any security, or solicited officers to buy, or otherwise negotiated in respect of, any security, under circumstances that would require the registration of the Covered Bonds under the Securities Act; or (b) engaged in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with any offer or sale of Covered Bonds in the United States.

### **United Kingdom**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) *No deposit-taking*: in relation to any Covered Bonds issued by the Issuer having 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:
    - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
    - (B) 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) *Financial promotion*: 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 Issuer or the LLP; and
- (c) *General compliance*: 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 EEA retail investors

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:

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
  - (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Directive ; and
- (b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

### Republic of Italy

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offering of the Covered Bonds has not been registered by the Italian securities exchange commission ("**CONSOB**") to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Italian Financial Services Act**") and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Services Act and Article 34-ter of Regulation No. 11971.

Furthermore, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that any offer, sale or delivery of the Covered Bonds or distribution of copies of the Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Italian Financial Services Act, CONSOB Regulation No.16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Italian Banking Act**"); and
- (b) in compliance with Article 129 of the Italian Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; or
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

### Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**"), and 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 or sold and will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade

Act (Act No. 228 of 1949, as amended) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## **Belgium**

Other than in respect of Covered Bonds for which "Prohibition of Sales to Belgian Consumers" is specified as "Not Applicable" in the applicable Final Terms, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Covered Bonds may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a "**Belgian Consumer**"), and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Covered Bonds, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Covered Bonds, directly or indirectly, to any Belgian Consumer.

## **General**

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 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, in all cases at its own expense. 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 or in a Drawdown Prospectus.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by resolutions of the board of directors of the Issuer passed on 25 November 2015, a resolution of the Asset and Liability Committee of the board of directors of the Issuer passed on 14 December 2015 and a resolution of the Covered Bond Committee of the Issuer ("CBC") passed on 26 March 2018. 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 dated 23 March 2018.

### 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 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 or trading position (a) of the Issuer or any of its subsidiaries (other than the LLP) since 31 December 2018 being the date of the last audited non-consolidated financial statements of the Issuer or (b) save as otherwise described in the section entitled "*The LLP – Principal Activities*", of the LLP since the date of its incorporation. There has been no material adverse change in the financial position or the prospects (a) of the Issuer or any of its subsidiaries (other than the LLP) since 31 December 2018 being the date of the last audited non-consolidated financial statements of the Issuer or (b) of the LLP since the date of its incorporation.

### Auditors

The VM 2017 Financial Statements have been audited without qualification by PricewaterhouseCoopers LLP, chartered accountants (a member of the Institute of Chartered Accountants in England and Wales).

The VM 2018 Financial Statements have been audited without qualification by Ernst & Young LLP, chartered accountants (a member of the Institute of Chartered Accountants in England and Wales).

The CB Financial Statements have been audited without qualification by Ernst & Young 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 on the following websites: [www.virginmoney.com](http://www.virginmoney.com) and <https://www.cybg.com/investor-centre/financial-results/> respectively:

- (a) the articles of association of the Issuer;
- (b) the VM Financial Statements, the CB Financial Statements and the CB 2018 Risk Report;
- (c) the Trust Deed (which contains the forms of Covered Bonds in global and definitive form);
- (d) a copy of this Prospectus;
- (e) any future prospectuses, information memoranda and supplements including Final Terms to this Prospectus and any other documents incorporated herein or therein by reference; and
- (f) each Transaction Document.

In addition, copies of this Prospectus, any documents incorporated by reference 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 [www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html](http://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 DTC, Euroclear and Clearstream, Luxembourg. The appropriate common code and/or the International Securities Identification Number ("**ISIN**") and/or the Committee on Uniform Security Identification Procedures ("**CUSIP**") Number in relation to the Covered Bonds of each Tranche will be specified in the relevant Final Terms. In addition, the Issuer may make an application for any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Covered Bonds, together with 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. The address of The Depository Trust Company is 55 Water Street, New York, NY10041-0099, U.S.A.

### **Legal Entity Identifier**

The Legal Entity Identifier ("**LEI**") code of Virgin Money plc is 213800NISCV8CQI6LW27. The LEI of Clydesdale is NHXOBHMY8K53VRC7MZ54.

### **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 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 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.

### **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 shall be posted on the Issuer's website at [www.virginmoney.com](http://www.virginmoney.com). Copies of the applicable Final Terms for each series are available to Covered Bondholders during normal business hours at the specified office of each of the Paying Agents.

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 posted on [www.virginmoney.com](http://www.virginmoney.com). 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 CYBG 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"	(a) an, unsecured, unsubordinated and unguaranteed deposit rating by Moody's of A2 (long-term) and P-1 (short-term); and (b) a long-term IDR by Fitch of AA- or a short-term IDR by Fitch of F1+; or (c) in each case, such other short-term or long-term rating (or, in the case of Fitch, short-term or long-term IDR) which will not have an adverse effect on the ratings of the Covered Bonds.
"Account Bank Remedial Ratings"	(a) an unsecured, unsubordinated and unguaranteed deposit rating by Moody's of A3 (long-term); and (b) a long term IDR by Fitch of A or a short-term IDR by Fitch of F1; or (c) in each case, such other short-term or long-term rating (or, in the case of Fitch, 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.
"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"	The meaning given in the applicable Final Terms.
"Additional Financial Centre"	The meaning given in the applicable Final Terms.
"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 and 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.
"Administrator"	Virgin Money plc (or, if the proposed Part VII Transfer is implemented, the Part VII Successor) in its capacity as administrator under the Administration Agreement together with any successor or replacement administrator appointed from time to time.
"Administration Agreement"	The administration agreement originally entered into on the Initial Programme Date (as amended and/or supplemented and/or restated as at the date of this Prospectus and as further amended, amended and restated and/or

	supplemented and/or restated from time to time) between the LLP, the Administrator, the Cash Manager, the Seller, the Back-Up Administrator Facilitator and the Security Trustee.
<b>"Affiliate"</b>	In relation to any company, a subsidiary of that company, a holding company of that person or any other subsidiary of that holding company.
<b>"Agency Agreement"</b>	The agency agreement originally entered into on the Initial Programme Date (as amended and/or supplemented and/or restated as at the date of this Prospectus and as further amended, amended and restated and/or supplemented and/or restated from time to time) made between, <i>inter alios</i> , the Issuer, the LLP, the Bond Trustee, the Principal Paying Agent, the Registrar and the Transfer Agents.
<b>"Amortisation Test"</b>	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.
<b>"Asset Coverage Test"</b>	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.
<b>"Asset Coverage Test Breach Notice"</b>	The notice required to be served by the Bond Trustee if the Asset Coverage Test has not been met on two consecutive Calculation Dates.
<b>"Asset Monitor"</b>	A reputable institution appointed as such under the Asset Monitor Agreement.
<b>"Asset Monitor Agreement"</b>	The asset monitor agreement originally entered into on the Initial Programme Date (as amended and/or supplemented and/or restated as at the date of this Prospectus and as further amended and/or supplemented and/or restated from time to time) between the Asset Monitor, the LLP, the Cash Manager, the Issuer, the Bond Trustee and the Security Trustee.
<b>"Asset Monitor Report"</b>	The results of the tests conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Cash Manager, the LLP, the Issuer and the Security Trustee.
<b>"Asset Pool"</b>	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.
<b>"Associated Debt"</b>	The indebtedness a Borrower owes or may owe to the Seller from time to time which is not a Mortgage Loan.
<b>"Authorised Investments"</b>	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 short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least P-1 by Moody's and F1 by Fitch or their equivalents by two other internationally recognised rating agencies, provided that such Authorised Investments comply with the requirements of Regulation 2(1A) of the RCB Regulations.

