

OFFERING CIRCULAR

Auburn Securities 4 PLC

(incorporated in England and Wales with limited liability under registered number 5183076)

£270,000,000 Class A1 Mortgage Backed Floating Rate Notes due October 2041
Issue Price 100 per cent.

£597,500,000 Class A2 Mortgage Backed Floating Rate Notes due October 2041
Issue Price 100 per cent.

£15,000,000 Class M Mortgage Backed Floating Rate Notes due October 2041
Issue Price 100 per cent.

£40,000,000 Class B Mortgage Backed Floating Rate Notes due October 2041
Issue Price 100 per cent.

£40,000,000 Class C Mortgage Backed Floating Rate Notes due October 2041
Issue Price 100 per cent.

£25,000,000 Class D Mortgage Backed Floating Rate Notes due October 2041
Issue Price 100 per cent.

£12,500,000 Class E Mortgage Backed Floating Rate Notes due October 2041
Issue Price 100 per cent.

The £1,000,000,000 Mortgage Backed Floating Rate Notes due October 2041 of Auburn Securities 4 PLC (the **Issuer**) described in this Offering Circular will comprise the £270,000,000 Class A1 Mortgage Backed Floating Rate Notes due October 2041 (the **Class A1 Notes**), the £597,500,000 Class A2 Mortgage Backed Floating Rate Notes due October 2041 (the **Class A2 Notes**, which together with the Class A1 Notes constitute the **Senior Notes**), the £15,000,000 Class M Mortgage Backed Floating Rate Notes due October 2041 (the **Class M Notes**), the £40,000,000 Class B Mortgage Backed Floating Rate Notes due October 2041 (the **Class B Notes**), the £40,000,000 Class C Mortgage Backed Floating Rate Notes due October 2041 (the **Class C Notes**), the £25,000,000 Class D Mortgage Backed Floating Rate Notes due October 2041 (the **Class D Notes**) and the £12,500,000 Class E Mortgage Backed Floating Rate Notes due October 2041 (the **Class E Notes** and together with the Class M Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Senior Notes, the **Notes**).

Application has been made to admit the Notes to the Official List of the Financial Services Authority (in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, the **UK Listing Authority**) and to trading on the London Stock Exchange plc (the **London Stock Exchange**). This Offering Circular comprises approved listing particulars prepared in compliance with the listing rules (**Listing Rules**) made under section 74 of the Financial Services and Markets Act 2000 by the UK Listing Authority. A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 83 of the Financial Services and Markets Act 2000.

The Notes will be obligations solely of the Issuer and will not be guaranteed by, or be the responsibility of, any other entity. In particular, the Notes will not be obligations of and will not be guaranteed by Merrill Lynch International, Barclays Capital plc or Citigroup Global Markets Limited (together, the **Lead Managers**), Capital Home Loans Limited (**CHL**), Irish Life & Permanent plc (**IL&P**), J.P. Morgan Corporate Trustee Services Limited (the **Trustee**), JPMorgan Chase Bank (the **Principal Paying Agent** and the **Agent Bank**), the Basis Swap Counterparty, the Basis Swap Guarantor, the GIC Provider, the Standby Servicer, the Liquidity Facility Provider or the Redraw Facility Provider (each as defined below).

The Senior Notes are expected, on issue, to be assigned an Aaa rating by Moody's Investors Service Limited (**Moody's**), an AAA rating by Fitch Ratings Limited (**Fitch**) and an AAA rating by Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (**S&P**), and together with Moody's and Fitch, the **Rating Agencies**). The Class M Notes are expected, on issue, to be assigned an Aa2 rating by Moody's, an AAA rating by Fitch and an AAA rating by S&P. The Class B Notes are expected, on issue, to be assigned an Aa3 rating by Moody's, an AA rating by Fitch and an AA rating by S&P. The Class C Notes are expected, on issue, to be assigned an A3 rating by Moody's, an A rating by Fitch and an A rating by S&P. The Class D Notes are expected, on issue, to be assigned a Baa3 rating by Moody's, a BBB rating by Fitch and a BBB rating by S&P. The Class E Notes are expected, on issue, to be assigned a Ba2 rating by Moody's, a BB rating by Fitch and a BB rating by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any of the Rating Agencies.

Particular attention is drawn to the section herein entitled "Special Considerations".

Arranger

MERRILL LYNCH INTERNATIONAL

Lead Managers

BARCLAYS CAPITAL

CITIGROUP

**MERRILL LYNCH
INTERNATIONAL**

The date of this Offering Circular is 7 October, 2004

Interest on the Notes is payable monthly in arrear on the first business day (as defined under "Summary Information – The Notes") of each calendar month in each year, the first such payment to be made on 1 December, 2004. Interest on the Notes is payable at an annual rate equal to the sum of the London Interbank Offered Rate (*LIBOR*) for one month Sterling deposits (or, in the case of the first Interest Period (as defined in Condition 4(b)), at an annual rate obtained by linear interpolation of *LIBOR* for one month Sterling deposits and *LIBOR* for two month Sterling deposits) (*Note LIBOR*) plus a margin of 0.12 per cent. per annum in relation to the Class A1 Notes up to and including the Interest Payment Date (as defined under "Summary Information – The Notes") falling in October, 2009 and thereafter, 0.24 per cent. per annum; 0.20 per cent. per annum in relation to the Class A2 Notes up to and including the Interest Payment Date falling in October, 2009 and thereafter 0.40 per cent. per annum; 0.25 per cent. per annum in relation to the Class M Notes up to and including the Interest Payment Date falling in October, 2009 and thereafter 0.50 per cent. per annum; 0.35 per cent. per annum in relation to the Class B Notes up to and including the Interest Payment Date falling in October, 2009 and thereafter 0.70 per cent. per annum; 0.65 per cent. per annum in relation to the Class C Notes up to and including the Interest Payment Date falling in October, 2009 and thereafter 1.30 per cent. per annum; 1.05 per cent per annum, in relation to the Class D Notes up to and including the Interest Payment Date falling in October, 2009 and thereafter 2.05 per cent. per annum; and 3.20 per cent. per annum in relation to the Class E Notes up to and including the Interest Payment Date falling in October, 2009 and thereafter 4.20 per cent. per annum.

The Senior Notes will rank in priority to the Class M Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes, respectively, in point of payment and security. The Class M Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes will in turn rank respectively in priority to each other in point of payment and security. The Class A1 Notes and the Class A2 Notes will rank *pari passu* in point of payment and security without preference or priority amongst themselves (but prior to the enforcement of the Security (as defined in Condition 2(d)) the Class A1 Notes will rank in priority to the Class A2 Notes in point of repayment of principal only).

Each class of the Notes will initially be represented by a temporary global note in bearer form (each a *Temporary Global Note*), without coupons or talons, which is expected to be deposited with a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System (*Euroclear*) and Clearstream Banking, société anonyme (*Clearstream, Luxembourg*) on or about 11 October, 2004 (the *Issue Date*). Each such Temporary Global Note will be exchangeable 40 days after the later of the Issue Date and the commencement of the offering of the Notes upon certification of non-U.S. beneficial ownership for interests in a permanent global note in bearer form (a *Permanent Global Note*), without coupons or talons, (together with each Temporary Global Note, the *Global Notes*) for the relevant class of Notes which will also be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Any reference in this Offering Circular to listing particulars means this document excluding all information incorporated by reference. The Issuer has confirmed that any information incorporated by reference, including any such information to which readers of this Offering Circular are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the Financial Services and Markets Act 2000 (the *FSMA*) or the Listing Rules. The Issuer believes that none of the information incorporated therein by reference conflicts in any material respect with the information included in the listing particulars.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the *Securities Act*) and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to any U.S. persons.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer or any Lead Manager to subscribe for or purchase any of the Notes. The distribution of this

Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and each Lead Manager to inform themselves about and to observe such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular, see "Subscription and Sale".

No person is authorised to give any information or to make any representation concerning the issue of the Notes other than those contained in this Offering Circular. Nevertheless, if any such information is given by any broker, seller or any other person, it must not be relied upon as having been authorised by the Issuer or any Lead Manager. Neither the delivery of this Offering Circular nor any offer, sale or solicitation made in connection herewith shall, in any circumstances, imply that the information contained herein is correct at any time subsequent to the date of this Offering Circular.

References in this document to £, *pounds* or *Sterling* are to the lawful currency for the time being of the United Kingdom.

In connection with this issue of Notes, Merrill Lynch International, or an agent acting on its behalf, may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on Merrill Lynch International or an agent acting on its behalf to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

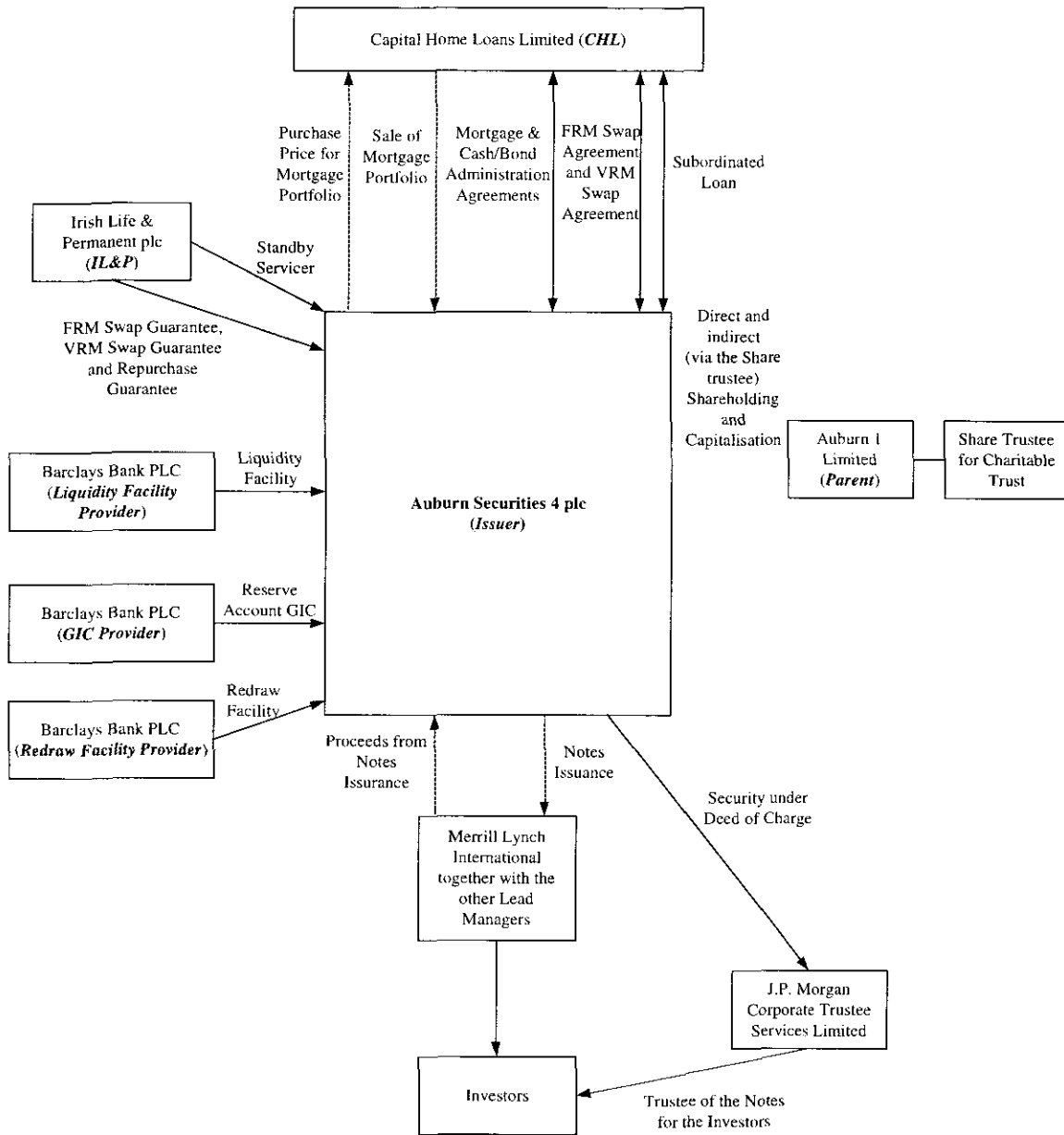
Capitalised terms used in this Offering Circular, unless otherwise indicated, have the meanings set out in this Offering Circular. An index of defined terms used in this Offering Circular appears under "Glossary".

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SUMMARY OF INFORMATION

The information in this Summary Information section is a summary of the principal features of the issue of the Notes. This summary should be read in conjunction with, and is qualified in its entirety by references to, the detailed information contained elsewhere in this Offering Circular.



The Issuer

The Issuer intends to acquire loans secured over residential properties located in England and Wales and the mortgages granted as security for those loans (together the **Mortgages**) from CHL on the Issue Date, such acquisition to be financed by the issue of the Notes. The issued share capital of the Issuer comprises one ordinary share fully paid and 49,998 ordinary shares one quarter paid up and held by Auburn 1 Limited (the **Parent**) and one ordinary share fully paid and held by SPV Management Limited (in this capacity, the **Share Trustee**) on trust for the Parent. The entire issued share capital of the Parent is held by the Share Trustee under the terms of a trust for charitable purposes. The shares of the Parent held by the Share Trustee are held under the terms of a trust established under English law by a declaration of trust dated 5th November, 1998. The shares of the Issuer held by the Share Trustee are held under the terms of a trust established under English law by a declaration of trust dated 11 October, 2004.

Mortgage Administration and Servicing

Mortgage Administration: CHL (in this capacity, the **Mortgage Administrator**) will be appointed under the terms of the mortgage administration agreement to be dated the Issue Date between the Issuer, CHL and the Trustee (the **Mortgage Administration Agreement**) as agent for the Issuer and the Trustee, *inter alia*, to administer the Mortgage Pool on behalf of the Issuer and the Trustee (see "*The Mortgage Administrator*").

Cash and Bond Administration: CHL (in this capacity, the **Cash/Bond Administrator**) will be appointed under the terms of the cash/bond administration agreement to be dated the Issue Date between the Issuer, CHL and the Trustee (the **Cash/Bond Administration Agreement**), *inter alia*, to manage all cash transactions and maintain all cash management ledgers as agent for the Issuer and the Trustee (see "*The Cash/Bond Administrator*").

The Mortgage Administrator and the Cash/Bond Administrator are obliged to report on a regular basis to the Trustee and the Issuer on the Mortgage Pool, the administration of the Mortgages and other matters relating to their respective administrative functions as described herein.

Neither the Mortgage Administrator nor the Cash/Bond Administrator will be responsible for payment of principal or interest on the Notes.

Standby Administration: IL&P (in such capacity, the **Standby Servicer**) will be appointed as standby servicer under the terms of the standby servicer agreement to be dated the Issue Date between the Standby Servicer, CHL, the Issuer and the Trustee (the **Standby Servicer Agreement**), such that, if the appointment of CHL as Mortgage Administrator and/or Cash/Bond Administrator is terminated, the Standby Servicer will assume such administrative functions (see "*The Standby Servicer*").

The Trustee

The Trustee will be appointed pursuant to a trust deed (the **Trust Deed**) to be entered into on the Issue Date between the Issuer and the Trustee to represent the interests of Noteholders. Pursuant to a deed of charge to be entered into on the Issue Date between, *inter alia*, the Issuer and the Trustee (the **Deed of Charge**), the Issuer will grant

The Notes

certain security in favour of the Trustee for the benefit of Noteholders and other Secured Creditors.

The Notes: the £270,000,000 Class A1 Mortgage Backed Floating Rate Notes due October 2041, the £597,500,000 Class A2 Mortgage Backed Floating Rate Notes due October 2041, the £15,000,000 Class M Mortgage Backed Floating Rate Notes due October 2041, the £40,000,000 Class B Mortgage Backed Floating Rate Notes due October 2041, the £40,000,000 Class C Mortgage Backed Floating Rate Notes due October 2041, the £25,000,000 Class D Mortgage Backed Floating Rate Notes due October 2041 and the £12,500,000 Class E Mortgage Backed Floating Rate Notes due October 2041; in each case to be constituted by the Trust Deed and to share in the same security in the manner described in the Conditions.

Interest: payable in arrear on the first business day of each month in each year (a **business day** being, for the sole purpose of defining the date upon which an Interest Payment Date falls in respect of all Notes, a day (other than a Saturday or Sunday) on which banks are open for business in London and Dublin (each such day an **Interest Payment Date**) the first Interest Payment Date being 1 December, 2004, at Note LIBOR, in respect of all Notes plus a margin of:

- (i) 0.12 per cent. per annum in relation to the Class A1 Notes up to and including the Interest Payment Date falling in October 2009, and thereafter, 0.24 per cent. per annum;
- (ii) 0.20 per cent. per annum in relation to the Class A2 Notes up to and including the Interest Payment Date falling in October 2009, and thereafter, 0.40 per cent. per annum;
- (iii) 0.25 per cent. per annum in relation to the Class M Notes up to and including the Interest Payment Date falling in October 2009, and thereafter, 0.50 per cent. per annum.
- (iv) 0.35 per cent. per annum in relation to the Class B Notes up to and including the Interest Payment Date falling in October 2009, and thereafter, 0.70 per cent. per annum;
- (v) 0.65 per cent. per annum in relation to the Class C Notes up to and including the Interest Payment Date falling in October 2009, and thereafter, 1.30 per cent. per annum;
- (vi) 1.05 per cent. per annum in relation to the Class D Notes up to and including the Interest Payment Date falling in October 2009, and thereafter, 2.05 per cent. per annum; and
- (vii) 3.20 per cent. per annum in relation to the Class E Notes up to and including the Interest Payment Date falling in October 2009, and thereafter, 4.20 per cent. per annum.

Withholding Tax: payments of interest and principal on the Notes will be subject to any withholding taxes applicable to the Notes and neither the Issuer nor the Paying Agents will be obliged to pay additional amounts in relation thereto. The applicability of certain withholding taxes is discussed further under "United Kingdom Taxation".

Form and Denomination: each class of Notes (which will be in denominations of £50,000 each, subject to *pro rata* redemption of Notes of the same class) will initially be represented by a single Temporary Global Note. Each Temporary Global Note will be exchangeable, subject as provided under "Description of the Notes – Global Notes", for a Permanent Global Note. The Global Notes will

**Redemption, Purchase and
Post Enforcement Call Option**

not be exchangeable for definitive notes save in certain limited circumstances (for which see further "Description of the Notes").

(i) *Final Redemption*

Unless previously redeemed or cancelled as provided by Condition 5, the Notes will mature on the Interest Payment Date falling in October 2041.

(ii) *Mandatory Redemption in Part*

Prior to enforcement of the Security, the Notes will be subject to mandatory redemption in part on each Interest Payment Date in accordance with Condition 5(b) by calculating a Potential Redemption Amount and applying the funds available in the manner described in "Priority of Payments" towards such Potential Redemption Amount.

(iii) *Optional Redemption*

Subject to the satisfaction of certain conditions:

(a) the Issuer may, at its option, redeem all (but not some only) of the Notes on any Interest Payment Date at their Principal Amount Outstanding in the event of certain tax changes affecting the Notes, any of the Basis Swap Agreements or the Mortgages comprising the Mortgage Pool at any time. See further Condition 5(e);

(b) the Issuer may, at its option, redeem all (but not some only) of the Notes at their Principal Amount Outstanding on the Interest Payment Date falling in October 2009 or on any Interest Payment Date falling thereafter. See further Condition 5(d);

(c) the Issuer may, at its option, redeem all (but not some only) of the Notes on any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is less than ten per cent. of the aggregate initial Principal Amount Outstanding of the Notes. See further Condition 5(d); and

(d) the Issuer may, at its option, redeem all (but not some only) of the Notes on any Interest Payment Date falling after the date the new International Convergence of Capital Measurement and Capital Standards: a Revised Framework, (the new capital adequacy framework commonly known as Basel II) has been implemented in the United Kingdom, whether by rule of law, recommendation of best practice or by any other regulation, provided that an Enforcement Notice has not been delivered. See further Condition 5(d).

(iv) *Purchase*

The Issuer shall not purchase any Notes.

(v) *Post Enforcement Call Option in favour of Auburn Options Limited*

Pursuant to an agreement (the **Post Enforcement Call Option Agreement**) between the Trustee and Auburn Options Limited, the Trustee will, on behalf of the Noteholders (but without warranty, responsibility or liability on the part of the Trustee personally), on the Issue Date, grant to Auburn Options Limited an option (the **Post Enforcement Call Option**) to acquire all (but not some only) of the

Class M Notes (plus accrued interest thereon), the Class B Notes (plus accrued interest thereon), the Class C Notes (plus accrued interest thereon), the Class D Notes (plus accrued interest thereon) and/or the Class E Notes (plus accrued interest thereon) for a consideration of one penny per Class M Note, Class B Note, Class C Note, Class D Note or Class E Note, as the case may be, outstanding at any time after the date upon which the Trustee, following service of an Enforcement Notice, determines that the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to the Class M Notes, Class B Notes, Class C Notes, Class D Notes and/or Class E Notes respectively and after the application of any such proceeds to the Class M Notes, Class B Notes, Class C Notes, Class D Notes and/or Class E Notes respectively (see "Description of the Notes – Status, Security and Priority"), to pay any further amounts due in respect of the Class M Notes, Class B Notes, Class C Notes, Class D Notes and/or Class E Notes respectively. The relevant Noteholders are bound by the terms of this Post Enforcement Call Option granted to Auburn Options Limited pursuant to the terms and conditions of the Trust Deed and by the Conditions and the Trustee is irrevocably authorised, as agent for the relevant Noteholders, to enter into the Post Enforcement Call Option Agreement with Auburn Options Limited.

Potential Redemption Amount

The **Potential Redemption Amount** will be determined by the Cash/Bond Administrator on the day which is 5 business days (a **business day**, in this context, being a day (other than Saturday or Sunday) on which banks are open for business in London) preceding an Interest Payment Date (a **Determination Date**) and will be an amount equal to:

- (i) the aggregate principal amount outstanding of the Notes on such Determination Date; plus
- (ii) the principal amount drawn and outstanding under the Redraw Facility on such Determination Date; less
- (iii) the aggregate outstanding principal balances of the Mortgages on such Determination Date, provided that the Potential Redemption Amount shall never be less than zero.

Subject to the Priority of Payments, Available Funds shall be applied in the following order up to in aggregate an amount equal to the Potential Redemption Amount:

- (i) in repaying amounts of principal under the Redraw Facility until no amounts remain outstanding under the Redraw Facility;
- (ii) if no amounts are outstanding under the Redraw Facility, in redeeming the Class A1 Notes until the Class A1 Notes are redeemed in full;
- (iii) after the Class A1 Notes are redeemed in full and if no amounts are outstanding under the Redraw Facility, in redeeming *pari passu* the Class A2 Notes until the Class A2 Notes are redeemed in full.
- (iv) after the Class A2 Notes are redeemed, *pari passu*, in full and if no amounts are outstanding under the Redraw Facility, in redeeming the Class M Notes until the Class M Notes are redeemed in full;

- (v) after the Class M Notes are redeemed, *pari passu*, in full and if no amounts are outstanding under the Redraw Facility, in redeeming the Class B Notes until the Class B Notes are redeemed in full;
- (vi) after the Class B Notes are redeemed in full and if no amounts are outstanding under the Redraw Facility, in redeeming the Class C Notes until the Class C Notes are redeemed in full;
- (vii) after the Class C Notes are redeemed in full and if no amounts are outstanding under the Redraw Facility, in redeeming the Class D Notes until the Class D Notes are redeemed in full; and
- (viii) after the Class D Notes are redeemed in full and if no amounts are outstanding under the Redraw Facility, in redeeming the Class E Notes until the Class E Notes are redeemed in full.

References in the Priority of Payments to the **Balance of the Potential Redemption Amount** shall be to such amount of the Potential Redemption Amount as remains after payment of any item, the maximum amount of which is calculated by reference to the Potential Redemption Amount, ranking higher in the Priority of Payments.

Security for the Notes

The Notes will be obligations of the Issuer only. Pursuant to the Deed of Charge, the Notes will be secured in favour of the Trustee for the benefit of itself and for the other persons expressed to be secured parties thereunder by, *inter alia*:

- (i) a first fixed equitable charge over the Issuer's interest in the Mortgages and the related security comprised in the Mortgage Pool (as described under "The Mortgages");
- (ii) a first fixed equitable charge over the Issuer's interest in certain policies of life assurance or endowment policies (the **Life Policies**) relating to certain of the Mortgages;
- (iii) an equitable assignment by way of first fixed security of the Issuer's interests in certain buildings policies, contingency policies and mortgage indemnity policies (the **Insurance Contracts**) to the extent that they relate to the Mortgages;
- (iv) an assignment by way of first fixed security of the Issuer's right, title, interest and benefit, present and future, in, to and under the Cash/Bond Administration Agreement, the Mortgage Administration Agreement, the Standby Servicer Agreement, the mortgage sale agreement to be entered into on the Issue Date by CHL, the Issuer and the Trustee (the **Mortgage Sale Agreement**), the agency agreement to be entered into on the Issue Date by the Issuer, the Trustee, JPMorgan Chase Bank as Agent Bank and as Principal Paying Agent and the Cash/Bond Administrator (the **Agency Agreement**), the repurchase guarantee to be entered into on the Issue Date by IL&P, the Issuer and the Trustee (the **Repurchase Guarantee**), the Liquidity Facility Agreement, the Redraw Facility Agreement, the Collection Account Declaration of Trust, the Bank Agreements, the Basis Swap Agreements, the Basis Swap Guarantees, the Reserve Account GIC Agreement, the Subordinated Loan Agreement, the Master Definitions Schedule and such other documents as are expressed to be subject to the charges under the Deed of Charge (all such documents together, the **Transaction Documents**);

- (v) a first fixed equitable charge over the Issuer's interest in the trust over the Collection Account;
- (vi) a first fixed charge (notified to the relevant bank) over the Issuer's Accounts (and all amounts standing to the credit thereof) and over the Authorised Investments (which security interests are likely to take effect as floating charges and thus rank behind the claims of certain preferential and other creditors); and
- (vii) a first floating charge over the whole of the undertaking, property, assets and rights of the Issuer not subject to effective fixed security.

Priority of Payments Prior to Enforcement

Until enforcement of the security for the Notes, Available Funds will be applied on each Interest Payment Date (save as the payee may otherwise agree) in making the following payments or provisions in the following order of priority (the **Priority of Payments**):

- (i) the remuneration payable to the Trustee (plus value added tax, if any) and any costs, charges, liabilities, indemnities, expenses and any other amounts (whether direct or consequential) (plus irrecoverable value added tax, if any), incurred by it under the provisions of, or in connection with, the Trust Deed, the Deed of Charge and/ or any Transaction Document together with interest on such amounts as provided in the Trust Deed, the Deed of Charge and/or any Transaction Document or any of them;
- (ii) *pari passu* and *pro rata*: (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable by the Issuer to persons who are not party to any Transaction Document and incurred with or without breach by the Issuer pursuant to the Trust Deed, the Deed of Charge and/or any Transaction Document and not provided for payment elsewhere and to provide for any such amounts expected to become due and payable by the Issuer after that Interest Payment Date and prior to the next Interest Payment Date and to provide for the Issuer's liability or possible liability for corporation tax; and (b) an amount equal to any premia payable by the Issuer in respect of Insurance Contracts;
- (iii) *pari passu* and *pro rata*: (a) amounts due and/or which will become due and payable (plus value added tax, if any) prior to the next Interest Payment Date to the Paying Agent and Agent Bank under the Agency Agreement; (b) the mortgage administration fee (inclusive of value added tax, if any) payable together with costs and expenses properly incurred by the Mortgage Administrator under the Mortgage Administration Agreement which are due and payable and/ or which will become due and payable prior to the next Interest Payment Date; (c) the cash/bond administration fee (inclusive of value added tax, if any) payable together with costs and expenses properly incurred by the Cash/Bond Administrator under the Cash/Bond Administration Agreement which are due and payable and/ or which will become due and payable prior to the next Interest Payment Date; (d) any amounts payable by the Issuer under the

Reserve Account GIC Agreement; (e) any amounts payable by the Issuer under the Bank Agreements; (f) the standby servicer fee (if any) payable pursuant to the Standby Servicer Agreement to the Standby Servicer (inclusive of value added tax, if any) together with costs and expenses properly incurred by the Standby Servicer in accordance with the Standby Servicer Agreement; and (g) amounts due to the Corporate Services Provider under the Corporate Services Agreement;

- (iv) *pari passu* and *pro rata*: (a) any amounts payable by the Issuer under the Liquidity Facility Agreement or, after the Liquidity Drawdown Date, credited to the Liquidity Ledger, other than Subordinated Liquidity Interest Margin; (b) any amounts payable by the Issuer under the Basis Swap Agreements (other than amounts due as a result of the Basis Swap Counterparty being the Defaulting Party or sole Affected Party under an Event of Default (each term as defined in the relevant Basis Swap Agreement)); (c) amounts payable by the Issuer under the Basis Swap Guarantees; and (d) any amounts payable by the Issuer under the Redraw Facility Agreement other than in respect of principal or Subordinated Redraw Interest Margin;
- (v) *pari passu* and *pro rata*: amounts payable in respect of the Class A1 and the Class A2 Notes other than in respect of principal on the Class A1 Notes and the Class A2 Notes;
- (vi) *pro rata*, amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes;
- (vii) (where either the B Test is met or none of the Senior Notes or Class M Notes remains outstanding) *pro rata*, amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes, including in the manner prescribed in Condition 6(i);
- (viii) (where either the C Test is met or none of the Senior Notes, the Class M Notes or the Class B Notes remains outstanding) *pro rata*, amounts payable in respect of the Class C Notes other than in respect of principal on the Class C Notes, including in the manner prescribed in Condition 6(i);
- (ix) (where either the D Test is met or none of the Senior Notes, Class M Notes, Class B Notes or Class C Notes remains outstanding) *pro rata*, amounts payable in respect of the Class D Notes other than in respect of principal on the Class D Notes, including in the manner prescribed in Condition 6(i);
- (x) (where either the E Test is met or none of the other classes of Notes remains outstanding) *pro rata*, amounts payable in respect of the Class E Notes other than in respect of principal on the Class E Notes, including in the manner prescribed in Condition 6(i);
- (xi) any amounts payable by the Issuer in respect of principal under the Redraw Facility Agreement or, after the Redraw Facility Drawdown Date, credited to the Redraw Ledger, in

an amount up to or equal to the Potential Redemption Amount until no amounts remain outstanding under the Redraw Facility Agreement;

- (xii) *pro rata*, in redeeming Class A1 Notes in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class A1 Note remains outstanding;
- (xiii) (provided no Class A1 Note remains outstanding) *pro rata*, in redeeming the Class A2 Notes, in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class A2 Note remains outstanding;
- (xiv) (provided no Senior Note remains outstanding) *pro rata*, in redeeming the Class M Notes in an amount up to or equal to the Balance of the Potential Redemption amount until no Class M Note remains outstanding;
- (xv) (provided no Class M Note remains outstanding) *pro rata*, in redeeming the Class B Notes in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class B Note remains outstanding;
- (xvi) (provided no Class B Note remains outstanding) *pro rata*, in redeeming the Class C Notes in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class C Note remains outstanding;
- (xvii) (provided no Class C Note remains outstanding) *pro rata*, in redeeming Class D Notes in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class D Note remains outstanding;
- (xviii) (provided no Class D Note remains outstanding) *pro rata*, in redeeming Class E Notes in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class E Note remains outstanding;
- (xix) to pay an amount to the Reserve Ledger to top the Reserve Ledger up to the Reserve Ledger Required Amount;
- (xx) (where the B Test is not met and there are Senior Notes and/or Class M Notes outstanding) *pro rata*, amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes, including in the manner prescribed in Condition 6(i);
- (xxi) (where the C Test is not met and there are Senior Notes, Class M Notes and/or Class B Notes outstanding) *pro rata*, amounts payable in respect of the Class C Notes other than in respect of principal on the Class C Notes, including in the manner prescribed in Condition 6(i);
- (xxii) (where the D Test is not met and there are Senior Notes, Class M Notes, Class B Notes and/or Class C Notes outstanding) *pro rata*, amounts payable in respect of the Class D Notes other than in respect of principal on the Class D Notes, including in the manner prescribed in Condition 6(i);

- (xxiii) (where the E Test is not met and there is any other class of Notes outstanding) *pro rata*, amounts payable in respect of the Class E Notes other than in respect of principal on the Class E Notes, including in the manner prescribed in Condition 6(i);
- (xxiv) *pari passu and pro rata*: (a) any other amounts payable by the Issuer under the Basis Swap Agreements which are not paid under paragraph (iv)(b) above; (b) any Subordinated Liquidity Interest Margin payable by the Issuer under the Liquidity Facility Agreement; and (c) any Subordinated Redraw Interest Margin payable by the Issuer under the Redraw Facility Agreement;
- (xxv) at the discretion of the Cash/Bond Administrator, amounts allocated by it to be applied for either or both of the following purposes: (a) to be retained in the Transaction Account to be used as Permitted Utilisation Amounts to fund the making by the Mortgage Administrator (on behalf of the Issuer) of Redraws on any day following such Interest Payment Date; and/or (b) in payment of any other amounts payable by the Issuer under the Redraw Facility Agreement which are not paid under paragraphs (iv)(d), (xi) or (xxiv) above;

and in making the following payments, provided that no deficiency is recorded on the Principal Deficiency Ledger on such Interest Payment Date:

- (xxvi) at the discretion of the Cash/Bond Administrator, amounts to be retained in the Transaction Account to be used as Permitted Utilisation Amounts to fund the making by the Mortgage Administrator (on behalf of the Issuer) of Further Advances on any day following such Interest Payment Date;
- (xxvii) amounts payable by the Issuer in respect of the Subordinated Loan other than in respect of principal on the Subordinated Loan;
- (xxviii) amounts payable by the Issuer in respect of principal under the Subordinated Loan;
- (xxix) to credit an amount equal to one twelfth of 0.025 per cent. of the aggregate outstanding principal balance of the Mortgage Pool on the immediately preceding Determination Date to a ledger established for such purposes (the **Profits Ledger**) (together with any such amounts which have accrued but have not been so credited on any previous Interest Payment Date); and
- (xxx) amounts payable by the Issuer in respect of Deferred Consideration.

To the extent that the monies available on the relevant Interest Payment Date are sufficient therefore, such amount shall be paid to the persons entitled thereto or so applied on such Interest Payment Date and after such payment or application it is not intended that any surplus (other than the amount referred to under items (xix), (xxv), (xxvi) and (xxix) of the Priority of Payments) will be accumulated in the Issuer.

The **B Test**, as calculated on the Determination Date immediately preceding the relevant Interest Payment Date, will be met if (a) the Principal Deficiency recorded on the Class B Principal Deficiency Ledger on that Determination Date, after taking account of any Principal Deficiency calculated on that Determination Date, is less than or equal to 30 per cent. of the Principal Amount Outstanding of the Class B Notes, and (b) the aggregate cumulative balance of Mortgages, which are or have been at any time 90 days or more in arrears, as a percentage of the aggregate of the initial Principal Amount Outstanding on the Notes on the Closing Date, is less than or equal to 23.50 per cent.

The **C Test**, as calculated on the Determination Date immediately preceding the relevant Interest Payment Date, will be met if (a) the Principal Deficiency recorded on the Class C Principal Deficiency Ledger on that Determination Date, after taking account of any Principal Deficiency calculated on that Determination Date, is less than or equal to 30 per cent. of the Principal Amount Outstanding of the Class C Notes, and (b) the aggregate cumulative balance of Mortgages, which are or have been at any time 90 days or more in arrears, as a percentage of the aggregate of the initial Principal Amount Outstanding on the Notes on the Closing Date, is less than or equal to 18 per cent.

