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## FOSSE MASTER ISSUER PLC STS GUIDANCE - LIQUIDITY COVERAGE REQUIREMENT

15 October 2019

LCR / STS legislative text <sup>1</sup>	Commentary <sup>2</sup>
<b>Article 13 - Level 2B securitisations</b>	
<p>1. Exposures in the form of asset-backed securities as referred to in Article 12(1)(a) shall qualify as level 2B securitisations where the following conditions are satisfied:</p> <p>(a) the designation 'STS' or 'simple, transparent and standardised', or a designation that refers directly or indirectly to those terms, is permitted to be used for the securitisation in accordance with Regulation (EU) 2017/2402 of the European Parliament and of the Council (*) and is being so used;</p> <p>(b) the criteria laid down in paragraph 2 and paragraphs 10 to 13 of this Article are met</p> <p><i>(*) Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (OJ L347, 28.12.2017, p. 35).</i></p>	<p>Santander UK, in its capacity as originator for the purposes of the Securitisation Regulation with respect to the Fosse Master Issuer plc's securitisation, expects to procure an STS notification to be submitted to the European Securities and Markets and the Financial Conduct Authority that the requirements of Articles 19 to 22 of Regulation (EU) 2017/2402 have been satisfied with respect to the issuance of a series of notes. See the section "Securitisation Regulation—STS requirements" in the form of final terms in the base prospectus (p. 273).</p> <p>The Fosse Master Issuer plc's residential mortgage-backed securitisation satisfies the requirements of Article 13) (Level 2B securitisations) for asset-backed securities, as set out below.</p>
<p>2. The securitisation position and the exposures underlying the position shall meet all the following requirements:</p> <p>(a) the position has been assigned a credit assessment of credit quality step 1 by a nominated ECAI in accordance with Article 264 of Regulation (EU) No 575/2013 or the equivalent credit quality step in the event of a short-term credit assessment;</p> <p>(b) the position is in the most senior tranche or tranches of the securitisation and possesses the highest level of seniority at all times during the ongoing life of the transaction. For these purposes, a tranche shall be deemed to be the most senior where after the delivery of an enforcement notice and where applicable an acceleration notice, the tranche is not subordinated to other tranches of the same securitisation transaction or scheme in respect of receiving principal and interest payments, without taking into account amounts due under interest rate or currency derivative contracts, fees or other similar payments in accordance with Article 242(6) of Regulation (EU) No 575/2013;</p> <p>(c) the underlying exposures have been acquired by the SSPE within the meaning of Article</p>	<p>The class A notes issued under the programme are expected to be rated by two or more of Standard &amp; Poor's Ratings Services, a division of Standard &amp; Poor's Credit Market Services Europe Limited (AAA to AA-), Moody's Investors Service Limited (Aaa to Aa3) and Fitch Ratings Ltd. (AAA to AA-). See item 10 of the form of final terms in the base prospectus (p. 249).</p> <p>Payments of interest and principal on the class A notes issued under the programme rank ahead of payments of interest and principal on the class B notes, the class M notes, the class C notes, and the class Z notes. See the base prospectus section "Cashflows" (pp. 183-204).</p> <p>Under applicable law, the acquisition of title by the mortgages trustee is enforceable against the</p>

<sup>1</sup> Delegated Regulation (EU) 2015/61 with regard to liquidity coverage requirement for credit institutions, as amended by Commission Delegated Regulation (EU) 2018/1620 of 13 July 2018 (together, the **LCR**). The table contains a summary of the regulations and does not purport to be complete or an indication of what regulations may or may not be relevant to an assessment of any proposed transaction.

<sup>2</sup> The table contains commentary based on Santander UK's interpretation of the LCR informed by, among other things, the text of the LCR itself and applicable guidelines and recommendations.