- "Authorised Signatory"**
- (a) in relation to the Bank Account Agreement, any authorised signatory referred to in the mandate in respect of the Transaction Account or any other mandate in relation to an LLP Account as applicable;
  - (b) in relation to the VM Bank Account Agreement, any authorised signatory referred to in the mandate in respect of the VM Account or any other mandate in relation to an LLP Account as applicable;
  - (c) in relation to the Swap Collateral Account Bank Agreement, any authorised signatory referred to in a mandate in respect of the Swap Collateral Account or any other mandate in relation to a Swap Collateral Account as applicable;
  - (d) in relation to the Mortgage Sale Agreement, an officer or officers of each Seller authorised to act as an authorised signatory on behalf of such company; and

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.

**"Authorised Underpayment"** Amounts that have previously been overpaid by a Borrower to the Seller, which are used to fund future underpayments under its Mortgage Loan.

**"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 on the LLP Accounts (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 proceeds have not been applied to acquire New Mortgage Loans or invest in Substitution Assets), (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 on the LLP Accounts;
- (b) 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 under the Interest Rate Swap Agreements and in respect of interest received by the LLP under each Covered Bond Swap Agreement;
- (c) 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;



- (d) 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;
- (e) following the service on the LLP of a Notice to Pay, amounts standing to the credit of the Reserve Fund;
- (f) 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;
- (g) payments made by the Seller to the LLP to fund any Non-Cash Borrow-back with respect to any Mortgage Loan in the Mortgage Portfolio during the immediately preceding Calculation Period;
- (h) 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; and
- (i) such part of (i) any contributions made by the Seller to the LLP to fund the application of any Offset Benefit in respect of any Offset Mortgage Loan in the Mortgage Portfolio received on or prior to the relevant Calculation Date and (ii) any amounts standing to the credit of the Offset Benefit Reserve Ledger determined as Available Revenue Receipts in accordance with the methodology described in the section entitled "*Summary of the Principal Documents - LLP Deed – Offset Mortgage Loans*";

less

- (j) Non-LLP Amounts, which shall be paid on receipt in cleared funds to the Seller,

and excluding (for the avoidance of doubt) amounts standing to the credit of the Coupon Payment Ledger and the Interest Accumulation Ledger.

**"Back-Up Administrator Facilitator"**

Intertrust Management Limited, which has its office at 35 Great St. Helen's, London EC3A 6AP together with any successor or replacement back-up administrator facilitator appointed from time to time.

**"Bank Account Agreement"**

The bank account agreement originally entered into on the Initial Programme Date (as amended and/or supplemented and/or restated as at the date of this Prospectus and as further amended and/or restated and/or supplemented from time to time) between the LLP, the Account Bank, the Cash Manager and the Security Trustee.

**"Base Rate Pledge"**

The guarantee by the Seller that where Mortgage Loans are eligible to be

charged at or based on the Standard Variable Rate and they are within the Base Rate Pledge Period, the actual variable gross interest rate charged on such Mortgage Loans will be the lower of the two following rates:

- (a) the Standard Variable Rate; or
- (b) the Bank of England base rate plus a margin which is determined by the Seller,

such variable gross interest rate to be applied as necessary within one month of a change in the Bank of England base rate.

<b>"Base Rate Pledge Period"</b>	In relation to any Mortgage Loan having the benefit of the Base Rate Pledge, the period if any during which the Borrower may be subject to an Early Repayment Charge.
<b>"Bearer Definitive Covered Bond"</b>	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 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.
<b>"Borrow-back"</b>	A Cash Borrow-back and a Non-Cash Borrow-back.
<b>"Borrower"</b>	In relation to each Mortgage Loan, the individuals named and defined as borrower under that Mortgage Loan or such other person or persons (other than a guarantor) who shall become legally obliged to comply with such Borrower's obligations under the related Mortgage Loan.
<b>"Business Day"</b>	(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  (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.
<b>"Business Day Convention"</b>	The meaning given in the applicable Final Terms.
<b>"Buy-to-Let Mortgage Loan"</b>	A Mortgage Loan taken out by a borrower in relation to the purchase or re-mortgage of a property for letting purposes.
<b>"Calculation Date"</b>	The day falling two Business Days prior to the LLP Payment Date (or, if that day is not a Business Day, then the immediately preceding Business Day).
<b>"Calculation Period"</b>	The period from, and including, the first day of each month to, and including, the last day of each month.
<b>"Capital Account Ledger"</b>	The ledger maintained by the Cash Manager on behalf of the LLP in respect

	of each Member to record the balance of each Member's Capital Contributions from time to time.
<b>"Capital Contribution"</b>	In relation to each Member, the aggregate 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.
<b>"Capital Contribution Balance"</b>	The balance of each Member's Capital Contributions as recorded from time to time in the relevant Member's Capital Account Ledger.
<b>"Capital Contribution in Kind"</b>	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 as at the relevant Transfer Date minus (b) any cash payment paid by the LLP for such Mortgage Loans and their Related Security on that Transfer Date, plus (c) the principal amount of all Cash Borrow-backs in respect of such Mortgage Loans which are funded by the Seller as a Member of the LLP and, without double-counting, any increases in the Current Balance of the relevant account.
<b>"Capital Distribution"</b>	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).
<b>"Capitalised Interest"</b>	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).
<b>"Cash Borrow-back"</b>	An option available to a Borrower that allows the Borrower to request that the Seller advance some or all overpayments in respect of a Mortgage Loan that the Borrower has made subject to certain conditions.
<b>"Cash Capital Contribution"</b>	A Capital Contribution made in cash.
<b>"Cash Management Agreement"</b>	The cash management agreement originally entered into on the Initial Programme Date (as amended and/or supplemented and/or restated as at the date of this Prospectus and as further amended and/or restated and/or supplemented from time to time) between the LLP, Virgin Money plc (in its capacity as the Cash Manager and the Security Trustee).
<b>"Cash Manager"</b>	Virgin Money plc (or, if the proposed Part VII Transfer is implemented, the Part VII Successor), in its capacity as cash manager under the Cash Management Agreement together with any successor or replacement cash manager appointed from time to time.
<b>"Cash Manager Relevant Event"</b>	If the Cash Manager's long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's falls below Baa1.
<b>"Cash Swap Collateral Account Bank"</b>	HSBC Bank plc in its capacity as such under the Swap Collateral Account Agreement together with any successor, additional or replacement account bank or any additional or alternative account bank appointed by the LLP from time to time pursuant to a relevant bank account agreement entered into by (amongst others) the LLP, the relevant successor, additional, replacement or alternative account bank and the Security Trustee.
<b>"Clydesdale Originator"</b>	Clydesdale or any other relevant entity within the CYBG Group which originates Mortgage Loans to be sold to the LLP from the Part VII Effective Date.