The **D Test**, as calculated on the Determination Date immediately preceding the relevant Interest Payment Date, will be met if (a) the Principal Deficiency recorded on the Class D Principal Deficiency Ledger on that Determination Date, after taking account of any Principal Deficiency calculated on that Determination Date, is less than or equal to 20 per cent. of the Principal Amount Outstanding of the Class D Notes, and (b) the aggregate cumulative balance of Mortgages, which are or have been at any time 90 days or more in arrears, as a percentage of the aggregate of the initial Principal Amount Outstanding on the Closing Date, is less than or equal to 12 per cent.

The **E Test**, as calculated on the Determination Date immediately preceding the relevant Interest Payment Date, will be met if (a) the Principal Deficiency recorded on the Class E Principal Deficiency Ledger on that Determination Date, after taking account of any Principal Deficiency calculated on that Determination Date, is less than or equal to 40 per cent. of the Principal Amount Outstanding of the Class E Notes, and (b) the aggregate cumulative balance of Mortgages, which are or have been at any time 90 days or more in arrears, as a percentage of the aggregate of the initial Principal Amount Outstanding on the Closing Date, is less than or equal to 6 per cent.

The E Test together with the D Test, the C Test and the B Test constitutes the **PDL and Arrears Test**.

Excluded Items

The following items are **Excluded Items** which may be paid or provided for (including on a date other than an Interest Payment Date) prior to the allocation of sums under the Priority of Payments:

- (i) certain moneys which properly belong to third parties (such as monies owing to any party in respect of reimbursement for direct debit recalls or overpayments by borrowers (the **Borrowers**) (for the avoidance of doubt, this does not include

any prepayment or overpayment made by the Borrowers in anticipation of effecting potential Redraws) which will be returned to the Borrowers);

- (ii) on the Reconciliation Date, amounts payable to CHL under the Mortgage Sale Agreement in respect of reconciliations of the amount paid in respect of the purchase on the Issue Date of the relevant Mortgages;
- (iii) Prepayment Charges;
- (iv) certain amounts payable by any replacement basis swap counterparty to any Basis Swap Counterparty as a result of a transfer under the relevant Basis Swap Agreement;
- (v) certain amounts payable by Borrowers to third parties, such as insurance premia under insurance contracts;
- (vi) at any time, any asset (including, without limitation, cash or securities), which is paid or transferred by any Basis Swap Counterparty to the Issuer as collateral to secure the performance by that Basis Swap Counterparty of its obligations under the relevant Basis Swap Agreement to such extent as each Rating Agency may require in order to confirm in writing that the current rating of the Notes assigned by it will not be affected, together with any income or distributions received in respect of such asset and any equivalent or replacement of such asset into which such asset is transferred but which are not applied at such time in satisfaction of such Basis Swap Counterparty's obligations under the relevant Basis Swap Agreement; and
- (vii) amounts payable to the Account Banks under the Bank Agreements not otherwise recovered by the Account Banks in accordance with the Bank Agreements.

Permitted Utilisation Amounts

On any day (including on a day other than an Interest Payment Date), amounts (**Permitted Utilisation Amounts**) may be withdrawn by the Cash/Bond Administrator from the Transaction Account for the making by the Mortgage Administrator (on behalf of the Issuer) of Redraws or Further Advances, provided that: (1) in all cases, the Cash/Bond Administrator is satisfied that the Issuer will have sufficient Initial Available Funds on the Interest Payment Date following the next Determination Date to make the payments or provisions referred to in items (i) to (x) (inclusive) of the Priority of Payments on that Interest Payment Date; and (2) the various conditions for the funding of Further Advances and Redraws by the Issuer are satisfied (see "The Mortgage Pool – Further Advances" and "The Mortgage Pool – Redraws").

Covenants

The Issuer will be subject to covenants including a negative pledge and an undertaking not to engage in any activity which is not incidental to any of the activities that the Documents provide or envisage that the Issuer will engage in and will be obliged to provide the Trustee with an annual certificate confirming, amongst other things, that no Event of Default and no event which may become (with the giving of notice, the lapse of time, the issue of a certificate or any combination thereof) an Event of Default has occurred.

The Mortgages

All the Mortgages comprising the Mortgage Pool met certain lending criteria at the time of their origination (see "The Mortgage Pool – Lending Criteria") and were originated by CHL or an affiliate of

CHL (in the case of mortgages transferred or assigned to the Issuer pursuant to the Mortgage Sale Agreement, as defined below, after the Issue Date, the **Substitute Mortgages**). CHL will transfer its beneficial interest in the Mortgages to the Issuer pursuant to a mortgage sale agreement (the **Mortgage Sale Agreement**) dated 11 October, 2004 between CHL, the Issuer and the Trustee.

As at the Issue Date, the beneficial interest in each such Mortgage will reside with the Issuer and legal title to each such Mortgage will be held by CHL. Pursuant to the Mortgage Sale Agreement, the Issuer will be given the right to call for legal title to the Mortgages from CHL in certain circumstances (see "The Mortgage Pool – Title to the Mortgage Pool").

The Provisional Mortgage Pool comprises Standard Variable Mortgages, Base Rate Linked Mortgages and Fixed Rate Mortgages (see "Types of Interest Rate Terms for all Mortgage Products"). For a specified period of time, some of these Mortgages may also be Discount Rate Mortgages.

Repayment terms under each Mortgage differ according to the repayment type. The Provisional Mortgage Pool will include Repayment Mortgages, Endowment Mortgages, Pension Mortgages, ISA/PEP Mortgages and Non-Collateralised Interest Only Mortgages (see "Types of Repayment Terms for all Mortgage Products").

All of the Mortgages are secured by first legal charges or mortgages over freehold or leasehold properties located in England or Wales and relate to either investment properties or owner-occupied properties.

90.8 per cent. of Mortgages by current balance in the Provisional Mortgage Pool provide the relevant Borrower with the ability to request a redraw of a portion of the principal of the relevant Mortgage (**Redraws** and **Flexible Mortgages** respectively) if such Borrower has previously made prepayments on its Mortgage in excess of the scheduled principal repayments or, in the case of Mortgages other than Repayment Mortgages, such Borrower has previously made payments in excess of amounts of interest due (such excess payments being an **Overpayment**) but only to the extent that the Borrower has not previously redrawn the whole of such Overpayment and provided that the amount of such Redraw is limited to ensure that the outstanding balance of the Mortgage after such Redraw is no greater than the original advance of the relevant Mortgage. In circumstances where a Borrower has the ability to request a redraw, the Borrower may instead, subject to the consent of CHL, meet the Borrower's monthly payments by applying Overpayments not previously redrawn and thereby take a payment holiday (a **Payment Holiday**).

75.3 per cent. of the Mortgages by current balance in the Provisional Mortgage Pool are RIP Mortgages and relate to Properties purchased by the relevant Borrower to be occupied by tenants or held as an investment. The conditions of such Mortgages require that these Properties will be let under an assured shorthold tenancy or company let. The other 24.7 per cent. of the Mortgages by current balance in the Provisional Mortgage Pool as at the Cut-Off Date are Standard Mortgages and relate to owner occupied properties.

Mortgage Product Types: The Mortgage Pool will consist of the following types of mortgage products:

- (i) Residential Investment Product Mortgages, comprising Mortgages originated by CHL which are intended for individual Borrowers who may be either Self-Certified Borrowers or Full Status Borrowers who wish to use the Mortgage as a means to purchase residential property for the purpose of letting to third parties (the **RIP Mortgages**); and
- (ii) Standard Mortgages, comprising Mortgages originated by CHL which are intended for individual Borrowers who wish to use the Mortgage as a means to purchase or mortgage a residential property to be used solely as the Borrower's own residence which the Borrower intends either to buy or currently resides in (the **Standard Mortgages**).

The RIP Mortgages and the Standard Mortgages are collectively known as the **Mortgage Products** and each a **Mortgage Product**. The Lending Criteria for each Mortgage Product may vary as further described under "The Mortgage Pool – Lending Criteria".

Identity of Borrower of Standard Mortgages: Borrowers of a Standard Mortgage may be any of the following:

- (i) an individual who is self-employed and for whom an accountant or book-keeper has completed an affordability questionnaire supplied by CHL as evidence of the Borrower's ability to repay the Mortgage (a **Self-Certified Borrower**); or
- (ii) an individual who may be self-employed or otherwise employed and whose income has been appropriately verified in accordance with the Lending Criteria (a **Full Status Borrower**).

Identity of Borrower of RIP Mortgages: Borrowers of a RIP Mortgage may be either:

- (i) a Self-Certified Borrower; or
- (ii) a Full Status Borrower.

Types of Interest Rate Terms for all Mortgage Products: The type of interest rate terms contained within each Mortgage Product will comprise any of the following types:

- (i) Mortgages which are subject to a variable rate of interest set by CHL from time to time (**Standard Variable Mortgages**);
- (ii) Mortgages which are subject to a variable rate of interest set by CHL from time to time but which rate is linked to the Bank of England's base rate (**Base Rate Linked Mortgages** and together with Standard Variable Mortgages, **Variable Rate Mortgages**); or
- (iii) Mortgages which are subject to a fixed rate of interest set by reference to a pre-determined rate or series of rates for a fixed period or periods (**Fixed Rate Mortgages**).

Mortgages which were but are no longer subject to a fixed rate of interest are treated as and are referred to herein as Base Rate Linked Mortgages or Standard Variable Mortgages, as applicable. The interest rate applicable to each Mortgage Product may be discounted for a period of time (the relevant Mortgage, for that period, being a **Discount Rate Mortgage**).

Types of Repayment Terms for all Mortgage Products: The type of repayment terms contained within each Mortgage Product will comprise any of the following types (including possible combinations thereof):

- (i) Mortgages in relation to which the principal amount is not repayable before maturity and the terms of which require a policy of endowment life assurance (which is, in certain cases, a unit-linked policy) (an **Endowment Policy**) noting the interest of CHL in such Endowment Policy (**Endowment Mortgages**);
- (ii) Mortgages in relation to which the principal amount is not repayable before maturity and the terms of which require a pension policy (**Pension Mortgages**);
- (iii) Mortgages in relation to which the principal amount is not repayable before maturity and the terms of which require the Borrower to have an individual savings account or a personal equity plan (**ISA/PEP Mortgages**);
- (iv) Mortgages (other than those referred to in (i), (ii) and (iii) above) in relation to which the principal amount is not repayable before maturity (**Non-Collateralised Interest Only Mortgages** and together with Endowment Mortgages, Pension Mortgages and ISA/PEP Mortgages, **Interest Only Mortgages**); and
- (v) Mortgages in relation to which monthly instalments, which can cover both interest and principal, are payable until the mortgage is fully repaid by its maturity (**Repayment Mortgages**).

The Mortgage Pool: The **Mortgage Pool** from time to time will comprise:

- (i) the Completion Mortgage Pool;
- (ii) any Substitute Mortgages acquired by the Issuer; and
- (iii) any Further Advances made on the security of the Mortgages comprised in (i) or (ii) above in accordance with the provisions of the Mortgage Administration Agreement; less
- (iv) any Mortgages repurchased by CHL from the Issuer as a result of an unremedied breach of any of the representations and warranties set out in the Mortgage Sale Agreement;

other than, in any such case, Mortgages which have been discharged or in respect of which funds representing principal outstanding have otherwise been received in full or which have been re-transferred by the Issuer. No searches, inquiries or independent investigation of title of the type which a prudent purchaser or mortgagee would normally be expected to carry out have been or will be made by the Issuer or the Trustee, each of whom is relying entirely upon the warranties set out in the Mortgage Sale Agreement.

Whilst the Completion Mortgage Pool will comprise only Mortgages acquired from and originated by CHL, any Substitute Mortgages will comprise mortgage loans originated or acquired by CHL or other affiliates of CHL.

The **Completion Mortgage Pool** will comprise the Mortgages (including accrued interest) purchased by the Issuer on the Issue Date. The Completion Mortgage Pool will be drawn (in accordance with the criteria summarised below) only from, and will substantially

comprise the Mortgages contained in a provisional portfolio of mortgages owned and selected by CHL (the **Provisional Mortgage Pool**) as at 31 August, 2004 (the **Cut-Off Date**).

On the Cut-Off Date, the Provisional Mortgage Pool had the characteristics shown below:

Aggregate balances ⁽¹⁾	£1,167,399,681
Total number of mortgages	9,622
Average mortgage balance ⁽¹⁾	£121,826
Weighted average loan to value ratio (LTV) ⁽²⁾	80.6 per cent.

(1) The balances referred to are to all amounts outstanding under each Mortgage as at 31 August, 2004 which includes (a) fees previously debited to a Borrower's account and (b) the monthly amount of interest and any principal due to be collected in respect of each Mortgage on 1 September, 2004.

(2) LTV means, in respect of a mortgage, the ratio of the amount of the outstanding balance, excluding arrears, as of 1 September, 2004 in respect of such mortgage to the latest valuation completed in relation to such mortgage. No revaluation of any Property has been undertaken for the purposes of the transactions described in the Offering Circular. The latest valuation of a Property was undertaken at origination or prior to the making of a Further Advance (see "The Mortgage Pool – Lending Criteria").

Prior to the Issue Date, in forming the Completion Mortgage Pool, CHL will remove from the Provisional Mortgage Pool all Mortgages which (a) are fully redeemed or (b) do not comply with the warranties to be set out in the Mortgage Sale Agreement or (c) such Mortgages as need to be removed to ensure that the aggregate balance of the Mortgages comprised in the Completion Mortgage Pool is as close as possible to, but does not exceed, £1,000,000,000.

Conversion of Mortgages: After a Mortgage has been acquired by the Issuer, the Mortgage Administrator, on behalf of the Issuer and the Trustee, may agree to a request by a Borrower to convert his Mortgage (or, in the case of a default by a Borrower, the Mortgage Administrator may on behalf of the Issuer elect to convert such Borrower's Mortgage) into certain other types of Mortgage as more particularly described in "The Mortgage Pool – Conversion of Mortgages", subject to fulfilment of certain conditions as more particularly set out under "The Mortgage Pool – Conversion of Mortgages".

Further Advances: Additional funds may only be advanced to Borrowers with RIP Mortgages other than by way of a Redraw (the **Further Advances**) utilising funds provided by the Issuer on the security of the Mortgages subject to the satisfaction of certain conditions as more particularly set out under "The Mortgage Pool – Further Advances".

Repurchase of Mortgages: It is a requirement of the Mortgage Sale Agreement that the Mortgages comply with the warranties contained therein. To the extent that any Mortgage breaches any of the warranties contained in the Mortgage Sale Agreement (which, in certain cases, must have a material adverse effect on the interests of the Issuer or the Trustee in the Mortgages and other rights assigned to the Issuer under the Mortgage Sale Agreement or on the ability of the Issuer (or the Mortgage Administrator on the Issuer's behalf) to collect payments on the Mortgages or on the ability of the Trustee to enforce the Security), CHL shall, pursuant to the Mortgage Sale

Agreement, repurchase such Mortgage. CHL's obligation to repurchase such Mortgage shall be guaranteed by IL&P pursuant to the Repurchase Guarantee.

Key Features of Lending Criteria: The criteria (**Lending Criteria**) applicable to the initial advance or any Further Advance under each Mortgage include the following:

- all customers must pass a credit search (although a Borrower may have up to a maximum of two County Court Judgments totalling no more than £500 so long as each County Court Judgment has been satisfied for at least two years before the mortgage is granted);
- all loans must be secured by a first legal mortgage on a leasehold or freehold property;
- the Borrowers must be at least 18 years old (21 years old for Self-Certified Borrowers or self-employed Borrowers) at the time of advance;
- the term of the Mortgage is between 5 and 35 years from the date of advance;
- the minimum value of the Mortgage at advance is £15,001 for Mortgages originated before 1st May, 1998 and £25,001 thereafter;
- the LTV at the date of the initial advance must be no more than 95 per cent. (90 per cent. in the case of Self-Certified Borrowers and 85 per cent. in the case of RIP Mortgages) and (with the exception of RIP Mortgages and also Standard Mortgages where the Borrower is a Self-Certified Borrower), where such ratio is greater than 75 per cent. and the Mortgage was originated prior to 1 July, 2004, mortgage indemnity insurance must be effected; and
- if leasehold, there must be a minimum term of 35 years remaining on the lease after the end of the mortgage term.

Mortgage Administration: The Mortgage Administrator is obliged under the terms of the Mortgage Administration Agreement, *inter alia*, to administer the Mortgage Pool, including the collection of payments under the Mortgages, the operation of the arrears procedures and the setting of interest rates under the Mortgages and to report on a quarterly basis to the Trustee and the Issuer on the Mortgage Pool and the administration of the Mortgages (see "The Mortgage Pool – Administration of the Mortgage Pool").

SPECIAL CONSIDERATIONS

The following is a summary of certain aspects of the issue of the Notes about which prospective Noteholders should be aware. The summary is not intended to be exhaustive and prospective Noteholders should read the detailed information set out in the section below entitled "Credit and Liquidity Structure" and elsewhere in this document.

Credit Structure

Liability Under the Notes

The Notes will be obligations solely of the Issuer and will not be guaranteed by, or be the responsibility of, any other entity. In particular, the Notes will not be obligations of, and will not be guaranteed by the Lead Managers, CHL, IL&P, the Trustee, the Paying Agents, the Agent Bank, the Basis Swap Counterparty, the Basis Swap Guarantor, the GIC Provider, the Standby Servicer, the Liquidity Facility Provider or the Redraw Facility Provider.

No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by the Lead Managers, CHL, IL&P, the Trustee, the Paying Agents, the Agent Bank, the Basis Swap Counterparty, the Basis Swap Guarantor, the GIC Provider, the Standby Servicer, the Liquidity Facility Provider or the Redraw Facility Provider.

Limited Resources

The ability of the Issuer to meet its obligations under the Notes will be dependent on funds being received under, *inter alia*, the Mortgages, the Basis Swap Agreements, proceeds received under certain insurance contracts in respect of the Mortgages and the availability of the Liquidity Facility. The Issuer may not, on any particular Interest Payment Date, have sufficient Available Funds to make payment of interest and repayments of principal under the Notes due on that Interest Payment Date.

The Issuer will combine both interest and principal payments in respect of the Mortgages in determining the funds available to meet its payment obligations. In determining the Potential Redemption Amount available on an Interest Payment Date in relation to a mandatory partial redemption of the Notes of any class and the amount of any Principal Deficiency, including for the purpose of determining whether certain payments may be made at particular points in the Priority of Payments prior to enforcement, no account will be taken of arrears of principal in respect of the Mortgages and the Issuer will not retain interest or principal amounts (beyond amounts credited to the Reserve Ledger up to the Reserve Ledger Required Amount, amounts credited to the Profits Ledger and, at the discretion of the Cash/Bond Administrator, amounts as permitted under paragraphs (xxv) and (xxvi) of the Priority of Payments prior to enforcement) in order to cover arrears of principal. Such amounts may therefore be used by the Issuer, *inter alia*, to pay interest and principal in respect of the Subordinated Loan and to pay Deferred Consideration.

In the event that the Security is enforced, the proceeds of such enforcement may be insufficient, after payment of all other claims ranking in priority to amounts due under each class of Notes under the Deed of Charge, to pay in full all principal and interest and other amounts whatsoever due in respect of the Notes. Enforcement of the Security is the only remedy available for the purpose of recovering amounts owed in respect of the Notes.

Limited Secondary Market for Mortgages

The ability of the Issuer to redeem all of the Notes in full, including following the occurrence of an Event of Default in relation to the Notes, while any of the Mortgages are still outstanding may depend upon whether the Mortgages can be realised to obtain an amount sufficient to redeem the Notes. There is not, at present, an active and liquid secondary market for mortgages of the type being acquired by the Issuer in the United Kingdom. Following the occurrence of an Event of Default, the Trustee, may not, therefore, be able to sell the Mortgages to realise a sufficient amount to redeem the Notes in full.

Limited Secondary Market for the Notes

There is not, at present, an active and liquid secondary market for the Notes, and there can be no assurance that a secondary market for the Notes will develop. Even if a secondary market does develop, it may not continue for the life of the Notes. Illiquidity means that a Noteholder may not be able to find a buyer to buy its Notes readily or at prices that will enable the Noteholder to realise a desired yield. Illiquidity can have an adverse effect on the market value of the Notes. Application has been made for the Notes to be admitted to the Official List of the UK Listing Authority (the **Official List**) and to trading on the London Stock Exchange.

Interest Rate, Exchange Rate and Basis Risk on the Notes

Approximately 7.61 per cent. (by current balance) of the Mortgages in the Provisional Mortgage Pool as at 31 August, 2004 consist of mortgages on fixed rates of interest for specific periods. In order to address the interest rate risks associated with the Fixed Rate Mortgages, the Issuer will, on the Issue Date, enter into the FRM Swap Agreement with the Basis Swap Counterparty.

The interest rate payable under the Standard Variable Mortgages and the Bank of England's base rate used to calculate the interest rate payable under the Base Rate Linked Mortgages are calculated on a different basis to the interest rate payable in respect of the Notes. In order to address such basis rate risk, the Issuer will, on the Issue Date, enter into the VRM Swap Agreement with the Basis Swap Counterparty. The VRM Swap Agreement and the FRM Swap Agreement constitute the Basis Swap Agreements. There can be no assurance that the Basis Swap Agreements will adequately address all interest rate risks.

A failure by the Issuer to make timely payments of amounts due under any Basis Swap Agreement will constitute a default thereunder and entitle the Basis Swap Counterparty to terminate the relevant Basis Swap Agreement. To the extent that the Basis Swap Counterparty is not obliged to provide, or otherwise defaults in its obligations to provide, the Issuer with an amount equal to the full amount due under the relevant Basis Swap Agreement, the Issuer may have insufficient funds to make payments due on the Notes.

Each Basis Swap Agreement will provide that, upon the occurrence of certain events, the Basis Swap Agreement may terminate and a termination payment may be payable by either the Issuer or the Basis Swap Counterparty. Any termination payment due from the Issuer (except where such termination arises as a result of a default or downgrade by the Basis Swap Counterparty) will rank ahead of payments due to the Senior Noteholders, the Class M Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class E Noteholders. Payments of such amounts to the Basis Swap Counterparty may reduce funds that would otherwise be available to make payments on the Notes.

In addition, no assurance can be given as to the ability of the Issuer to enter into a replacement swap, or if one is entered into, as to the credit rating of the replacement Basis Swap Counterparty.

Under the FRM Swap Guarantee and the VRM Swap Guarantee, IL&P guarantees the obligations of the Basis Swap Counterparty under the FRM Swap Agreement and under the VRM Swap Agreement. The Basis Swap Guarantees will, in part, mitigate some of the risks for Noteholders identified above.

Yield and Prepayment Considerations

The yield to maturity of the Notes of each class will depend on, among other things, the amount and timing of payments of principal (including full and partial prepayments, the level of arrears of repayment on principal on Repayment Mortgages, sale proceeds arising on enforcement of a Mortgage and repurchases by CHL due to breaches of warranties under the Mortgage Sale Agreement) on the Mortgages, the price paid by the Noteholders and the timing and level of the making of Redraws and Further Advances. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments on the Mortgages or higher or lower levels of arrears of repayment of principal on Repayment Mortgages.

Principal prepayments in full may be as a result of a Borrower voluntarily refinancing or selling the relevant Property or as a result of enforcement proceedings under the relevant Mortgages, as well

as the receipt of proceeds from building insurance policies and life insurance policies (where relevant). In addition, repurchases of Mortgages required to be made under the Mortgage Sale Agreement will have the same effect as a prepayment in full of such Mortgages.

The rate of prepayment of the Mortgages and the amount of Redraws and Further Advances by Borrowers cannot be predicted and are influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing, local and regional economic conditions and homeowner mobility. No assurance can be given as to the level of prepayment, Redraws and Further Advances that the Mortgage Pool will experience. See "Weighted Average Lives of the Notes".

Conflict between classes of Noteholders

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Noteholders and the other Secured Creditors as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to: (i) (for so long as there are any Senior Notes outstanding) the interests of the holders of the Senior Notes (as a single class) if, in the Trustee's opinion, there is a conflict between the interests of (A) the holders of the Senior Notes and (B) the other Noteholders and/or any other Secured Creditors; (ii) (if there are no Senior Notes outstanding) the interests of the holders of the Class M Notes if, in the Trustee's opinion, there is a conflict between the interests of (A) the holders of the Class M Notes and (B) the other Noteholders and/or any other Secured Creditors; (iii) (if there are no Senior Notes or Class M Notes outstanding) the interests of the holders of the Class B Notes if, in the Trustee's opinion, there is a conflict between the interests of (A) such Class B Noteholders and (B) the other Noteholders and/or any other Secured Creditors; (iv) (if there are no Senior Notes, Class M Notes or Class B Notes outstanding) the interests of the holders of the Class C Notes if, in the Trustee's opinion, there is a conflict between the interests of (A) such Class C Noteholders and (B) the other Noteholders and/or any other Secured Creditors; (v) (if there are no Senior Notes, Class M Notes, Class B Notes or Class C Notes outstanding) the interests of the holders of the Class D Notes if, in the Trustee's opinion, there is a conflict between the interests of (A) such Class D Noteholders and (B) the Class E Noteholders and/or any other Secured Creditors or (vi) (if there are no other Notes outstanding) the interests of the Class E Noteholders if, in the Trustee's opinion, there is a conflict between (A) the interests of such Noteholders and (B) any other Secured Creditors. To the extent that the Trustee follows the directions of the party entitled to give such directions in accordance with the preceding sentence, it shall have no obligation to take the interest of any other party into account or to follow the directions given by any other party.

The Mortgages

Borrowers

The Mortgage Pool may include loans made to Borrowers who may previously have been subject to a County Court Judgment, Borrowers who are self-employed and Borrowers who may be considered by bank and building society lenders not to meet their lending criteria for "prime" borrowers. However, certain other Lending Criteria (as set out in the "The Mortgage Pool – Lending Criteria") are utilised with a view, in part, to mitigating the risks in lending to such Borrowers. In particular, the Lending Criteria specifies that a Borrower may have up to two County Court Judgments only totalling no more than £500 and each of which must have been satisfied for at least two years before the mortgage is granted.

Lending Criteria

The Lending Criteria (as set out in "The Mortgage Pool – Lending Criteria") will have applied at the time of origination in respect of the Loans comprising the Provisional Mortgage Pool and will apply in respect of all Substitute Mortgages, Further Advances and Redraws. The criteria consider, among other things, a Borrower's credit history, employment history and status, repayment ability and debt-service-to-income ratio, as well as the value of the Property and, in the case of an RIP Mortgage, the value of the relevant rental stream. However there can be no assurance that the

Lending Criteria will not be varied or that Loans originated under different criteria may not become part of the Mortgage Pool.

Warranties

The Issuer and the Trustee will have the benefit of warranties given by CHL as at the Issue Date in relation to the Mortgages. Neither the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions in respect of the Mortgages and each will rely instead on, *inter alia*, the warranties given by CHL in the Mortgage Sale Agreement (the **Warranties**). The sole remedy (save as described below) of each of the Issuer and the Trustee in respect of a breach of Warranty (which in certain cases, must have a material adverse effect on the interests of the Issuer or the Trustee in the Mortgages and other rights assigned to the Issuer under the Mortgage Sale Agreement or on the ability of the Issuer (or the Mortgage Administrator on the Issuer's behalf) to collect payments on the Mortgages or on the ability of the Trustee to enforce the Security) (see "The Mortgage Pool - Warranties and Repurchase") shall be the requirement that CHL repurchases or procures the repurchase of, or substitutes or procures the substitution of a similar Mortgage in replacement for, any Mortgage which is the subject of any breach of Warranty, provided that this shall not limit any other remedies available to the Issuer and/or the Trustee if CHL fails to repurchase or procure the repurchase of a Mortgage when obliged to do so. CHL's obligation to repurchase shall be guaranteed by IL&P pursuant to the Repurchase Guarantee. There can be no assurance that IL&P will have the financial resources to honour such obligation to repurchase any such Mortgages.

Enforcement

In order to enforce a power of sale in respect of a Property, the relevant mortgagee (which may be the Issuer or the Trustee) must first obtain possession of the Property. Possession is usually obtained by way of a court order although this can be a lengthy and costly process and will involve the mortgagee assuming certain risks. See "The Mortgage Pool - Enforcement Procedures" for further details in respect of the enforcement process.

Administration of the Mortgages

Pursuant to the Mortgage Administration Agreement, CHL has the right to sub-delegate certain of its obligations as Mortgage Administrator. Notwithstanding any sub-delegation of the whole or any part of the Mortgage Administrator's duties under the Mortgage Administration Agreement, the Mortgage Administrator will not be released from its obligations thereunder.

No assurance can be given that upon termination of the appointment of the Mortgage Administrator, the Issuer and the Trustee will be able to appoint a suitable substitute administrator. However, pursuant to the terms of the Standby Servicer Agreement, IL&P will be appointed as Standby Servicer such that if the appointment of CHL as Mortgage Administrator is terminated, IL&P will assume such administrative functions or will procure that a third party will assume such administrative functions.

Collectability of Mortgages

The collectability of amounts due under the Mortgages is subject to credit, liquidity and interest rate risks and will generally fluctuate in response to, among other things, market interest rates, general economic conditions, the financial standing of Borrowers, the extent to which Borrowers make prepayments and Redraws under their Mortgages and other similar factors. Other factors (which may not affect real estate values) may have an impact on the ability of Borrowers to repay Mortgages. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies and bankruptcy filings by Borrowers and could ultimately have an adverse impact on the ability of Borrowers to repay Mortgages.

In addition, the ability of the Issuer to dispose of a Property at a price sufficient to repay the amounts outstanding under the relevant Mortgage will depend on the availability of buyers for the Property.

Risks of Losses Associated with Rising Mortgage Rates

The interest rates payable under the Variable Rate Mortgages and the Discount Rate Mortgages and the Fixed Rate Mortgages at the end of their discounted or fixed period (as the case may be) may be subject to variations. The Issuer could be subject to a higher risk of default in payment by a Borrower under a Mortgage as a result of an increase in interest rates.

Risks of Losses Associated with Declining Property Values

The security for the Notes consists of, *inter alia*, the Issuer's interest in the Mortgages. This security may be affected by, among other things, a decline in property values. No assurance can be given that values of the Properties have remained or will remain at the level at which they were on the dates of origination of the related Mortgages. If the residential property market in the United Kingdom should experience an overall decline in property values, such a decline could in certain circumstances result in the value of the security created by the Mortgages being significantly reduced and, ultimately, may result in losses to the Noteholders if such security is required to be enforced.

Investors should be aware that, other than the valuation of Properties undertaken as at origination of the original Mortgage or prior to the making of a Further Advance (as applicable) (as more fully described in "The Mortgage Pool – Lending Criteria"), no revaluation of any Property has been undertaken by CHL, the Issuer, the Mortgage Administrator, the Cash/Bond Administrator, the Trustee or any other person for the purposes of the transactions described in this Offering Circular.

Risk of Losses Associated with Non-Owner Occupied Properties

Approximately 75.3 per cent. (by current balance) of the Mortgages in the Provisional Mortgage Pool as at 31 August, 2004 are RIP Mortgages. It is intended that the Properties which secure such Mortgages will be let by the relevant Borrower to tenants but there can be no guarantee that each such Property will be the subject of an existing tenancy when the relevant Mortgage is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Mortgage and/or the rental income achievable from tenancies of the relevant Property over time will be sufficient to provide the Borrower with sufficient income to meet the Borrower's obligations in respect of the Mortgage.

Consequently, the security for the Notes may be affected by the condition of the private residential rental market in the United Kingdom. The condition of the market will influence both the ability of the Borrower to find tenants and the level of rental income which may be achieved in letting. However, the obligations of a Borrower to make payment under the Mortgage are unconditional without regard to whether the Property is let or the amount of rent received by the Borrower from the relevant tenant.

Upon enforcement of a Mortgage in respect of a Property, which is the subject of an existing tenancy, the Mortgage Administrator may not be able to obtain vacant possession of that Property until the end of the tenancy. If the Mortgage Administrator enforces while the tenancy is continuing and sells the Property as an investment property with one or more tenants in situ, it may affect the amount which may be realised in the sale although the existence of any such tenant paying rent in full on a timely basis may not have an adverse affect on the amount of such realisation. However, because most tenancies are only for six or twelve months, a tenanted property will often be vacated sooner than an owner-occupied property. Additionally, enforcement procedures in relation to such Mortgages include the ability to appoint a receiver of rent in which case such a receiver would collect any rents payable in respect of such Property and apply them in payment of any arrears of principal and interest under the Mortgage.

The RIP Mortgages have been underwritten in accordance with the standards described in "The Mortgage Pool – Lending Criteria". These underwriting standards consider, among other things, a Borrower's credit and employment history, employment status, the loan to total lend ratio of all properties owned by the relevant Borrower subject to a first ranking all monies charge in favour of CHL, the maximum threshold for which is lower than the LTV applicable to owner-occupiers, and valuations of the monthly rental income achievable.

Risk of Losses Associated with Interest Only Mortgages

Approximately 63.6 per cent. (by current balance) of the Mortgages in the Provisional Mortgage Pool as at 31 August, 2004 constitute Interest Only Mortgages (see "The Mortgage Pool – Characteristics of the Provisional Mortgage Pool"). Interest Only Mortgages are originated with a requirement that the Borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest Only Mortgage, the Borrower will be required to make a bullet payment that will represent the entirety of the principal amount outstanding. The ability of such a Borrower to repay an Interest Only Mortgage at maturity frequently depends on such Borrower's ability to refinance the Property or to obtain funds from another source such as pension policies, individual savings accounts, personal equity plans or endowment policies. The ability of a Borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the Borrower's equity in the Property, the financial condition of the Borrower, tax laws and general economic conditions at that time.

In the case of Interest Only Mortgages (other than RIP Mortgages and Non-Collateralised Interest Only Mortgages), the Borrowers are required to have a suitable source of funds to repay the Interest Only Mortgage such as a pension policy, individual savings account, personal equity plan or endowment policy (each a **Collateral Policy**). The Borrower is not required to assign the relevant Collateral Policy to CHL.

In relation to all Mortgages, applicants are requested to ensure that they have adequate life cover in place to repay the advance in the event of their death prior to the end of the Mortgage term. Although the Borrower is not required to assign the relevant life policy to CHL, the Borrower must deposit the policy with CHL, thereby granting security over the policy to CHL.

Geographical Concentration

Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than will other regions, and, consequently, will experience higher rates of loss and delinquency on mortgages generally. Mortgages over Properties in the South East of England, the South West of England and London represent approximately 47.2 per cent., 13.1 per cent. and 9.9 per cent. (by current balance), respectively, of the total balance of Mortgages in the Provisional Mortgage Pool. Such concentrations may present risk considerations in addition to those generally present for similar mortgage backed securities without such concentrations. See "The Mortgage Pool – Characteristics of the Provisional Mortgage Pool".

Certain Legal Considerations

Effect of Equitable Assignment

The transfer of the beneficial title to the Mortgages and the granting of a right for the Issuer to call for the legal title to the Mortgages in certain limited circumstances will be effected pursuant to the Mortgage Sale Agreement. Legal title in the Mortgages as of the Issue Date will continue to be vested in CHL. The consequence of the assignment or transfer of the Mortgages taking effect in equity only is that the rights of the Issuer and the Trustee may be, or may become, subject to equities (for example, rights of set-off between the Borrowers and CHL) as well as to the interests of third parties who perfect a legal interest prior to the Issuer or the Trustee acquiring and perfecting a legal interest (such as, in the case of Mortgages over unregistered land, a third party acquiring a legal interest in the relevant Mortgage without notice of the Issuer's or Trustee's interests or, in the case of Mortgages over registered land, a third party acquiring a legal interest by registration prior to the registration of the Issuer's or the Trustee's interests). Furthermore, the Issuer's and the Trustee's interests will be subject to equitable interests of third parties which may rank in priority to their interests in accordance with the normal rules governing the priority of equitable interests in the case of both registered and unregistered land.