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<p>4(1)(66) of Regulation (EU) No 575/2013 in a manner that is enforceable against any third party and are beyond the reach of the seller (originator, sponsor or original lender) and its creditors including in the event of the seller's insolvency;</p> <p>(d) the transfer of the underlying exposures to the SSPE may not be subject to any severe clawback provisions in the jurisdiction where the seller (originator, sponsor or original lender) is incorporated. This includes but is not limited to provisions under which the sale of the underlying exposures can be invalidated by the liquidator of the seller (originator, sponsor or original lender) solely on the basis that it was concluded within a certain period before the declaration of the seller's insolvency or provisions where the SSPE can prevent such invalidation only if it can prove that it was not aware of the insolvency of the seller at the time of sale;</p> <p>(e) The underlying exposures have their administration governed by a servicing agreement which includes servicing continuity provisions that ensure, at a minimum, that a default or insolvency of the servicer does not result in a termination of servicing;</p> <p>(f) the documentation governing the securitisation includes continuity provisions that ensure, at a minimum, the replacement of derivative counterparties and of liquidity providers upon their default or insolvency, where applicable;</p> <p>(g) the securitisation position is backed by a pool of underlying exposures and those underlying exposures either all belong to only one of the following subcategories or else they consist of a combination of residential loans referred to in point (i) and residential loans referred to in point (ii):</p> <p>(i) residential loans secured with a first-ranking mortgage granted to individuals for the acquisition of their main residence, provided that one of the two following conditions is met:</p> <ul style="list-style-type: none"> <li>– the loans in the pool meet on average the loan-to-value requirement laid down in point (i) of Article 129(1)(d) of Regulation (EU) No 575/2013;</li> <li>– the national law of the Member State where the loans were originated provides for a loan-to-income limit on the amount that an obligor may borrow in a residential loan, and that Member State has notified this law to the Commission and EBA. The loan-to-income limit is calculated on the gross annual income of the obligor, taking into account the tax obligations and other commitments of the obligor and the risk of changes in the interest rates over the term of the loan. For each residential loan in the pool, the percentage of the obligor's gross income that may be spent to service the loan, including interest, principal and fee payments, does not exceed 45%;</li> </ul> <p>(ii) fully guaranteed residential loans referred to in Article 129(1)(e) of Regulation (EU) No</p>	<p>seller or other third party. Schedule 1 of the mortgage sale agreement also includes representations on enforceability, including: paragraphs 1.14, 2.6, 6.4, and 7.4. See the base prospectus section "Description of the Transaction Documents - the Mortgage Sale Agreement" (pp. 98-117).</p> <p>Under applicable insolvency laws in the United Kingdom (the originator's jurisdiction), assignment of the loans by the seller to the mortgages trustee is not subject to severe clawback provisions in the event of the seller's insolvency as UK insolvency laws do not include "severe clawback provisions".</p> <p>The servicer is appointed under the Servicing Agreement to administer the loans. Clause 21 of the Servicing Agreement contains provisions providing for the termination of the servicer and provisions anticipating the appointment of a replacement servicer by the Mortgages Trustee, Funding and/or the Security Trustee. See the base prospectus section "Description of the Transaction Documents - the servicing agreement" (pp. 121-127).</p> <p>There is a Funding Swap Agreement and the issuing entity has entered into issuing entity Swap Agreements. Each swap agreement has provisions requiring replacement of the swap counterparties in the event of their default or insolvency (see Part 5 of the Schedule to each Swap Agreement and in the Credit Support Annex entered into in respect of each Swap Agreement), which requires the relevant swap counterparties to take certain remedial actions as necessary to avoid a negative impact on the ratings of the notes. See the base prospectus section "The swap agreements" (pp. 149-158).</p> <p>Note only paragraph (i) applies, and paragraphs (ii) to (iv) do not apply.</p> <p>The portfolio is comprised of residential mortgage loans based on standard form documentation (see para 1.7(a) of schedule 1 of the mortgage sale agreement) originated and/or acquired by Santander UK plc and the Santander UK Group (see para 1.2 of schedule 1 of the mortgage sale agreement), each of which constitute a first charge by way of a legal mortgage or a first ranking standard security over residential properties located in England, Wales, or Scotland (see paras 2.3 and 3.1 of schedule 1 of the mortgage sale agreement). See the base prospectus section "The loans" (pp. 225-240). See also para 1.24 of schedule 1 of the mortgage sale agreement and loan warranty (24) in the base prospectus section "Assignment of the Loans and their Related Security—Representations and warranties" (p. 103), confirming that each loan is of a type described in paragraph 2(g)(i) of Article 13.</p>