<b>"Collection Bank"</b>	Virgin Money plc (or, if the proposed Part VII Transfer is implemented, the Part VII Successor), acting in its capacity as the bank at which the Collection Account is maintained together with any successor or replacement collection bank appointed by the Issuer from time to time.
<b>"Companies Act"</b>	The Companies Act 2006 (including the Companies Act 2006 as it applies to limited liability partnerships) and any regulations made pursuant to that Act.
<b>"Corporate Services Agreement"</b>	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 LLP originally dated the Initial Programme Date (as amended and/or supplemented and/or restated as at the date of this Prospectus and as further amended and/or supplemented and/or restated from time to time).
<b>"Corporate Services Provider"</b>	Intertrust Management 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.
<b>"Coupon Payment Ledger"</b>	The ledger maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Required Coupon Amounts and any debiting of the same.
<b>"Covered Bond Swap"</b>	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 and the relevant 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).
<b>"Covered Bond Swap Agreement"</b>	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.
<b>"Covered Bond Swap Observation Period"</b>	An Interest Rate Swap Observation Period as defined in the relevant Covered Bond Swap Agreement.
<b>"Covered Bond Swap Provider"</b>	Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement.
<b>"Covered Bond Swap Rate"</b>	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 Cash Manager for the purchase of the applicable Specified Currency with Sterling, provided that in no event shall the Cash Manager 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).
<b>"CRD IV"</b>	The legislative package consisting of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms of the European Parliament and of the Council of 26 June 2013, as the same may be amended or replaced from time to time, and Regulation 575/2013.
<b>"Current Balance"</b>	In relation to a Mortgage Loan at a particular date the outstanding principal

	amount of such Mortgage Loan at such date (as adjusted to reflect any changes to the principal amount outstanding of such Mortgage Loan due to (i) an increase in the principal amount outstanding due to a Cash Borrow-back, (ii) or any unpaid interest in respect of an Underpayment, or (iii) a reduction to the principal amount outstanding due to repayments or overpayments, the exercise of a right of set-off or any amount in respect of a Loss which has been written off by the Administrator) including any capitalised interest and fees.
<b>"Day Count Fraction"</b>	In the case of a Fixed Rate Covered Bond, the meaning given in Condition 5(a) 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) in " <i>Terms and Conditions of the Covered Bonds</i> ".
<b>"Defaulted Mortgage Loan"</b>	A Mortgage Loan in the Mortgage Portfolio which is more than 3 months in arrears.
<b>"Defaulted Mortgage Loans Notice"</b>	A notice from the Cash Manager to the Seller identifying any Defaulted Mortgage Loan.
<b>"Deferred Consideration"</b>	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.
<b>"Definitive Covered Bond"</b>	A Bearer Definitive Covered Bond and/or, as the context may require, a Registered Definitive Covered Bond.
<b>"Definitive Rule 144A Covered Bond"</b>	A Registered Covered Bond in definitive form sold to QIBs pursuant to Rule 144A.
<b>"Definitive Regulation S Covered Bond"</b>	A Registered Covered Bond in definitive sold to non-U.S. persons outside the United States in reliance on Regulation S.
<b>"Determination Date"</b>	The meaning given in the applicable Final Terms.
<b>"Due for Payment Date"</b>	The Original Due for Payment Date or the Extended Due for Payment Date, as applicable.
<b>"Earliest Maturing Covered Bond"</b>	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).
<b>"Early Redemption Amount"</b>	The meaning given in the relevant Final Terms.
<b>"Early Repayment Charge"</b>	Any charge or fee which the mortgage conditions applicable to a Mortgage Loan require the relevant Borrower to pay in the event that all or part of that Mortgage Loan is repaid before a certain date.
<b>"ECB"</b>	European Central Bank.
<b>"English Mortgage"</b>	A mortgage secured by way of first priority legal charge over an English Mortgaged Property.
<b>"English Mortgage Loan"</b>	A Mortgage Loan secured by an English Mortgage.
<b>"English Mortgaged Property"</b>	A Mortgaged Property located in England or Wales.
<b>"EURIBOR"</b>	In respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson

	Reuters) in accordance with the requirements from time to time of the European Banking Federation (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor).
<b>"Exchange Act"</b>	The U.S. Securities Exchange Act of 1934, as amended.
<b>"Excluded Scheduled Interest Amounts"</b>	The meaning given in the definition of " <i>Scheduled Interest</i> ".
<b>"Excluded Scheduled Principal Amounts"</b>	The meaning given in the definition of " <i>Scheduled Principal</i> ".
<b>"Excluded Swap Termination Amount"</b>	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.
<b>"Extraordinary Resolution"</b>	A resolution of the Covered Bondholders passed as such under the terms of the Trust Deed.
<b>"Final Maturity Date"</b>	The Interest Payment Date on which each Series of Covered Bonds will be redeemed at their Principal Amount Outstanding in accordance with the Conditions.
<b>"Final Redemption Amount"</b>	The meaning given in the relevant Final Terms.
<b>"First Transfer Date"</b>	The date on which the Initial Mortgage Portfolio was transferred to the LLP pursuant to the Mortgage Sale Agreement.
<b>"Fixed Interest Rate Swap"</b>	Each swap transaction that is intended to hedge against possible variances in the fixed rates of interest payable on some or all of the Mortgage Loans in the Mortgage Portfolio and a compounded daily SONIA rate.
<b>"Fixed Rate Covered Bond"</b>	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).
<b>"Fixed Rate Covered Bond Provisions"</b>	The meaning given in the relevant Final Terms.
<b>"Fixed Rate Mortgage Loans "</b>	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 standard variable rate.
<b>"Floating Rate Covered Bonds"</b>	Covered Bonds which bear interest at a rate determined: <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),</li> </ul>