The risk of such equities and other interests leading to third party claims obtaining priority over the interests of the Issuer or the Trustee in the Mortgages, the collateral security therefor and the Insurance Contracts is likely to be limited to circumstances arising from a breach by CHL or the Issuer of its or their contractual or other obligations or fraud or mistake on the part of any of CHL or the Issuer or of its or their respective officers, employees or agents.

Furthermore, until the Issuer or the Trustee has obtained legal title to the Mortgages, CHL must be joined as a party to any legal proceedings which the Issuer and the Trustee may wish to take against any Borrower to enforce their rights under the relevant Mortgage. In this respect, CHL will, pursuant to the Mortgage Sale Agreement, undertake for the benefit of the Issuer and the Trustee that it will join in any legal proceedings brought by the Issuer or the Trustee against any person relating to a Mortgage and related rights agreed to be sold to the Issuer pursuant to the Mortgage Sale Agreement and such undertaking will be secured by a power of attorney granted by CHL in favour of the Issuer and the Trustee enabling the Issuer and the Trustee to take proceedings in the name of CHL.

Effect of set-off

Where a Borrower has a valid claim against a mortgagee, that Borrower will be entitled to set-off payment otherwise due to that mortgagee to the extent of the Borrower's claim where the Borrower's claim arises out of the contract in respect of which the mortgagee claims payment (that is, the related loan document) or in respect of closely connected transactions.

A Borrower may have a right of set-off in respect of an obligation to fund a Redraw if such Redraw was not made in circumstances where CHL (on behalf of the Issuer) was contractually obliged to do so. If a Borrower were to attempt to set-off, the amount he or she could set-off would be limited to the damages that Borrower suffered as a result of the breach by CHL of such contractual obligation. The likely measure of damages would be the difference, if any, between the cost of borrowing from CHL (on behalf of the Issuer) and the cost of borrowing from another lender.

It is strongly arguable, based on the wording in the loan documents relating to those Mortgages comprising the Mortgage Pool in respect of which a Borrower may request a Redraw, that CHL (on behalf of the Issuer) has the discretion to refuse such a request, whether or not CHL (in its own right or on behalf of the Issuer) had previously permitted any such Redraw by that Borrower. Furthermore, the relevant Mortgages provide that although the Mortgage secures Redraws, the mortgagee is not obliged to make them, further supporting this argument.

Where a discretion rather than an obligation exists, the right of set-off in the circumstances set out above would not arise. It is possible, however, that a Borrower may seek to argue that any decision by CHL (on behalf of the Issuer) to refuse a Redraw must be based on CHL (on behalf of the Issuer) having taken additional references and valuations and made its refusal on the basis of information contained therein. That is, that the Redraw constitutes a further advance which CHL (on behalf of the Issuer) is obliged to make unless a change of circumstances of the Borrower has occurred. The foregoing risk is mitigated by mechanisms described in this Offering Circular designed to provide the Issuer with funds to enable the Mortgage Administrator (on behalf of the Issuer) to make Redraws in certain circumstances (see "Summary Information - Priority of Payments Prior to Enforcement", "Summary Information - Permitted Utilisation Amounts" and "Credit and Liquidity Structure - Redraw Facility").

Loans Regulated by the Consumer Credit Act 1974

Mortgage loans are regulated by the Consumer Credit Act 1974 (the **Consumer Credit Act**) where the "amount of credit" (as defined in the Consumer Credit Act) does not exceed the financial limit, which is £25,000 for mortgage loans made on or after 1st May, 1998 and £15,000 for mortgage loans made before that time. The Office of Fair Trading (the **OFT**) is responsible for the issue of licences and has enforcement powers under the Consumer Credit Act.

Although the Issuer does not intend to acquire mortgages that are regulated by the Consumer Credit Act, some of the Mortgages (a) are partly regulated by the Consumer Credit Act (and may give rise to liability under Section 75 of the Consumer Credit Act) in that they also finance the supply of mortgage protection insurance under arrangements with the supplier or (b) might be wholly or partly regulated by the Consumer Credit Act because of technical rules on determining whether the financial limit is exceeded or (c) might be treated as wholly or partly regulated by the Consumer Credit Act because of technical rules on agreements varied bilaterally.

A Mortgage that is wholly or partly regulated by the Consumer Credit Act or is to be treated as such has to comply with requirements under the Consumer Credit Act as to content, layout and

execution of the Mortgage. If it does not comply, then to the extent that it is regulated or to be treated as such the Mortgage is unenforceable without a court order if the form to be signed by the Borrower is not signed by the Borrower or omits or mis-states a "prescribed term" and, in exercising its discretion whether to make the order, the court would take into account any prejudice suffered by the Borrower and any culpability by the lender.

Under the terms of the Mortgage Sale Agreement, CHL will represent and warrant as at the Issue Date that each Loan and its related Mortgage (i) is not or does not include a regulated consumer credit agreement (as defined in Section 8 of the Consumer Credit Act) and does not constitute any other agreement regulated or partly regulated by the Consumer Credit Act (other than Sections 137 to 140 of such Act) or any modification or re-enactment thereof or, (ii) to the extent that it is so regulated or partly regulated, is not unenforceable as a result of any non-compliance with the Consumer Credit Act. See further "The Mortgage Pool – Warranties and Repurchase".

In addition, it is a condition to the making of a Further Advance or a Redraw that to the extent that the Mortgage Administrator has reason to believe that the Further Advance or Redraw may result in a regulated agreement (as defined in the Consumer Credit Act), the applicable provisions of the Consumer Credit Act relating to the regulated agreements will be complied with. See further "The Mortgage Pool – Further Advances" and "The Mortgage Pool – Redraws".

On 8 December, 2003 the Department of Trade & Industry (the DTI) published a White Paper proposing amendments to the Consumer Credit Act and to secondary legislation made under it (the **White Paper**). A number of the proposals, have been incorporated in new regulations, some of which come into force in October 2004 and some in May 2005. These proposals include a requirement to provide certain information to consumers before they enter into a contract and also amend the information required to be included in contracts in order to make the significant contractual terms more readily available and clearer. A more consistent basis for calculating the APR is specified and changes are made to the advertising regime with a view to promoting clarity and facilitating comparability between different products. Changes are also proposed in relation to amounts payable on early settlement, which will have to be calculated on a specified actuarial basis rather than using the "Rule of 78". These changes will not apply to existing loans, except that the new early settlement rules will apply to existing loans from 15 June, 2007 (in relation to loans for a term of 10 years or less) and 1 June, 2010 (in relation to loans for a term greater than 10 years).

The White Paper also proposes other changes to be made by primary legislation at an unspecified time. These include the replacement of the concept of an "extortionate credit bargain", which may be reopened by the courts, with the wider concept of an unfair credit transaction, which would take into account unfair lending practices as well as the cost of the credit. Alternative dispute resolution procedures outside the courts are proposed for consumer credit transactions. The DTI also proposes widening the scope of the legislation by abolishing the £25,000 financial limit for transactions with individuals (although not businesses). Therefore, any mortgage loan secured by a second charge or heritable security over £25,000 (except for certain loans made by banks and other specified entities) would be within the ambit of Consumer Credit Act regulation. In addition, it wishes to reform the licensing regime by strengthening the current test of fitness to hold a licence.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999 (the Regulations)

The Regulations affect all or almost all of the Mortgages and separate agreements for Further Advances in each case made on or after October 1999. The Regulations provide, *inter alia*, that a consumer may challenge a term in an agreement on the basis that it is "unfair" (as defined within the Regulations) and therefore not binding on the consumer. The Director General of Fair Trading and any "qualifying body" may seek to injunct a business against relying on unfair terms although the rest of the agreement will remain valid. This will not generally affect "core terms" which set out the main subject matter of the contract (for example, the Borrower's obligation to repay the principal) but may affect terms deemed to be ancillary terms which may include, for example, the ability to choose a substitute base rate of interest where the relevant base rate cannot be determined under the relevant loan agreement, other terms the application of which are at the lender's discretion and the calculation of Prepayment Charges.

In February 2000, the OFT issued a guidance note (the **Guidance Note**) on what the OFT considers to be "fair" or "unfair" within the Regulations for interest variation terms. The Guidance Note accepts the principle of a term linking an interest rate to an external rate which is outside the lender's control. It provides that, generally, the OFT and Consumers' Association will not regard such term as unfair if the lender explains at the outset how the interest rate is linked to the external rate and, if the link does not provide for precise and immediate tracking, the maximum margin of difference and the time limits within which changes will be made. All of the Base Rate Linked Mortgages are made on terms that provide for the mortgage rate to be at a fixed margin above the Bank of England's base rate and that explain when and how the tracking will take effect.

The Guidance Note was withdrawn by the OFT in 2001 and is currently under review by the OFT and the Financial Services Authority. The Financial Services Authority has agreed with the OFT to take responsibility for the enforcement of the Regulations in mortgage agreements. It is not yet known to what extent the Financial Services Authority might take a different approach to interest variation terms.

In August 2002 the Law Commission for England and Wales and the Scottish Law Commission published a Joint Consultation Paper proposing changes to the Regulations, including harmonising provisions of the Regulations and the Unfair Contract Terms Act 1977, applying the Regulations to business-to-business contracts and revising the Regulations to make them "clearer and more accessible". The closing date for comments on this consultation was 8 November 2002 and a final report (together with a draft bill) is expected in 2004. No assurances can be given that changes to the Regulations, if implemented, will not have an adverse effect on CHL, the Issuer or the Mortgage Administrator.

EU Savings Directive

On 3 June, 2003, the European Council of Economics and Finance Ministers adopted a directive on the taxation of savings income under which Member States will be required, if a number of important conditions are met and from 1 July, 2005, to provide the tax authorities of other Member States with details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual in another Member State, except that, for a transitional period, Austria, Belgium and Luxembourg will instead impose (unless during that period they elect otherwise) a withholding system in relation to such payments (ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The attention of Noteholders is drawn to Condition 8 of the Notes.

European Monetary Union

It is possible that prior to the maturity of the Notes the United Kingdom may become a participating Member State in the European Economic and Monetary Union and the Euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of the Notes may become payable in Euro; (ii) applicable provisions of law may allow the Issuer to redenominate the Notes into Euro and take additional measures in respect of the Notes; and/or (iii) the introduction of the Euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in Sterling used to determine the rates of interest on the Notes or changes in the way those rates are calculated, quoted and published or displayed. If the Notes are outstanding at a time when the Euro becomes the lawful currency of the United Kingdom, the Issuer intends to make payment on the Notes in accordance with the then market practice of payment of such debts. It cannot be said with certainty what effect, if any, the adoption of the Euro by the United Kingdom will have on investors in the Notes.

Proposed European Directive

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council on the harmonisation of the laws, regulations and administrative provisions of the Member States concerning credit for consumers and surety agreements entered into by consumers. The existing consumer credit directive only targets hire-purchase agreements and instalment credit whereas the proposed new directive is intended to extend to all credit and surety agreements including guarantors, overdraft facilities, rolling credit and financial leases, and

excludes credit advance granted occasionally by an employer to his staff. The proposal would require lenders to advise borrowers on the most appropriate product in their product range so that lenders must identify the most favourable or least expensive product. Lenders would have to assess a borrower's ability to repay before being allowed to grant new credit. Consumers would be given certain rights such as the right of withdrawal within 14 days, free of charge and without justification. The proposed directive also provides for the registration of lenders and credit intermediaries, deals with the liability of lenders where suppliers of goods and services act as their intermediaries and affords certain protections to personal guarantors. The concept of the total cost of credit to the consumer, which is expressed in the annual percentage rate (APR), is to be harmonised to improve comparability of products.

The latest and most significant development is the European Parliament's proposed amendments of 16 March, 2004. The proposed amendments exclude certain types of loans from the scope of the directive and modify the level of harmonisation (although the directive may still require full harmonisation in certain areas, for example in relation to the annual percentage rate of change). The proposals also include provisions to ensure standardised information about credit offers and credit agreements, in particular requiring that the information to be provided should include an APR of charge applicable to the credit, the duration of the agreement, the number and amount of monthly repayments and the total cost of credit. The proposals seek to ensure that each Member State grants cross-border access to databases by creditors from other Member States under the same conditions as for firms and individuals in their own country. It is proposed that a consumer who withdraws his acceptance of an agreement for the supply of goods or services shall no longer be bound by his acceptance of a consumer credit agreement linked to the supply agreement. The proposals also include requirements as to the type of information to be given to consumers in relation to the provision of overdrafts.

The proposed directive may be substantially further amended before it is brought into effect. In any event, the proposal is unlikely to come into force before 2006 as the co-decision procedure of the European Parliament and the Council, from the publication of the proposal to the coming into force of the new consumer credit directive, is likely to take at least two years and members states will then have a further two years in which to bring national implementation legislation into force. The DTI is currently in consultation with consumer and industry organisations in relation to this proposal.

Dutch Banking Regulations

Article 32 of the Dutch Credit System Supervision Act (the CSSA) provides that a company established in another EU member state that qualifies as a "credit institution" as defined in the CSSA, is not allowed to attract repayable funds from the public by offering its services in The Netherlands, unless it is licensed in its home state as a credit institution and has obtained a single passport for the provision of cross border services in The Netherlands. Unfortunately, the definition of credit institution in the CSSA is rather broad and includes any entity that attracts repayable funds and invests these funds for its own account and therefore would include SPVs like the Issuer.

Despite the wording of article 32 of the CSSA, it is currently being discussed between the Dutch Central Bank and the Ministry of Finance if article 32 should really apply to non licensed foreign entities that attract funds in the Netherlands. The relevant authorities are currently inclined to accept the view that Article 32 should only apply to licensed credit institutions (and therefore not for unlicensed non-Dutch SPVs). However although it is doubtful that it is the intention that article 32 CSSA should apply to foreign non licensed SPVs, investors should be aware that should it be ruled that article 32 of the CSSA does apply to the Issuer the Issuer would be subject to an administrative fine pursuant to the CSSA and a fine for committing a criminal offence.

Withholding Tax

Payments of interest and principal on the Notes may become subject to any withholding taxes applicable to the Notes and neither the Issuer nor the Paying Agents will be obliged to pay additional amounts in relation thereto or otherwise compensate Noteholders for the lesser amounts they will receive as a result of the imposition of such withholding taxes.

In the event of certain tax changes (including either the Issuer or the Basis Swap Counterparty being required to deduct or withhold from any payment under the Basis Swap Agreements), the Issuer will have the option (but not the obligation) of redeeming all (but not some only) of the Notes (see further Condition 5(e)). There can be no assurance that the Issuer will exercise such option. If the Issuer does not exercise such option, amounts payable to or by the Issuer may be reduced by the amount of any applicable withholding taxes thereby reducing amounts available to Noteholders.

Regulatory Framework

The UK government announced in January 2000 that it would introduce statutory regulation for UK residential mortgage lending. The scope of the regulation is set out in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (the **RAO**). The RAO provides that the following will be regulated activities: (i) entering into a regulated mortgage contract, (ii) administering a regulated mortgage contract, (iii) providing mortgage advice and (iv) arranging mortgage loans. These activities will also be brought within the scope of the Financial Ombudsman Service. The new regulatory regime relating to regulated mortgage contracts will come into effect on 31 October 2004.

In October 2003, the FSA published its **Mortgages: Conduct of Business Sourcebook (MCOB)** which sets out its final rules in respect of mortgage regulated activities. Those rules apply to mortgages entered into after 31 October, 2004, and will also apply to further advances effected not by way of a variation but by way of a novation creating fresh agreements. These rules cover, amongst other things, pre-contract disclosure, post contract disclosures, rules for modifying contracts, charges, arrears and repossessions and certain pre-origination matters, such as financial promotions and pre-application illustrations.

In March 2003 the FSA published a consultation paper covering the changes the FSA is proposing to make to the FSA handbook relating to prudential and authorisation requirements placed on authorised persons in respect of regulated mortgage activities. The FSA's policy statement and near final rules on the prudential and other requirements were published in September 2003 and the FSA made those rules on 15 January, 2004.

An unauthorised person who administers a regulated mortgage contract entered into after 31 October, 2004 may commit an offence, and this will render the contract unenforceable against the borrower. However, if the person is authorised, but not for activities relating to regulated mortgages, otherwise enforceable agreements will not be rendered unenforceable. An unauthorised person may arrange for an authorised person to administer his mortgage contracts but if that arrangement comes to an end, that unauthorised person may commit an offence if it administers the mortgage contracts for more than one month.

Under the incoming rules regarding administration of mortgages, Article 62 RAO does not require persons that administer regulated mortgage contracts to be authorised if they make arrangements for an authorised person to administer those contracts on their behalf. This is to ensure that special purpose vehicles set up as part of a securitisation do not need to seek authorisation from the FSA so that any such reasonable business disposals are not unduly restricted.

Bringing the activities of arranging and advising on a regulated mortgage within the ambit of the regulatory regime is not intended to affect the practice of securitisation. It is envisaged that even though an SPV may need to exercise rights under a regulated mortgage contract, it should be possible for the institutions involved in the securitisation arrangement to ensure that only a single authorised institution has the ongoing regulatory interface with the Borrower.

Currently in the United Kingdom, self-regulation of mortgage business is under the Mortgage Code (the **MCOB Code**) issued by the Mortgage Code Compliance Board. The Seller currently subscribes to the MCOB Code. The MCOB Code sets out a minimum standard of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties.

In March 2001, the European Commission published a Recommendation to member states urging their lenders to subscribe to the code issued by the European Mortgage Federation. On 26 July, 2001, the Council of Mortgage Lenders (the **CML**) decided to subscribe to the code

collectively on behalf of its members. Lenders had until 30 September, 2002 to implement the code, an important element of which is provision to consumers of a "European Standardised Information Sheet" (an **ESIS**) similar to the pre-sale disclosure proposed by the FSA. While compliance with the code is voluntary, if the code is not effective, the European Commission is likely to see further pressure from consumer bodies to issue a Directive on mortgages and the regulation of residential mortgage lending.

Change in Law

The structure of the issue of the Notes are based on English law and United Kingdom tax, regulatory and administrative practice in effect as at the date of this Offering Circular and having due regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to the impact of any possible change to English law and United Kingdom tax, regulatory or administrative practice after the date of this Offering Circular.

No assurance can be given that the OFT, the FSA or any other regulatory authority will not in the future take action or that future adverse regulatory developments will not arise with regard to the mortgage market in the United Kingdom generally, CHL's particular sector in that market or specifically in relation to CHL. Any such action or developments may have a material adverse effect on the Issuer and/or the Mortgage Administrator and their respective businesses and operations. This may adversely affect the ability of the Issuer to make payment in full on the Notes when due.

Insolvency Act 2000

The Insolvency Act 2000 has amended the Insolvency Act 1986 with effect from 1 January, 2003 so as to allow certain "small companies", as part of the company voluntary arrangement procedure, to seek court protection from their creditors by way of a moratorium for a period of up to 28 days, with the option for creditors to extend this protection for up to a further two months (although the Secretary of State for Trade and Industry may, by order, extend or reduce the duration of either period).

A **small company** is defined for these purposes by reference to whether the company meets two or more of certain tests contained in Section 247(3) of the Companies Act 1985, relating to a company's balance sheet, total turnover and average number of employees in a particular period. The position as to whether or not a company is a "small company" may change from period to period, depending on its financial position and average number of employees during that particular period. The relevant Secretary of State may by regulations also modify the qualifications for eligibility of a company for a moratorium and may also modify the present definition of a "small company". Accordingly, the Issuer may, at any given time, come within the ambit of the "small companies" provisions, such that the Issuer may (subject to the exemptions referred to below) be eligible to seek a moratorium, in advance of a company voluntary arrangement.

During the period for which a moratorium is in force in relation to a company, amongst other things, no winding up may be commenced or administrator appointed to that company, no administrative receiver of that company may be appointed, no security created by that company over its property may be enforced (except with the leave of the Court) and no other proceedings or legal process may be commenced or continued in relation to that company (except with the leave of the Court). In addition, if the holder of security (the **chargee**) created by that company consents or if the Court gives leave, the company may dispose of the secured property as if it were not subject to the security. Where the property in question is subject to security which, as created, was a floating charge, the chargee will have the same priority in respect of any property of the company directly or indirectly representing the property disposed of as he would have had in respect of the property subject to that security. Where the security in question is that other than a floating charge, it shall be a condition of the chargee's consent or the leave of the Court that the net proceeds of the disposal shall be applied towards discharging the sums secured by the security. Further, during the period for which a moratorium is in force in respect of a company it may not make any payments with respect to debts or liabilities existing prior to the date of filing for a moratorium unless (i) there are reasonable grounds for believing the payment will benefit the company, and (ii) the payment is approved by a committee of creditors of the company if established or, if not, by the nominee of the proposed company voluntary arrangement.

Certain companies which qualify as small companies for the purposes of these provisions may be, nonetheless, excluded from being so eligible for a moratorium under the provisions of the Insolvency Act 1986 (Amendment No. 3) Regulations 2002, which were made on 25 July, 2002 and came into force on 1 January, 2003. Companies excluded from eligibility for a moratorium include those which are party to an agreement which forms part of a capital market arrangement, under which a debt of at least £10 million is or is expected to be incurred and which involves the issue of a capital market investment. The definitions of "capital market arrangement" and "capital market investment" are such that, *inter alia* in general terms, any company which is a party to an arrangement which involves at least £10 million of debt, the granting of security to a trustee, and the issue of a rated, listed or traded debt instrument, is excluded from being eligible for a moratorium. The Secretary of State may modify the criteria by reference to which a company otherwise eligible for a moratorium is excluded from being so eligible.

Accordingly, the provisions described above will serve to limit the Trustee's ability to enforce the Security to the extent that, first, the Issuer falls within the criteria for eligibility for a moratorium at the time a moratorium is sought; and secondly, the directors of the Issuer seek a moratorium in advance of a company voluntary arrangement; and, thirdly, the Issuer is considered not to fall within the capital market exception (as expressed or modified at the relevant time) or any other applicable exception at the relevant time. In those circumstances, the enforcement of any security by the Trustee, as applicable, will be for a period prohibited by the imposition of the moratorium. In addition, the other effects resulting from the imposition of a moratorium described above may impact the transaction in a manner detrimental to the Noteholders.

It should be noted that the UK Financial Collateral Regulations (Financial Collateral Arrangements (No 2) Regulations (SI 2003/3226)) (the **UK Regulations**) which came into force on 26 December 2003 (which implemented the EU Financial Collateral Directive (2002/47/EC) (the **EU Directive**) into domestic legislation) may ameliorate the detrimental effect of the moratorium described above on Noteholders, if the security to be granted comes within the definition of a financial collateral arrangement in the UK Regulations. If this is the case, the moratorium provisions are disapplied, thereby allowing the enforcement of security.

Enterprise Act 2002

On 15 September 2003, the corporate insolvency provisions of the Enterprise Act 2002 (the **Act**) came into force, amending certain provisions of the Insolvency Act 1986 (as amended, the **Insolvency Act**). These provisions introduced significant reforms to corporate insolvency law. In particular, the reforms restrict the right of the holder of a floating charge to appoint an administrative receiver (unless the security was created prior to 15 September 2003 or an exception applies) and instead give primacy to collective insolvency procedures (in particular, administration). Previously, the holder of a floating charge over the whole or substantially the whole of the assets of a company had the ability to block the appointment of an administrator by appointing an administrative receiver, who would act primarily in the interests of the floating chargeholder. The Insolvency Act contains provisions that continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security which form part of a capital market arrangement (as defined in the Insolvency Act) and which involves indebtedness of at least £50,000,000 (or, when the relevant security document (being, in respect of the transactions described in this Offering Circular, the Deed of Charge) was entered into, a party to the relevant transaction (such as the Issuer) was expected to incur a debt of at least £50,000,000) and the issue of a capital market investment (also defined but generally a rated, listed or traded investment). It is expected that the security that the Issuer will grant to the Trustee will fall within the capital markets exception. However, it should be noted that the relevant Secretary of State may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this document, will not be detrimental to the interests of the Noteholders.

The Insolvency Act also contains a new out-of-court route into administration for a qualifying floating chargeholder, the directors or the relevant company itself. The relevant provisions provide for

a notice period during which the holder of the floating charge can either agree to the appointment of the administrator proposed by the directors or the company or appoint an alternative administrator, although a moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating chargeholder does not respond to the directors' or company's notice of intention to appoint, the directors' or, as the case may be, the company's appointee will automatically take office after the notice period has elapsed. Where the holder of a qualifying floating charge within the context of a capital market transaction retains the power to appoint an administrative receiver, such holder may prevent the appointment of an administrator (either by the new out-of-court route or by the court based procedure) by appointing an administrative receiver prior to the appointment of the administrator being completed. The new provisions of the Insolvency Act give primary emphasis in relation to administration to the rescue of a company as a going concern and achieving a better result for the creditors as a whole. No assurance can be given that the primary purpose of the new provisions will not conflict with the interests of Noteholders were the Issuer ever subject to administration.

The Act also removes the Crown's preferential rights (section 251) and section 176A of the Insolvency Act makes provisions to ensure that unsecured creditors, as opposed to floating charge holders, take the benefits of this change. Under this latter provision the unsecured creditors will have recourse to the floating charge assets up to a fixed amount (the **prescribed part**) in priority to the holder of the floating charge concerned. The prescribed part will be 50 per cent. of the first £10,000 of floating charge assets; then 20 per cent. of the remaining floating charge assets until the prescribed part reaches a maximum of £600,000. The obligation on the insolvency officeholder to set aside the prescribed part for unsecured creditors does not apply if the floating charge realisations are less than £100,000 and the officeholder is of the view that the costs of making a distribution to unsecured creditors would be disproportionate to the benefits. The prescribed part will apply to all floating charges created on or after 15 September 2003 regardless as to whether they fall within one of the exceptions or not. However, this provision is unlikely to be of practical significance in the case of a special purpose entity such as the Issuer, which is subject to substantial restrictions on its activities (see Condition 3). As a result of those restrictions the Issuer will only have a limited ability to incur unsecured liabilities (as would any holding company of the Issuer which is subject to similar restrictions).

Changes to the Basel Capital Accord (Basel II)

In June 2004, the Basel Committee on Banking Supervision (the **Committee**) published the new capital adequacy framework on the Bank for International Settlements' web-site: the International Convergence of Capital Measurement and Capital Standards: a Revised Framework (**Basel II**). Basel II will replace the 1988 Capital Accord and contains a new set of standards for determining the minimum capital requirements for banking organisations and places enhanced emphasis on market discipline and sensitivity to risk. It is the intention of the Committee that, for the most part, the new framework will be available for implementation by member jurisdictions by the end of 2006. However, for more advanced approaches to risk measurement, implementation will not occur until the end of 2007. In addition a capital floor may be imposed on some banks until 2009. In order for the new framework to be put into effect for credit and financial institutions in Europe it will need to be implemented via an EU Capital Adequacy Directive, proposals for which have been presented by the European Commission. Basel II may, amongst other things, affect the risk-weighting of the Notes in respect of certain investors if those investors are regulated in a manner which will be affected by the new framework. Consequently, prospective purchasers should consult their own advisers as to the consequences of and the effect on them of, the implementation of Basel II.

Pursuant to the Conditions of the Notes, on any Payment Date, the Issuer may (upon the satisfaction of certain conditions) redeem the Notes (in whole but not in part) in the event that Basel II is implemented in the United Kingdom (see "Terms and Conditions of the Notes").

CREDIT AND LIQUIDITY STRUCTURE

The Senior Notes are expected, on issue, to be assigned an Aaa rating by Moody's, an AAA rating by Fitch and an AAA rating by S&P. The Class M Notes are expected, on issue, to be assigned an Aa2 rating by Moody's, an AAA rating by Fitch and an AAA rating by S&P. The Class B Notes are expected, on issue, to be assigned an Aa3 rating by Moody's, an AA rating by Fitch and an AA rating by S&P. The Class C Notes are expected, on issue, to be assigned an A3 rating by Moody's, an A rating by Fitch and an A rating by S&P. The Class D Notes are expected, on issue, to be assigned a Baa3 rating by Moody's, a BBB rating by Fitch and a BBB rating by S&P. The Class E Notes are expected, on issue, to be assigned a Ba2 rating by Moody's, a BB rating by Fitch and a BB rating by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any of the Rating Agencies. The structure of the credit arrangements is summarised below.

Payments of Interest:

While the Senior Noteholders receive payments of interest on a *pari passu* basis, the remaining Noteholders will not be entitled to receive any payment of interest unless (i) all amounts of interest then due to the holders of the more senior Notes have been paid in full and (ii) the relevant PDL and Arrears Test has been met.

Initial Available Funds:

Prior to any determination by the Cash/Bond Administrator as to whether it will need to draw on the Reserve Ledger or any Liquidity Facility (as to which see further below) for the purposes of making payments under the Priority of Payments on any Interest Payment Date, the Cash/Bond Administrator will first determine whether, on any Determination Date, it will have sufficient funds (the **Initial Available Funds**) to make all of the payments provided for under items (i) to (xviii) inclusive of the Priority of Payments on the immediately succeeding Interest Payment Date. Prior to the Interest Payment Date on which the Notes are to be redeemed in full, Initial Available Funds in respect of a Determination Date will comprise the aggregate of the following:

- (a) amounts standing to the credit of the Transaction Account at the close of business on the business day immediately preceding that Determination Date;
- (b) interest which is expected to be credited to the Issuer's Accounts on or prior to the immediately succeeding Interest Payment Date including interest which is expected to be paid to the Issuer by the GIC Provider pursuant to the Reserve Account GIC Agreement and interest payable in respect of Authorised Investments;
- (c) the aggregate of the interest amounts expected to be received from Borrowers in respect of Mortgages by way of direct debit in the period on and from that Determination Date to and including the immediately succeeding Interest Payment Date; and
- (d) net amounts calculated to be receivable by the Issuer under the Basis Swap Agreements on or prior to the immediately succeeding Interest Payment Date,

less any Excluded Items. On the Interest Payment Date on which the Notes are to be redeemed in full, the Initial Available Funds will also include amounts standing to the credit of the Reserve Ledger.

Reserve Ledger and Reserve Account GIC Agreement:

A segregated account (the **Reserve Account**) will be established in the name of the Issuer at Barclays Bank PLC, acting through its branch at 54 Lombard Street, London EC3V 9EX (the **Reserve Account Bank**). The operation of the Reserve Account is set out in the Bank Agreement (Reserve Account) as agreed between, *inter alia*, the Issuer, CHL and the Cash/Bond Administrator. (the **Bank Agreement (Reserve Account)**) The following amounts, *inter alia*, (together, the **Reserve Ledger Required Amount**) shall be deposited in the Reserve Account and credited to a ledger (the **Reserve Ledger**) therein:

- (i) on the Issue Date, £5,000,000 (represented by amounts drawn under Tranche B of the Subordinated Loan); and
- (ii) on any Interest Payment Date following the Issue Date, amounts paid pursuant to item (xix) of the Priority of Payments, up to an aggregate amount standing to the credit of that ledger of £13,500,000.

Any monies remaining in the Transaction Account on an Interest Payment Date following the application of the Priority of Payments which are not expected to be applied prior to the following Interest Payment Date may also, at the discretion of the Cash/Bond Administrator, be placed in the Reserve Ledger. The Issuer will be obliged to maintain the Reserve Ledger at the level of the Reserve Ledger Required Amount. The Reserve Ledger will be available to meet items (i) to (xviii) inclusive of the Priority of Payments if Initial Available Funds are insufficient therefor.

Pursuant to a guaranteed investment contract (the **Reserve Account GIC Agreement**) to be entered into on the Issue Date between Barclays Bank PLC (in such capacity, the **GIC Provider**), the Issuer, the Cash/Bond Administrator and the Trustee, the GIC Provider will agree to pay the Issuer a rate of interest equal to Note LIBOR minus 0.25 per cent. per annum on the amounts deposited in the Reserve Ledger of the Reserve Account which have not been invested in other Authorised Investments between one Interest Payment Date and the next Interest Payment Date.

In the event that the Reserve Account is no longer held with Barclays Bank PLC (as to which see "Bank Accounts" below), the Reserve Account GIC Agreement will terminate and the Cash/ Bond Administrator will be required to procure that the Issuer enters into a replacement agreement with the replacement reserve account bank.

Liquidity Facility:

The Issuer will be entitled from time to time on any business day to make drawings up to the Liquidity Maximum Amount under a facility agreement entered into between, *inter alia*, Barclays Bank PLC (in its capacity as liquidity facility provider, the **Liquidity Facility Provider**, which term will include any replacement Liquidity Facility Provider) and the Issuer (the **Liquidity Facility Agreement**) to meet interest payments under the Notes subject to the conditions set out below. Drawings may also be made under the Liquidity Facility for application in accordance with items (i) to (iv) of the Priority of Payments in the event that Initial Available Funds are insufficient for such purposes on any Interest Payment Date. The initial term of the Liquidity Facility shall be a period of 364 days. The Issuer may request the Liquidity Facility to be extended prior to the end of the 364 day term.

Prior to the Liquidity Drawdown Date, amounts applied in payments or repayments under the Liquidity Facility Agreement at item (iv)(a) of the Priority of Payments will be capable of being redrawn under the Liquidity Facility Agreement with other undrawn amounts of principal under the Liquidity Facility Agreement.

If, at any time, the Liquidity Facility Agreement terminates or the credit rating of the Liquidity Facility Provider assigned by the Rating Agencies falls below the highest short term ratings of any of the Rating Agencies (unless each of the Rating Agencies confirms in writing that such event would not cause it to downgrade the current rating of the Notes), and the Liquidity Facility Agreement is not renewed or the Liquidity Facility Provider is not replaced by a suitable alternative Liquidity Facility Provider such that the then current rating of the Notes is not adversely affected, the Issuer will forthwith draw down the entire undrawn portion of the Liquidity Facility and credit such amount to a ledger in the Reserve Account established for such purposes (the **Liquidity Ledger**). In these circumstances the portion of interest payable under such Liquidity Facility which accounts for the margin element in excess of LIBOR (the **Subordinated Liquidity Interest Margin**) will be paid by the Issuer on a subordinated basis in accordance with the Priority of Payments. The date upon which such amount is drawn down is the **Liquidity Drawdown Date**. On or after the Liquidity Drawdown Date, amounts credited to the Liquidity Ledger at item (iv)(a) of the Priority of Payments will be capable of being redrawn from the Liquidity Ledger, together with any amounts standing to the credit of the Liquidity Ledger.

The amounts available for drawing under the Liquidity Facility Agreement (prior to the Liquidity Drawdown Date) and from the Liquidity Ledger in the Reserve Account (on and after the Liquidity Drawdown Date) are herein referred to as the **Liquidity Facility**.

In addition to any drawing which may be made under the Liquidity Facility for application in accordance with items (i) to (iv) of the Priority of Payments, a drawing under the Liquidity Facility may be made to pay interest on the Senior Notes and the Class M Notes (regardless of the amount debited to the Senior Notes Principal Deficiency Ledger or the Class M Principal Deficiency Ledger respectively).

The Liquidity Facility may, in addition to the above drawings in relation to the Senior Notes and the Class M Notes, also be drawn to pay interest on the Class B Notes provided that the B Test has been met.

The Liquidity Facility may not be drawn to pay interest on the Class C Notes, the Class D Notes or the Class E Notes.

Liquidity Maximum Amount means either (a) £10,000,000, being the amount of the original Liquidity Facility, or such lower amount as the Rating Agencies may subsequently confirm as being sufficient to maintain the rating of the Notes or (b) in the event that the short-term unsecured, unsubordinated and unguaranteed rating of IL&P in its role as Standby Servicer falls below P-1 by Moody's or CHL is no longer wholly owned by IL&P, the greater of either (i) £10,000,000 or (ii) the amount equal to 5 per cent. of the aggregate Principal Amount Outstanding of the Notes less the amount standing to the credit of the Reserve Account.