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<p>575/2013, provided that the loans meet the collateralisation requirements laid down in that paragraph and the average loan-to-value requirement laid down in point (i) of Article 129(1)(d) of Regulation (EU) No 575/2013</p> <p>(iii) commercial loans, leases and credit facilities to undertakings established in a Member State to finance capital expenditures or business operations other than the acquisition or development of commercial real estate, provided that at least 80 % of the borrowers in the pool in terms of portfolio balance are small and medium-sized enterprises at the time of issuance of the securitisation, and none of the borrowers is an institution as defined in Article 4(1)(3) of Regulation (EU) No 575/2013;</p> <p>(iv) auto loans and leases to borrowers or lessees established or resident in a Member State. For these purposes, auto loans and leases shall include loans or leases for the financing of motor vehicles or trailers as defined in points (11) and (12) of Article 3 of Directive 2007/46/EC of the European Parliament and of the Council (*), agricultural or forestry tractors as referred to in Regulation (EU) No 167/2013 of the European Parliament and of the Council (**), two-wheel motorcycles or powered tricycles as referred to in Regulation (EU) No 168/2013 of the European Parliament and of the Council (***) or tracked vehicles as referred to in point (c) of Article 2(2) of Directive 2007/46/EC. Such loans or leases may include ancillary insurance and service products or additional vehicle parts, and in the case of leases, the residual value of leased vehicles. All loans and leases in the pool shall be secured with a first-ranking charge or security over the vehicle or an appropriate guarantee in favour of the SSPE, such as a retention of title provision;</p> <p>(*) Directive 2007/46/EC of the European Parliament and of the Council of 5 September 2007 establishing a framework for the approval of motor vehicles and their trailers, and of systems, components and separate technical units intended for such vehicles (Framework Directive) (OJ L 263, 9.10.2007, p. 1).</p> <p>(**) Regulation (EU) No 167/2013 of the European Parliament and of the Council of 5 February 2013 on the approval and market surveillance of agricultural and forestry vehicles (OJ L 60, 2.3.2013, p. 1).</p> <p>(***) Regulation (EU) No 168/2013 of the European Parliament and of the Council of 15 January 2013 on the approval and market surveillance of two- or three-wheel vehicles and quadricycles (OJ L 60, 2.3.2013, p. 52).;</p> <p>(v) loans and credit facilities to individuals resident in a Member State for personal, family or household consumption purposes.</p> <p>(h) the position is not in a resecuritisation or a synthetic securitisation as referred to in Articles 4(63) and 242(11), respectively, of Regulation (EU) No 575/2013;</p> <p>(i) the underlying exposures do not include transferable financial instruments or derivatives, except financial instruments issued by the SSPE itself or other parties within the securitisation structure and derivatives used to hedge currency risk and interest rate risk;</p>	<p>The portfolio is comprised of residential mortgage loans based on standard form documentation, and therefore are not a resecuritisation or a synthetic securitisation (see para 1.7(a) of schedule 1 of the mortgage sale agreement). See the base prospectus section "The loans—Other characteristics" (p.240).</p> <p>The portfolio is comprised of residential mortgage loans based on standard form documentation, and therefore do not include transferable financial instruments or derivatives (see para 1.7(a) of schedule 1 of the mortgage sale agreement). See the base prospectus section "The loans—Other</p>