	as set out in the applicable Final Terms.
<b>"Floating Rate Covered Bond Provisions"</b>	The meaning given in the relevant Final Terms.
<b>"Further Advance"</b>	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 Mortgage Loan, in circumstances which do not amount to a Cash Borrow-back.
<b>"Guarantee"</b>	Each guarantee in support of the obligations of a Borrower under a Mortgage Loan.
<b>"Guaranteed Amount"</b>	Prior to the service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any 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, any 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.
<b>"Halifax Index"</b>	The index of movements in house prices in relation to residential properties in the United Kingdom currently known as the "Halifax House Price Index" published by Markit Group Limited or any of its successors or assigns or any other index which would be considered appropriate by a prudent residential mortgage lender acting reasonably;
<b>"Halifax Price Indexed Valuation"</b>	In relation to any Mortgaged Property at any date means the Latest Valuation of that Mortgaged Property increased or decreased as appropriate by the increase or decrease in the Halifax Index since the date of that Latest Valuation;
<b>"Help to Buy Mortgage Loan"</b>	Mortgage Loans entered into under the UK Government's "Help to Buy" Scheme.
<b>"Higher Redemption Amount"</b>	The meaning given in the relevant Final Terms.
<b>"HoldCo"</b>	Eagle Place Covered Bonds (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 10298770).
<b>"Holdings"</b>	The meaning given on page 6.
<b>"IDR" or "Issuer Default Rating"</b>	The issuer default rating assigned to an entity by any Rating Agency as a benchmark measure of probability of default.
<b>"Indexed Valuation"</b>	At any date in relation to any Mortgage Loan secured over any Mortgaged Property: <ul style="list-style-type: none"> <li>(a) where the Latest Valuation of that Mortgaged Property is equal to or greater than the Halifax Price Indexed Valuation as at that date, the Halifax Price Indexed Valuation; or</li> <li>(b) where the Latest Valuation of that Mortgaged Property is less than the Halifax Price Indexed Valuation as at that date, the Latest Valuation plus 85% of the difference between the Latest Valuation and the Halifax Price Indexed Valuation.</li> </ul>

<b>"Initial Mortgage Portfolio"</b>	The meaning given on page 228.
<b>"Initial Programme Date"</b>	9 April 2018.
<b>"Insolvency Event"</b>	<p>In respect of the Seller, the Administrator, the Cash Manager or the VM Account Bank (each, for the purposes of paragraphs (a) to (c) of this definition, a "<b>Relevant Entity</b>") means:</p> <ul style="list-style-type: none"> <li>(a) an order is made or an effective resolution passed for the winding up of the Relevant Entity or the appointment of an administrator over the Relevant Entity (except, in any such case, a winding-up or dissolution for the purpose of a reconstruction or amalgamation the terms of which have been previously approved by the Security Trustee);</li> <li>(b) the Relevant Entity ceases or threatens to cease to carry on its business (otherwise than for the purposes of such amalgamation or reconstruction as is referred to in paragraph (a) above) or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of section 123(1)(a) (on the basis that the reference in such section to £750 is read as a reference to £10 million), (b), (c) (on that basis that the words "for a sum exceeding £10 million" is inserted after the words "extract registered bond" and "extract registered protest"), (d) or (e) of the Insolvency Act (as amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets is less than the amount of its liabilities (taking into account its contingent and prospective liabilities) or otherwise becomes insolvent; or</li> <li>(c) proceedings are initiated against the Relevant Entity or any steps are taken in respect of a Relevant Entity under any applicable liquidation, administration, reorganisation (other than a reorganisation where the Relevant Entity is solvent), insolvency or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or any substantial part of the undertaking or assets of the Relevant Entity; or a distress, execution, diligence or other process is enforced upon the whole or any substantial part of the undertaking or assets of the Relevant Entity and in any of the foregoing cases it is not discharged within 30 Business Days; or if the Relevant Entity initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally.</li> </ul>
<b>"Insurance Contract"</b>	The properties in possession policy, the contingency insurance policy and the insurance on the property and 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.
<b>"Intercompany Loan Agreement"</b>	The term loan agreement originally dated the Initial Programme Date between the Issuer, the LLP and the Security Trustee (as amended and/or supplemented and/or restated as at the date of this Prospectus and as further amended and/or supplemented and/or restated from time to time).
<b>"Intercompany Loan Ledger"</b>	The ledger maintained by the Cash Manager pursuant to the Cash Management Agreement to record all payments of interest and repayments of principal on each of the Term Advances.



<b>"Interest Accumulation Ledger"</b>	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, Scheduled Interest that is Due for Payment in respect of such Accumulation Series of Covered Bonds.
<b>"Interest Basis"</b>	The meaning given in the relevant Final Terms.
<b>"Interest Determination Date"</b>	The meaning given in the relevant Final Terms.
<b>"Interest-Only Mortgage Loan"</b>	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.
<b>"Interest Rate Swaps"</b>	Swap transactions which are intended to hedge against possible variances in the rates of interest payable on some or all of the Mortgage Loans in the Mortgage Portfolio and a compounded daily SONIA rate.
<b>"Interest Rate Swap Agreements"</b>	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.
<b>"Interest Rate Swap Providers"</b>	Each provider of an Interest Rate Swap under an Interest Rate Swap Agreement.
<b>"Investor Report"</b>	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 posted on the Virgin Money website at <a href="http://www.virginmoney.com">www.virginmoney.com</a> .
<b>"ISDA"</b>	International Swaps and Derivatives Association, Inc.
<b>"ISDA Master Agreement"</b>	The 1992 ISDA Master Agreement (Multicurrency Cross Border), as published by ISDA.
<b>"Issue Date"</b>	Each date on which the Issuer issues Covered Bonds to the Covered Bondholders.
<b>"Issue Price"</b>	The meaning given in the relevant Final Terms.
<b>"Issuer Call"</b>	The meaning given in the relevant Final Terms.
<b>"Latest Valuation"</b>	With respect to a Mortgaged Property, the most recent valuation for mortgage purposes given in any valuation report or assessed using automated valuation models.
<b>"Ledgers"</b>	Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Coupon Payment Ledger, the Swap Collateral Ledger, the Intercompany Loan Ledger, the Interest Accumulation Ledger, the Capital Account Ledger and the Offset Benefit Reserve Ledger.
<b>"Lending Criteria"</b>	The lending criteria of the relevant Originator from time to time.
<b>"LIBOR"</b>	London Interbank Offered Rate.
<b>"Liquidation Member"</b>	Eagle Place Covered Bonds Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 10298909).

<b>"LLP Accounts"</b>	The Transaction Account, the VM Account and any additional or replacement accounts opened in the name of the LLP, including each Swap Collateral Account.
<b>"LLP Deed"</b>	The limited liability partnership deed originally entered into on the Initial Programme Date (as amended and/or supplemented and/or restated as at the date hereof and as further amended and/or supplemented and/or restated from time to time) between the LLP, Virgin Money plc, the Liquidation Member, the Bond Trustee and the Security Trustee.
<b>"LLP Monthly Interest Amount"</b>	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 and not yet paid to the relevant Interest Accumulation Ledger since the previous Interest Payment Date.
<b>"LLP Monthly Payment Amount"</b>	On any relevant LLP Payment Date in respect of each Accumulation Series of Covered Bonds, an amount equal to: <p style="text-align: center;">A+B</p> <p>Where:</p> <p>"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; 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</p> <p>"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 (whether as an estimated amount pursuant to A above or an actual amount pursuant to B) since the previous Interest Payment Date.</p>
<b>"LLP Payment Date"</b>	The 22nd day of each month or, if such a day is not a Business Day, the next following Business Day.
<b>"LLP Payment Period"</b>	The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date.
<b>"LLP Profit Ledger"</b>	The ledger maintained by the Cash Manager 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.
<b>"LLP Standard Variable Rate"</b>	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 (Interest Rates) of the Administration Agreement.
<b>"Loan Interest Payment Date"</b>	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.