In the event that the then current rating by the relevant Rating Agency of the Liquidity Facility Provider's short-term unsecured, unsubordinated and unguaranteed debt or securities is downgraded to a rating below P-1 by Moody's, A-1+ by S&P or F-1+ by Fitch or a notice is given in writing by any of the relevant Rating Agencies to the Liquidity Facility Provider and the Issuer, then the Issuer will within 60 business days of such downgrade arrange for a replacement liquidity facility provider in accordance with the Liquidity Facility Agreement.

Liquidity Drawings:

On any Determination Date, the Cash/Bond Administrator on behalf of the Issuer will determine whether the aggregate of the Initial Available Funds and the monies available in the Reserve Ledger (as to which, see "Reserve Ledger") are sufficient to pay or provide for payments in respect of items (i) to (v) (inclusive) under the Priority of Payments. To the extent that such aggregate amounts are insufficient, the Issuer shall (but only to the extent permitted as set out under "Liquidity Facility") utilise amounts available under the Liquidity Facility.

Redraw Facility:

The Issuer will enter into a credit facility (the **Redraw Facility**) with, *inter alia*, Barclays Bank PLC (the **Redraw Facility Provider**, which term will include any replacement Redraw Facility Provider) which facility may be utilised by the Issuer on any business day to fund the making by the Mortgage Administrator (on behalf of the Issuer) of Redraws with respect to Flexible Mortgages beneficially owned by the Issuer if there are no amounts otherwise available for that purpose as Permitted Utilisation Amounts. The initial term of the Redraw Facility shall be a period of 364 days. The Issuer may request the Redraw Facility Provider to extend the term prior to the end of the 364 day term.

The maximum amount that can be drawn on any business day under the Redraw Facility is the lower of (a) the difference between the Redraw Facility Limit and the aggregate amount of advances outstanding under the Redraw Facility which will not be repaid on such business day (the **Available Facility**) or (b) the amount equal to the aggregate Principal Amount Outstanding of the A1 Notes and the A2 Notes collectively.

If, at any time, the Redraw Facility Agreement terminates or the credit rating of the Redraw Facility Provider assigned by the Rating Agencies falls below the highest short term ratings of any of the Rating Agencies (unless each of the Rating Agencies confirms in writing that such event would not cause it to downgrade the current rating of the Notes), and the Redraw Facility Agreement is not renewed or the Redraw Facility Provider is not replaced by a suitable alternative Redraw Facility

Provider such that the then current rating of the Notes is not adversely affected, the Issuer will forthwith draw down the entire undrawn portion of the Redraw Facility and credit such amount to a ledger in the Reserve Account established for such purposes (the **Redraw Ledger**). In these circumstances, the portion of interest payable under such Redraw Facility which accounts for the margin element in excess of LIBOR (the **Subordinated Redraw Interest Margin**) will be paid by the Issuer on a subordinated basis in accordance with the Priority of Payments. The date upon which such amount is drawn down is the **Redraw Facility Drawdown Date**. On or after the Redraw Facility Drawdown Date, amounts credited to the Redraw Ledger at item (xi) of the Priority of Payments will be capable of being redrawn from the Redraw Ledger, together with any amounts standing to the credit of the Redraw Ledger.

The **Redraw Facility Limit** means £35,000,000 which limit may be varied by agreement between the Trustee, the Redraw Facility Provider and the Cash/Bond Administrator (as agent of the Issuer) provided that the Rating Agencies have given prior written confirmation that such variation will not adversely affect the then current rating of the Notes. The Redraw Facility Provider will not be obliged by any party to advance funds on any day beyond such maximum amount.

Redraw Facility Drawings:

The Cash/Bond Administrator, on behalf of the Issuer, will determine whether the aggregate Permitted Utilisation Amounts available on any day is sufficient for the purpose of the making by the Mortgage Administrator (on behalf of the Issuer) of Redraws on such day. To the extent that such aggregate amount is insufficient, the Issuer shall (but only to the extent permitted as set out under "Redraw Facility") utilise amounts available under the Redraw Facility.

Available Funds:

Available Funds will comprise the aggregate of the Initial Available Funds, amounts drawn from the Reserve Ledger and amounts drawn under the Liquidity Facility. As to the application of Available Funds, see "Summary Information – Priority of Payments".

Principal Deficiency Ledger:

A principal deficiency ledger will be established in respect of each class of Notes (the **Class A1 Principal Deficiency Ledger**, the **Class A2 Principal Deficiency Ledger** (together with the Class A1 Principal Deficiency Ledger, the **Senior Notes Principal Deficiency Ledger**), the **Class M Principal Deficiency Ledger**, the **Class B Principal Deficiency Ledger**, the **Class C Principal Deficiency Ledger**, the **Class D Principal Deficiency Ledger** and the **Class E Principal Deficiency Ledger**, together the **Principal Deficiency Ledger**) in order to show the amount by which the principal outstanding under the Mortgages is less than the Principal Amount Outstanding under the Notes. The Principal Deficiency Ledger will record any **Principal Deficiency** being, on any Determination Date, the amount calculated as follows, provided that the calculation produces a negative number:

- (a) the aggregate of the outstanding principal balances of all Mortgages owned by the Issuer on such Determination Date; plus
- (b) the amounts standing to the credit of the Transaction Account as at close of business on the business day immediately preceding such Determination Date excluding amounts due and payable under items (i) to (iv) inclusive of the Priority of Payments on the immediately succeeding Interest Payment Date and excluding any Excluded Items; plus
- (c) the amounts expected to be received under the Mortgages in respect of monthly payments from Borrowers by means of direct debit after such Determination Date up to and including the Interest Payment Date immediately following such Determination Date; plus
- (d) amounts calculated to be receivable comprising interest earned on monies standing to the credit of the Issuer's Accounts on or prior to the immediately succeeding Interest Payment Date including interest which is expected to be paid to the Issuer by the GIC Provider pursuant to the Reserve Account GIC Agreement and interest payable in respect of Authorised Investments; plus

- (e) net amounts calculated to be receivable by the Issuer under the Basis Swap Agreements on or prior to the immediately succeeding Interest Payment Date; plus
- (f) the amount standing to the credit of the Reserve Ledger as at close of business on such Determination Date; less
- (g) the aggregate Principal Amount Outstanding of the Notes on such Determination Date; less
- (h) the amount of any interest and principal payable under the Liquidity Facility on the immediately succeeding Interest Payment Date (save to the extent taken into account under the exclusion in (b) above); less
- (i) the aggregate principal amount outstanding under the Redraw Facility on the immediately succeeding Interest Payment Date; less
- (j) the aggregate of amounts (other than principal) due on the Notes on the Interest Payment Date immediately following such Determination Date which represent interest accrued in respect of the then current Interest Period only, excluding amounts (other than principal) due on the Notes that will be deferred on the next Interest Payment Date in accordance with Condition 6(i) and the Priority of Payments.

The Cash/Bond Administrator will debit any such Principal Deficiency in the following order to the Principal Deficiency Ledger:

- (i) firstly, to the Class E Principal Deficiency Ledger until the maximum balance of the Class E Principal Deficiency Ledger is equal to the Principal Amount Outstanding of the Class E Notes on any Determination Date;
- (ii) secondly, to the Class D Principal Deficiency Ledger until the maximum balance of the Class D Principal Deficiency Ledger is equal to the Principal Amount Outstanding of the Class D Notes on any Determination Date;
- (iii) thirdly, to the Class C Principal Deficiency Ledger until the maximum balance of the Class C Principal Deficiency Ledger is equal to the Principal Amount Outstanding of the Class C Notes on any Determination Date;
- (iv) fourthly, to the Class B Principal Deficiency Ledger until the maximum balance of the Class B Principal Deficiency Ledger is equal to the Principal Amount Outstanding of the Class B Notes on any Determination Date;
- (v) fifthly, to the Class M Principal Deficiency Ledger until the maximum balance of the Class M Principal Deficiency Ledger is equal to the Principal Amount Outstanding of the Class M Notes on any Determination Date; and
- (vi) sixthly, to the Senior Notes Principal Deficiency Ledger until the maximum balance of the Senior Notes Principal Deficiency Ledger is equal to the Principal Amount Outstanding of the Class A1 and the Class A2 Notes on any Determination Date.

Repurchase Guarantee:

Under the terms of a guarantee agreement between IL&P, the Issuer and the Trustee dated the Issue Date (the **Repurchase Guarantee**), IL&P will guarantee the obligations of CHL under the Mortgage Sale Agreement to repurchase the Mortgages in respect of which repurchase by CHL is required following breach of any of the warranties given under the Mortgage Sale Agreement.

Collection Account:

Payments in respect of amounts due under the Mortgages will be made to certain designated segregated accounts (together the **Collection Account**) in the name of CHL at Barclays Bank PLC, acting through its branch at 54 Lombard Street, London EC3V 9EX (the **Collection Account Bank**, and together with the Reserve Account Bank, the **Account Banks**). Such payments will, in the majority of cases, be made by direct debit. CHL will execute a declaration of trust in favour of the Issuer (the **Collection Account Declaration of Trust**) declaring a trust over the amounts which relate to the Mortgages and which are from time to time standing to the credit of the Collection Account.

In the event that the long-term unsecured unsubordinated, unguaranteed rating of IL&P in its role as Standby Servicer falls below A3 by Moody's and/or BBB- by S&P, CHL, in its capacity as Cash/Bond Administrator, will request that all payments in respect of amounts due under the Mortgages from Borrowers will be made directly into the Transaction Account.

Transaction Account:

Payments in respect of amounts due under the Mortgages which are credited to the Collection Account will be transferred to certain designated segregated accounts in the name of the Issuer at the Collection Account Bank (together the **Transaction Account**) (i) in respect of direct debit collections, on the business day on which they are credited to the Collection Account and (ii) in respect of all other monies, on the business day following the business day on which they are credited to the Collection Account. The credit balance of the Transaction Account from time to time may accrue interest in accordance with the terms of the bank at which the account is held at such time. The operation of the Transaction Account is set out in the Bank Agreement (Transaction Account) agreed between, *inter alia*, the Issuer, CHL and the Cash/Bond Administrator (the **Bank Agreement (Transaction Account)**) and together with the Bank Agreement (Reserve Account), the **Bank Agreements**.

Payments from Borrowers are currently received on the first business day of a calendar month. In those circumstances, for optimum speed of execution, the Issuer proposes to direct any amounts to be comprised from such payments which are under the terms of the Transaction Documents to be made to the holders of the Notes on the corresponding Interest Payment Date to be transferred directly from the Collection Account to the Principal Paying Agent. Such transfer will be directed to reach the Principal Paying Agent by the appointed time under the Agency Agreement on the relevant Interest Payment Date. The Issuer will rely on the Cash/Bond Administrator to make such direction on its behalf. Consequently, in those circumstances, such amounts will not in practice flow through the Transaction Account and the relevant provisions of the Transaction Documents will be construed accordingly.

Prepayment Charges:

Amounts received by the Issuer as early redemption fees upon the prepayment of Mortgages (as opposed to any interest or principal payable up to the date of redemption and any administration fees and other costs associated with the redemption) (the **Prepayment Charges**) will be paid to CHL as Excluded Items.

Deferred Consideration:

Subject to the prior payment or setting aside in full on the relevant Interest Payment Date of items (i) to (xxvi) inclusive in the Priority of Payments, the Issuer shall, on such Interest Payment Date, pay to CHL by way of deferred consideration under the Mortgage Sale Agreement an amount calculated as being the aggregate of (i) the balance of Available Funds, (ii) amounts standing to the credit of the Reserve Ledger in excess of the Reserve Ledger Required Amount, and (iii) if applicable on such Interest Payment Date, amounts standing to the credit of the Reserve Ledger when the Notes have been fully redeemed and the Subordinated Loan fully repaid in each case on such Interest Payment Date. In addition, subject to the prior payment or setting aside in full of items (i) to (xiii) inclusive of the Post Enforcement Priority of Payments, the Trustee shall allocate an amount equal to the balance of any monies after such payment or setting aside less the amount standing to the credit of the Profits Ledger to CHL by way of deferred consideration under the Mortgage Sale Agreement. The amounts referred to in this paragraph are collectively referred to as the **Deferred Consideration** and shall never be less than zero.

Bank Accounts:

The Issuer's Accounts represent the Transaction Account, the Reserve Account and any other accounts established by the Issuer (subject to the Deed of Charge). The **Bank Accounts** represent the Collection Account and the Issuer's Accounts. If the rating of the unsubordinated and unsecured short-term debt of the bank at which a Bank Account is held assigned by each Rating Agency falls

below F-1 by Fitch, P-1 by Moody's and A-1+ by S&P (unless each of the Rating Agencies confirms in writing that such event would not cause it to downgrade the then current rating of the Notes) the Cash/Bond Administrator will transfer the relevant Bank Account to a bank whose unsubordinated and unsecured short term debt is so rated.

Authorised Investments:

The Cash/Bond Administrator will be entitled to invest cash from time to time standing to the credit of the Issuer's Accounts in various Sterling denominated investments (**Authorised Investments**) (such as gilt-edged securities, certificates of deposit, commercial paper and other short term securities or deposits) with a short term unsecured, unguaranteed and unsubordinated rating of at least P-1 from Moody's, F-1+ from Fitch or A-1+ from S&P (or such other rating subject to each Rating Agency confirming in writing that such other rating would not cause it to downgrade the then current rating of the Notes) provided that such investments mature on or prior to the Interest Payment Date on which the cash represented by such investments is required by the Issuer.

Subordination:

The Notes will share the same security although, upon enforcement, the Senior Notes will rank in priority to the Class M Notes which in turn will rank in priority to the Class B Notes which in turn will rank in priority to the Class C Notes in point of security. The Class C Notes will rank in priority to the Class D Notes whilst the Class D Notes will rank in priority to the Class E Notes in point of security.

Subordinated Loan:

The Issuer will enter into a subordinated loan facility agreement (the **Subordinated Loan Agreement**) with CHL (in this context, the **Subordinated Loan Provider**) and the Trustee on the Issue Date whereby CHL will provide the Issuer with a subordinated loan facility (the **Subordinated Loan**) in two tranches. Tranche A will be used in order to fund the fees, costs and expenses of the Issuer under and in connection with the issue of the Notes in an amount of £2,400,000. Tranche B will be used to credit the Reserve Account on the Issue Date. The rate of interest applicable under the Subordinated Loan will be Note LIBOR for the relevant Interest Period plus 4 per cent. or such other amount as may be agreed from time to time between the Subordinated Loan Provider and the Issuer. Payments of interest and repayments of principal under the Subordinated Loan will be made by the Issuer only in accordance with (and to the extent only that funds are available under) the Priority of Payments. The Issuer will not be obliged to gross up payments under the Subordinated Loan Agreement in the event that withholding tax is imposed on payments made thereunder.

Basis Swap Agreements:

The Issuer will enter into:

- (a) an interest rate exchange agreement with CHL (in its capacity as the **Basis Swap Counterparty**) to hedge its exposure against movements in the interest rate for the Fixed Rate Mortgages (the **FRM Swap Agreement**); and
- (b) an interest rate exchange agreement with the Basis Swap Counterparty to hedge its exposure against movements in the interest rate for the Variable Rate Mortgages (the **VRM Swap Agreement** together with the FRM Swap Agreement, the **Basis Swap Agreements**).

Under the FRM Swap Agreement, the Issuer will hedge with the Basis Swap Counterparty against any variance between the interest payable by the Issuer in respect of the Notes and the interest received by the Issuer in respect of the Fixed Rate Mortgages. IL&P (the **FRM Swap Guarantor**) will, under a deed of guarantee (the **FRM Swap Guarantee**), guarantee the obligations of the Basis Swap Counterparty under the FRM Swap Agreement. In the event that (a) IL&P's long-term unsecured, unsubordinated, unguaranteed ratings fall below A1 by Moody's or cease to be rated by Moody's and/or (b) IL&P's short-term unsecured, unsubordinated, unguaranteed ratings fall below A-1 by S&P or cease to be rated by S&P, and/or (c) as a result of its surveillance of the transactions contemplated by this Offering Circular, Fitch notifies the Trustee and the Issuer that the financial condition of IL&P is no longer consistent with the ratings it has assigned to the Notes and that IL&P

continuing to act as FRM Swap Guarantor in respect of the FRM Swap Guarantee would result in a downgrade of any of the Notes, then the Basis Swap Counterparty will within 30 days:

- (a) at its own cost and expense, either (i) procure a party with a short-term unsecured, unsubordinated, unguaranteed rating of at least F-1 by Fitch, and at least A-1 by S&P and with a long-term unsecured, unsubordinated, unguaranteed rating of at least A1 by Moody's to enter into an agreement with the Issuer on the same terms as the FRM Swap Agreement, or (ii) procure a party with a short-term unsecured, unsubordinated, unguaranteed rating of at least F-1 by Fitch and at least A-1 by S&P and with a long-term unsecured, unsubordinated, unguaranteed rating of at least A1 by Moody's to be a guarantor of the obligations of the Basis Swap Counterparty; and/or
- (b) provide collateral support for its obligations under the FRM Swap Agreement to such extent as each Rating Agency may require in order to confirm in writing that the current rating of the Notes assigned by it will not be adversely affected until such time as a suitably rated replacement Basis Swap Counterparty or replacement FRM Swap Guarantor is appointed or the short term unsecured, unsubordinated, unguaranteed rating of the existing FRM Swap Guarantor is raised to at least A-1 by S&P, with a long-term unsecured, unsubordinated, unguaranteed rating of at least A1 by Moody's and Fitch has confirmed in writing that the financial condition of the FRM Swap Guarantor is consistent with the ratings it has assigned to the Notes and that IL&P continuing to act as FRM Swap Guarantor in respect of the FRM Swap Guarantee would not result in a downgrade of any of the Notes; and/or
- (c) take such other action as may be agreed with the relevant Rating Agency to avoid a downgrade on the then prevailing ratings on the Notes.

If the Basis Swap Counterparty fails to take any of the measures described in (a) to (c) above, then the Issuer will be entitled to terminate the FRM Swap Agreement.

Under the VRM Swap Agreement, the Issuer will hedge with the Basis Swap Counterparty against any variance between the interest payable by the Issuer in respect of the Notes and the interest received by the Issuer in respect of the Variable Rate Mortgages. IL&P (in this capacity, the **VRM Swap Guarantor** and together with its role as the FRM Swap Guarantor, the **Basis Swap Guarantor**) will, under a deed of guarantee (the **VRM Swap Guarantee** and together with the FRM Swap Guarantee, the **Basis Swap Guarantees**), guarantee the obligations of the Basis Swap Counterparty under the VRM Swap Agreement. In the event that (a) IL&P's long-term unsecured, unsubordinated, unguaranteed rating falls below A1 by Moody's or ceases to be rated by Moody's and/or (b) IL&P's short-term unsecured, unsubordinated, unguaranteed rating falls below A-1 by S&P or ceases to be rated by S&P and/or (c) as a result of its surveillance of the transactions contemplated by this Offering Circular, Fitch notifies the Trustee and the Issuer that the financial condition of IL&P is no longer consistent with the ratings it has assigned to the Notes and that IL&P continuing to act as VRM Swap Guarantor in respect of the VRM Swap Guarantee would result in a downgrade of any of the Notes, then the Basis Swap Counterparty will within 30 days:

- (a) at its own cost and expense, either (i) procure a party with a short-term unsecured, unsubordinated, unguaranteed rating of at least F-1 by Fitch, and at least A-1 by S&P and with a long-term unsecured, unsubordinated, unguaranteed rating of at least A1 by Moody's to enter into an agreement with the Issuer on the same terms as the VRM Swap Agreement, or (ii) procure a party with a short-term unsecured, unsubordinated, unguaranteed rating of at least F-1 by Fitch and at least A-1 by S&P and with a long-term unsecured, unsubordinated, unguaranteed rating of at least A1 by Moody's to be a guarantor of the obligations of the Basis Swap Counterparty; and/or
- (b) provide collateral support for its obligations under the VRM Swap Agreement to such extent as each Rating Agency may require in order to confirm in writing that the current rating of the Notes assigned by it will not be adversely affected until such time as a suitably rated replacement Basis Swap Counterparty or replacement VRM Swap Guarantor is appointed or the short term unsecured, unsubordinated, unguaranteed rating of the existing VRM Swap Guarantor is raised to at least A-1 by S&P, with a long-term

unsecured, unsubordinated, unguaranteed rating of at least A1 by Moody's and Fitch has confirmed in writing that the financial condition of the VRM Swap Guarantor is consistent with the ratings it has assigned to the Notes and that IL&P continuing to act as VRM Swap Guarantor in respect of the VRM Swap Guarantee would not result in a downgrade of any of the Notes; and/or

- (c) take such other action as may be agreed with the relevant Rating Agency to avoid a downgrade the then prevailing ratings on the Notes.

If the Basis Swap Counterparty fails to take any of the measures described in (a) to (c) above, then the Issuer shall be entitled to terminate the VRM Swap Agreement and the Issuer may require the Mortgage Administrator to procure that the aggregate of the weighted average of the mortgage rates for the next Interest Period (the **Aggregate Rate**) under the Variable Rate Mortgages in the Mortgage Pool which are considered by the Mortgage Administrator not to be in arrears in accordance with its administrative procedures generally is at least equal to LIBOR for one month Sterling deposits plus 140 basis points (the **Threshold Rate**).

In the event that the short-term unsecured, unsubordinated, unguaranteed rating of the Basis Swap Guarantor falls below BBB – as rated by S&P, then a replacement Basis Swap Guarantor will be appointed immediately by the Basis Swap Counterparty.

In the event that the long-term unsecured, unsubordinated, unguaranteed rating of the Basis Swap Guarantor falls below A3 as rated by Moody's, further measures may be requested by Moody's to be taken in order for the then prevailing ratings from Moody's on the Notes to be maintained.

Each of the Basis Swap Agreements may be terminated by the non-defaulting or non-affected party, as applicable if (i) the Notes have been declared immediately due and payable prior to their final maturity date or the Notes are redeemed in full in accordance with their terms; (ii) there is a failure by either party to pay any amounts due, or to comply with or perform any obligation, under the Basis Swap Agreements (subject to relevant grace periods); and (iii) upon the occurrence of certain other events with respect to either party including insolvency or changes in law resulting in illegality.

The Issuer will not be obliged to gross up payments under any of the Basis Swap Agreements in the event that withholding tax is imposed on payments made thereunder. The Basis Swap Counterparty will, however, be required to gross up their payments under the Basis Swap Agreements.

THE ISSUER

Introduction

The Issuer was incorporated and registered in England and Wales with registered number 5183076 under the Companies Act 1985 with limited liability as a public limited company on 19 July, 2004. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1.00, two shares of which are fully paid up, and the remaining 49,998 shares are paid up as to 25p, of which 49,999 are held by Auburn 1 Limited (the **Parent**) and one share by SPV Management Limited (the **Share Trustee**) on trust for the Parent. The Issuer has no subsidiaries. Corporate services are provided to the Issuer by SPV Management Limited.

Directors

The Directors of the Issuer and their respective business addresses and principal activities are:

Name	Address	Principal Activities
SPV Management Limited	Tower 42 (Level 11) International Financial Centre 25 Old Broad Street London EC2N 1HQ	Management of special purpose vehicle companies
Martin McDermott	c/o SPV Management Limited, Tower 42 (Level 11) International Financial Centre 25 Old Broad Street London EC2N 1HQ	Director
Mark Filer	c/o SPV Management Limited, Tower 42 (Level 11) International Financial Centre 25 Old Broad Street London EC2N 1HQ	Director

The Secretary of the Issuer is SPV Management Limited.

The registered office of the Issuer is c/o SPV Management Limited, Tower 42 (Level 11), International Financial Centre, 25 Old Broad Street, London EC2N 1HQ

The Directors of SPV Management Limited and their respective business addresses and principal activities are:

Name	Address	Principal Activities
Martin McDermott	c/o SPV Management Limited Tower 42 (Level 11) International Financial Centre 25 Old Broad Street London EC2N 1HQ	Managing Director/Chief Executive Officer
James Fairrie	c/o SPV Management Limited Tower 42 (Level 11) International Financial Centre 25 Old Broad Street London EC2N 1HQ	Managing Director/Sales and Marketing
Mark Filer	c/o SPV Management Limited Tower 42 (Level 11) International Financial Centre 25 Old Broad Street London EC2N 1HQ	Director
Nicolas Patch	c/o SPV Management Limited Tower 42 (Level 11) International Financial Centre 25 Old Broad Street London EC2N 1HQ	Director

Name	Address	Principal Activities
Anthony Raikes	c/o SPV Management Limited Tower 42 (Level 11) International Financial Centre 25 Old Broad Street London EC2N 1HQ	Non-Executive Director
Howard Cohen	c/o SPV Management Limited Tower 42 (Level 11) International Financial Centre 25 Old Broad Street London EC2N 1HQ	Non-Executive Director
David Dupert	c/o SPV Management Limited Tower 42 (Level 11) International Financial Centre 25 Old Broad Street London EC2N 1HQ	Non-Executive Director
David Roulston	c/o SPV Management Limited Tower 42 (Level 11) International Financial Centre 25 Old Broad Street London EC2N 1HQ	Non-Executive Director

Activities

On the Issue Date, the Issuer will acquire from CHL a portfolio of residential mortgages originated or previously acquired by CHL. Such acquisition will be financed by the proceeds of the issue of the Notes. The activities of the Issuer will be restricted by the Conditions and will be limited to the issue of the Notes, the ownership of the Mortgages and other assets referred to herein and of any Substitute Mortgages, the granting of security over such assets as security for amounts owing by it under, *inter alia*, the Notes, the exercise of related rights and powers, and other activities referred to herein or reasonably incidental thereto. These activities will include the collection of payments of principal and interest from Borrowers in respect of Mortgages and the operation of arrears procedures. The Issuer is registered under the Data Protection Act 1998 and holds a licence under the Consumer Credit Act.

Substantially all of the above activities will be carried out by the Mortgage Administrator on an agency basis on behalf of the Issuer and the Trustee under the Mortgage Administration Agreement. Additionally, the Cash/Bond Administrator will provide cash management and bond reporting services to the Issuer and the Trustee pursuant to the Cash/Bond Administration Agreement. The Issuer (with the consent of the Trustee) or the Trustee may revoke the agency of the Mortgage Administrator and the Cash/Bond Administrator upon the occurrence of certain events of default or insolvency or similar events in relation to the Mortgage Administrator or, as the case may be, the Cash/Bond Administrator or, in certain circumstances, following the giving of an Enforcement Notice. In addition, subject to certain conditions, the Mortgage Administrator and the Cash/Bond Administrator may terminate its appointment as Mortgage Administrator or Cash/Bond Administrator upon the expiry of not less than (in the case of the Mortgage Administrator) 12 months or (in the case of the Cash/Bond Administrator) 6 months notice of termination given in writing by the Mortgage Administrator or Cash/Bond Administrator (as the case may be) to the Issuer and the Trustee. Following such termination as aforesaid, the Issuer (with the consent of the Trustee) or the Trustee may, subject to certain conditions, appoint any substitute administrators and, in regard to mortgage administration functions to be provided by the Mortgage Administrator and cash/bond administration functions to be provided by the Cash/Bond Administrator, the Standby Servicer has agreed to act as, or procure that a third party acts as, a substitute mortgage administrator and a substitute cash/bond administrator respectively pursuant to the provisions of the Standby Servicer Agreement.

USE OF PROCEEDS

The gross proceeds of the issue of the Notes are expected to amount to £1,000,000,000 and will be applied in the purchase of the Mortgages in the Completion Mortgage Pool on the Issue Date.

The expenses of the issue of the Notes (estimated not to exceed approximately £2,400,000) and the funding for the Reserve Account will be met, on the Issue Date, by the Issuer from the drawing under the Subordinated Loan of Tranches A and B respectively.

CAPITALISATION STATEMENT

The following table shows the capitalisation of the Issuer as at 7 October, 2004, adjusted for the issue of the Notes:

<i>Share Capital</i>	<u>(£)</u>
Authorised	
50,000 Ordinary Shares of £1 each	50,000
Issued	
49,998 Ordinary Shares of £1 each, 25p paid	12,499.50
2 Ordinary Shares of £1 each, fully paid	2.00
Borrowings	
Mortgage Backed Floating Rate Notes Due 2041	1,000,000,000
Subordinated Loan.....	7,400,000

As at the date hereof, save as disclosed above, the Issuer has no loan capital outstanding or created but unissued, no loans outstanding and no other borrowings or indebtedness in the nature of borrowing nor any contingent liabilities or guarantees.

ACCOUNTANTS' REPORT

The Issuer has not published any statutory or other accounts since its incorporation. The following is the text of a report received by the Board of Directors of the Issuer from KPMG, Chartered Accountants, the auditors to the Issuer:

The Directors
Auburn Securities 4 PLC
c/o SPV Management Limited
Tower 42 (Level 11)
International Financial Centre
25 Old Broad Street
London EC2N 1HQ

The Directors
Capital Home Loans Limited
Admiral House
Harlington Way
Fleet
Hampshire GU51 4YA

The Directors
Irish Life & Permanent plc
Irish Life Centre
Lower Abbey Street
Dublin 1

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Barclays Bank PLC
Barclays Capital
5 The North Colonnade
Canary Wharf
London E14 4BB

Citigroup Global Markets Limited
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

7 October, 2004

Auburn Securities 4 PLC (the Company)

£270,000,000 Class A1 Mortgage Backed Floating Rate Notes due October 2041
£597,500,000 Class A2 Mortgage Backed Floating Rate Notes due October 2041
£15,000,000 Class M Mortgage Backed Floating Rate Notes due October 2041
£40,000,000 Class B Mortgage Backed Floating Rate Notes due October 2041
£40,000,000 Class C Mortgage Backed Floating Rate Notes due October 2041
£25,000,000 Class D Mortgage Backed Floating Rate Notes due October 2041
£12,500,000 Class E Mortgage Backed Floating Rate Notes due October 2041

We report on the financial information set out in the paragraphs below. This financial information has been prepared for inclusion in the offering circular dated 7 October, 2004 (the **Offering Circular**) of the Company.

Basis of preparation

The financial information set out below is based on the financial statements of the Company from its date of incorporation, 19 July, 2004, to 6 October, 2004 prepared on the basis described in note 2.1 to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the directors of the Company.

The directors of the Company are responsible for the contents of the Offering Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company as at 6 October, 2004.

1. Balance Sheet as at 6 October, 2004

	£
Current assets	
Cash at bank and in hand	12,501.50
Capital and reserves	
Called up equity share capital	
2 shares of Stg£1 each, 100% called and paid, 49,998 shares of Stg£1 each, 25% called and paid.....	12,501.50

2. Notes

2.1 Accounting policies

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards currently applicable in the United Kingdom.

2.2 Trading activity

The Company was incorporated on 19 July, 2004. The Company has not yet commenced business, no audited financial statements have been made up and no dividends have been declared or paid since the date of incorporation.

2.3 Registration

During the period the Company has applied for and obtained registrations as follows:

- Data Protection Act 1998 – Register of Data Controllers – Register of Data Users and Computer Bureaux, registration number Z8746252.

The Company has applied for a consumer credit licence under the Consumer Credit Act 1974. The application has been acknowledged by the Office of Fair Trading (reference no. 560762) and the issue and receipt of the licence is expected imminently.

2.4 Share capital

The Company was incorporated and registered as a public limited company on 19 July, 2004, with the name Trailwood PLC.

On incorporation, the authorised share capital of the Company was divided into 50,000 ordinary shares of £1 each.

On 2 September, 2004, one ordinary share was transferred from Clifford Chance Nominees Limited to Auburn 1 Limited for cash consideration of £1 and one ordinary share was transferred from Clifford Chance Secretaries Limited to SPV Management Limited as nominee for Auburn 1 Limited for cash consideration of £1.

On 2 September, 2004, 49,998 ordinary shares were issued by the Company to Auburn 1 Limited and one quarter called-up for a total cash consideration of £12,499.50. The two subscriber shares are fully paid up.

2.5 Auditor

KPMG was appointed as auditor on 5 October, 2004.

Yours faithfully

KPMG
Chartered Accountants

THE ORIGINATOR'S GROUP

Capital Home Loans Limited

CHL is a limited company incorporated in England and Wales on 6th October, 1987, under the Companies Act 1985 and 1989. CHL began trading on 2nd May, 1989. The registered office of CHL is Admiral House, Harlington Way, Fleet, Hampshire, GU51 4YA, England. CHL has no subsidiaries.

CHL was formed as a result of a joint venture between Credit Foncier de France (CFF) and Societe' Generale. Societe' Generale's 51 per cent. holding in CHL was later purchased by CFF on 23rd October, 1992. CHL was acquired from CFF by a predecessor to IL&P on 22nd October, 1996. CHL is engaged in the business of originating, purchasing and selling residential (including for investment) mortgage loans secured on properties in the United Kingdom.

CHL has been awarded the Financial Times Financial Adviser Five Star Award every year between 1999 to 2003. CHL is one of only two lenders in the United Kingdom to win the prestigious Five Star Award five times consecutively and in 2003 it was declared the outright winner of the Mortgage category. This prize is seen by financial advisers as a recognition of high service quality delivered by mortgage lenders.

CHL's net income for the year ended 31st December, 2003 was £20.3 million on revenues of £54.2 million. At the year end, mortgage advances were £1,211.7 million and a further £582 million of mortgages had been securitised.

Irish Life & Permanent plc

IL&P was created by the merger of Irish Permanent plc and Irish Life plc in April 1999. IL&P, which is incorporated in Ireland and has its registered office at Irish Life Centre, Lower Abbey Street, Dublin 1, Ireland, is a public company which is listed on the Irish and London stock exchanges. In April 2001, the IL&P Group acquired TSB Bank which it merged with its existing banking operations to form permanent tsb, the banking division of the IL&P Group. permanent tsb has in excess of a 25 per cent. share of the residential mortgage market in Ireland. The IL&P Group's life business, Irish Life, has a market share in excess of 20 per cent. of the life and pensions market in Ireland.

THE MORTGAGE ADMINISTRATOR

CHL has been appointed as the Mortgage Administrator pursuant to the Mortgage Administration Agreement and is responsible for the provision of certain mortgage administration services.

THE CASH/BOND ADMINISTRATOR

CHL has been appointed as the Cash/Bond Administrator of the Issuer and the Trustee pursuant to the Cash/Bond Administration Agreement. The Cash/Bond Administrator is responsible for the administration and management of the cash receipts and disbursements, and making certain allocations and investments of cash, for the Issuer and the Trustee. The Cash/Bond Administrator is also responsible for making certain calculations and preparing and distributing certain reports to Noteholders as referred to herein.

THE STANDBY SERVICER

Pursuant to the Standby Servicer Agreement, IL&P has been appointed to act as the standby servicer or to procure a third party to act as the standby servicer of the Issuer and the Trustee (subject to confirmation from the Rating Agencies that the assumption by such third party of the role of Standby Servicer will not cause the rating of the Notes to be adversely affected). In the event that the appointment of the Mortgage Administrator and/or the Cash/Bond Administrator pursuant to the Mortgage Administration Agreement or, as the case may be, the Cash/Bond Administration Agreement is terminated, the Standby Servicer has agreed to provide the equivalent services to the Issuer and the Trustee as set out in the Mortgage Administration Agreement or, as the case may be, the Cash/Bond Administration Agreement.

IL&P is engaged, *inter alia*, in the business of originating residential mortgage loans to borrowers in the Republic of Ireland as described under “The Originator’s Group”.

THE SUBORDINATED LOAN PROVIDER

CHL has agreed to provide the Issuer with the Subordinated Loan in accordance with the terms of the Subordinated Loan Agreement between CHL, the Issuer and the Trustee.

THE BASIS SWAP COUNTERPARTY

CHL has agreed to enter into the FRM Swap Agreement and the VRM Swap Agreement with the Issuer.

THE BASIS SWAP GUARANTOR

Under the VRM Swap Guarantee, IL&P will guarantee the obligations of the Basis Swap Counterparty under the VRM Swap Agreement.

Under the FRM Swap Guarantee, IL&P will guarantee the obligations of the Basis Swap Counterparty under the FRM Swap Agreement (see also “Liquidity Facility Provider, Redraw Facility Provider, and Reserve Account GIC Provider”).