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<p>(j) at the time of issuance of the securitisation or when incorporated in the pool of underlying exposures at any time after issuance, the underlying exposures do not include exposures to credit-impaired obligors (or where applicable, credit-impaired guarantors), where a credit-impaired obligor (or credit-impaired guarantor) is a borrower (or guarantor) who:</p> <p>(i) has declared bankruptcy, agreed with his creditors to a debt dismissal or reschedule or had a court grant his creditors a right of enforcement or material damages as a result of a missed payment within three years prior to the date of origination;</p> <p>(ii) is on an official registry of persons with adverse credit history;</p> <p>(iii) has a credit assessment by an ECAI or has a credit score indicating a significant risk that contractually agreed payments will not be made compared to the average obligor for this type of loans in the relevant jurisdiction.</p> <p>(k) at the time of issuance of the securitisation or when incorporated in the pool of underlying exposures at any time after issuance, the underlying exposures do not include exposures in default within the meaning of Article 178(1) of Regulation (EU) No 575/2013.</p>	<p>characteristics" (p.240).</p> <p>The eligibility criteria set out in the mortgage sale agreement include that so far as the seller is aware no loans were made to "credit-impaired obligors" (see para 1.25 of schedule 1 of the mortgage sale agreement) and that the lending criteria was satisfied in all material respects (see para 1.6 of schedule 1 of the mortgage sale agreement). The lending criteria exclude borrowers with certain negative credit histories (see the "Lending Criteria" asset out in schedule 4 of the mortgage sale agreement).</p> <p>The eligibility criteria set out in the mortgage sale agreement include that no borrower is in material breach of its obligations (see para 1.11 of schedule 1 of the mortgage sale agreement) or more than two months in arrears (see para 1.12 schedule 1 of the mortgage sale agreement). The base prospectus includes confirmation that no such impaired loans are included in the pool (see the base prospectus section "The loans—Other characteristics" (p.240)).</p>
<p>10. The underlying exposures shall not have been originated by the credit institution holding the securitisation position in its liquidity buffer, its subsidiary, its parent undertaking, a subsidiary of its parent undertaking or any other undertaking closely linked with that credit institution.</p>	<p>The loans have been originated by Santander UK, and not by its liquidity buffer, its subsidiary, its parent undertaking, a subsidiary of its parent undertaking or any other undertaking closely linked with Santander UK. See the base prospectus section "Santander UK plc and the Santander UK Group" (p. 214-215).</p>
<p>11. The issue size of the tranche shall be at least EUR 100 million (or the equivalent amount in domestic currency).</p>	<p>The issue size of the tranche of notes are expected to be at least €100 million (or the sterling equivalent). See the form of final terms in the base prospectus.</p>
<p>12. The remaining weighted average life of the tranche shall be 5 years or less, which shall be calculated using the lower of either the transaction's pricing prepayment assumption or a 20 % constant prepayment rate, for which the credit institution shall assume that the call is exercised on the first permitted call date.</p>	<p>The remaining weighted average life of the tranche of notes is expected to be 5 years or less, which is calculated using the lower of either the programme's pricing prepayment assumption or a 20% constant prepayment rate. See the sections "Maturity and prepayment considerations" and "Principal prepayment rate and possible average lives of each series and class (or sub-class) of issue [●]-[●] notes (in years)" in the form of final terms in the base prospectus (p. 263-264).</p>
<p>13. The originator of the exposures underlying the securitisation shall be an institution as defined in Article 4(3) of Regulation (EU) No 575/2013 or an undertaking whose principal activity is to pursue one or more of the activities listed in points 2 to 12 and point 15 of Annex I to Directive 2013/36/EU.</p>	<p>Santander UK is an institution as defined in Article 4(3) of Regulation (EU) No 575/2013. See the base prospectus section "Santander UK plc and the Santander UK Group" (p. 214-215).</p>