<b>"London Banking Day" or "LBD"</b>	Any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London.
<b>"London Stock Exchange"</b>	London Stock Exchange plc.
<b>"Losses"</b>	All realised losses on the Mortgage Loans.
<b>"Management Committee"</b>	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.
<b>"Margin"</b>	The meaning given in the relevant Final Terms.
<b>"Master Definitions and Construction Schedule"</b>	The master definitions and construction schedule signed for the purpose of identification by Allen & Overy LLP and Freshfields Bruckhaus Deringer LLP (as the same may be amended and/or supplemented and/or restated from time to time).
<b>"Maximum Rate of Interest"</b>	The meaning given in the relevant Final Terms.
<b>"MHA/CP Documentation"</b>	An affidavit, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 or (as applicable) the Civil Partnership Act 2004 in connection with a Scottish Mortgage or the Mortgaged Property secured thereby.
<b>"Minimum Rate of Interest"</b>	The meaning given in the relevant Final Terms.
<b>"Minimum Redemption Amount"</b>	The meaning given in the relevant Final Terms.
<b>"Mortgage"</b>	For any Mortgage Loan, the first priority legal charge over a freehold or leasehold Mortgaged Property located in England and Wales, each first priority legal charge or mortgage over a freehold or leasehold Mortgaged Property located in Northern Ireland or the first ranking Standard Security over a heritable or long leasehold Mortgaged Property located in Scotland.
<b>"Mortgage Account"</b>	As the context requires (i) all Mortgage Loans secured on the same Mortgaged Property and thereby forming a single mortgage account or (ii) an account maintained by the Administrator in respect of a particular Mortgage Loan to record all amounts due in respect of that Mortgage Loan (whether by way of principal, interest or otherwise) and all amounts received in respect thereof.
<b>"Mortgage Deed"</b>	In respect of any Mortgage, the deed creating that Mortgage.
<b>"Mortgage Loan"</b>	A 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.
<b>"Mortgage Loan Agreement"</b>	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).

<b>"Mortgage Loan Conditions"</b>	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.
<b>"Mortgage Loan Files"</b>	In relation to each Mortgage Loan, the file or files (including files kept in microfiche format or similar electronic data retrieval system) containing correspondence between the Borrower and the Seller and including the Standard Mortgage Documentation applicable to that Mortgage Loan, each letter of offer in respect of such Mortgage Loan and other relevant documents.
<b>"Mortgage Payment"</b>	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 under the applicable mortgage conditions.
<b>"Mortgage Portfolio"</b>	The meaning given on page 228.
<b>"Mortgage Sale Agreement"</b>	The mortgage sale agreement originally entered into on the Initial Programme Date (as amended and/or supplemented and/or restated at the date of this Prospectus and as further amended and/or restated and/or supplemented from time to time) between the Seller, the LLP and the Security Trustee.
<b>"Mortgaged Property"</b>	A freehold, leasehold or commonhold property (or in Scotland a heritable property or a property held under a long lease) which is subject to a Mortgage.
<b>"New Member"</b>	Any new member admitted to the LLP after the Initial Programme Date.
<b>"New Mortgage Loan"</b>	The meaning given on page 228.
<b>"New Mortgage Loan Type"</b>	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 (a) 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 discounts, cash-backs and/or rate guarantees or (b) the identity of the Seller changing from the Part VII Effective Date.
<b>"New Safekeeping Structure"</b>	A structure whereby a Regulation S 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.
<b>"New Seller"</b>	Any member of the CYBG Group (other than Virgin Money plc and, following implementation of the proposed Part VII Transfer, any Part VII Successor) 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.
<b>"Non-Cash Borrow-back"</b>	An Authorised Underpayment or authorised payment holiday under a Mortgage Loan.

<b>"Non-LLP Amounts"</b>	<p>(a) amounts received from a Borrower in respect of:</p> <p>(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);</p> <p>(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> <p>(iii) other charges which are due to the Seller including, for the avoidance of doubt, Early Repayment Charges;</p> <p>(b) any amount which represents an amount received from a Borrower which does not form part of that Borrower's Mortgage Account or comprise unpaid interest (but excluding, for the avoidance of doubt, any payments in arrear) as at the relevant Transfer Date and which is an amount owed by such Borrower in respect of any period prior to the relevant Transfer Date as and when identified by the Cash Manager, which amount shall be for the account of the Seller; and</p> <p>(c) any All Monies Mortgage Consideration.</p>
<b>"Northern Irish Mortgage"</b>	A mortgage or charge, secured by way of first priority legal mortgage or charge over a Northern Irish Mortgaged Property.
<b>"Northern Irish Mortgage Loan"</b>	A Mortgage Loan secured by a Northern Irish Mortgage.
<b>"Northern Irish Mortgaged Property"</b>	A Mortgaged Property located in Northern Ireland.
<b>"Net Promoter Score" or "NPS"</b>	A measure of satisfaction that ranges between -100 and +100 and represents the likelihood of respondents recommending Virgin Money, its products or services to others. From a scale between 0 to 10, those scoring 9 to 10 are categorised as "Promoters", those scoring 0 to 6 as "Detractors" and those scoring 7 to 8 as "Passives". The NPS is calculated by subtracting the percentage of respondents who are "Detractors" from the percentage of respondents that are "Promoters". "Passives" count towards the total number of respondents and thus decrease the percentage of "Detractors" and "Promoters".
<b>"Official List"</b>	Official list of the UK Listing Authority.
<b>"Offset Benefit"</b>	<p>In respect of a Mortgage Payment, the difference between:</p> <p>(a) the part of such Mortgage Payment that constitutes interest (prior to the application of the offset provisions of the relevant Offset Mortgage Loan); and</p> <p>(b) the part of such Mortgage Payment that constitutes interest (after the application of the offset provisions of the relevant Offset Mortgage Loan).</p>