LIQUIDITY FACILITY PROVIDER, REDRAW FACILITY PROVIDER AND RESERVE ACCOUNT GIC PROVIDER

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered and head office at 54 Lombard Street, London EC3P 3AH. Barclays Bank PLC was incorporated on 7 August, 1925 under the Colonial Bank Act 1925 and on 4 October, 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January, 1985, Barclays Bank was re-registered as a public limited company and its name was changed from "Barclays Bank International Limited" to "Barclays Bank PLC".

Barclays Bank PLC and its subsidiary undertakings (taken together, the **Barclays Group**) is an international financial services group engaged primarily in banking, investment banking and asset management. In terms of assets employed, it is one of the largest financial services groups in the United Kingdom. The Barclays Group also operates in many other countries around the world and is a provider of co-ordinated global services to multinational corporations and financial institutions in the world's main financial centres. The whole of the issued ordinary share capital of Barclays Bank PLC is owned by Barclays PLC, which is the ultimate holding company of the Barclays Group.

The short-term unsecured, unsubordinated and unguaranteed obligations of Barclays Bank PLC are rated A-1+by S&P, P-1 by Moody's and F1+by Fitch Ratings Limited and the long-term unsecured, unsubordinated and unguaranteed obligations of Barclays Bank PLC are rated Aa1 by Moody's, AA by S&P and AA+by Fitch Ratings Limited.

As at 30 June, 2004, the Barclays Group had total assets of £498,127 million, total net loans and advances of £323,750 million, total deposits of £322,040 million and equity shareholders' funds of £17,067 million. The profit before taxation of the Barclays Group in respect of the six months ended 30 June, 2004 was £2,411 million after charging net provisions for bad and doubtful debts of £589 million.

As at 31 December, 2003, the Barclays Group had total assets of £443,373 million (31 December, 2002: £403,066 million), total net loans and advances of £288,743 million (31 December, 2002: £260,572 million), total deposits of £278,960 million (31 December, 2002: £258,932 million) and equity shareholders' funds of £16,485 million (31 December, 2002: £15,205 million). The profit before taxation of the Barclays Group in respect of the year ended 31 December, 2003 was £3,845 million (31 December, 2002: £3,203 million) after charging net provisions for bad and doubtful debts of £1,347 million (31 December, 2002: £1,484 million).

THE MORTGAGE POOL

Introduction

Each of the Mortgages in the Completion Mortgage Pool was advanced by CHL. The Provisional Mortgage Pool was drawn up as at 31 August, 2004 and was made up of mortgages owned by CHL. The Completion Mortgage Pool will be selected from the Provisional Mortgage Pool after excluding mortgages, *inter alia*, which are repaid between that date and the Issue Date or which do not comply with the warranties set out in the Mortgage Sale Agreement.

Sale of Mortgages

CHL will sell its beneficial interest in each Mortgage in the Mortgage Pool to the Issuer and enter into the FRM Swap Agreement with the Issuer for a consideration equal to the **Purchase Price** on the Issue Date. The Purchase Price on the Issue Date for each Mortgage (including, for the avoidance of doubt, the right to payments due under or in respect of Redraws and Further Advances made or to be made in respect of that Mortgage) means the aggregate of the amounts secured or intended to be secured under the Mortgage comprising: (i) the original principal amount advanced to the Borrower; plus (ii) any disbursement, legal expense, fee, charge or premium capitalised and added to the amounts secured by the relevant Mortgage after the date of completion of such Mortgage and prior to the Issue Date; plus (iii) any advance of further moneys to the Borrower thereof on the security of the relevant Mortgage after the date of completion of such Mortgage and prior to the Issue Date; plus (iv) any amount added to the Mortgage after the date of completion of such Mortgage and prior to the Issue Date (including any capitalised arrears of interest); less (v) any repayment or prepayment of such amounts as at the Issue Date (together the **Balance**); plus (vi) the Deferred Consideration relating to the Mortgage. CHL will provide the Issuer, on or before 10 a.m. on the Issue Date, with a statement which represents an estimate of the consideration payable by the Issuer as herein referred such estimate to be based on the aggregate Balances of the Mortgages to be purchased on the Issue Date as at a Business Day falling no earlier than two Business Days prior to the Issue Date. Such estimate shall not include any interest accrued that is not yet due and payable relating to the period from (and including) 1 October, 2004 to (but excluding) the Issue Date. On or before the Interest Payment Date immediately succeeding the Issue Date (the **Reconciliation Date**), CHL shall prepare a reconciliation account which establishes any difference in the estimated amount paid and the consideration due. On the Reconciliation Date, CHL shall pay such difference to the Issuer (to the extent such difference represents an overpayment by the Issuer relative to the amount due) or the Issuer shall pay such difference to CHL (to the extent such difference represents an underpayment by the Issuer relative to the amount due). On the Reconciliation Date, CHL shall also remit to the Issuer all advance payments of principal and interest in respect of the Mortgages in the Completion Mortgage Pool which were received prior to the Issue Date but which relate to payments due after the Issue Date where such amounts have not been used to fund a Redraw prior to the Issue Date. See further "Summary Information – Excluded Items".

Following the sale of the Completion Mortgage Pool to the Issuer on the Issue Date, further Mortgages may from time to time be included in the Mortgage Pool in replacement of any Mortgages which are repurchased by CHL from the Issuer as a result of an unremedied breach of any of the representations and warranties in the Mortgage Sale Agreement (see "The Mortgage Pool – Warranties and Repurchase"). These further Mortgages, which will be Substitute Mortgages, may be originated or acquired by CHL. The same warranties as are given by CHL in respect of the Mortgages which comprise the Completion Mortgage Pool will be given by CHL in respect of each Substitute Mortgage.

Substitute Mortgages may include any of the types of Mortgage Products described in "Summary Information – The Mortgages" but not non-RIP mortgages that have been repurchased for the purpose of making further advances thereon.

CHL will have the option to repurchase the Mortgages when the aggregate Balances of the Mortgages (including any Further Advances and Redraws) falls below ten per cent. of the aggregate Balances of the Mortgages comprised in the Completion Mortgage Pool as at the Issue Date. The purchase price payable by CHL will be equal to the aggregate Balances of the Mortgages plus any

interest that has accrued in respect of such Mortgages but has not become due and payable (in each case as at the Interest Payment Date on which the option is exercised). In the event that the purchase price payable by CHL to the Issuer together with any other funds available to the Issuer (including amounts standing to the credit of the Reserve Ledger) will not be sufficient on the Interest Payment Date on which the option is exercised to enable the Issuer to redeem all outstanding Notes at their Principal Amount Outstanding and to make all other payments having priority thereto, CHL must obtain the consent of the Trustee on behalf of each class of relevant Noteholders prior to the exercise of this option.

Lending Criteria

Standard Mortgages

The following lending criteria (the **Lending Criteria**) will have been applied in respect of the Standard Mortgages comprising the Provisional Mortgage Pool and will apply in respect of all Substitute Mortgages, Further Advances and Redraws for Standard Mortgages.

On origination of each Standard Mortgage from time to time comprised in the Mortgage Pool, the Lending Criteria would have been applied with certain minor variations to reflect the differing identities of the Borrowers of Standard Mortgages (see "Summary Information – The Mortgages – Identity of Borrower of Standard Mortgages") and minor changes to the Lending Criteria made prior to the date of this Offering Circular and, in the case of Substitute Mortgages, minor changes to the Lending Criteria made thereafter.

Security

- (a) Each loan must be secured by a first legal mortgage (a **Mortgage**) over a freehold or long leasehold residential property (at least 35 years longer than the term of the Mortgage) in England or Wales (no Properties are accepted that are located in the Isle of Man or the Isle of Wight) (the **Property**).
- (b) Properties under 10 years old will have the benefit of a NHBC or an architect's certificate or equivalent guarantee from an acceptable body.
- (c) The following types of Property are deemed unacceptable as security:
 - (i) flats/maisonettes subject to statutory right to buy provisions or local authority flats/maisonettes (other than certain exceptions in city centre locations with a confirmed value in excess of £150,000 and where the valuer has confirmed that such property can be resold in the residential property market);
 - (ii) houses subject to statutory right to buy provisions or ex local authority houses in an area with less than a 50 per cent. owner/occupied rate;
 - (iii) individual studios/bedsits (other than certain exceptions in city centre locations with a confirmed value in excess of £150,000 and where the valuer has confirmed that such property can be resold in the residential property market);
 - (iv) freehold flats;
 - (v) flats above shops or commercial premises (other than certain exceptions in city centre locations with a confirmed value in excess of £150,000 and where the valuer has confirmed that such property can be resold in the residential property market);
 - (vi) flats in blocks with more than four storeys (unless specifically authorised by CHL);
 - (vii) Properties with agricultural restrictions, tie bars, continuing structural movement, or movement that requires monitoring;
 - (viii) multi-tenanted (presently or recently) Properties;
 - (ix) steel framed Properties;
 - (x) Properties with more than one kitchen;
 - (xi) Properties which have been underpinned within the last three years or require underpinning;
 - (xii) Properties of concrete construction;

- (xiii) Properties likely to be affected by local planning e.g. road widening;
 - (xiv) Properties where a third party retains an interest;
 - (xv) Properties deemed by the valuer to not be able to be readily sold; and
 - (xvi) Properties used for commercial purposes (unless the Borrower will be resident in the property and where no structural alterations are required to convert the property to purely residential use).
- (d) Each Property offered as security will have been valued by a qualified surveyor (ARICS or equivalent qualification) chosen from a panel of valuation firms approved by CHL.
 - (e) At the time of completion, the relevant Property must have been either insured under a Block Buildings Policy in the name of CHL, or CHL must be jointly insured with the Borrower under, or its interest noted on, a buildings policy in relation to the relevant Property.
 - (f) The Borrower must have life assurance that at least matches the value of the loan.
 - (g) CHL, at its discretion, accepts personal guarantees on the Borrower's repayment of the Mortgage and, if so, the ability of the guarantor to service the Mortgage is based on the same lending criteria as that applied to the Borrower.
 - (h) All married Borrowers must apply for a mortgage in joint names.

Loan Amount

The Mortgage at the time of completion must be at least £15,001 for Mortgages originated before 1st May, 1998 and £25,001 thereafter. The Mortgage is not subject to any pre-set maximum, however no Mortgage within the Provisional Mortgage Pool currently exceeds £349,999 as at the Cut-Off Date.

Loan to value

- (a) The loan to value ratio (the LTV) is calculated by dividing the initial principal amount advanced at completion of the Mortgage by the valuation of the Property or the purchase price of the Property, whichever is the lesser amount.
- (b) Various fees including those payable on completion and on the making of Further Advances, higher percentage advance charges, interest due in respect of the month which a Mortgage completes and Block Building Insurance premia may be added to the balance of the loan above the permitted maximum LTV.
- (c) The LTV of each Mortgage at the date of the initial advance must be no more than:
 - (i) 95 per cent. for advances secured by Property valued at up to £250,000;
 - (ii) 90 per cent. for advances secured by Property valued at more than £250,000 and up to £350,000;
 - (iii) 85 per cent. for advances secured by Property valued at more than £350,000 and up to £500,000;
 - (iv) 80 per cent. for advances secured by Property valued at more than £500,000 and up to £750,000;
 - (v) 75 per cent. for advances secured by Property valued at more than £750,000 and up to £1,000,000;
 - (vi) advances in excess of £500,000 are considered on an individual basis;
 - (vii) first time buyers are subject to a maximum Mortgage of £200,000 regardless of the value of the Property;
 - (viii) 95 per cent. (90 per cent. in the case of Self-Certified Borrowers and 85 per cent. in the case of RIP Mortgages) and (with the exception of RIP Mortgages and also Standard Mortgages where the Borrower is a Self-Certified Borrower), where such ratio is greater than 75 per cent. and the Mortgage was originated prior to 1 July, 2004, mortgage indemnity insurance must be effected; and
 - (ix) The value of a one bedroom Property must be in excess of £50,000.

Term

Each Mortgage must have an initial term of between 5 and 35 years and (except for a Repayment Mortgage) have no scheduled principal repayment prior to its stated final maturity which, in the case of mortgages in the Mortgage Pool, is no later than October 2039.

Borrowers

- (a) Borrowers must be a minimum of 18 years of age (21 years of age for Self-Certified Borrowers or self-employed Borrowers) and, prior to application, the maximum allowed age for the Borrower is 60 at next birthday. The Borrower must also be no older than the normal retirement age (that is, 65) or 70 years of age if the Borrower's ability to repay the Mortgage can be proven at the time of the maturity of the Mortgage.
- (b) A maximum number of four Borrowers are allowed to be parties to any one Mortgage.
- (c) The Borrower's or Borrowers' (as the case may be) credit and employment history will have been assessed with the aid of one or more of the following:
 - (i) search supplied by credit reference agency;
 - (ii) confirmation of voters roll entries or proof of residency;
 - (iii) references from current employers;
 - (iv) accounts or accountant's certificate;
 - (v) references from current lenders; and
 - (vi) references from current landlords.
- (d) Where past County Court Judgments relating to a Borrower have been revealed by the credit reference search, the County Court Judgments must have been satisfied for at least two years before the mortgage is granted.
- (e) The Borrower shall have had no more than two County Court Judgments totalling no more than £500.

Income

- (a) Income is determined by reference to the application form and supporting documentation, where appropriate, and may consist of the following:
 - (i) salary plus any guaranteed overtime and 75 per cent. of any proven but unguaranteed regular overtime or bonus payments (as evidenced by the Borrower's previous two years' P60s), or net profits plus any additional income confirmed by the accountant for self-employed Borrowers (Borrowers are considered as self-employed if they hold at least 25 per cent. of the issued share capital of a company);
 - (ii) pensions, investments and rental income; or
 - (iii) any other monies approved by an authorised officer of CHL.
- (b) With the exception of certain allowable fees added to the aggregate principal balance of the Mortgage, the principal amount advanced will not exceed the higher of 3.5 (or, in the case of a first time buyer, 3.25) times the assessed income of the primary Borrower plus one times the assessed income of any secondary Borrower, or 2.75 (or, in the case of a first time buyer, 2.5) times the combined assessed incomes of the primary and secondary Borrowers.

Solicitors

The firm of solicitors acting on behalf of CHL and the Borrowers, on the making of each Mortgage, must have at least two practising partners.

Further Advances

As a result of the FMSA, from and including 1 November, 2004, with respect to further advances to be made on standard mortgages (other than residential investment product mortgages) which have been originated prior to 1 November, 2004, CHL will effectively repurchase the relevant mortgage from the relevant borrower for a cash amount equal to the outstanding balance of the

Relevant Mortgage plus any interest that has accrued in respect of such Mortgage but which has not become due and payable (in each case as at the date of repurchase).

RIP Mortgages

The RIP Mortgages comprising the Provisional Mortgage Pool, all Substitute Mortgages which are RIP Mortgages and all Further Advances in respect of RIP Mortgages are also governed by the Lending Criteria subject to the following additions and/or modifications:

Security

- (a) Cross charges must be in place for Borrowers who have more than one Property with a CHL mortgage.
- (b) All tenancies must be six to twelve month assured shorthold tenancies or company lets. No DSS tenants, tenants with diplomatic immunity or specific trusts are permitted.
- (c) Properties must be insured in accordance with a surveyor's recommended reinstatement valuation and the building insurance must recognise tenanted use.
- (d) Life assurance is not mandatory.

Loan to Total Lend

- (a) The loan to total lend ratio (the LTL) is calculated by dividing the initial principal amount at completion of the relevant Mortgage by the current valuation of all properties owned by the relevant Borrower subject to a first ranking all monies charge in favour of CHL.
- (b) Various fees including those payable on completion and on the making of Further Advances, interest due in respect of the month in which a Mortgage completes and Block Building Insurance premia may be added to the balance of the loan above the permitted maximum LTL.
- (c) The LTL of a Mortgage at the date of the initial advance must be no more than:
 - (i) 85 per cent. of the current aggregate valuation of all properties owned by the Borrower up to £1,000,000;
 - (ii) 75 per cent. of the current aggregate valuation of all properties owned by the Borrower in excess of £1,000,000; and
 - (iii) individual advances on a single property valued in excess of £625,000 and up to £1,000,000 are restricted to a maximum LTL of 80 per cent.

Subsequent advances can be approved up to 75 per cent. of LTL subject to group credit approval.

Minimum Valuation

No Property can be worth less than £50,000.

Term

- (a) For Repayment Mortgages, the Mortgage's initial term must be between five and 35 years.
- (b) For Interest Only Mortgages, the Mortgage's initial term must be between five and 35 years and have no scheduled principal repayment prior to its stated final maturity which (in the case of mortgages in the Mortgage Pool) must be no later than 11 October 2039.

Borrowers

Borrowers must have a minimum age of 21 years and, prior to application, a maximum age of 60 years. The Borrower must also be no older than 75 years of age at the time of the maturity of the Mortgage.

Rental Income

Sustainable gross monthly rental income (as assessed by a valuer from the Originator's panel of approved valuers) must be at least 125 per cent. of the gross monthly interest charge.

Solicitors

The Borrower's own solicitor acts on behalf of both the Borrower and CHL. The firm of solicitors acting on behalf of CHL or the Borrower (or both) must have at least two practising partners.

Further Advances

Further Advances may be made to Borrowers with RIP Mortgages in accordance with the conditions set out in "The Mortgage Pool – Further Advances".

Further Advances are governed by the same criteria as initial advances with the following additions:

- (a) at least six months must have elapsed since completion of the initial advance;
- (b) the payment history in respect of a Mortgage must be satisfactory to CHL, acting as a Prudent Mortgage Lender;
- (c) the property may, at the request of CHL, be subject to a new valuation and/or inspection of the property; and
- (d) the Mortgage must not have experienced arrears greater than 1 month at any time in the previous three months.

Changes to Lending Criteria

CHL may vary the Lending Criteria from time to time in the manner of a reasonably prudent mortgage lender lending to Borrowers in England and Wales (a **Prudent Mortgage Lender**). Further Advances, Redraws and Substitute Mortgages may from time to time be included in the Mortgage Pool if they were originated in accordance with the Lending Criteria (as so varied) and the conditions contained in "Further Advances" and "Redraws" have been satisfied.

Historical Data Relating to CHL's Mortgage Business

The information given in the following tables relates to the performance of the whole of CHL's mortgage business since January 1997. The Lending Criteria applicable throughout the period of origination may be different from that applicable to the Provisional Mortgage Pool and consequently no assurance can be given that the experience of the Mortgages acquired by the Issuer will be similar.

1. Historical Arrears by Balance

	< 3 mths - portfolio by book value ¹ (balance) (%)	3-5.99 mths - portfolio by book value (balance) (%)	6+ mths - portfolio by book value (balance) (%)	Repossessions - portfolio by book value (balance) (%)	Total inc. repossessions (%)
Jan-97.....	3.02	1.42	0.36	0.16	4.96
Feb-97.....	2.80	1.51	0.53	0.20	5.04
Mar-97.....	2.83	1.45	0.35	0.18	4.82
Apr-97.....	2.03	1.60	0.30	0.18	4.11
May-97.....	2.22	1.30	0.44	0.18	4.13
Jun-97.....	2.12	1.19	0.25	0.10	3.66
Jul-97.....	2.06	1.11	0.31	0.08	3.56
Aug-97.....	2.14	1.12	0.25	0.06	3.57
Sep-97.....	2.44	1.03	0.35	0.04	3.87
Oct-97.....	2.24	0.94	0.41	0.07	3.65
Nov-97.....	2.57	1.25	0.29	0.08	4.19
Dec-97.....	2.20	1.01	0.36	0.07	3.64
Jan-98.....	2.47	0.88	0.41	0.13	3.90
Feb-98.....	2.51	0.72	0.38	0.14	3.75
Mar-98.....	2.31	0.78	0.33	0.16	3.59
Apr-98.....	2.36	0.82	0.30	0.16	3.65
May-98.....	2.19	0.98	0.24	0.12	3.54
Jun-98.....	1.90	0.77	0.20	0.17	3.04
Jul-98.....	1.99	0.89	0.23	0.13	3.24
Aug-98.....	1.96	0.89	0.19	0.12	3.17
Sep-98.....	1.62	0.81	0.27	0.12	2.82
Oct-98.....	1.93	0.71	0.34	0.15	3.14
Nov-98.....	2.05	0.72	0.39	0.16	3.33
Dec-98.....	2.14	0.80	0.42	0.11	3.47
Jan-99.....	2.04	0.63	0.33	0.11	3.11
Feb-99.....	1.75	0.68	0.34	0.16	2.92
Mar-99.....	1.07	0.74	0.31	0.15	2.29
Apr-99.....	1.73	0.61	0.32	0.14	2.80
May-99.....	2.19	0.52	0.34	0.12	3.17
Jun-99.....	1.40	0.65	0.31	0.08	2.45
Jul-99.....	1.33	0.46	0.28	0.08	2.16
Aug-99.....	1.54	0.46	0.26	0.06	2.32
Sep-99.....	1.42	0.50	0.24	0.06	2.22
Oct-99.....	1.46	0.46	0.28	0.04	2.24
Nov-99.....	1.25	0.47	0.26	0.03	2.00
Dec-99.....	2.06	0.43	0.32	0.03	2.84
Jan-00.....	1.57	0.49	0.29	0.04	2.39
Feb-00.....	1.86	0.47	0.34	0.03	2.70
Mar-00.....	1.36	0.51	0.36	0.03	2.26
Apr-00.....	1.67	0.46	0.36	0.03	2.52
May-00.....	1.55	0.43	0.26	0.05	2.28

¹ Book value refers to the aggregate mortgage balances originated by CHL and outstanding as at the time of the related arrears

	< 3 mths - portfolio by book value ¹ (balance) (%)	3-5.99 mths - portfolio by book value (balance) (%)	6+ mths - portfolio by book value (balance) (%)	Repossessions - portfolio by book value (balance) (%)	Total inc. repossessions (%)
Jun-00.....	1.43	0.48	0.18	0.06	2.15
Jul-00.....	1.40	0.43	0.21	0.06	2.10
Aug-00.....	1.35	0.45	0.19	0.08	2.07
Sep-00.....	1.27	0.43	0.17	0.08	1.95
Oct-00.....	1.28	0.33	0.20	0.07	1.89
Nov-00.....	1.28	0.32	0.22	0.07	1.89
Dec-00.....	1.48	0.38	0.23	0.07	2.15
Jan-01.....	1.26	0.35	0.22	0.03	1.86
Feb-01.....	1.35	0.37	0.20	0.03	1.96
Mar-01.....	1.31	0.33	0.22	0.03	1.88
Apr-01.....	1.58	0.35	0.24	0.02	2.19
May-01.....	1.46	0.46	0.22	0.03	2.17
Jun-01.....	1.25	0.40	0.22	0.03	1.90
Jul-01.....	1.25	0.30	0.23	0.02	1.80
Aug-01.....	1.29	0.24	0.22	0.02	1.77
Sep-01.....	1.18	0.27	0.21	0.02	1.68
Oct-01.....	1.21	0.25	0.20	0.03	1.69
Nov-01.....	0.98	0.31	0.19	0.02	1.50
Dec-01.....	1.27	0.36	0.16	0.03	1.82
Jan-02.....	0.95	0.25	0.14	0.02	1.37
Feb-02.....	1.07	0.25	0.17	0.03	1.51
Mar-02.....	1.03	0.22	0.14	0.03	1.42
Apr-02.....	0.98	0.25	0.12	0.04	1.39
May-02.....	0.79	0.21	0.14	0.05	1.18
Jun-02.....	1.02	0.23	0.13	0.04	1.42
Jul-02.....	0.70	0.25	0.11	0.04	1.11
Aug-02.....	0.78	0.24	0.10	0.03	1.14
Sep-02.....	0.77	0.30	0.11	0.02	1.20
Oct-02.....	0.68	0.20	0.10	0.02	0.99
Nov-20.....	0.79	0.22	0.12	0.02	1.15
Dec-02.....	1.02	0.26	0.12	0.01	1.42
Jan-03.....	0.76	0.26	0.12	0.02	1.17
Feb-03.....	0.67	0.25	0.13	0.02	1.08
Mar-03.....	0.64	0.28	0.12	0.03	1.07
Apr-03.....	0.61	0.26	0.09	0.04	1.00
May-03.....	0.62	0.25	0.08	0.04	0.99
Jun-03.....	0.55	0.24	0.08	0.03	0.90
Jul-03.....	0.50	0.19	0.08	0.03	0.80
Aug-03.....	0.54	0.15	0.11	0.02	0.83
Sep-03.....	0.46	0.10	0.14	0.02	0.73
Oct-03.....	0.50	0.16	0.11	0.01	0.79
Nov-03.....	0.49	0.14	0.08	0.02	0.73
Dec-03.....	0.50	0.15	0.08	0.02	0.75
Jan-04.....	0.49	0.18	0.08	0.03	0.77
Feb-04.....	0.54	0.17	0.09	0.03	0.83
Mar-04.....	0.65	0.16	0.12	0.03	0.97
Apr-04.....	0.62	0.12	0.11	0.03	0.89
May-04.....	0.69	0.17	0.09	0.03	0.97
June-04.....	0.43	0.15	0.08	0.03	0.68
July-04.....	0.50	0.15	0.08	0.04	0.77
Aug-04.....	0.69	0.17	0.07	0.03	0.95

2. Historical Arrears by Amount

	< 3 mths - portfolio by book value (amount) (%)	3-5.99 mths - portfolio by book value (amount) (%)	6+ mths - portfolio by book value (amount) (%)	Repossessions - portfolio by book value (amount) (%)	Total inc. Repossessions (%)
Jan-97.....	0.039	0.044	0.024	0.023	0.130
Feb-97.....	0.034	0.043	0.033	0.026	0.136
Mar-97.....	0.035	0.044	0.022	0.024	0.125
Apr-97.....	0.024	0.045	0.020	0.025	0.114
May-97.....	0.028	0.039	0.026	0.026	0.118
Jun-97.....	0.029	0.037	0.018	0.011	0.095
Jul-97.....	0.031	0.034	0.021	0.007	0.093
Aug-97.....	0.031	0.038	0.019	0.005	0.093
Sep-97.....	0.032	0.034	0.024	0.004	0.094
Oct-97.....	0.031	0.031	0.026	0.006	0.095
Nov-97.....	0.032	0.041	0.021	0.007	0.101
Dec-97.....	0.028	0.033	0.025	0.007	0.093
Jan-98.....	0.031	0.029	0.025	0.014	0.099
Feb-98.....	0.033	0.024	0.024	0.015	0.097
Mar-98.....	0.032	0.024	0.022	0.019	0.096
Apr-98.....	0.032	0.024	0.020	0.019	0.095
May-98.....	0.029	0.030	0.017	0.013	0.089
Jun-98.....	0.028	0.025	0.015	0.015	0.082
Jul-98.....	0.027	0.029	0.017	0.012	0.084
Aug-98.....	0.025	0.031	0.015	0.012	0.083
Sep-98.....	0.022	0.028	0.020	0.011	0.080
Oct-98.....	0.025	0.024	0.023	0.014	0.086
Nov-98.....	0.025	0.023	0.027	0.015	0.090
Dec-98.....	0.024	0.024	0.030	0.012	0.090
Jan-99.....	0.024	0.019	0.024	0.013	0.080
Feb-99.....	0.020	0.019	0.024	0.015	0.079
Mar-99.....	0.013	0.020	0.022	0.014	0.068
Apr-99.....	0.018	0.017	0.021	0.014	0.070
May-99.....	0.022	0.014	0.022	0.009	0.068
Jun-99.....	0.016	0.017	0.020	0.006	0.060
Jul-99.....	0.015	0.013	0.019	0.007	0.053
Aug-99.....	0.017	0.012	0.018	0.005	0.051
Sep-99.....	0.016	0.013	0.017	0.005	0.050
Oct-99.....	0.015	0.012	0.018	0.004	0.050
Nov-99.....	0.013	0.013	0.017	0.003	0.047
Dec-99.....	0.020	0.011	0.020	0.003	0.055
Jan-00.....	0.017	0.014	0.018	0.004	0.053
Feb-00.....	0.019	0.014	0.020	0.004	0.058
Mar-00.....	0.016	0.015	0.021	0.003	0.055
Apr-00.....	0.018	0.013	0.022	0.003	0.057
May-00.....	0.016	0.013	0.016	0.005	0.050
Jun-00.....	0.015	0.015	0.012	0.006	0.048
Jul-00.....	0.016	0.013	0.014	0.006	0.049
Aug-00.....	0.015	0.013	0.013	0.007	0.048
Sep-00.....	0.014	0.013	0.012	0.008	0.046
Oct-00.....	0.015	0.010	0.013	0.007	0.045
Nov-00.....	0.015	0.009	0.014	0.007	0.045
Dec-00.....	0.017	0.010	0.015	0.008	0.050
Jan-01.....	0.014	0.009	0.014	0.004	0.042

	< 3 mths - portfolio by book value (amount) (%)	3-5.99 mths - portfolio by book value (amount) (%)	6+ mths - portfolio by book value (amount) (%)	Repossessions - portfolio by book value (amount) (%)	Total inc. Repossessions (%)
Feb-01	0.015	0.011	0.012	0.004	0.042
Mar-01	0.014	0.010	0.013	0.004	0.041
Apr-01	0.016	0.010	0.015	0.003	0.044
May-01	0.015	0.012	0.013	0.003	0.044
Jun-01	0.014	0.011	0.014	0.003	0.042
Jul-01	0.013	0.009	0.014	0.002	0.038
Aug-01	0.014	0.007	0.013	0.002	0.037
Sep-01	0.013	0.007	0.013	0.001	0.035
Oct-01	0.012	0.007	0.013	0.002	0.034
Nov-01	0.010	0.008	0.013	0.002	0.033
Dec-01	0.012	0.009	0.012	0.002	0.035
Jan-02	0.009	0.006	0.009	0.001	0.025
Feb-02	0.011	0.006	0.010	0.002	0.028
Mar-02	0.010	0.005	0.008	0.003	0.026
Apr-02	0.010	0.007	0.007	0.003	0.027
May-02	0.008	0.005	0.008	0.004	0.024
Jun-02	0.010	0.006	0.007	0.002	0.026
Jul-02	0.007	0.006	0.007	0.002	0.022
Aug-02	0.008	0.006	0.006	0.002	0.022
Sep-02	0.007	0.007	0.007	0.002	0.022
Oct-02	0.007	0.005	0.006	0.002	0.019
Nov-20	0.008	0.005	0.008	0.002	0.023
Dec-02	0.010	0.006	0.007	0.002	0.025
Jan-03	0.008	0.006	0.007	0.002	0.024
Feb-03	0.007	0.006	0.008	0.001	0.022
Mar-03	0.007	0.006	0.007	0.001	0.021
Apr-03	0.007	0.006	0.005	0.002	0.020
May-03	0.006	0.006	0.004	0.002	0.019
Jun-03	0.005	0.007	0.005	0.002	0.019
Jul-03	0.005	0.006	0.005	0.002	0.018
Aug-03	0.005	0.004	0.006	0.002	0.018
Sep-03	0.005	0.003	0.008	0.001	0.017
Oct-03	0.005	0.004	0.007	0.001	0.017
Nov-03	0.005	0.003	0.005	0.001	0.014
Dec-03	0.005	0.003	0.005	0.001	0.014
Jan-04	0.005	0.004	0.005	0.002	0.016
Feb-04	0.005	0.004	0.006	0.002	0.017
Mar-04	0.005	0.004	0.007	0.002	0.018
Apr-04	0.006	0.003	0.006	0.002	0.017
May-04	0.007	0.004	0.005	0.002	0.018
June-04	0.005	0.003	0.005	0.002	0.015
July-04	0.005	0.003	0.005	0.003	0.016
Aug-04	0.006	0.004	0.004	0.002	0.017

Rounding may cause minor variations to the total percentage proportions shown in all of the Tables set out above.

Characteristics of the Provisional Mortgage Pool

The Mortgages in the Provisional Mortgage Pool have the aggregate characteristics indicated in Tables 1 to 20 below. Interest on the Mortgages in the Provisional Mortgage Pool is currently, other than in certain circumstances normally related to mortgages in arrears, paid on the first business day of each month and there is therefore a concentration of monthly payments under the Mortgages as at those dates.

The following tables give information on the Provisional Mortgage Pool at 31 August, 2004.¹

1. Key Data

Current Balance (£)	Max Current Balance (£)	Number of mortgages	Average Current Balance (£)	Weighted Average LTV ² (%)	Weighted Average Remaining Term (years)	Weighted Average Seasoning (Months)
1,167,399,681	349,999	9,622	121,326	80.6%	21.2	11.4

2. Key Data (Buy to Let)

Current Balance (£)	Max Current Balance (£)	Number of mortgages	Average Current Balance (£)	Weighted Average LTV (%)	Weighted Average Remaining Term (years)	Weighted Average Seasoning (Months)
878,801,679	349,999	7,897	111,283	79.4%	21.0	11.4

3. Key Data (Owner Occupied)

Current Balance (£)	Max Current Balance (£)	Number of mortgages	Average Current Balance (£)	Weighted Average LTV (%)	Weighted Average Remaining Term (years)	Weighted Average Seasoning (Months)
288,598,002	349,943	1,725	167,303	84.1%	21.6	11.6

¹The balances referred to are all amounts outstanding under each Mortgage as at 31 August, 2004 which includes (a) fees previously debited to a Borrower's account and (b) the monthly amount of interest and any principal due to be collected in respect of each Mortgage on 1 September, 2004

4. LTV² (Buy to Let)

LTV (%)	Current Balance (£)	(%)	No.	(%)
More than or equal to 0 and less than 40.....	8,500,267	1.0%	130	1.6%
More than or equal to 40 and less than 45.....	4,908,165	0.6%	71	0.9%
More than or equal to 45 and less than 50.....	7,745,274	0.9%	89	1.1%
More than or equal to 50 and less than 55.....	11,835,577	1.3%	137	1.7%
More than or equal to 55 and less than 60.....	19,732,336	2.2%	217	2.7%
More than or equal to 60 and less than 65.....	25,348,462	2.9%	246	3.1%
More than or equal to 65 and less than 70.....	39,683,885	4.5%	392	5.0%
More than or equal to 70 and less than 75.....	65,313,970	7.4%	609	7.7%
More than or equal to 75 and less than 80.....	126,674,523	14.4%	1,150	14.6%
More than or equal to 80 and less than 85.....	185,021,910	21.1%	1,585	20.1%
More than or equal to 85 and less than 90.....	383,358,925	43.6%	3,265	41.3%
More than or equal to 90 and less than 95.....	678,386	0.1%	6	0.1%
Total.....	878,801,679	100.0%	7,897	100.0%

5. LTV² (Owner Occupied)

LTV (%)	Current Balance (£)	(%)	No.	(%)
More than or equal to 0 and less than 40.....	4,860,805	1.7%	64	3.7%
More than or equal to 40 and less than 45.....	2,409,266	0.8%	29	1.7%
More than or equal to 45 and less than 50.....	2,943,270	1.0%	36	2.1%
More than or equal to 50 and less than 55.....	3,133,303	1.1%	27	1.6%
More than or equal to 55 and less than 60.....	4,436,858	1.5%	28	1.6%
More than or equal to 60 and less than 65.....	5,420,121	1.9%	38	2.2%
More than or equal to 65 and less than 70.....	4,755,047	1.6%	38	2.2%
More than or equal to 70 and less than 75.....	10,092,486	3.5%	71	4.1%
More than or equal to 75 and less than 80.....	12,533,026	4.3%	78	4.5%
More than or equal to 80 and less than 85.....	29,534,760	10.2%	166	9.6%
More than or equal to 85 and less than 90.....	83,696,601	29.0%	472	27.4%
More than or equal to 90 and less than 95.....	124,782,458	43.2%	678	39.3%
Total.....	288,598,002	100.0%	1,725	100.0%

² LTV means in respect of a mortgagee, the ratio of the amount of the outstanding balance, excluding arrears, as at 31 August, 2004 in respect of such mortgage to the latest valuation completed in relation to such mortgage. No revaluation of any Property has been undertaken for the purposes of the transactions described in this Offering Circular. The latest valuation of any Property will have been undertaken as at origination or prior to the making of a Further Advance (see "The Mortgage Pool – Lending Criteria").