<b>"Offset Benefit Contribution Amount"</b>	The meaning given in the section entitled " <i>Summary of the Principal Documents - LLP Deed – Offset Mortgage Loans</i> ".
<b>"Offset Benefit Reserve Ledger"</b>	The ledger so named maintained by the Cash Manager in the name of the LLP pursuant to the provisions of the Cash Management Agreement to record the Offset Benefit Contribution Amounts paid by the Seller to the LLP in relation to the Offset Mortgage Loans in the Mortgage Portfolio.
<b>"Offset Mortgage Loan"</b>	A mortgage loan which is economically linked to the borrower's current and/or savings accounts, allowing the borrower to off-set any credit balance in their current and/or savings account against money owed on their mortgage loan.
<b>"Opening Capital Contribution Balance"</b>	The Capital Contribution Balance of each Member on the 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.
<b>"Optional Redemption Amount"</b>	The meaning given in the relevant Final Terms.
<b>"Optional Redemption Date"</b>	The meaning given in the relevant Final Terms.
<b>"Originator"</b>	The NRAM Originator, the VM Originator, and (from the Part VII Effective Date) each Clydesdale Originator and the Part VII Successor, or any one of them, as the context requires.
<b>"Outstanding"</b>	In relation to the Covered Bonds of all or any Series, all the Covered Bonds of such Series issued other than: <ul style="list-style-type: none"> <li>(a) those Covered Bonds which have been redeemed pursuant to the trust presents;</li> <li>(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;</li> <li>(c) those Covered Bonds which have been purchased and cancelled in accordance with Conditions 7(f) (<i>Redemption and Purchase-purchases</i>) and 7(g) (<i>Cancellation</i>);</li> <li>(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>);</li> <li>(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>);</li> <li>(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</i></li> </ul>

*Covered Bonds and Coupons*); and

- (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 for Meetings of Covered Bondholders) 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.

**"Part VII Effective Date"**

The date on which the Part VII Transfer becomes effective (being the first day on which the relevant businesses, operations, assets and liabilities are combined pursuant to the Part VII Transfer).

**"Part VII Modification"**

All modifications to the Transaction Documents and/or the Conditions which the Issuer (which term, for the avoidance of doubt, includes the Part VII Successor), in its sole and absolute discretion, considers to be:

- (a) necessary or expedient to ensure the effective implementation of the Part VII Transfer; and/or
- (b) incidental to, or consequential on, the Part VII Transfer and necessary or expedient in connection with the ongoing operation of the Programme.

**"Part VII Successor"**

The surviving entity in which all or substantially all of the business, operations, assets, liabilities and obligations of Virgin Money plc are vested immediately following completion of the Part VII Transfer.

**"Part VII Transfer"**

The transfer of all or substantially all of the business, operations, assets and liabilities of Virgin Money plc to, or the combination and amalgamation thereof with all or substantially all of the business, operations, assets and liabilities of, Clydesdale Bank PLC and/or any other subsidiary of CYBG PLC, pursuant to a transfer under Part VII of the Financial Services and Markets Act 2000 (as amended from time to time).

<b>"Partial Mortgage Portfolio"</b>	Part of any portfolio of Selected Mortgage Loans.
<b>"Performing Fixed Rate Mortgage Loans"</b>	Fixed Rate Mortgage Loans in the Mortgage Portfolio that are not more than three months in arrears.
<b>"Performing Mortgage Loans"</b>	Mortgage Loans in the Mortgage Portfolio that are not more than three months in arrears.
<b>"Performing Tracker Rate Mortgage Loans"</b>	Tracker Rate Mortgage Loans in the Mortgage Portfolio that are not more than three months in arrears.
<b>"Principal Ledger"</b>	The ledger on the LLP Accounts of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the LLP Deed.
<b>"Principal Receipts"</b>	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 including all proceeds of enforcement representing principal in respect of an All Monies Mortgage) (and which may include the amount of any overpayment in respect of any Mortgage Loan) but excluding any Non-LLP Amounts.
<b>"Priorities of Payments"</b>	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.
<b>"Product Switch"</b>	Any variation, including a change in product type, excluding the following variations: <ul style="list-style-type: none"> <li>(a) a change between Interest-Only Mortgage Loans and Repayment Mortgage Loans, or vice versa;</li> <li>(b) a change of a party to a Mortgage Loan or a release of part of the land subject to the Mortgage;</li> <li>(c) any variation agreed with Borrowers to control or manage existing arrears on a Mortgage Loan; and</li> <li>(d) any variation imposed by statute.</li> </ul>
<b>"Purchaser"</b>	Any third party or the Seller to whom the LLP offers to sell Selected Mortgage Loans.
<b>"Ratings Condition"</b>	The condition that will be satisfied in respect of an event or matter if the LLP, the Issuer, the Bond Trustee and/or the Security Trustee (as applicable), has received a Ratings Confirmation in respect of such event or matter.
<b>"Ratings Confirmation"</b>	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: <ul style="list-style-type: none"> <li>(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</li> </ul>



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 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 due consideration and consultation with such Rating Agency (including, as applicable, upon receipt of oral confirmation from an appropriately authorised person at such 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).

<b>"Reference Banks"</b>	In the case of a determination of LIBOR, the principal London office of four major banks in the London inter bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Cash Manager.
<b>"Reference Price"</b>	The meaning given in the relevant Final Terms.
<b>"Reference Rate"</b>	The meaning given in the relevant Final Terms.
<b>"Registered Covered Bonds"</b>	Covered Bonds in registered form.
<b>"Registered Definitive Covered Bonds"</b>	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 7 of Schedule 2 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.
<b>"Registered Global Covered Bonds"</b>	The Rule 144A Global Covered Bonds together with the Regulation S Global Covered Bonds.
<b>"Registers of Northern Ireland"</b>	The Land Registry of Northern Ireland and/or the Registry of Deeds in Belfast.
<b>"Registers of Scotland"</b>	The Land Register of Scotland and/or the General Register of Sasines.
<b>"Regulation S Covered Bond"</b>	Either a Regulation S Global Covered Bond or Definitive Regulation S Covered Bond. The plural includes either or both.
<b>"Regulation S Global Covered"</b>	A Global Covered Bond in registered form representing a Registered

<b>Bond"</b>	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 6 of Schedule 2 (Forms of Registered Global Covered Bond) to the Trust Deed.
<b>"Related Security"</b>	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.
<b>"Relevant Capacity"</b>	In the context of a Part VII Transfer, any role or capacity in connection with the Programme in which Virgin Money plc acts or is appointed immediately prior to the Part VII Effective Date (including, but not limited to, its capacities as Issuer, Administrator, Cash Manager, Collection Bank, a Seller, a Member and Designated Member of the LLP, an Originator, and VM Account Bank).
<b>"Relevant Financial Centre"</b>	The meaning given in the relevant Final Terms.
<b>"Relevant Screen Page"</b>	The meaning given in the relevant Final Terms.
Rent Act	The Rent Act 1977
<b>"Repayment Mortgage Loan"</b>	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.
<b>"Required Coupon Amount"</b>	<p>An aggregate amount equal to the Sterling Equivalent of:</p> <ul style="list-style-type: none"> <li>(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 Cash Capital Contribution is required to be made, compounded daily over the relevant Loan Interest Period (y) the applicable margin on the relevant Term Advance and (z) 0.25 per cent.;</li> <li>(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</li> </ul>

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 Bond), the LLP Monthly Payment Amount payable by the LLP on that relevant Term Advance for the relevant LLP Payment Date.

**"Required Redemption Amount"**

In respect of a Series of Covered Bonds, the amount calculated as follows:

the Principal Amount × (1+ Negative Carry Factor ×  
Outstanding of the relevant (days to maturity of the  
Series of Covered Bonds relevant Series of Covered  
Bonds/365))

**"Reserve Fund"**

The reserve fund that the LLP will be required to establish in the Transaction Account or the VM Account (in an amount not exceeding the VM Permitted Cash Amount) which will be credited with part of a Term Advance (in the LLP's discretion) and the proceeds of Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount.

**"Reserve Fund Required Amount"**

If the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch and P-1 by Moody's, nil or such other amount as Virgin Money plc 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 (d) and, if applicable, (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.

<b>"Reserve Ledger"</b>	The ledger on the Transaction Account or the VM Account (as applicable) of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed.
<b>"Revenue Ledger"</b>	The ledger on the LLP Accounts of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed.
<b>"Revenue Receipts"</b>	Any payment received in respect of any Mortgage Loan, including any payments received from the Seller in respect of any Non-Cash Borrow-back, 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 and including all proceeds of enforcement representing revenue in respect of an All Monies Mortgage), 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.
<b>"Right to Buy Mortgage Loans"</b>	Mortgage Loans entered into by a borrower as a means to purchase, refinance or improve a residential property from a local authority or certain other landlords under "right to buy" schemes which are subject to the provisions of the Housing Act 1985 (as amended by the Housing Act 2004) (in the case of English Mortgage Loans) or (as applicable) the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001 and the Housing (Scotland) Act 2014) (in the case of Scottish Mortgage Loans) or (as applicable) the relevant provision of the Housing (NI) Order 1983 (as amended by the Housing (NI) Order 1986, the Housing (NI) Order 1992 and the Housing (NI) Order 2003) (in the case of Northern Irish Mortgage Loans).
<b>"Sale Proceeds"</b>	The cash proceeds realised from the sale of Selected Mortgage Loans and their Related Security.
<b>"Sasine Transfer"</b>	An assignation of any Scottish Mortgages recorded (or subject to an application for recording) in the General Register of Sasines to be granted pursuant to the Mortgage Sale Agreement.
<b>"Scheduled Interest"</b>	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 (" <b>Excluded Scheduled Interest Amounts</b> ") 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, if the Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been 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> ).
<b>"Scheduled Payment Date"</b>	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.
<b>"Scheduled Principal"</b>	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 (" <b>Excluded Scheduled Principal Amounts</b> ") 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, if the Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date.
<b>"Scottish Declaration of Trust"</b>	Each declaration of trust in relation to Scottish Mortgage Loans and their Related Security made by the Seller in favour of the LLP pursuant to the Mortgage Sale Agreement substantially in the form set out in Schedule 11 (Scottish Declaration of Trust) thereto.
<b>"Scottish Mortgage"</b>	A Mortgage secured over a Scottish Mortgaged Property.
<b>"Scottish Mortgage Loans"</b>	A Mortgage Loan secured by a Scottish Mortgage.
<b>"Scottish Mortgaged Property"</b>	A Mortgaged Property located in Scotland.
<b>"Scottish Supplemental Charge"</b>	Each supplemental assignment in security granted by the LLP in favour of the Security Trustee pursuant to Clause 3.3 (Scottish Trust Security) of the Deed of Charge.
<b>"Scottish Transfer"</b>	Each Sasine Transfer and each SLR Transfer.
<b>"Screen Rate Determination"</b>	The meaning given in the relevant Final Terms.
<b>"Secured Creditor"</b>	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), the Covered Bondholders, the Couponholders, the Issuer, the Seller, the Administrator, the Account Bank, the VM Account Bank, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Back-Up Administrator Facilitator, the Paying Agents and any other person which becomes a Secured Creditor pursuant to the Deed of Charge.
<b>"Securities Swap Collateral Account Bank"</b>	HSBC Bank plc in its capacity as such under the Swap Collateral Account Agreement together with any successor, additional or replacement account bank or any additional or alternative account bank appointed by the LLP from time to time pursuant to a relevant bank account agreement entered into by (amongst others) the LLP, the relevant successor, additional, replacement or alternative account bank and the Security Trustee.
<b>"Selected Mortgage Loans Offer Notice"</b>	A notice from the LLP served on the Seller offering to sell Selected Mortgage Loans and their Related Security for an offer price equal to the greater of the then Current Balance of the Selected Mortgage Loans and the Adjusted Required Redemption Amount.
<b>"Selected Mortgage Loan Repurchase Notice"</b>	A notice from the Seller served on the LLP accepting an offer set out in a Selected Mortgage Loans Offer Notice.
<b>"Selected Mortgage Loans"</b>	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.
<b>"Seller"</b>	Virgin Money plc and any New Seller.
<b>"Share Trustee"</b>	Intertrust Corporate Services Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP.
<b>"SLR Transfer"</b>	An assignation of Scottish Mortgages registered (or subject to an application for registration) in the Land Register of Scotland to be granted pursuant to the Mortgage Sale Agreement.
<b>"SONIA"</b>	The Sterling Overnight Index Average.
<b>"SONIA Screen Page"</b>	The Reuters Screen SONIA Page (or, if such page is no longer available, any replacement or successor page showing the relevant information).
<b>"SONIA Spot Rate"</b>	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).
<b>"Specified Currency"</b>	Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms.
<b>"Specified Denomination"</b>	Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms.
<b>"Specified Interest Payment Date"</b>	The meaning given in the applicable Final Terms.
<b>"Specified Period"</b>	The meaning given in the applicable Final Terms.
<b>"Stabilising Manager"</b>	The meaning given in the applicable Final Terms.
<b>"Standard Mortgage Documentation"</b>	The standard documentation, either (a) annexed to the relevant exhibit of 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.
<b>"Standard Security"</b>	A heritable security created by a standard security over any interest in land in Scotland in terms of the Conveyancing and Feudal Reform (Scotland) Act 1970.
<b>"Standard Variable Rate" or "SVR"</b>	As applicable, the relevant standard variable mortgage base rate applicable to owner-occupied Mortgage Loans and/or the relevant standard variable mortgage base rate applicable to Buy-to-Let Mortgage Loans in accordance with the Mortgage Loan Conditions.
<b>"Sterling Equivalent"</b>	(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; and
	(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.
<b>"Subscription Agreement"</b>	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.
<b>"Subsidiary"</b>	Any company which is for the time being a subsidiary (within the meaning of Section 1159 of the Companies Act 2006 of Great Britain).
<b>"Substitution Assets"</b>	Each of: <ul style="list-style-type: none"> <li>(a) Sterling gilt-edged securities;</li> <li>(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 short-term unsecured, unguaranteed and unsubordinated debt obligations or, as applicable, the long-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated P-1/Aa3 by Moody's and F1+ by Fitch or their equivalents by two other internationally recognised rating agencies; and</li> <li>(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 or their equivalents by two other internationally recognised rating agencies,</li> </ul> provided that such Substitution Assets comply with the requirements of Regulation 2(1A) of the RCB Regulations.
<b>"SVR Interest Rate Swap Provider"</b>	Each provider of an SVR Interest Rate Swap.
<b>"SVR Interest Rate Swap"</b>	Each swap transaction that is intended to hedge against possible variances in the rates of interest payable on some or all of the Mortgage Loans in the Mortgage Portfolio that are linked to a Standard Variable Rate and a compounded daily SONIA rate.
<b>"Swap Agreements"</b>	The Covered Bond Swap Agreements together with the Interest Rate Swap Agreements, and each a <b>"Swap Agreement"</b> .
<b>"Swap Collateral"</b>	At any time, any asset (including, without limitation, cash and/or securities) which is 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.
<b>"Swap Collateral Account"</b>	Any account in the name of the LLP held with the Account Bank into which Swap Collateral in respect of the Interest Rate Swap or a Covered Bond Swap may be deposited in accordance with the terms of any applicable