6. Current Balance

Range of Current Balance (£)	Current Balance (£)	(%)	No.	(%)
More than or equal to £k 0 and less than £k 50.....	30,918,837	2.6%	758	7.9%
More than or equal to £k 50 and less than £k 100	264,665,458	22.7%	3,486	36.2%
More than or equal to £k 100 and less than £k 150 ...	358,391,887	30.7%	2,932	30.5%
More than or equal to £k 150 and less than £k 200 ...	221,005,875	18.9%	1,291	13.4%
More than or equal to £k 200 and less than £k 250 ...	134,967,010	11.6%	614	6.4%
More than or equal to £k 250 and less than £k 300 ...	91,700,773	7.9%	336	3.5%
More than or equal to £k 300 and less than £k 350 ...	65,749,842	5.6%	205	2.1%
Total	1,167,399,681	100.0%	9,622	100.0%

7. Geographic Distribution (Buy to Let)

Region	Current Balance (£)	(%)	No.	(%)
EAST ANGLIA	24,957,291	2.8%	256	3.2%
EAST MIDLANDS	51,048,547	5.8%	566	7.2%
LONDON.....	94,565,515	10.8%	549	7.0%
NORTH.....	20,773,943	2.4%	257	3.3%
NORTH WEST.....	37,856,360	4.3%	515	6.5%
SOUTH EAST	388,931,964	44.3%	3,172	40.2%
SOUTH WEST.....	122,738,669	14.0%	1,194	15.1%
WALES	26,092,526	3.0%	287	3.6%
WEST MIDLANDS	67,859,347	7.7%	600	7.6%
YORKS	43,977,517	5.0%	501	6.3%
Total	878,801,679	100.0%	7,897	100.0%

8. Geographic Distribution (Owner Occupied)

Region	Current Balance (£)	(%)	No.	(%)
EAST ANGLIA	7,153,867	2.5%	49	2.8%
EAST MIDLANDS	11,084,422	3.8%	76	4.4%
LONDON.....	20,858,276	7.2%	125	7.2%
NORTH.....	6,046,649	2.1%	40	2.3%
NORTH WEST.....	13,638,955	4.7%	96	5.6%
SOUTH EAST	162,404,001	56.3%	905	52.5%
SOUTH WEST.....	30,645,241	10.6%	189	11.0%
WALES	8,137,818	2.8%	55	3.2%
WEST MIDLANDS.....	19,846,966	6.9%	123	7.1%
YORKS	8,781,806	3.0%	67	3.9%
Total	288,598,002	100.0%	1,725	100.0%

9. Flexible

Type	Current Balance (£)	(%)	No.	(%)
FLEXIBLE	1,059,478,084	90.8%	8,520	88.5%
NON FLEXIBLE	107,921,596	9.2%	1,102	11.5%
Total	1,167,399,681	100.0%	9,622	100.0%

10. Repayment Method (Buy to Let)

Type of Repayment Plan	Current Balance (£)	(%)	No.	(%)
Endowment	—	0.0%	—	0.0%
Individual Savings Account	—	0.0%	—	0.0%
Interest Only	740,632,666	84.3%	6,330	80.2%
Part & Part	1,411,903	0.2%	12	0.2%
Pension	—	0.0%	—	0.0%
Repayment	136,757,110	15.6%	1,555	19.7%
Total	878,801,679	100.0%	7,897	100.0%

11. Repayment Method (Owner Occupied)

Type of Repayment Plan	Current Balance (£)	(%)	No.	(%)
Endowment	39,590,810	13.7%	212	12.3%
Individual Savings Account	130,432,691	45.2%	687	39.8%
Interest Only	2,177,395	0.8%	12	0.7%
Part & Part	2,062,481	0.7%	14	0.8%
Pension	14,395,923	5.0%	65	3.8%
Repayment	99,938,702	34.6%	735	42.6%
Total	288,598,002	100.0%	1,725	100.0%

12. Mortgage Loan Products

Mortgage Loan Products	Current Balance (£)	(%)	No.	(%)
Fixed	88,845,242	7.6%	845	8.8%
Standard Variable	13,995,223	1.2%	207	2.2%
Tracker	1,064,559,216	91.2%	8,570	89.1%
Total	1,167,399,681	100.0%	9,622	100.0%

13. Fixed Rate Mortgages

Fixed Rate Mortgages	Current Balance (£)	(%)	No	(%)
More than or equal to 4.99 and less than 5.5	44,762,676	3.8%	391	4.1%
More than or equal to 5.5 and less than 6	17,044,100	1.5%	136	1.4%
More than or equal to 6 and less than 6.5	17,652,233	1.5%	181	1.9%
More than or equal to 6.5 and less than 7	3,537,744	0.3%	49	0.5%
More than or equal to 7 and less than 7.5	5,518,118	0.5%	83	0.9%
More than or equal to 7.5 and less than 8	330,372	0.0%	5	0.1%
Total	88,845,242	7.6%	845	8.8%

14. Arrears Split

There are no loans in arrears

15. Year in Which Fixed Rate Period ends

Year	Current Balance (£)	(%)	No	(%)
2004.....	—	0.0%	—	0.0%
2005.....	27,988,008	2.4%	254	2.6%
2006.....	22,592,136	1.9%	187	1.9%
2007.....	4,185,536	0.4%	43	0.4%
2008.....	15,965,091	1.4%	151	1.6%
2009.....	9,779,248	0.8%	103	1.1%
2010.....	3,231,636	0.3%	46	0.5%
2011.....	5,103,588	0.4%	61	0.6%
Total	88,845,242	7.6%	845	8.8%

16. Buy to Let Completions by Year

Year	Current Balance (£)	(%)	No	(%)
1998 or before.....	1,186,928	0.1%	17	0.2%
1999.....	7,401,966	0.8%	98	1.2%
2000.....	13,739,053	1.6%	182	2.3%
2001.....	28,696,797	3.3%	332	4.2%
2002.....	71,154,181	8.1%	757	9.6%
2003.....	356,166,309	40.5%	3,050	38.6%
2004.....	400,456,446	45.6%	3,461	43.8%
Total	878,801,679	100.0%	7,897	100.0%

17. Owner Occupied completion per Year

Year	Current Balance (£)	(%)	No	(%)
1998 or before.....	115,922	0.0%	2	0.1%
1999.....	312,805	0.1%	4	0.2%
2000.....	6,979,655	2.4%	80	4.6%
2001.....	8,454,967	2.9%	80	4.6%
2002.....	32,489,553	11.3%	225	13.0%
2003.....	110,562,050	38.3%	653	37.9%
2004.....	129,683,051	44.9%	681	39.5%
Total.....	288,598,002	100.0%	1,725	100.0%

18. Purpose of Loan (Buy to Let)

Purpose of Loan	Current Balance (£)	(%)	No	(%)
Residential Purchase.....	247,977,134	28.2%	2,276	28.8%
Residential Remortgage.....	156,879,270	17.9%	1,360	17.2%
Self-certified Purchase.....	264,613,254	30.1%	2,472	31.3%
Self-certified Remortgage.....	209,332,021	23.8%	1,789	22.7%
Total.....	878,801,679	100.0%	7,897	100.0%

19. Purpose of Loan (Owner Occupied)

Purpose of Loan	Current Balance (£)	(%)	No	(%)
Residential Purchase.....	18,547,453	6.4%	190	11.0%
Residential Remortgage.....	2,643,900	0.9%	29	1.7%
Self-certified Purchase.....	189,384,765	65.6%	1,079	62.6%
Self-certified Remortgage.....	78,021,884	27.0%	427	24.8%
Total.....	288,598,002	100.0%	1,725	100.0%

20. Years to Maturity

Years to Maturity	Current Balance (£)	(%)	No	(%)
Less than 5.....	4,620,948	0.4%	48	0.5%
More than or equal to 5 years and less than 10.....	44,325,429	3.8%	411	4.3%
More than or equal to 10 years and less than 15.....	116,695,985	10.0%	1,105	11.5%
More than or equal to 15 years and less than 20.....	251,194,646	21.5%	2,109	21.9%
More than or equal to 20 years and less than 25.....	723,428,214	62.0%	5,754	59.8%
More than or equal to 25 years and less than 30.....	16,842,137	1.4%	123	1.3%
More than or equal to 30 years and less than 35.....	10,292,322	0.9%	72	0.7%
Total.....	1,167,399,681	100.0%	9,622	100.0%

Rounding may cause minor variations to the total percentage proportions shown in all of the tables set out above.

Title to the Mortgage Pool

The Completion Mortgage Pool will consist of Mortgages originated by CHL and governed by English law.

The sale of the Mortgages and their collateral security by CHL to the Issuer will take effect in equity only (save as mentioned below). CHL will be party to the Mortgage Sale Agreement to undertake to transfer legal title when required under the terms of such Agreement as mentioned below and will provide certain further assurances to the Issuer and the Trustee.

The Issuer will grant a first fixed equitable charge or, as applicable, an assignment by way of security, in favour of the Trustee for its own benefit and on trust for those named as secured persons under the Deed of Charge over its interest in the Mortgages and their collateral security.

The Mortgage Administrator is required by the Mortgage Administration Agreement to ensure the safe custody of the title deeds relating to the Mortgages and to provide the Trustee with access to them at all reasonable times.

Save as mentioned below, neither the Issuer nor the Trustee will be entitled to effect any registration at H.M. Land Registry or the Central Land Charges Registry to protect the sale of the Mortgages to the Issuer or the granting of security over them by the Issuer in favour of the Trustee nor, save as mentioned below, will they be entitled to obtain possession of the title deeds to the properties the subject of the Mortgages.

Notices of the equitable assignment to the Issuer and the security in favour of the Trustee will not, save as mentioned below, be given to the Borrowers. Notice of the interest of the Issuer and the Trustee will be given in respect of the Block Buildings Policies, the Mortgage Indemnity Policies and the Contingency Policies.

Under the Mortgage Sale Agreement and the Deed of Charge, the Issuer and the Trustee will each be entitled to effect such registrations and give such notices as it considers necessary to protect and perfect its interests in the Mortgages and to call for a legal assignment or transfer of the Mortgages and the collateral security in favour of the Issuer and a legal sub-mortgage over such Mortgages and collateral security in favour of the Trustee where: (i) it is obliged to do so by law, by court order or by a mandatory requirement of any regulatory authority; (ii) an Enforcement Notice has been given; (iii) the Trustee considers that the property the subject of the security granted pursuant to the Deed of Charge or any part thereof is in jeopardy (including the possible insolvency of CHL (where legal title to any Mortgage is vested in CHL)); and/or (iv) any action is taken for the winding-up, dissolution, examination or reorganisation (other than on solvent grounds) of CHL where legal title to any Mortgage is vested in CHL. Following such legal assignment or transfer and sub-mortgage, the Issuer (with the consent of the Trustee) and the Trustee will each be entitled to take all necessary steps to protect and perfect legal title to its interests in the Mortgages and collateral security, including the carrying out of any necessary registrations and notifications. These rights are supported by an irrevocable power of attorney given by CHL in favour of the Issuer and the Trustee.

The effect of the assignment of the Mortgages and the collateral security by CHL to the Issuer pursuant to the Mortgage Sale Agreement and the assignment of the Issuer's rights in respect thereof in favour of the Trustee pursuant to the Deed of Charge taking effect in equity only is that the rights of the Issuer and the Trustee may be, or may become, subject to equities (for example, rights of set-off between the Borrowers and CHL) as well as to the interests of third parties who perfect a legal interest prior to the Issuer or the Trustee acquiring and perfecting a legal interest (such as, in the case of Mortgages over unregistered land, a third party acquiring a legal interest in the relevant Mortgage without notice of the Issuer's or the Trustee's interest, or, in the case of Mortgages over registered land, a third party acquiring a legal interest by registration or recording prior to the registration of the Issuer's or the Trustee's interests). Furthermore, the Issuer's and the Trustee's interests will be subject to such equitable interests of third parties as may rank in priority to their interests in accordance with the normal rules governing the priority of equitable interests in the case of both registered and unregistered land.

The risk of such equities and other interests leading to third party claims obtaining priority to the interests of the Issuer or the Trustee in the Mortgages, the collateral security therefor and the Insurance Contracts is likely to be limited to circumstances arising from a breach by CHL or the

Issuer of its contractual or other obligations or fraud or mistake on the part of CHL or the Issuer or their respective officers, employees or agents.

Furthermore, until the Issuer or the Trustee has obtained legal title to the Mortgages, CHL must be joined as a party to any legal proceedings which the Issuer and the Trustee may wish to take against any Borrower to enforce their rights under the relevant Mortgage. In this respect, CHL will, pursuant to the Mortgage Sale Agreement, undertake for the benefit of the Issuer and the Trustee that it will join in any legal proceedings brought by the Issuer or the Trustee against any person relating to a Mortgage and related rights agreed to be sold to the Issuer pursuant to the Mortgage Sale Agreement and such undertaking will be secured by a power of attorney granted by CHL in favour of the Issuer and the Trustee enabling the Issuer and the Trustee to take proceedings in the name of CHL.

Warranties and Repurchase

The Mortgage Sale Agreement will contain certain representations and warranties given by CHL to the Issuer and the Trustee in relation to, *inter alia*, the Completion Mortgage Pool and any Substitute Mortgages transferred or assigned to the Issuer pursuant to the Mortgage Sale Agreement.

No searches, enquiries or independent investigation of title of the type which a prudent purchaser or mortgagee would normally be expected to carry out have been or will be made by the Issuer or the Trustee, each of whom is relying entirely on the representations and warranties set out in the Mortgage Sale Agreement.

If there is an unremedied breach of any of the representations and warranties set out in the Mortgage Sale Agreement (and, in the case of certain warranties, where the breach could have a material adverse effect on the interests of the Issuer or the Trustee in the Mortgages and other rights assigned to the Issuer pursuant to the Mortgage Sale Agreement or on the ability of the Issuer (or the Mortgage Administrator on the Issuer's behalf) to collect payments on the Mortgages or on the ability of the Trustee to enforce the Security) then CHL will be obliged to repurchase the relevant Mortgage and its collateral security for a consideration in cash equal to all sums due or owing thereunder (including accrued interest and arrears) as at the date of repurchase plus the reasonable costs of the Issuer incurred in relation to such repurchase. Performance of such repurchase will be in full satisfaction of the liabilities of CHL in respect of the relevant breach. Alternatively, as consideration for such repurchase, CHL may elect to transfer another mortgage originated by CHL (a **Substitute Mortgage**) whose Balance equals such cash consideration provided however that the Substitute Mortgage complies with certain conditions set out in the Mortgage Sale Agreement.

The representations and warranties of CHL referred to above include, *inter alia*, statements to the following effect:

- (i) each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage over residential leasehold or freehold property situated in England or Wales;
- (ii) each Mortgage constitutes a valid and binding obligation of the Borrower enforceable in accordance with its terms and secures the repayment of all advances, interest, costs and expenses payable by the Borrower and any further advances;
- (iii) prior to making an advance to the Borrower, the relevant property was valued by an independent qualified valuer approved by CHL;
- (iv) each Mortgage complied with the Lending Criteria applicable at the time of application by the Borrower for the grant of such advance in all material respects;
- (v) prior to the making of an advance to a Borrower, all investigations, searches and other action and enquiries which a Prudent Mortgage Lender would normally make when advancing money to an individual on the security of residential property in England or Wales were taken by CHL or on its behalf in respect of each Mortgage;
- (vi) at the time of the origination of each Mortgage, each Property was insured either (i) under a Block Buildings Policy, or (ii) a building insurance policy in the joint names of the Borrower and CHL or with the interest of CHL (as mortgagee) endorsed or otherwise noted thereon, or (iii) (in the case of leasehold property) under a landlord's building's

- insurance with, where possible, the interests of CHL and the Borrower endorsed thereon, or (iv) under one of the Contingency Policies, in all cases against risks usually covered when advancing money on the security of residential property of the same nature to an amount not less than the full reinstatement value thereof as determined by CHL's valuer;
- (vii) where under the relevant Lending Criteria, part of the advance was required to be insured by a mortgage guarantee indemnity policy, such part was so insured under a Mortgage Indemnity Policy and effected in accordance with the relevant block policy;
 - (viii) the Mortgage Indemnity Policies and the Contingency Policies are in full force and effect and all premiums thereon have been paid;
 - (ix) in relation to each Mortgage:
 - (a) if the property is not registered, the Borrower has good and marketable title to the fee simple absolute in possession or a term of years absolute in the relevant property free (save for the Mortgage) from any encumbrance which would adversely affect such title; and
 - (b) if the property is registered, it has been registered, or is in the course of registration, with title absolute in the case of freehold property or absolute or good leasehold title in the case of leasehold property;
 - (x) no payment on the Mortgages is in arrears as at 31 August, 2004. No Substitute Mortgage will be in arrears on the Determination Date immediately prior to the date it is transferred to the Issuer;
 - (xi) each loan to a Borrower and its related Mortgage has been made on the terms of CHL's standard mortgage documentation, which has not been varied in any material respect;
 - (xii) in relation to each RIP Mortgage:
 - (a) the relevant tenancy is either an assured shorthold tenancy or a tenancy in respect of which the relevant tenant is a body corporate;
 - (b) the tenancy agreement was at the time of origination of the relevant RIP Mortgage on terms which would be acceptable to a reasonably prudent mortgage lender and CHL is not aware of any material breach of such agreement; and
 - (c) each Borrower is an individual and not a corporate entity or partnership;
 - (xiii) in the case of a Mortgage secured on a leasehold property, the related leasehold interest expires not less than 35 years after the maturity of the relevant Mortgage;
 - (xiv) no term of any Mortgage would not be binding on the relevant Borrower as a result of a conflict with the Regulations;
 - (xv) no loan to a Borrower and its related Mortgage has an outstanding balance less than £25,000 or greater than £350,000;
 - (xvi) no loan is to a Borrower who is participating in a co ownership scheme as introduced by the Housing (Northern Ireland) Order 1981, providing a framework to enable the purchase by an individual of a share in a property which is owned by a Housing Association (as defined in Article 114 of the Housing (Northern Ireland) Order 1981);
 - (xvii) no loan to a Borrower has any amount outstanding in arrears of principal or interest on its related Mortgage;
 - (xviii) no loan to a Borrower was completed after 31 August, 2004; and
 - (xix) no loan has a current LTV of more than 95 per cent.

Administration of the Mortgage Pool

The Mortgage Administrator is required to administer the Mortgage Pool as the agent of the Issuer and the Trustee under and in accordance with the terms of the Mortgage Administration Agreement. The duties of the Mortgage Administrator include:

- (a) setting the interest rates on the Standard Variable Mortgages and the Base Rate Linked Mortgages from time to time;
- (b) collecting payments on the Mortgages and discharging Mortgages and related security upon redemption;
- (c) monitoring and, where appropriate, pursuing arrears and enforcing the security;
- (d) taking all reasonable steps to ensure safe custody of all title deeds and documents in respect of the Mortgages and their related security which are in its possession;
- (e) making claims under the Insurance Contracts;
- (f) administering the Issuer's interests in the life policies and other collateral security related to the Mortgages;
- (g) procuring the Aggregate Rate of the Variable Rate Mortgages exceeds the Threshold Rate if necessary;
- (h) dealing with conversion of Mortgages and the making of Further Advances and Redraws (see further "Conversion of Mortgages", "Further Advances" and "Redraws"); and
- (i) making arrangements for the payment by the Issuer of interest and principal in respect of the Notes subject to the terms thereof and to the availability of funds.

For so long as the Mortgage Administrator continues to be the Issuer's and the Trustee's agent for the administration of the Mortgage Pool, the Cash/Bond Administrator will be authorised to operate the Bank Accounts for the purposes of the Cash/Bond Administration Agreement, subject to the constraints set out in the Mortgage Administration Agreement. Payments under the Mortgages are in the majority of cases collected from Borrowers under the direct debiting system. The duties of the Cash/Bond Administrator include, *inter alia*:

- (a) managing the operation of the Bank Accounts;
- (b) making the required ledger entries;
- (c) maintaining and/or replenishing the Reserve Account; and
- (d) operating the Priority of Payments and making arrangements for the payment by the Issuer of interest and principal in respect of the Notes, subject to the terms thereof and to the availability of funds.

The Mortgage Administrator is entitled to delegate its functions under the Mortgage Administration Agreement subject to certain conditions. The Mortgage Administrator remains liable for the performance of those functions notwithstanding such delegation.

The Mortgage Administrator is entitled to charge a fee for its services under the Mortgage Administration Agreement payable on each Interest Payment Date. Such fee is payable in accordance with the Priority of Payments.

The Cash/Bond Administrator is entitled to charge a fee for its services under the Cash/Bond Administration Agreement payable on each Interest Payment Date. Such fee is payable in accordance with the Priority of Payments.

The appointment of CHL as Mortgage Administrator and Cash/Bond Administrator may, in each case, be terminated by the Issuer (with the consent of the Trustee) or the Trustee on the happening of certain events of default or insolvency on the part of CHL or if the Trustee gives an Enforcement Notice in relation to the Notes. Following any such termination, the Issuer (with the consent of the Trustee) or the Trustee may, subject to certain conditions, appoint any substitute administrators and, in regard to mortgage administration functions and/or cash/bond administration functions (as the case may be) to be provided, respectively, by the Mortgage Administrator and the Cash/Bond Administrator, the Standby Servicer has agreed to act as, or procure that a third party acts as, substitute administrator pursuant to the provisions of the Standby Servicer Agreement. The Mortgage Administrator and the Cash/Bond Administrator (as the case may be) will provide reasonable cooperation in order to facilitate the handover of its responsibilities. For a period of three months following termination of the appointment of the Mortgage Administrator, the substitute

administrator will be entitled to such non-exclusive licences and intellectual property that the Mortgage Administrator is legally empowered to grant subject to certain reasonable limitations.

The registered office of each of the Mortgage Administrator and the Cash/Bond Administrator is located at Admiral House, Harlington Way, Fleet, Hampshire GU51 4YA, England.

The Trustee shall have no responsibility for the genuineness, validity, effectiveness or suitability of any of the Mortgages, the advances relating thereto, the collateral security, including but not limited to the Insurance Contracts and the life policies or any of the Further Advances made in respect of the Mortgages or any other documents or manuals entered into or in connection therewith or relating thereto or any obligation or rights created or purported to be created thereby or pursuant thereto and the Trustee shall not be responsible or liable for the investigation of any of the foregoing. The Trust Deed and the Deed of Charge include provisions which further limit the responsibility and liability of the Trustee in respect of the Mortgages, the advances relating thereto and the collateral security in relation thereto.

Enforcement Procedures

CHL has established procedures for managing loans which are in arrears, including early contact with Borrowers in order to find a solution to any financial difficulties they may be experiencing. Such solutions may include offering the option to transfer to a longer term arrangement. The procedures permit discretion to be exercised by the appropriate officers of CHL in many circumstances. These same procedures (and if different, any arrears management procedures which may be required by a relevant mortgage indemnity insurer), as from time to time varied in accordance with the policies of a Prudent Mortgage Lender, are required to be used by the Mortgage Administrator in respect of arrears arising on the Mortgages and all material amendments will be notified to the Trustee.

Further Advances

From 1 November, 2004, the Mortgage Administrator (on behalf of the Issuer) may only make Further Advances to Borrowers with RIP Mortgages secured on the relevant property against which the original advance was made at any time. Where the Issuer has funds available for such purposes and the conditions set out below are satisfied, the Issuer will provide such funds to enable such Further Advance to be made by the Mortgage Administrator on behalf of the Issuer.

Further Advances to be made on non-RIP Mortgages will require CHL to repurchase the relevant Mortgage in order for the Further Advance to be made by CHL outside of the Transaction. The consideration for such repurchases will be for a cash amount equal to the outstanding balance of the relevant Mortgage plus any interest that has accrued in respect of such Mortgage but which has not become due and payable (in each case as at the date of the repurchase). The revised approach to Further Advances will increase the incidence of unregulated mortgages being repurchased whereupon they will cease to be part of the Mortgage Pool and will not be replaced. Mortgages that have been repurchased for the purpose of making a Further Advance thereon will not be sold back into the Mortgage Pool as Substitute Mortgages.

The making by the Mortgage Administrator (on behalf of the Issuer) of Further Advances to Borrowers with RIP Mortgages will be subject, *inter alia*, to the following conditions:

- (i) immediately prior to the making of any Further Advance, the relevant Borrower is not, so far as the Mortgage Administrator is aware, in material breach of any of the conditions of the relevant Borrower's existing Mortgage or Loan;
- (ii) to the extent that the Mortgage Administrator has reason to believe that the Further Advance to be made to a Borrower may result in a regulated agreement (as defined in the Consumer Credit Act), the applicable provisions of the Consumer Credit Act relating to the regulated agreement will be complied with;
- (iii) if the terms on which the Further Advance is made include a term or terms to which the Regulations apply (pursuant to Regulation 4 thereof), such term or terms is or are not a term or terms of the kind described in Regulation 5 of the Regulations;

- (iv) there is no deficiency recorded on the Principal Deficiency Ledger on the immediately preceding Determination Date and the amount in the Reserve Account is equal to or is more than the Reserve Ledger Required Amount or, if the amount in the Reserve Account is less than the Reserve Ledger Required Amount, no payments have been made from the Reserve Account, save that the requirement in relation to the Reserve Account may be waived if the Rating Agencies have confirmed that the then current rating of the Notes will not be adversely affected;
- (v) on the Determination Date immediately prior to the making of such Further Advance, the balance of the Mortgages which are 60 days overdue is less than 5 per cent. of the aggregate balances of the Mortgages in the Mortgage Pool on such Determination Date;
- (vi) the aggregate amount of all Further Advances may not exceed 10 per cent. of the initial Principal Amount Outstanding of the Notes;
- (vii) each Further Advance is made on terms which are legal, valid, binding and enforceable and the amount of such Further Advance (together with all related fees, costs and expenses) will have the benefit of the same security (whether under the same charge or under a second charge ranking immediately behind the existing charge in favour of the Issuer) as the principal amount outstanding under the relevant Mortgage immediately prior to the making of such Further Advance;
- (viii) the Mortgage Administrator's further advance procedures have been applied in all material respects to the Further Advance and to the circumstances of the Borrower at the time the Further Advance was made;
- (ix) prior to making the Further Advance, any second charge or other security created in favour of a third party has been either expressly postponed by deed to the Mortgage securing such Further Advance or redeemed out of the proceeds of the Further Advance simultaneously with the making of the Further Advance;
- (x) no Enforcement Notice has been given by the Trustee which remains in effect;
- (xi) the product of the weighted average foreclosure frequency (WAFF) and the weighted average loss severity (WALS) as determined by each of Fitch and S&P after such Further Advance is made does not exceed the product of the WALS and the WAFF as determined by each of Fitch and S&P with respect to the Provisional Mortgage Pool by more than 0.25 per cent.;
- (xii) the Lending Criteria as at such time have been applied to the Further Advance and to the circumstances of the Borrower at the time the Further Advance was made; and
- (xiii) if the making of the proposed Further Advance would cause the weighted average of the ratios of the current balances of the Mortgages in the Mortgage Pool at the relevant time plus the amount of the proposed Further Advance (and the amount of any other Further Advances proposed at the relevant time) to the amount of the most recent valuations of the properties secured by such Mortgages to vary by more than 0.5 per cent. from the weighted average of the ratios of the balances of the Mortgages in the Mortgage Pool on the Issue Date to the amount of the most recent valuations of the properties secured by such Mortgages, the Rating Agencies have notified in writing the Issuer that the making of such Further Advance will not cause the rating of the Notes to be downgraded.

Redraws

Under the relevant mortgage terms, CHL (on behalf of the Issuer) may make Redraws to Borrowers in respect of Flexible Mortgages secured on the relevant property against which the original advance was made at any time. Where the Issuer has funds available for such purposes and the conditions set out below are satisfied, the Issuer will provide such funds to enable such Redraw to be made by CHL on behalf of the Issuer.

The making by the Mortgage Administrator (on behalf of the Issuer) of Redraws will be subject, *inter alia*, to the following conditions:

- (i) to the extent that the Mortgage Administrator has reason to believe that the relevant Redraw may result in a regulated agreement (as defined in the Consumer Credit Act), the applicable provisions of the Consumer Credit Act relating to the regulated agreements will be complied with;
- (ii) each Redraw is made on terms which are legal, valid, binding and enforceable and the amount of such Redraw (together with all related fees, costs and expenses) will have the benefit of the same security (under the same charge) as the principal amount outstanding under the relevant Mortgage immediately prior to the drawing of such Redraw;
- (iii) CHL's procedures in respect of Redraws have been applied in all material respects to the circumstances of the Borrower at the time the Redraw was drawn;
- (iv) no Enforcement Notice has been given by the Trustee which remains in effect;
- (v) the relevant Borrower is not in material breach of the obligations on its part contained in the relevant Mortgage conditions; and
- (vi) if the terms on which the Redraw is made include a term or terms to which the Regulations apply (pursuant to Regulation 4 thereof), such term or terms is and are not a term or terms of the kind described in Regulation 5 of the Regulations.

Conversion of Mortgages

The Mortgage Administrator on behalf of the Issuer and the Trustee may agree to a request by a Borrower to convert his Mortgage (or, in the case of a default by a Borrower, may itself elect to convert such Borrower's Mortgage) (subject to satisfaction of the following conditions) into an Endowment Mortgage, a Repayment Mortgage, a Non-Collateralised Interest Only Mortgage, an ISA/PEP Mortgage, a Pension Mortgage or a combination of one or more such types of Mortgage and/or into (a) a Fixed Rate Mortgage, (b) a Standard Variable Mortgage, (c) a Base Rate Linked Mortgage, (d) a Flexible Mortgage or (e) into any other type of Mortgage offered by CHL previously approved in writing by the Rating Agencies (a **Converted Mortgage**). The relevant conditions are, *inter alia*, that:

- (i) no Enforcement Notice has been given by the Trustee which remains in effect at the date of the relevant conversion;
- (ii) the provisions of the Consumer Credit Act 1974 relating to regulated agreements and other applicable legislation will be complied with (to the extent they apply);
- (iii) the Converted Mortgage will be on the terms of the relevant standard documentation utilised by CHL at the time of such conversion to document the terms of mortgages it is offering generally and which has not been varied in any material respect;
- (iv) the conversion of the applicable Mortgage is effected in writing;
- (v) the effect of the conversion would not be to extend the final maturity date of such Mortgage to beyond two years prior to the maturity date of the Notes;
- (vi) in relation to a conversion of a Mortgage (other than the conversion of a Fixed Rate Mortgage to a Fixed Rate Mortgage with different characteristics), such conversion will not cause the aggregate of the balances of the Fixed Rate Mortgages in the Mortgage Pool to exceed £500,000,000 from time to time;
- (vii) in relation to a conversion of a Mortgage (other than the conversion of a Flexible Mortgage to a Flexible Mortgage with different characteristics), such conversion will not cause the aggregate of the balances of the Flexible Mortgages in the Mortgage Pool to exceed £900,000,000, save that the figure of £900,000,000 may be increased from time to time upon the Rating Agencies agreeing that such increase will not adversely affect the then current rating by the Rating Agencies of the Notes; and
- (viii) the product of the WAFF and the WALs as determined by S&P after such conversion does not exceed the product of the WALs and WAFF as determined by S&P with respect to the Provisional Mortgage Pool by more than 0.25 per cent.

Insurance Contracts

The Issuer and the Trustee will have the benefit of block buildings insurance master policies (the **Block Buildings Policies**) up to the end of March 2005 (at which time the Block Buildings Policies will migrate to individual policies of insurance), certain contingency policies of insurance effected by CHL (the **Contingency Policies**) and the block mortgage indemnity policies providing an indemnity for all amounts advanced under a Mortgage exceeding the percentage of the value or purchase price of the relevant Property prescribed by the Lending Criteria in respect of such Mortgage (the **Mortgage Indemnity Policies**) to the extent of their respective interests in the Mortgages in the Mortgage Pool. Each of the Block Buildings Policies, the Contingency Policies and the Mortgage Indemnity Policies is effected with (and the individual policies of buildings insurance to which the Block Building Policy will be migrated will be effected with) Royal & Sun Alliance Insurance Group plc whose registered office is at Bartholomew Lane, London EC2N 2AB. Royal & Sun Alliance Insurance Group plc is one of the world's largest international insurance groups and writes most of the major classes of property, casualty and life insurance. Royal & Sun Alliance Insurance Group plc has leading or significant market positions in the United Kingdom, the United States of America, Canada, Scandinavia, Australia and New Zealand. Certain warranties will be given by CHL in relation to the various policies in the Mortgage Sale Agreement as described under "Warranties and Repurchase".

WEIGHTED AVERAGE LIVES OF THE NOTES

The average life of the Notes cannot be predicted with any certainty as the actual rate at which the Mortgages will be repaid and a number of other relevant factors are unknown.

Estimates of the possible average life of the Notes can be made by the Issuer based on certain assumptions. For example, the table below shows the expected average life of the Notes as at the Issue Date based on assumptions that:

- (a) the Issuer exercises its option to redeem all (but not some only) of the Notes then outstanding on the earlier of the Interest Payment Date falling in October, 2009 or the Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes on the Issue Date but does not exercise its option to redeem all (but not some only) of the Notes as a result of the introduction of Basel II in the United Kingdom;
- (b) the Mortgages are subject to a constant annual rate of prepayment (CPR) as shown in the table below;
- (c) no Further Advances or Redraws are made;
- (d) there are no delinquencies or losses on the Mortgages;
- (e) the Issue Date is 11 October, 2004; and
- (f) no Enforcement Notice is delivered in relation to the Notes and no Event of Default occurs in relation to the Notes.

Average life Sensitivities

CPR (per cent.)	Average Life of Class A1 Notes (Years)	Average Life of Class A2 Notes (Years)	Average Life of Class M Notes (Years)	Average Life of Class B Notes (Years)	Average Life of Class C Notes (Years)	Average Life of Class D Notes (Years)	Average Life of Class E Notes (Years)
0	4.70	4.98	4.98	4.98	4.98	4.98	4.98
5	2.63	4.98	4.98	4.98	4.98	4.98	4.98
10.....	1.42	4.73	4.98	4.98	4.98	4.98	4.98
15.....	0.97	4.25	4.98	4.98	4.98	4.98	4.98
20.....	0.74	3.77	4.98	4.98	4.98	4.98	4.98
25.....	0.60	3.33	4.98	4.98	4.98	4.98	4.98
30.....	0.50	2.94	4.98	4.98	4.98	4.98	4.98

There is no assurance that redemption of the Notes will occur as described in assumption (a). The Issuer has no recourse to CHL or any other person in financing its option to redeem all (but not only some) of the Notes.

Assumption (b) above is stated as an average annualised prepayment rate since the prepayment rate for one Interest Period may be substantially different from that for another. The constant prepayment rates shown above are purely illustrative and do not represent the full range of possibilities for constant prepayment rates.

The average lives of the Notes are subject to factors largely outside of the control of the Issuer and consequently no assurance can be given that the assumptions and estimates will prove in any way to be realistic and they must therefore be viewed with considerable caution.

DESCRIPTION OF THE NOTES

The following are the Terms and Conditions (the **Conditions**) of the Notes in the form (subject to amendment) in which they will appear in the Trust Deed.

General

The £270,000,000 Class A1 Mortgage Backed Floating Rate Notes due October 2041 (the **Class A1 Notes**), the £597,500,000 Class A2a Mortgage Backed Floating Rate Notes due October 2041 (the **Class A2 Notes**, which together with the Class A1 Notes constitute the **Senior Notes**), the £15,000,000 Class M Mortgage Backed Floating Rate Notes due October 2041 (the **Class M Notes**), the £40,000,000 Class B Mortgage Backed Floating Rate Notes due October 2041 (the **Class B Notes**), the £40,000,000 Class C Mortgage Backed Floating Rate Notes due October 2041 (the **Class C Notes**), the £25,000,000 Class D Mortgage Backed Floating Rate Notes due October 2041 (the **Class D Notes**) and the £12,500,000 Class E Mortgage Backed Floating Rate Notes due October 2041 (the **Class E Notes**), which together with the Class D Notes, the Class C Notes, the Class B Notes, the Class M Notes and the Senior Notes constitute the **Notes**) of Auburn Securities 4 PLC (the **Issuer**) are the subject of a trust deed (the **Trust Deed**, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified including the Master Definitions Schedule incorporated therein) to be entered into on or about 11 October, 2004 (the **Issue Date**) and made between the Issuer and J.P. Morgan Corporate Trustee Services Limited (the **Trustee**, which expression includes any further or other trustee of the Trust Deed) as trustee for, *inter alia*, the holders for the time being of the Notes (the **Noteholders**) and the holders for the time being of the interest coupons relating thereto (the **Coupons** which expression includes the talons attached to the Notes except where the context otherwise requires) (the **Couponholders**). The security for the Notes is created pursuant to, and on the terms set out in, a deed of charge (the **Deed of Charge**, which expression includes such deed of charge as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time modified) to be dated the Issue Date and made between, *inter alia*, the Issuer, Capital Home Loans Limited (**CHL**) and the Trustee. By an agency agreement (the **Agency Agreement**, which expression includes such Agency Agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) to be dated the Issue Date and made between the Issuer, CHL, the Trustee, JPMorgan Chase Bank as agent bank (the **Agent Bank** which expression includes any other agent bank appointed in respect of the Notes) and JPMorgan Chase Bank as principal paying agent (the **Principal Paying Agent**, and together with any further or other paying agents for the time being appointed in respect of the Notes, the **Paying Agents**) provision is made for the payment of principal and interest in respect of the Notes. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Post Enforcement Call Option Agreement, the Agency Agreement and the Deed of Charge.

In these Conditions, capitalised words and expressions shall, unless otherwise defined below, have the same meanings as those given in the master definitions schedule (the **Master Definitions Schedule**) dated the Issue Date between, *inter alia*, the Issuer, the Trustee and the Principal Paying Agent.

Copies of the Trust Deed, the Agency Agreement, the Deed of Charge, the post enforcement call option agreement as between Auburn Options Limited and the Trustee (the **Post Enforcement Call Option Agreement**) and the other Transaction Documents are available for inspection at the principal office for the time being of the Trustee, being at the date hereof at Trinity Tower, 9 Thomas More Street, London E1W 1YT and at the specified offices of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Post Enforcement Call Option and the Deed of Charge and are deemed to have notice of all the provisions of the Agency Agreement.

The issue of the Notes was authorised by resolution of the Board of Directors of the Issuer passed on 6 October, 2004.

Global Notes

Temporary Global Notes and Permanent Global Notes

The Notes of each class are initially represented by (i) in the case of the Class A1 Notes, a temporary global note in the principal amount of £270,000,000 (the **Temporary Global Class A1 Note**), (ii) in the case of the Class A2 Notes, a temporary global note in the principal amount of £597,500,000 (the **Temporary Global Class A2 Note**), (iii) in the case of the Class M Notes, a temporary global note in the principal amount of £15,000,000 (the **Temporary Global Class M Note**), (iv) in the case of the Class B Notes, a temporary global note in the principal amount of £40,000,000 (the **Temporary Global Class B Note**), (v) in the case of the Class C Notes, a temporary global note in the principal amount of £40,000,000 (the **Temporary Global Class C Note**), (vi) in the case of the Class D Notes, a temporary global note in the principal amount of £25,000,000 (the **Temporary Global Class D Note**) and (vii) in the case of the Class E Notes, a temporary global note in the principal amount of £12,500,000 (the **Temporary Global Class E Note** and, together with the Temporary Global Class A1 Note, the Temporary Global Class A2 Note, the Temporary Global Class M Note, the Temporary Global Class B Note, the Temporary Global Class C Note and the Temporary Global Class D Note, the **Temporary Global Notes**), in each case without Coupons. Each Temporary Global Note will be deposited on behalf of the subscribers for each class of Notes with a common depository (the **Common Depository**) for Euroclear Bank S.A./N.V., as operator of the Euroclear System (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) on the Issue Date. Upon deposit of each such Temporary Global Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Notes represented by such Temporary Global Note with the principal amount of the relevant class of Notes for which it has subscribed and paid. Interests in the Temporary Global Class A1 Note will be exchangeable 40 days after the later of the Issue Date and the commencement of the offering of the Notes (the **Exchange Date**), provided certification of non-US beneficial ownership by the Class A1 Noteholders has been received, for interests in a permanent global note (the **Permanent Global Class A1 Note**), without Coupons. Interests in the Temporary Global Class A2 Note will be exchangeable after the Exchange Date provided certification of non-U.S. beneficial ownership by the Class A2 Noteholders has been received, for interests in a permanent global note (the **Permanent Global Class A2 Note**), without Coupons. Interests in the Temporary Global Class M Note will be exchangeable after the Exchange Date provided certification of non-US beneficial ownership by the Class M Noteholders has been received for interests in a permanent global note (the **Permanent Global Class M Note**) without Coupons. Interests in the Temporary Global Class B Note will be exchangeable after the Exchange Date provided certification of non-US beneficial ownership by the Class B Noteholders has been received for interests in a permanent global note (the **Permanent Global Class B Note**). Interests in the Temporary Global Class C Note will be exchangeable after the Exchange Date provided certification of non-US beneficial ownership by the Class C Noteholders has been received for interests in a permanent global note (the **Permanent Global Class C Note**), without coupons. Interests in the Temporary Global Class D Note will be exchangeable after the Exchange Date provided certification of non-US beneficial ownership by the Class D Noteholders has been received for interests in a permanent global note (the **Permanent Global Class D Note**), without coupons. Interests in the Temporary Global Class E Note will be exchangeable after the Exchange Date provided certification of non-US beneficial ownership by the Class E Noteholders has been received for interests in a permanent global note (the **Permanent Global Class E Note**, and together with the Permanent Global Class A1 Note, the Permanent Global Class A2 Note, the Permanent Global Class M Note, the Permanent Global Class B Note, the Permanent Global Class C Note and the Permanent Global Class D Note, the **Permanent Global Notes**), without Coupons. The expression **Global Notes** means the Temporary Global Notes and the Permanent Global Notes and the expression **Global Note** means any of them. On the exchange of a Temporary Global Note for a Permanent Global Note, the relevant Permanent Global Note will remain deposited with the Common Depository.

Transfers

Title to the Global Notes will pass by delivery. Each Permanent Global Note will only be exchangeable for definitive Notes in the limited circumstances described below. Each of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of

a Note will be entitled to receive any payment so made in respect of that Note in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate. For so long as any Notes are represented by a Global Note, such Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

For so long as the Notes of any class are represented by a Global Note, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (other than Clearstream, Luxembourg if Clearstream, Luxembourg shall be an account holder of Euroclear and other than Euroclear, if Euroclear shall be an account holder of Clearstream, Luxembourg) as the holder of a particular principal amount of Notes of such class will be entitled to be treated by the Issuer and the Trustee as the holder of such principal amount of Notes of such class (other than for the purposes of payments in respect thereof the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of such Global Note in accordance with and subject to their respective terms and the terms of the Trust Deed). The expressions **Class A1 Noteholders, Class A2 Noteholders, Class M Noteholders, Class B Noteholders, Class C Noteholders, Class D Noteholders and Class E Noteholders** may be construed accordingly, but without prejudice to the entitlement of the bearer of the relevant Global Note to be paid principal and interest thereon in accordance with its terms.

Payments

Principal and interest on a Global Note will be payable against presentation of that Global Note at the specified office of any Paying Agent provided certification of non-US beneficial ownership by the relevant class of Noteholders has been received by Euroclear or Clearstream, Luxembourg. A record of each payment made on a Global Note, distinguishing between any payment of principal and payment of interest, will be endorsed on that Global Note by the Paying Agents (or the Paying Agent shall procure that such endorsement be made) and such record shall be prima facie evidence that the payment in question has been made.

Issue of Notes in Definitive Form

If (i) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or, in fact, does so or (ii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Issue Date, the Issuer is, or the Paying Agents are or will be, required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive form, then the Issuer will, at its sole cost and expense, issue Notes of each class in definitive form in exchange for the whole outstanding interest in the relevant Global Note within 30 days of the occurrence of the relevant event.

Any notice to Noteholders in respect of Notes represented by Global Notes shall be deemed to have been duly given if sent to Euroclear and/or Clearstream, Luxembourg (as applicable) and shall be deemed to have been given on the date on which such notice was so sent.

Terms and Conditions of the Notes

If Notes in definitive form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Note would be as set out below. While the Notes remain in global form, the same terms and conditions govern such Notes, except to the extent that they are appropriate only to Notes in definitive form.

1. Form, Denomination and Title

- (a) The Notes, which are serially numbered, are issued in bearer form in denominations of £50,000, each with Coupons attached and a grid endorsed thereon for the recording of all payments of principal in accordance with the provisions of Condition 5. Title to the Notes and Coupons shall pass by delivery.

- (b) The holder of any Note and the holder of any Coupon may (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Note or Coupon, as the case may be, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon.
- (c) The holder of each Coupon (whether or not the Coupon is attached to the relevant Note) in his capacity as such shall be subject to all the provisions contained in the relevant Note. The Notes and Coupons are obligations solely of the Issuer and are not obligations of, or guaranteed by, any other parties to the Documents.

2. Status, Security and Priority

Status

- (a) The Notes and the Coupons constitute direct, secured and (save as described herein) unconditional obligations of the Issuer and the Notes within each class rank *pari passu* without preference or priority amongst themselves.
- (b) The Notes, each of which have been issued by the Issuer on the Issue Date, are subject to the Trust Deed and are secured by the same Security. The Senior Notes rank in point of payment and security *pari passu*, without preference or priority amongst themselves (but the Class A1 Notes rank in priority to the Class A2 Notes in point of repayment of principal prior to enforcement of the Security). Certain other obligations of the Issuer rank in priority to the Senior Notes. The Class M Notes rank *pari passu* without preference or priority amongst themselves but the Senior Notes and certain other obligations of the issuer rank in priority to the Class M Notes in point of payment and security. The Class B Notes rank *pari passu* without preference or priority amongst themselves but the Senior Notes, the Class M Notes and certain other obligations of the Issuer rank in priority to the Class B Notes in point of payment and security. The Class C Notes rank *pari passu* without preference or priority amongst themselves but the Class B Notes, the Class M Notes, the Senior Notes and certain other obligations of the Issuer rank in priority to the Class C Notes in point of payment and security. The Class D Notes rank *pari passu* without preference or priority amongst themselves but the Class C Notes, the Class B Notes, the Class M Notes, the Senior Notes and certain other obligations of the Issuer rank in priority to the Class D Notes in point of payment and security. The Class E Notes rank *pari passu* without preference or priority amongst themselves but all the other classes of Notes and certain other obligations of the Issuer rank in priority to the Class E Notes.
- (c) The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Noteholders and the other Secured Creditors as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to: (i) (for so long as there are any Senior Notes outstanding) the interests of the holders of Senior Notes (as a single class) if, in the Trustee's opinion, there is a conflict between the interests of (A) the holders of the Senior Notes and (B) the other Noteholders and/or any other Secured Creditors; (ii) (if there are no Senior Notes outstanding) the interests of the holders of Class M Notes if, in the Trustee's opinion, there is a conflict between the interests of (A) the Class M Noteholders and (B) the other Noteholders and/or any other Secured Creditors; (iii) (if there are no Senior Notes or Class M Notes outstanding) the interests of the holders of Class B Notes if, in the Trustee's opinion, there is a conflict between the interests of (A) Class B Noteholders and (B) the other Noteholders and/or any other Secured Creditors; (iv) (if there are no Senior Notes, Class M Notes or Class B Notes outstanding) the interests of the holders of the Class C Notes if, in the Trustee's opinion, there is a conflict between the interests of (A) the Class C Noteholders and (B) the other Noteholders and/or any other Secured Creditors; (v) (if there are no Senior Notes, Class M Notes, Class B Notes or Class C Notes outstanding) the interests of the Class D Notes, if, in the Trustee's opinion, there is a conflict between the interests of (A) the Class D Noteholders and (B) the other Noteholders and/or any other Secured Creditors; and (vi) (if there are no other Notes outstanding) the interests of the Class E Notes if, in the Trustee's opinion, there is a conflict between the interests of (A) the Class E Noteholders and (B) any other

Secured Creditors. To the extent that the Trustee follows the directions of the party entitled to give such directions in accordance with the preceding sentence, it shall have no obligation to take the interest of any other party into account or to follow the directions given by any other party.

Security

- (d) As security for the payment of all moneys payable in respect of the Notes and otherwise under the Trust Deed (including the remuneration, expenses and any other claims of the Trustee and any Receiver appointed under the Deed of Charge) and in respect of certain amounts payable to CHL or its successor acting as Mortgage Administrator in respect of amounts payable to it under the Mortgage Administration Agreement, referred to below, and as the Cash/Bond Administrator in respect of amounts payable to it under the Cash/Bond Administration Agreement referred to below, and to certain other beneficiaries from time to time, the Issuer will enter into the Deed of Charge creating the following security (the **Security**) in favour of the Trustee for itself and on trust for the other persons expressed to be secured parties (the **Secured Creditors**) thereunder:
- (i) a first fixed equitable charge over the Issuer's interests in the Mortgages and the related security comprised in the Mortgage Pool;
 - (ii) a first fixed equitable charge over the Issuer's interests in certain Life Policies relating to certain of the Mortgages;
 - (iii) an equitable assignment by way of first fixed security of the Issuer's interests in certain buildings policies, contingency policies and mortgage indemnity policies (the **Insurance Contracts**) to the extent that they relate to the Mortgages;
 - (iv) an assignment by way of first fixed security of the Issuer's right, title, interest and benefit, present and future, in, to and under the cash/bond administration agreement to be entered into on the Issue Date between CHL (in its capacity as cash/bond administrator, the **Cash/Bond Administrator**) (in its capacity as mortgage administrator, the **Mortgage Administrator**), the Issuer and the Trustee (the **Cash/Bond Administration Agreement**), the mortgage administration agreement to be entered into on the Issue Date between the Mortgage Administrator, the Issuer, the Cash/Bond Administrator and the Trustee (the **Mortgage Administration Agreement**), the standby servicer agreement to be entered into on the Issue Date between the Mortgage Administrator, the Cash/Bond Administrator, Irish Life & Permanent plc as Standby Servicer (in such capacity, the **Standby Servicer**), the Issuer and the Trustee (the **Standby Servicer Agreement**), the corporate services agreement to be entered into on the Issue Date between the Issuer, SPV Management Limited, Auburn 1 Limited and Auburn Options Limited relating to the provision of corporate services (the **Corporate Services Agreement**), the mortgage sale agreement to be entered into on the Issue Date between CHL, the Issuer and the Trustee (the **Mortgage Sale Agreement**), the interest rate exchange agreement relating to the Fixed Rate Mortgages comprising an ISDA Master Agreement (the **FRM ISDA Master Agreement**), the Schedule and a written confirmation to be entered into between the Issuer and CHL on the Issue Date (together, the **FRM Swap Agreement**), the interest rate exchange agreement relating to the Variable Rate Mortgages comprising an ISDA Master Agreement (the **VRM ISDA Master Agreement** and together with the FRM ISDA Master Agreement, the **ISDA Master Agreements**), the Schedule and a written confirmation to be entered into between the Issuer and CHL on the Issue Date (together, the **VRM Swap Agreement** and together with the VRM Swap Agreement and the FRM Swap Agreement, the **Basis Swap Agreements**), the swap guarantee to be entered into on the Issue Date between the Issuer, Irish Life & Permanent plc, CHL and the Trustee in relation to the FRM Swap Agreement (the **FRM Swap Guarantee**), the swap guarantee to be entered into on the Issue Date between the Issuer, Irish Life & Permanent plc, CHL and the Trustee in relation to the VRM Swap Agreement (the **VRM Swap Guarantee** and together with the FRM Swap Guarantee, the **Basis Swap Guarantees**), the repurchase guarantee to be entered into on the Issue Date between the Issuer, the Trustee and Irish Life & Permanent plc (the **Repurchase Guarantee**),

the liquidity facility agreement to be entered into on the Issue Date between the Issuer, the Trustee and Barclays Bank PLC (the **Liquidity Facility Agreement**), the redraw facility agreement to be entered into on the Issue Date between the Issuer, the Trustee and Barclays Bank PLC (the **Redraw Facility Agreement**), the declaration of trust to be entered into on the Issue Date by CHL in favour of the Issuer in relation to the Collection Account (the **Collection Account Declaration of Trust**), the guaranteed investment contract to be entered into on the Issue Date between Barclays Bank PLC (the **GIC Provider**), the Issuer, the Cash/Bond Administrator and the Trustee (the **Reserve Account GIC Agreement**), the loan agreement to be entered into on the Issue Date between the Issuer, the Trustee and CHL (the **Subordinated Loan Agreement**) in respect of the Subordinated Loan (the **Subordinated Loan**), the Master Definitions Schedule, the Bank Agreements, the Agency Agreement and such other documents as are expressed to be subject to the charges under the Deed of Charge (all such documents together, the **Transaction Documents**);

- (v) a first fixed equitable charge over the Issuer's interest in the trust over the Collection Account;
- (vi) a first fixed charge (notified to the relevant bank) over the Issuer's Accounts (and all amounts standing to the credit thereto) and over the Authorised Investments (which security interests are likely to take effect as floating charges and thus rank behind the claims of certain preferential and other creditors); and
- (vii) a first floating charge over the whole of the undertaking, property, assets and rights of the Issuer not subject to effective fixed security.

Priority of Payments Prior to Enforcement

- (e) Prior to enforcement of the Security, on each Interest Payment Date, the Issuer is required to apply the amounts available for distribution on such date (**Available Funds**) being the amounts calculated on the immediately preceding Determination Date in accordance with the Cash/Bond Administration Agreement as the aggregate of (i) amounts standing to the credit of the Transaction Account at close of business on the Business Day immediately preceding that Determination Date, (ii) interest which is expected to be credited to the Issuer's Accounts on or prior to the relevant Interest Payment Date including interest which is expected to be paid to the Issuer by the GIC Provider pursuant to the Reserve Account GIC Agreement and interest payable in respect of Authorised Investments, (iii) the aggregate of the interest amounts expected to be received from Borrowers in respect of Mortgages by way of direct debit in the period on and from that Determination Date to and including the immediately succeeding Interest Payment Date, (iv) net amounts calculated to be receivable by the Issuer under the Basis Swap Agreements on or prior to the next subsequent Interest Payment Date, (v) where applicable, amounts drawn from the Reserve Ledger and amounts drawn under the Liquidity Facility, in each case, in respect of that Interest Payment Date, and (vi) in the case of the Interest Payment Date which is also the final maturity date of the Notes or the date on which the Issuer redeems the Notes in accordance with Condition 5(d), an amount equal to the credit balance in the Reserve Ledger, less any Excluded Items, in making the following payments or provisions in the following order of priority (the **Priority of Payments**):
 - (i) the remuneration payable to the Trustee (plus value added tax, if any) and any costs, charges, liabilities, indemnities, expenses and any other amounts (whether direct or consequential) (plus irrecoverable value added tax, if any), incurred by it under the provisions of or in connection with the Trust Deed, the Deed of Charge and/or any Transaction Document together with interest on such amounts as provided in these Conditions, the Trust Deed, the Deed of Charge and/or any Transaction Document or any of them;
 - (ii) *pari passu* and *pro rata*: (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable by the Issuer to persons who are not party to any Transaction Document and incurred with or without breach by the Issuer pursuant to the Trust Deed, the Deed of Charge and/or any Transaction Document and not provided for payment elsewhere and to provide for any such amounts expected to

become due and payable by the Issuer after that Interest Payment Date and prior to the next Interest Payment Date and to provide for the Issuer's liability or possible liability for corporation tax; and (b) an amount equal to any premia payable by the Issuer in respect of Insurance Contracts;

- (iii) *pari passu* and *pro rata*: (a) amounts due and/or which will become due and payable (plus value added tax, if any) prior to the next Interest Payment Date to the Paying Agent and Agent Bank under the Agency Agreement; (b) the mortgage administration fee (inclusive of value added tax, if any) payable together with costs and expenses properly incurred by the Mortgage Administrator under the Mortgage Administration Agreement which are due and payable and/or which will become due and payable prior to the next Interest Payment Date; (c) the cash/ bond administration fee (inclusive of value added tax, if any) payable together with costs and expenses properly incurred by the Cash/Bond Administrator under the Cash/Bond Administration Agreement which are due and payable and/or which will become due and payable prior to the next Interest Payment Date; (d) any amounts payable by the Issuer under the Reserve Account GIC Agreement; (e) any amounts payable by the Issuer under the Bank Agreements; (f) the standby servicer fee (if any) payable pursuant to the Standby Servicer Agreement to the Standby Servicer (inclusive of value added tax, if any) together with costs and expenses incurred by the Standby Servicer in accordance with the Standby Servicer Agreement; and (g) amounts due to the Corporate Services Provider under the Corporate Services Agreement;
- (iv) *pari passu* and *pro rata*: (a) any amounts payable by the Issuer under the Liquidity Facility Agreement or, after the Liquidity Drawdown Date, credited to the Liquidity Ledger, other than Subordinated Liquidity Interest Margin; (b) any amounts payable by the Issuer under the Basis Swap Agreements (other than amounts due as a result of the Basis Swap Counterparty being the Defaulting Party or sole Affected Party under an Event of Default (each term as defined in the relevant Basis Swap Agreement)); (c) amounts payable by the Issuer under the Basis Swap Guarantees; and (d) any amounts payable by the Issuer under the Redraw Facility Agreement other than in respect of principal or Subordinated Redraw Interest Margin;
- (v) *pari passu* and *pro rata*, amounts payable in respect of the Class A1 and the Class A2 Notes other than in respect of principal on the Class A1 Notes and the Class A2 Notes;
- (vi) *pro rata*, amounts payable in respect of the Class M Notes other than in respect of principal;
- (vii) (where either the B Test is met or none of the Senior Notes or Class M Notes remains outstanding) *pro rata*, amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes, including in the manner prescribed in Condition 6(i);
- (viii) (where either the C Test is met or none of the Senior Notes, the Class M Notes or the Class B Notes remains outstanding) *pro rata*, amounts payable in respect of the Class C Notes other than in respect of principal on the Class C Notes, including in the manner prescribed in Condition 6(i);
- (ix) (where either the D Test is met or none of the Senior Notes, Class M Notes, Class B Notes or Class C Notes remains outstanding) *pro rata*, amounts payable in respect of the Class D Notes other than in respect of principal on the Class D Notes, including in the manner prescribed in Condition 6(i);
- (x) (where either the E Test is met or none of the other classes of Notes remain outstanding) *pro rata*, amounts payable in respect of the Class E Notes other than in respect of principal on the Class E Notes, including in the manner prescribed in Condition 6(i);
- (xi) any amounts payable by the Issuer in respect of principal under the Redraw Facility Agreement or, after the Redraw Facility Drawdown Date, credited to the Redraw Ledger, in an amount up to or equal to the Potential Redemption Amount until no amounts remain outstanding under the Redraw Facility Agreement;

- (xii) *pro rata*, in redeeming Class A1 Notes in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class A1 Note remains outstanding;
- (xiii) (provided no Class A1 Note remains outstanding) *pari passu* and *pro rata*, in redeeming the Class A2 Notes, in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class A2 Note remains outstanding;
- (xiv) (provided no Senior Note remains outstanding) *pro rata*, in redeeming the Class M Notes in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class M Note remains outstanding;
- (xv) (provided no Class M Note remains outstanding) *pro rata*, in redeeming the Class B Notes in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class B Note remains outstanding;
- (xvi) (provided no Class B Note remains outstanding) *pro rata*, in redeeming the Class C Notes in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class C Note remains outstanding;
- (xvii) (provided no Class C Note remains outstanding) *pro rata*, in redeeming Class D Notes in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class D Note remains outstanding;
- (xviii) (provided no Class D Note remains outstanding) *pro rata*, in redeeming Class E Notes in an amount up to or equal to the Balance of the Potential Redemption Amount until no Class E Note remains outstanding;
- (xix) to pay an amount to the Reserve Ledger to top the Reserve Ledger up to the Reserve Ledger Required Amount;
- (xx) (where the B Test is not met and there are Senior Notes and/or Class M Notes outstanding) *pro rata*, amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes, including in the manner prescribed in Condition 6(i);
- (xxi) (where the C Test is not met and there are Senior Notes, Class M Notes and/or Class B Notes outstanding) *pro rata*, amounts payable in respect of the Class C Notes other than in respect of principal on the Class C Notes, including in the manner prescribed in Condition 6(i);
- (xxii) (where the D Test is not met and there are Senior Notes, Class M Notes, Class B Notes and/or Class C Notes outstanding) *pro rata*, amounts payable in respect of the Class D Notes other than in respect of principal on the Class D Notes, including in the manner prescribed in Condition 6(i);
- (xxiii) (where the E Test is not met and there is any other class of Notes outstanding) *pro rata*, amounts payable in respect of principal on the Class E Notes, including in the manner prescribed in Condition 6(i);
- (xxiv) *pari passu* and *pro rata*: (a) any other amounts payable by the Issuer under the Basis Swap Agreements which are not paid under paragraph (iv)(b) above; (b) any Subordinated Liquidity Interest Margin payable by the Issuer under the Liquidity Facility Agreement; and (c) any Subordinated Redraw Interest Margin payable by the Issuer under the Redraw Facility Agreement;
- (xxv) at the discretion of the Cash/Bond Administrator, amounts allocated by it to be applied for either or both of the following purposes: (a) to be retained in the Transaction Account to be used as Permitted Utilisation Amounts to fund the making by the Mortgage Administrator (on behalf of the Issuer) of Redraws on any day following such Interest Payment Date and/or (b) in payment of any other amounts payable by the Issuer under the Redraw Facility Agreement which are not paid under paragraphs (iv)(d), (xi) or (xxiv) above;

and in making the following payments, provided that no deficiency is recorded on the Principal Deficiency Ledger on such Interest Payment Date:

- (xxvi) at the discretion of the Cash/Bond Administrator, amounts to be retained in the Transaction Account to be used as Permitted Utilisation Amounts to fund the making by the Mortgage Administrator (on behalf of the Issuer) of Further Advances on any day following such Interest Payment Date;
- (xxvii) amounts payable by the Issuer in respect of the Subordinated Loan other than in respect of principal on the Subordinated Loan;
- (xxviii) amounts payable by the Issuer in respect of principal under the Subordinated Loan;
- (xxix) to credit an amount equal to one twelfth of 0.025 per cent. of the aggregate outstanding principal balance of the Mortgage Pool on the immediately preceding Determination Date to a ledger established for such purposes (the **Profits Ledger**) (together with any such amounts which have accrued but have not been so credited on any previous Interest Payment Date); and
- (xxx) amounts payable by the Issuer in respect of Deferred Consideration.

To the extent that the monies available on the relevant Interest Payment Date are sufficient therefor, such amount shall be paid to the persons entitled thereto or so applied on such Interest Payment Date and after such payment or application it is not intended that any surplus (other than the amount referred to under items (xix), (xxv), (xxvi) and (xxix) above) will be accumulated in the Issuer.

For the purposes of the foregoing:

the **B Test**, as calculated on the Determination Date immediately preceding the relevant Interest Payment Date, will be met if (a) the Principal Deficiency recorded on the Class B Principal Deficiency Ledger on that Determination Date, after taking account of any Principal Deficiency calculated on that Determination Date, is less than or equal to 30 per cent. of the Principal Amount Outstanding of the Class B Notes, and (b) the aggregate cumulative balance of Mortgages, which are or have been at any time 90 days or more in arrears, as a percentage of the aggregate of the initial Principal Amount Outstanding on the Notes on the Closing Date, is less than or equal to 23.50 per cent.;

the **C Test**, as calculated on the Determination Date immediately preceding the relevant Interest Payment Date, will be met if (a) the Principal Deficiency recorded on the Class C Principal Deficiency Ledger on that Determination Date, after taking account of any Principal Deficiency calculated on that Determination Date, is less than or equal to 30 per cent. of the Principal Amount Outstanding of the Class C Notes, and (b) the aggregate cumulative balance of Mortgages, which are or have been at any time 90 days or more in arrears, as a percentage of the aggregate of the initial Principal Amount Outstanding on the Notes on the Closing Date, is less than or equal to 18 per cent.;

the **D Test**, as calculated on the Determination Date immediately preceding the relevant Interest Payment Date, will be met if (a) the Principal Deficiency recorded on the Class D Principal Deficiency Ledger on that Determination Date, after taking account of any Principal Deficiency calculated on that Determination Date, is less than or equal to 20 per cent. of the Principal Amount Outstanding of the Class D Notes, and (b) the aggregate cumulative balance of Mortgages, which are or have been at any time 90 days or more in arrears, as a percentage of the aggregate of the initial Principal Amount Outstanding on the Closing Date, is less than or equal to 12 per cent.; and

the **E Test**, as calculated on the Determination date immediately preceding the relevant Interest Payment date, will be met if (a) the Principal Deficiency recorded on the Class E Principal Deficiency ledger on that Determination Date, after taking account of any Principal Deficiency calculated on that Determination Date, is less than or equal to 40 per cent. of the Principal Amount Outstanding of the Class E Notes, and (b) the aggregate cumulative balance of the Mortgages, which are or have been at any time 90 days or more in arrears, as a percentage of the aggregate of the initial Principal Amount Outstanding on the Closing Date, is less than or equal to 6 per cent.

The E Test together with the D Test, the C Test and the B Test constitutes the **PDL and Arrears Test**.

Excluded Items means:

- (A) certain moneys which properly belong to third parties (such as monies owing to any party in respect of reimbursement for direct debit recalls or overpayments by borrowers (the **Borrowers**) (for the avoidance of doubt, this does not include any prepayment or overpayment made by the Borrowers in anticipation of effecting potential Redraws) which will be returned to the Borrowers);
- (B) on or before the Interest Payment Date immediately succeeding the Issue Date (the **Reconciliation Date**), amounts payable to CHL under the Mortgage Sale Agreement in respect of reconciliations of the amount paid in respect of the purchase on the Issue Date of the relevant Mortgages;
- (C) Prepayment Charges;
- (D) certain amounts payable by any replacement basis swap counterparty to any Basis Swap Counterparty as a result of a transfer under the relevant Basis Swap Agreement;
- (E) amounts payable by Borrowers to third parties, such as insurance premia under insurance contracts;
- (F) at any time, any asset (including, without limitation, cash or securities), which is paid or transferred by any Basis Swap Counterparty to the Issuer as collateral to secure the performance by that Basis Swap Counterparty of its obligations under the relevant Basis Swap Agreement to such extent as each Rating Agency may require in order to confirm in writing that the current rating of the Notes assigned by it will not be effected, together with any income or distributions received in respect of such asset and any equivalent or replacement of such asset into which such asset is transferred but which are not applied at such time in satisfaction of such Basis Swap Counterparty's obligations under the relevant Basis Swap Agreement; and
- (G) amounts payable to the Account Banks under the Bank Agreements not otherwise recovered by the Account Banks in accordance with the Bank Agreements.

Permitted Utilisation Amounts means amounts permitted to be withdrawn from the Transaction Document by the Cash/Bond Administrator for the making by the Mortgage Administrator (on behalf of the Issuer) of Redraws or Further Advances, provided that: (1) in all cases, the Cash/Bond Administrator is satisfied that the Issuer will have sufficient Initial Available Funds on the Interest Payment Date following the next Determination Date to make the payments or provisions referred to in items (i) to (x) (inclusive) of the Priority of Payments on that Interest Payment Date; and (2) in the case of a withdrawal to fund the making by the Mortgage Administrator (on behalf of the Issuer) of Further Advances, there was no Principal Deficiency on the immediately preceding Determination Date.

Principal Deficiency means, on any Determination Date:

- (A) the aggregate of the outstanding principal balances of all Mortgages owned by the Issuer on such Determination Date; plus
- (B) the amounts standing to the credit of the Transaction Account as at close of business on the business day immediately preceding such Determination Date excluding amounts due and payable under items (i) to (iv) (inclusive) of the Priority of Payments on the immediately succeeding Interest Payment Date and excluding any Excluded Items; plus
- (C) the amounts expected to be received under the Mortgages in respect of monthly payments from Borrowers by means of direct debit after such Determination Date up to and including the Interest Payment Date immediately following such Determination Date; plus
- (D) amounts calculated to be receivable comprising interest earned on monies standing to the credit of the Issuer's Accounts on or prior to the immediately succeeding Interest Payment Date including interest which is expected to be paid to the Issuer by the GIC Provider pursuant to the Reserve Account GIC Agreement and interest payable in respect of Authorised Investments; plus
- (E) net amounts calculated to be receivable by the Issuer under the Basis Swap Agreements on or prior to the immediately succeeding Interest Payment Date; plus

- (F) the amount standing to the credit of the Reserve Ledger as at close of business on such Determination Date; less
- (G) the aggregate Principal Amount Outstanding of the Notes on such Determination Date; less
- (H) the amount of any interest and principal payable under the Liquidity Facility on the immediately succeeding Interest Payment Date (save to the extent taken into account under the exclusion in (B) above); less
- (I) the aggregate principal amount outstanding under the Redraw Facility on the immediately succeeding Interest Payment Date; less
- (J) the aggregate of amounts (other than principal) due on the Notes on the Interest Payment Date immediately following such Determination Date which represent interest accrued in respect of the then current Interest Period only excluding amounts (other than principal) due on the Notes that will be deferred on the next Interest Payment Date in accordance with Condition 6(i) and the Priority of Payments.