	Swap Agreement.
<b>"Swap Collateral Account Bank"</b>	The Cash Swap Collateral Account Bank and/or the Securities Swap Collateral Account Bank.
<b>"Swap Collateral Account Bank Agreement"</b>	The swap collateral account bank agreement originally entered into on the Initial Programme Date (as amended and/or supplemented and/or restated as at the date of this Prospectus and as further amended and/or restated and/or supplemented from time to time) between, inter alios, the LLP and the Swap Collateral Account Bank.
<b>"Swap Collateral Ledger"</b>	The ledger (including any sub-ledgers) maintained by the Cash Manager pursuant to the Cash Management Agreement on the Swap Collateral Account, to record the crediting of any Swap Collateral and any debiting of the same.
<b>"Swap Collateral Excluded Amounts"</b>	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.
<b>"Swap Provider Default"</b>	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.
<b>"Swap Provider Downgrade Event"</b>	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.
<b>"Swap Providers"</b>	The Covered Bond Swap Providers and the Interest Rate Swap Providers, and each a <b>"Swap Provider"</b> .
<b>"Term Advance"</b>	Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement.
<b>"Title Deeds"</b>	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.
<b>"Tracker Interest Rate Swap"</b>	Each swap transaction that is intended to hedge against possible variances in the rates of interest payable on some or all of the Mortgage Loans in the Mortgage Portfolio that are linked to the Bank of England base rate and a compounded daily SONIA rate.
<b>"Tracker Rate Mortgage Loans"</b>	Mortgage Loans which are subject to a variable rate of interest that is linked to the Bank of England base rate plus an additional fixed percentage.
<b>"Transaction Account"</b>	Any account designated as such in the name of the LLP held with an Account Bank and maintained subject to the terms of the relevant 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.
<b>"Transaction Documents"</b>	(a) Mortgage Sale Agreement;



- (b) each Scottish Declaration of Trust;
- (c) each Scottish Transfer;
- (d) Administration Agreement;
- (e) Asset Monitor Agreement;
- (f) Intercompany Loan Agreement;
- (g) LLP Deed;
- (h) Cash Management Agreement;
- (i) each Interest Rate Swap Agreement;
- (j) each Covered Bond Swap Agreement;
- (k) Bank Account Agreement;
- (l) VM Bank Account Agreement;
- (m) Swap Collateral Account Bank Agreement;
- (n) Corporate Services Agreement;
- (o) Deed of Charge (and any documents entered into pursuant to the Deed of Charge, including without limitation each Scottish Supplemental Charge);
- (p) Trust Deed;
- (q) Agency Agreement;
- (r) each set of Final Terms (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement);
- (s) Master Definitions and Construction Schedule;
- (t) each document, agreement or indenture ancillary or supplemental to any of the documents specified in paragraphs (a) to (s) (inclusive) above; and
- (u) 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.

<b>"Transfer Date"</b>	Each of the First Transfer Date and the date of transfer of any New Mortgage Loans to the LLP in accordance with the Mortgage Sale Agreement.
<b>"Transfer Order"</b>	The Northern Rock plc Transfer Order 2009, made under Section 8 of the Banking (Special Provisions) Act 2008.
<b>"Underpayment"</b>	A monthly payment on a Mortgage Loan which is less than the required monthly payment.
<b>"UK Listing Authority"</b>	FCA under Part VI of the FSMA.
<b>"VAT" and "Value Added Tax"</b>	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.

<b>"VAT Group"</b>	A group for the purposes of the VAT Grouping Legislation.
<b>"VAT Grouping Legislation"</b>	(a) Sections 43 to 43D (inclusive) of VATA and (b) the Value Added Tax (Groups: eligibility) Order 2004 (SI 2004/1931).
<b>"VM Account"</b>	The account designated as such in the name of the LLP held with the VM Account Bank to be opened and maintained with the VM Account Bank in accordance with and subject to the terms of the VM 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 (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 designated as such.
<b>"VM Account Bank Transfer Events"</b>	Any "Transfer Events" as defined in the VM Bank Account Agreement, including but not limited to the following: <ul style="list-style-type: none"><li>(a) a deduction or withholding for or on account of any tax is imposed, or it appears likely that such a deduction or withholding will be imposed, in respect of the interest payable on the VM Account held with the VM Account Bank;</li><li>(b) an Insolvency Event occurs in relation to the VM Account Bank;</li><li>(c) service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked); or</li><li>(d) the VM Account Bank having a long-term IDR below BBB- by Fitch.</li></ul>
<b>"VM Bank Account Agreement"</b>	The bank account agreement originally entered into on the Initial Programme Date (as amended and/or supplemented and/or restated as at the date of this Prospectus and as further amended and/or restated and/or supplemented from time to time) between the LLP, the VM Account Bank, the Cash Manager and the Security Trustee.
<b>"VM Permitted Cash Amount"</b>	(a) for so long as the VM Account Bank is rated below the Account Bank Remedial Ratings, an amount of cash deposits up to A- B where: <ul style="list-style-type: none"><li>A = the Adjusted Aggregate Loan Amount (as calculated on the previous Calculation Date) plus item W of the Adjusted Aggregate Loan Amount; and</li><li>B = the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds (as calculated on the previous Calculation Date),</li></ul> provided that the Reserve Fund shall be held by the Account Bank; or <ul style="list-style-type: none"><li>(b) for so long as the VM Account Bank is rated at least the Account Bank Remedial Ratings, all cash deposits (including the Reserve Fund) held on behalf of the LLP from time to time; or</li><li>(c) for so long as the VM Account Bank has a long-term IDR below BBB- by Fitch, zero.</li></ul>

**"Yield Shortfall Test"**

The test as to whether the aggregate amount of interest on the Mortgage Loans and amounts under the Interest Rate Swap Agreements to be received by the LLP during the Relevant LLP Payment Period 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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