Priority of Payments Post Enforcement

- (f) On enforcement of the Security, the Trustee is required, subject to being indemnified to its satisfaction, to apply moneys available for distribution in or towards the satisfaction of the following amounts in the following order or priority (the **Post Enforcement Priority of Payments**):
 - (i) *firstly*, the remuneration then payable to any receiver appointed by the Trustee and any costs, charges, liabilities and expenses (including any value added tax) then incurred by such receiver;
 - (ii) *secondly*, the remuneration then payable to the Trustee and any costs, charges, liabilities, indemnities, expenses and any other amount due to the Trustee (whether direct or consequential) (including any value added tax) incurred by the Trustee under the provisions of or in connection with these Conditions, the Deed of Charge, the Trust Deed and/or any of the Transaction Documents or any of them together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents or any of them;
 - (iii) *thirdly, pari passu and pro rata*: (a) amounts due to the Paying Agent and Agent Bank under the Agency Agreement (plus value added tax, if any); (b) the mortgage administration fee (inclusive of value added tax, if any) payable together with costs and expenses incurred by the Mortgage Administrator under the Mortgage Administration Agreement; (c) the cash/bond administration fee (inclusive of value added tax, if any) payable together with costs and expenses incurred by the Cash/Bond Administrator under the Cash/Bond Administration Agreement; (d) amounts due to the GIC Provider under the Reserve Account GIC Agreement; (e) amounts due to the Account Banks under the Bank Agreements; (f) the standby servicer fee (if any) payable pursuant to the Standby Servicer Agreement to the Standby Servicer (inclusive of value added tax) if any) together with costs and expenses incurred by the Standby Servicer in accordance with the Standby Servicer Agreement; and (g) amounts due to the Corporate Services Provider under the Corporate Services Agreement;
 - (iv) *fourthly, pari passu and pro rata*: (a) amounts payable by the Issuer under the Liquidity Facility Agreement; (b) amounts payable by the Issuer under the Basis Swap Guarantees; and (c) amounts payable by the Issuer under the Redraw Facility Agreement;
 - (v) *fifthly, pari passu and pro rata*: (a) all arrears of interest remaining unpaid in respect of Senior Notes, all principal due in respect of Senior Notes and all other amounts payable under or in respect of Senior Notes; and (b) any amounts payable by the Issuer under the Basis Swap Agreements (other than amounts due as a result of the Basis Swap Counterparty being the Defaulting Party or sole Affected Party under an Event of Default (each term as defined in the relevant Basis Swap Agreement));
 - (vi) *sixthly, pro rata*, all arrears of interest remaining unpaid in respect of Class M Notes, all principal due in respect of the Class M Notes and all other amounts payable under or in respect of the Class M Notes;

- (vii) *seventhly, pro rata*, all arrears of interest remaining unpaid in respect of the Class B Notes, all principal due in respect of the Class B Notes and all other amounts payable under or in respect of the Class B Notes;
- (viii) *eighthly, pro rata*, all arrears of interest remaining unpaid in respect of the Class C Notes, all principal due in respect of the Class C Notes and all other amounts payable under or in respect of the Class C Notes;
- (ix) *ninthly, pro rata*, all arrears of interest remaining unpaid in respect of the Class D Notes, all principal due in respect of the Class D Notes and all other amounts payable under or in respect of the Class D Notes;
- (x) *tenthly, pro rata*, all arrears of interest remaining unpaid in respect of the Class E Notes, all principal due in respect of the Class E Notes and all other amounts payable under or in respect of the Class E Notes;
- (xi) *eleventhly*, any other amounts payable by the Issuer under the Basis Swap Agreements which are not provided for in paragraph (v)(b) above;
- (xii) *twelfthly*, any amounts payable to CHL pursuant to the Subordinated Loan Agreement;
- (xiii) *thirteenthly*, amounts payable by the Issuer in respect of Deferred Consideration; and
- (xiv) *fourteenthly*, to pay dividends to the shareholders of the Issuer.

3. Covenants

Save with the prior written consent of the Trustee or as provided in or envisaged by any of the Trust Deed, the Deed of Charge, the Post Enforcement Call Option or any of the Transaction Documents (together the **Documents**), the Issuer shall not, so long as any Note remains outstanding:

(a) *Negative Pledge*

create or permit to subsist any mortgage, pledge, lien (unless arising by operation of law) or charge upon the whole or any part of its assets, present or future (including any uncalled capital) or its undertaking;

(b) *Restrictions on Activities*

- (i) engage in any activity which is not incidental to any of the activities which the Documents provide or envisage that the Issuer will engage in; or
- (ii) have or form any subsidiaries, undertakings of any nature or employees or premises;

(c) *Disposal of Assets*

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;

(d) *Dividends or Distributions*

pay any dividend or make any other distribution to its shareholders or issue any further shares;

(e) *Borrowings*

create, incur or suffer to exist any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any obligation of any person;

(f) *Merger*

consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person; or

(g) *Other*

permit the validity or effectiveness of any of the Documents, the Mortgages and related security, the Insurance Contracts relating to the Mortgages owned by the Issuer, or the priority of the security interests created thereby, to be amended, terminated or discharged, or consent to any variation of, or

exercise of any powers of consent or waiver pursuant to the terms of the Trust Deed, these Conditions or any of the Documents, or permit any party to any of the Documents or Insurance Contracts or any other person whose obligations form part of the Security to be released from such obligations, or dispose of any Mortgage or related security or Insurance Contract.

In giving any consent to the foregoing, the Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Documents or may impose such other conditions or requirements as the Trustee may deem expedient (in its absolute discretion) in the interests of the Noteholders and the Couponholders.

4. Interest

(a) Period of Accrual

Each Note of each Class bears interest on its Principal Amount Outstanding from (and including) the Issue Date. Each Note shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal is improperly withheld or refused. In such event, interest will continue to accrue thereon in accordance with this Condition (as well after as before any judgment) up to (but excluding) the date on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder, or (if earlier) the seventh day after notice is duly given by the Principal Paying Agent to the holder thereof (in accordance with Condition 14) that it has received all sums due in respect of such Note (except to the extent that there is any subsequent default in payment).

Whenever it is necessary to compute an amount of interest in respect of any Note, for any period (including any Interest Period), such interest shall be calculated on the basis of actual days elapsed in a 365 day year or a 366 day year if the last day of such period falls in a leap year.

(b) Interest Payment Dates and Interest Periods

Interest on the Notes is payable monthly in arrear on the first business day of each calendar month in each year (each such day an **Interest Payment Date**) the first Interest Payment Date being 1 December, 2004 (or, if such day is not a business day, the next succeeding business day). The period from (and including) an Interest Payment Date (or the Issue Date in respect of the first Interest Payment Date) to (but excluding) the next following (or first) Interest Payment Date is called an **Interest Period** in these Conditions and **business day** shall in these Conditions in respect of all Notes mean a day (other than a Saturday or Sunday) on which banks are open for business in London except for the purpose of defining the date upon which an Interest Payment Date falls where it shall mean a day (other than a Saturday or Sunday) on which banks are open for business in London and Dublin.

(c) Rate of Interest

The rate of interest payable from time to time in respect of each class of Notes (each a **Rate of Interest**) and the relevant Interest Amount will be determined on the basis of the provisions set out below:

- (i) in relation to all Notes, on each Interest Payment Date or, in the case of the first Interest Period, on the Issue Date (each a **Interest Determination Date**) the Agent Bank will determine the offered quotation to leading banks in the London interbank market for one month Sterling deposits (or, in the case of the first Interest Period, such rate shall be obtained by linear interpolation of the rate for one month and two month Sterling deposits) by reference to the display designated as the British Bankers Association's Interest Settlement Rate as quoted on the Dow Jones/Telerate Monitor Telerate Screen No. 3750 (or (aa) such other page as may replace Telerate Screen No. 3750 on that service for the purpose of displaying such information or (bb) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace the Dow Jones/Telerate Monitor) as at or about 11:00 a.m. (London time) on that date (the **Sterling Screen Rate**). If the Sterling Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its

offered quotation as at or about 11:00 a.m. (London time) on that date to leading banks for one month Sterling deposits. The Rate of Interest for such Interest Period shall be, subject as provided below, the Relevant Margin above the Sterling Screen Rate or, as the case may be, above the arithmetic mean (rounded if necessary to the nearest 0.0001 per cent., 0.00005 per cent. being rounded upwards) of the quotations of three out of five quoting Reference Banks (excluding, if all five are not the same, the Reference Bank with the highest and the Reference Bank with the lowest such quotations but, if more than one of either or both, only one of the Reference Banks with the highest and/or, as the case may be, only one of the Reference Banks with the lowest such quotations);

- (ii) if, on the relevant Interest Determination Date, the relevant Screen Rate is unavailable and only four of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of two out of the four quoting Reference Banks (excluding two on the basis set out in (i) above);
- (iii) if, on the relevant Interest Determination Date, the relevant Screen Rate is unavailable and only two or three of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of the quotations of all the quoting Reference Banks (without any exclusion as referred to in (i) above);
- (iv) if, on the relevant Interest Determination Date, the relevant Screen Rate is unavailable and only one or none of the Reference Banks provides such a quotation, then the Rate of Interest for the relevant Interest Period shall be the **Reserve Interest Rate**. The Reserve Interest Rate shall be the rate per annum which the Agent Bank determines to be either: (aa) the Relevant Margin above the arithmetic mean (rounded if necessary to the nearest 0.0001 per cent., 0.00005 per cent. being rounded upwards) of the Sterling lending rates which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting, as at or about 11:00 a.m. (London time) on the relevant Interest Determination Date, for the relevant Interest Period to the Reference Banks or those of them (being at least two in number) to which such quotations are in the sole opinion of the Agent Bank being so made; or (bb) if the Agent Bank certifies that it cannot determine such arithmetic mean, the Relevant Margin above the lowest of the Sterling lending rates which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting on the relevant Interest Determination Date, to the leading banks which have their head offices in London for the relevant Interest Period provided that if the Agent Bank certifies as aforesaid and further certifies that none of the banks selected as provided in (bb) above is quoting to leading banks as aforesaid, then the Reserve Interest Rate shall be the Rate of Interest in effect for the Interest Period ending on the relevant Interest Determination Date.

For the purpose of these Conditions the **Relevant Margin** shall be:

- (A) for the Class A1 Notes 0.12 per cent. per annum for each Interest Period ending on or before the Interest Payment Date falling in October 2009 and 0.24 per cent. per annum for each Interest Period thereafter;
- (B) for the Class A2 Notes 0.20 per cent. per annum for each Interest Period ending on or before the Interest Payment Date falling in October 2009 and 0.40 per cent. per annum for each Interest Period thereafter;
- (C) for the Class M Notes 0.25 per cent. per annum for each Interest Period ending on or before the Interest Payment Date falling in October 2009 and 0.50 per cent. per annum for each Interest Period thereafter;
- (D) for the Class B Notes 0.35 per cent. per annum for each Interest Period ending on or before the Interest Payment Date falling in October 2009 and 0.70 per cent. per annum for each Interest Period thereafter;
- (E) for the Class C Notes 0.65 per cent. per annum for each Interest Period ending on or before the Interest Payment Date falling in October 2009 and 1.30 per cent. per annum for each Interest Period thereafter;

- (F) for the Class D Notes 1.05 per cent. per annum for each Interest Period ending on or before the Interest Payment Date falling in October 2009 and 2.05 per cent. per annum for each Interest Period thereafter; and
- (G) for the Class E Notes 3.20 per cent. per annum for each Interest Period ending on or before the Interest Payment Date falling in October 2009 and 4.20 per cent. per annum for each Interest Period thereafter.

(d) Determination of Rates of Interest and Calculation of Interest Amounts

The Agent Bank shall, on each Interest Determination Date, determine and notify the Issuer, the Mortgage Administrator, the Cash/Bond Administrator, the Trustee and the Paying Agents of (i) the Rate of Interest applicable to the Interest Period beginning on and including such Interest Determination Date in respect of the Notes of each class, and (ii) the Sterling amount equal to the Rate of Interest in respect of each Note multiplied by the Principal Amount Outstanding of such Note and then multiplied by the actual number of days elapsed in the Interest Period and divided by 365 (or 366, where the last day of such period falls in a leap year (the **Interest Amount**)) payable in respect of such Interest Period in respect of the Principal Amount Outstanding of each Note of each class.

(e) Publication of Rate of Interest, Interest Amount and other Notices

As soon as practicable after receiving notification thereof, the Issuer will cause the Rate of Interest and the Interest Amount applicable to each class of Notes for each Interest Period and the Interest Payment Date falling at the end of such Interest Period to be notified to the Trustee, the Paying Agents and each stock exchange (if any) on which the Notes are then listed and will cause notice thereof to be given to the relevant class of Noteholders in accordance with Condition 14. The 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 any extension or shortening of the Interest Period.

(f) Determination or Calculation by Trustee

If the Agent Bank does not at any time for any reason determine the Rate of Interest and/or calculate the Interest Amount for any class of Notes in accordance with the foregoing paragraphs, the Trustee shall (i) determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and/or (as the case may be) (ii) calculate the Interest Amount for each class of Notes in the manner specified in paragraph (c) above, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

(g) Notifications to be Final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition, whether by the Reference Banks (or any of them) or the Agent Bank or the Trustee shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer, the Cash/Bond Administrator, the Reference Banks, the Agent Bank, the Trustee and all Noteholders and Couponholders and (in which absence as aforesaid) no liability to the Cash/Bond Administrator, the Noteholders or Couponholders shall attach to the Issuer, the Reference Banks, the Agent Bank or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

(h) Reference Banks and Agent Bank

The Issuer shall ensure that, so long as any of the Notes remains outstanding, there shall at all times be five Reference Banks and an Agent Bank. The initial Reference Banks shall be the principal London office of four major banks in the London Interbank Market and JPMorgan Chase Bank. The initial Agent Bank shall be JPMorgan Chase Bank. In the event of JPMorgan Chase Bank being unwilling to act as the Agent Bank, the Issuer shall appoint such other bank as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved by the Trustee has been appointed.

5. Redemption, Cancellation and Post Enforcement Call Option

(a) Final Redemption

Unless previously redeemed or cancelled as provided in this Condition, the Issuer shall redeem the Notes at their Principal Amount Outstanding on the Interest Payment Date falling in October 2041.

The Issuer may not redeem Notes in whole or in part prior to that date except as provided in paragraphs (b), (d) or (e) of this Condition but without prejudice to Condition 9.

(b) Mandatory Redemption in Part

Subject as provided below, the principal amount redeemable in respect of each Note of each class on an Interest Payment Date (the **Actual Redemption Amount**) shall be the amount available for the redemption of all Notes of such class on such date, in accordance with funds available for such purpose under the Priority of Payments, divided by the number of Notes of that class outstanding on the relevant Interest Payment Date (rounded down to the nearest penny); provided always that no such Actual Redemption Amount may exceed the Principal Amount Outstanding of the relevant Note.

In connection with such redemption, on each day which is 5 business days (a **business day**, being a day (other than Saturday or Sunday) on which banks are open for business in London) preceding an Interest Payment Date (a **Determination Date**) the Cash/Bond Administrator will, pursuant to the Cash/Bond Administration Agreement, determine the potential redemption amount (the **Potential Redemption Amount**) being the aggregate principal amount outstanding of the Notes on such Determination Date plus the principal amount drawn and outstanding under the Redraw Facility on such Determination Date less the aggregate outstanding principal balances of the Mortgages on such Determination Date provided that the Potential Redemption Amount shall never be less than zero. Subject to the Priority of Payments, Available Funds shall be applied in the following order up to an amount equal to the Potential Redemption Amount:

- (i) in repaying amounts of principal under the Redraw Facility until no amounts remain outstanding under the Redraw Facility;
- (ii) if no amounts are outstanding under the Redraw Facility, in redeeming the Class A1 Notes until the Class A1 Notes are redeemed in full;
- (iii) after the Class A1 Notes are redeemed in full and if no amounts are outstanding under the Redraw Facility, in redeeming the Class A2 Notes until the Class A2 Notes are redeemed in full;
- (iv) after the Class A2 Notes are redeemed in full and if no amounts are outstanding under the Redraw Facility, in redeeming the Class M Notes until the Class M Notes are redeemed in full;
- (v) after the Class M Notes are redeemed in full and if no amounts are outstanding under the Redraw Facility, in redeeming the Class B Notes until the Class B Notes are redeemed in full;
- (vi) after the Class B Notes are redeemed, *pari passu* in full and if no amounts are outstanding under the Redraw Facility, in redeeming the Class C Notes until the Class C Notes are redeemed in full;
- (vii) after the Class C Notes are redeemed in full and if no amounts are outstanding under the Redraw Facility, in redeeming the Class D Notes until the Class D Notes are redeemed in full; and
- (viii) after the Class D Notes are redeemed in full and if no amounts are outstanding under the Redraw Facility, in redeeming the Class E Notes until the Class E Notes are redeemed in full.

References in the Priority of Payments in Condition 2(e) to the **Balance of the Potential Redemption Amount** shall be to such amount of the Potential Redemption Amount as remains after payment of any item, the maximum amount of which is calculated by reference to the Potential Redemption Amount, ranking higher in the Priority of Payments in Condition 2(e).

The Issuer will procure that notice will be given not less than three business days prior to the relevant Interest Payment Date of the Actual Redemption Amount to the Noteholders in accordance with Condition 14.

(c) Actual Redemption Amounts, Principal Amount Outstanding and Pool Factor

On (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Cash/Bond Administrator to determine) (i) the amount of any Actual Redemption Amount due in respect of each Note of each class on the Interest Payment Date next following such Determination Date, (ii) the Sterling equivalent principal amount outstanding of each Note of each class on the Interest Payment Date next following such Determination Date (after deducting any Actual Redemption Amount due to be made on that Interest Payment Date) (the **Principal Amount Outstanding**) and (iii) the fraction expressed as a decimal to the sixth point (the **Pool Factor**), of which the numerator is the Principal Amount Outstanding of a Note (as referred to in (ii) above) and the denominator is £50,000. Each determination by or on behalf of the Issuer of any Actual Redemption Amount, the Principal Amount Outstanding of a Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Principal Amount Outstanding of a Note on any date shall be £50,000, less the aggregate amount of all Actual Redemption Amounts in respect of such Note that have become due and payable since the Issue Date and on or prior to such date (whether or not paid).

With respect to each class of Notes, the Issuer will cause each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Paying Agents, the Agent Bank and (for so long as the Notes are listed on one or more stock exchanges) the relevant stock exchanges, and will immediately cause notice of each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be given to Noteholders in accordance with Condition 14 by not later than two business days prior to the relevant Interest Payment Date. If no Actual Redemption Amount is due to be made on the Notes of any class on any Interest Payment Date a notice to this effect will be given by or on behalf of the Issuer to the Noteholders in accordance with Condition 14.

If the Issuer does not at any time for any reason determine (or cause the Cash/Bond Administrator to determine) with respect to each class of Notes an Actual Redemption Amount, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Actual Redemption Amount, Principal Amount Outstanding and Pool Factor may be determined by the Trustee in accordance with this paragraph and each such determination or calculation shall be deemed to have been made by the Issuer. Any such determination shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Cash/Bond Administrator, the Noteholders and the Couponholders and (in which absence as aforesaid) no liability to the Cash/Bond Administrator, the Noteholders or Couponholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions hereunder.

(d) Optional Redemption

- (i) On any Interest Payment Date falling on or after the Interest Payment Date in October 2009 and upon giving not more than 90 nor less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 14, the Issuer may redeem all (but not some only) of the Notes at their then Principal Amount Outstanding together with accrued interest provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Notes as aforesaid and to pay any amounts required to be paid in priority or *pari passu* with the Notes outstanding in accordance with the Priority of Payments.
- (ii) On any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is less than ten per cent. of the aggregate Principal Amount Outstanding of the Notes on the Issue Date and upon giving not more than 90 and not less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 14, the Issuer may

redeem all (but not some only) of the Notes at their then Principal Amount Outstanding together with accrued interest provided that, prior to giving any such notice, the Issuer shall have provided the Trustee with a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Notes as aforesaid and to pay any amounts required to be paid in priority or *pari passu* with the Notes outstanding in accordance with the Priority of Payments.

- (iii) In the event that the "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" (the new capital adequacy framework commonly known as **Basel II**) has been implemented in the United Kingdom, whether by rule of law, recommendation of best practice or by any other regulation, provided that an Enforcement Notice has not been served, then on any Interest Payment Date falling on or after such date on which it is implemented and upon giving not more than 90 nor less than 30 days' notice to the Trustee and the Noteholders (in accordance with Condition 14), the Issuer may redeem all (but not some only) of the Notes at their then Principal Amount Outstanding together with accrued interest provided that, prior to giving any such notice, the Issuer shall have provided the Trustee with a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Notes as aforesaid and to pay any amounts required to be paid in priority or *pari passu* with the Notes outstanding in accordance with the Priority of Payments.

(e) Optional Redemption for Tax Reasons

If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest on the Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political subdivision thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages during an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period by reason of any Borrower being obliged to deduct or withhold any amount in respect of tax therefrom or (iii) on the next Interest Payment Date the Issuer or the Basis Swap Counterparty would, by virtue of a change in the law (or the application or interpretation thereof) be required to deduct or withhold from any payment under the Basis Swap Agreements, then the Issuer may, having given not more than 90 nor less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 14, redeem all (but not some only) of the Notes on any Interest Payment Date at their then Principal Amount Outstanding together with accrued interest provided that, prior to giving any such notice, the Issuer shall have provided the Trustee with: (a) a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the Notes as aforesaid and to pay any amounts required to be paid in priority or *pari passu* with the Notes outstanding in accordance with the Priority of Payments and (b) a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in England (acceptable to the Trustee) confirming that there is a material risk of the relevant event occurring. Any certificate and legal opinion given by or on behalf of the Issuer may be relied on by the Trustee and shall be conclusive and binding on the Noteholders and Couponholders.

(f) Notice of Redemption

Any such notice as is referred to in paragraph (d) or (e) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes at their Principal Amount Outstanding.

(g) Purchase

The Issuer shall not purchase any Notes.

(h) Cancellation

All Notes redeemed pursuant to paragraph (d) or (e) above will be cancelled upon redemption, together with any unmatured Coupons appertaining thereto and attached thereto or surrendered therewith, and may not be resold or re-issued.

(i) Post Enforcement Call Option

All of the Class M Noteholders, Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class E Noteholders will, at the request of Auburn Options Limited, sell all (but not some only) of their holdings of the Class M Notes, the Class B Notes, the Class C Notes, the Class D and/or the Class E Notes respectively as the case may be, to Auburn Options Limited pursuant to the option granted to it by the Trustee (as agent for the Noteholders) to acquire all (but not some only) of the Class M Notes (plus accrued interest thereon), the Class B Notes (plus accrued interest thereon), the Class C Notes (plus accrued interest thereon), the Class D Notes (plus accrued interest thereon) or the Class E Notes (plus accrued interest thereon), for the consideration of one penny per Class M Note, Class B Note, Class C Note, Class D Note and/or Class E Note outstanding, as the case may be at any time after the date upon which the Trustee, following service of an Enforcement Notice, determines that the proceeds of enforcement are insufficient, after payment of all other claims ranking in priority to the Class M Notes, the Class B Notes, the Class C Notes, the Class D Notes and/or the Class E Notes respectively and after the application of any such proceeds to the Class M Notes, the Class B Notes, the Class C Notes, the Class D Notes and/or the Class E Notes respectively, to pay any further principal and interest and any other amounts whatsoever due in respect of the Class M Notes, the Class B Notes, the Class C Notes, the Class D Notes and/or the Class E Notes accordingly.

Furthermore, each of the Class M Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class E Noteholders acknowledges that the Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post Enforcement Call Option (but without warranty, responsibility or liability on the part of the Trustee personally) and each Noteholder, by subscribing for or purchasing the relevant Notes(s), agrees to be so bound.

Notice of such determination will be given by the Trustee to the Class M Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class E Noteholders in accordance with Condition 14. The consideration will be paid against presentation of the Class M Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes in the same manner as payment of principal under these Conditions.

6. Payments

- (a) Payments of principal in respect of the Notes will be made against presentation of the Notes at the specified office of any Paying Agent. Payments of interest in respect of the Notes will (subject as provided in paragraphs (c) and (d) below) be made only against presentation and surrender of the Coupons at the specified office of any Paying Agent. Payments in respect of all Notes will be made in Sterling at the specified office of any Paying Agent by Sterling cheque drawn on, or, at the option of the holder, by transfer to a Sterling account maintained by the payee with a branch of a Sterling clearing bank in London.
- (b) Payments of principal and interest in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.
- (c) Upon the date on which any Note becomes due and payable in full, unmatured Coupons appertaining thereto (whether or not attached to such Note) shall become void and no payment or, as the case may be, exchange shall be made in respect thereof. If the due date for redemption of any Note is not an Interest Payment Date, accrued interest will be paid only against presentation and surrender of such Note. As used herein, unmatured Coupons include any talon insofar as it relates entirely to unmatured Coupons.

- (d) If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with Condition 4(a) will be paid against presentation of such Note at the specified office of any Paying Agent.
- (e) The initial Principal Paying Agent and its initial specified office is listed at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee and in accordance with the Transaction Documents, at any time to vary or terminate the appointment of the Principal Paying Agent and to appoint additional or other Paying Agents. The Issuer will at all times maintain (i) a paying agent with a specified office in London and (ii) when Council Directive 2003/48/EC on taxation of savings income in the form of interest payments is implemented, a Paying Agent having specified offices in an EU member state that will not be obliged to withhold or deduct any amount for or on account of any tax pursuant to any law implementing or complying with, or introduced to conform with, that directive, in each case as approved by the Trustee. The Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents or their specified offices to be given to Noteholders in accordance with Condition 14.
- (f) On or after the Interest Payment Date for the final Coupon forming part of any Coupon sheet, the talon forming part of such Coupon sheet may be surrendered at any specified office of the Paying Agent in exchange for a further Coupon sheet (including a further talon but excluding any Coupons which shall have become void).
- (g) If any Coupon or Note is presented for payment on a day which is not a business day, no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Coupon or, as the case may be, such Note.
- (h) If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse on the grid endorsed on such Note (in respect of payments of principal) and on the Coupon (in respect of payments of interest) a statement indicating the amount and date of such payment.
- (i) In the event that the aggregate funds, if any (computed in accordance with the provisions of the Cash/Bond Administration Agreement), available to the Issuer on any Interest Payment Date for application in or towards the payment of interest in accordance with the Priority of Payments which is, but for this Condition, due on any Class B Notes, Class C Notes, Class D Notes or Class E Notes respectively on such Interest Payment Date, are not sufficient to satisfy in full the aggregate amount of interest which is, but for this Condition, otherwise due on such Class B Notes, Class C Notes, Class D Notes or Class E Notes on such Interest Payment Date, then notwithstanding any other provision of these Conditions, there shall be payable on such Interest Payment Date, by way of interest on each Class B Note, Class C Note, Class D Note or Class E Note, as the case may be, a *pro rata* share of such aggregate funds calculated by reference to the ratio borne by the then Principal Amount Outstanding of such Class B Notes, Class C Notes, Class D Notes or Class E Notes respectively to the then Principal Amount Outstanding of all the Class B Notes, Class C Notes, Class D Notes or Class E Notes and the amount of the shortfall will not be regarded as due until the earliest Interest Payment Date thereafter in respect of which funds are available to the Issuer to pay such amounts to the extent of such available funds.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class M Notes, Class B Notes, Class C Notes, Class D Notes or Class E Notes on any Interest Payment Date in accordance with this Condition falls short of the aggregate amount of interest which would be otherwise payable on such Class B Notes, Class C Notes, Class D Notes or Class E Notes on that date pursuant to Condition 4. Such shortfall relating to interest shall accrue interest during each Interest Period during which it remains outstanding at the Rate of Interest for such Interest Period according to the share of such shortfall calculated by reference to the ratio borne by the then Principal Amount Outstanding of each relevant Class M Note, Class B Note, Class C Note, Class D Note or Class E Note to the then Principal Amount Outstanding of the Class M Notes, Class B Notes, Class C Notes, Class D Notes or Class E Notes accordingly.

To the extent such a shortfall arises, such unpaid amount (including interest accruing on such shortfall) shall be payable in priority to the payment of interest otherwise due on the next following Interest Payment Date. This provision and the paragraphs above shall cease to apply on the Interest Payment Date referred to in Condition 5(a) at which time all accrued interest shall become due and payable.

- (j) (i) If at any time there is a change in the currency of the United Kingdom such that the Bank of England recognises a different currency or currency unit or more than one currency or currency unit as the lawful currency of the United Kingdom, then references in, and obligations arising under, the Notes outstanding at the time of any such change and which are expressed in Sterling shall be translated into, and/or any amount becoming payable under the Notes thereafter as specified in these Conditions shall be paid in, the currency or currency unit of the United Kingdom. Any such translation shall be made at the official rate of exchange recognised for that purpose by the Bank of England.
- (ii) Where such a change in currency occurs, the Notes and these Conditions shall be amended in the manner agreed by the Issuer and the Trustee so as to reflect that change and, so far as practicable, to place the Issuer, the Trustee and the Noteholders in the same position each would have been in had no change in currency occurred (such amendments to include, without limitation, changes required to reflect any modification to business day or other conventions arising in connection with such change in currency). All amendments made pursuant to this Condition 6(j) will be binding upon holders of such Notes.
- (iii) Notification of the amendments made to Notes pursuant to this Condition 6(j) will be made in accordance with Condition 14 and will state, *inter alia*, the date on which such amendments are to take or took effect, as the case may be.

7. Prescription

Notes shall become void unless presented for payment within a period of 10 years from the relevant date in respect thereof. Coupons shall become void unless presented for payment within a period of 5 years from the relevant date in respect thereof. After the date on which a Note or a Coupon becomes void in its entirety, no claim may be made in respect thereof. In this Condition, the **relevant date**, in respect of a Note or Coupon, is the date on which a payment in respect thereof first becomes due or (if the full amount of the moneys payable in respect of all the Notes and/or Coupons due on or before that date has not been duly received by the Paying Agents or the Trustee on or prior to such date) the date on which the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

8. Taxation

All payments in respect of the Notes and Coupons will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or the relevant Paying Agent (as applicable) is required by applicable law to make any payment in respect of the Notes, subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer or the relevant Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. **NEITHER THE PAYING AGENTS NOR THE ISSUER WILL BE OBLIGED TO MAKE ANY ADDITIONAL PAYMENTS TO HOLDERS OF NOTES OR COUPONS IN RESPECT OF SUCH WITHHOLDING OR DEDUCTION.**

9. Events of Default

- (a) The Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the most senior class of Notes outstanding or if so directed by or pursuant to an Extraordinary Resolution of the most senior class of Noteholders (subject, in each case, to being indemnified to its satisfaction)

shall, give notice (an **Enforcement Notice**) to the Issuer declaring such Notes to be due and repayable at any time after the happening of any of the following events (each an **Event of Default**):

- (i) default being made for a period of ten business days in the payment of the principal of any Note or any interest on any Note of the most senior class of Notes outstanding from time to time when and as the same ought to be paid in accordance with these Conditions; or
 - (ii) the Issuer failing duly to perform or observe any other obligation binding upon it under the Notes or the Trust Deed or the Issuer or the Mortgage Administrator or the Cash/Bond Administrator, failing duly to perform or observe any obligation binding on them under the Mortgage Administration Agreement, the Cash/Bond Administration Agreement, or the Deed of Charge or any of the other Documents to which they are a party and, in any such case (except where the Trustee certifies that, in its opinion, such failure is incapable of remedy when no notice will be required) such failure is continuing for a period of 30 days following the service by the Trustee on the Issuer, the Mortgage Administrator or the Cash/Bond Administrator (as the case may require) of notice requiring the same to be remedied; or
 - (iii) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in sub-paragraph (iv) below, ceasing or, through an official action of the Board of Directors of the Issuer, threatening to cease to carry on business or being unable to pay its debts as and when they fall due; or
 - (iv) an order being made or an effective resolution being passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the holders of the Senior Notes, or if no Senior Notes are outstanding, the holders of the Class M Notes, or if no Class M Notes are outstanding, the holders of the Class B Notes, or if no Class B Notes are outstanding, the holders of the Class C Notes, or if no Class C Notes are outstanding, the holders of the Class D Notes or if no Class D Notes are outstanding, the holders of the E Notes, to the extent that such Notes are still outstanding; or
 - (v) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order) and such proceedings not, in the opinion of the Trustee, being disputed in good faith with a reasonable prospect of success, or an administration order being granted or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress, execution, diligence or other process being levied or enforced upon or sued against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 30 days, or the Issuer initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally; Provided that, in the case of each of the events described in sub-paragraph (ii) of this paragraph (a) the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders.
- (b) Upon an Enforcement Notice being given by the Trustee in accordance with paragraph (a) above specifying that the Notes are due and repayable, the Notes shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Trust Deed.

10. Enforcement of Notes

- (a) Subject to Condition 10(b), at any time after the Notes have become due and repayable and without prejudice to its rights of enforcement in relation to the Security, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce payment of the Notes together with accrued interest, but it shall not be bound to take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders of the most senior outstanding class of Notes or so requested in writing by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the most senior outstanding class of Notes provided that: (a) no Extraordinary Resolution of any of the Class E Noteholders, the Class D Noteholders, the Class C Noteholders, the Class M Noteholders or the Class B Noteholders or any request by any of the Class E Noteholders, the Class D Noteholders, the Class C Noteholders, the Class B Noteholders or the Class M Noteholders shall be effective unless there is an Extraordinary Resolution of the Senior Noteholders or a request of the Senior Noteholders to the same effect or none of the Senior Notes remain outstanding; (b) if no Senior Notes remain outstanding, no Extraordinary Resolution of any of the Class E Noteholders, the Class D Noteholders, the Class C Noteholders or the Class B Noteholders or any request of the Class E Noteholders, the Class D Noteholders, the Class C Noteholders or the Class B Noteholders shall be effective unless there is an Extraordinary Resolution of the Class M Noteholders or a request of the Class M Noteholders to the same effect or none of the Class M Notes remain outstanding; (c) if no Senior Notes or Class M Notes remain outstanding, no Extraordinary Resolution of any of the Class E Noteholders, Class D Noteholders or Class C Noteholders or any request of the Class E Noteholders, Class D Noteholders or Class C Noteholders shall be effective unless there is an Extraordinary Resolution of the Class B Noteholders or a request of the Class B Noteholders to the same effect or none of the Class B Notes remain outstanding; (d) if no Class B Notes, Class M Notes or Senior Notes remain outstanding, no Extraordinary Resolution of any of the Class E Noteholders or Class D Noteholders or any request of the Class E Noteholders or the Class D Noteholders shall be effective unless there is an Extraordinary Resolution of the Class C Noteholders or a request of the Class C Noteholders to the same effect or none of the Class C Notes remain outstanding; and (e) if no Class C Notes, Class B Notes, Class M Notes or Senior Notes remain outstanding, no Extraordinary Resolution of any of the Class E Noteholders or any request of the Class E Noteholders shall be effective unless there is an Extraordinary Resolution of the Class D Noteholders or a request of the Class D Noteholders to the same effect or none of the Class D Notes remain outstanding, and (ii) in each case, it shall have been indemnified to its satisfaction. No Noteholder or Couponholder or other Secured Creditor shall be entitled to enforce the Security or to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing. The Trustee cannot, while any of the Senior Notes are outstanding, be required to enforce the Security at the request of the holders of the Class M Notes, the Class B Notes, the Class C Notes, the Class D Notes or the Class E Notes or any other Secured Creditor under the Deed of Charge; if no Senior Note remains outstanding, the Trustee cannot, while any of the Class M Notes are outstanding, be required to enforce the Security at the request of the holders of the Class B Notes, the Class C Notes, the Class D Notes or the Class E Notes or any other Secured Creditor under the Deed of Charge; if no Class M Note or Senior Note remains outstanding, the Trustee cannot, while any of the Class B Notes are outstanding, be required to enforce the Security at the request of the holders of the Class C Notes, the Class D Notes or the Class E Notes or any other Secured Creditor under the Deed of Charge; if no Class B Note, Class M Note or Senior Note remains outstanding, the Trustee cannot, while any of the Class C Notes are outstanding, be required to enforce the Security at the request of the holders of the D Notes or the Class E Notes or any other Secured Creditor under the Deed of Charge; and if no Class C Note, Class B Note, Class M Note or Senior Note remains outstanding, the Trustee cannot, while any of the Class D Notes are outstanding, be required to enforce the Security at the request of the holders of the Class E Notes or any other Secured Creditor under the Deed of Charge.

- (b) If an Enforcement Notice has been delivered by the Trustee otherwise than by reason of non-payment of any amount due in respect of the Notes, the Trustee will not be entitled to dispose of the assets of the Issuer the subject of the Security or any part thereof unless either:
- (i) a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders and the Couponholders of each class; or
 - (ii) the Trustee is of the opinion, which shall be binding on the Noteholders, Couponholders and other Secured Creditors, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Noteholders and the Couponholders of each class.

11. Meetings of Noteholders, Modification, Waiver and Substitution of the Issuer

- (a) The Trust Deed contains provisions for convening meetings of the Senior Noteholders, the Class M Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and/or the Class E Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of such Noteholders of a modification of these Conditions as they relate to the Notes of the relevant class or the provisions of any of the Documents or any other documents the rights and benefits in respect of which are comprised in the Security (**Other Relevant Documents**).

The quorum at any meeting of Noteholders of any class of Notes for passing an Extraordinary Resolution shall be two or more persons holding or representing in aggregate not less than 50 per cent. in Principal Amount Outstanding of the Notes of the relevant class then outstanding or, at any adjourned meeting, two or more persons being or representing Noteholders as they relate to the Notes of such relevant class whatever the Principal Amount Outstanding of the relevant Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a modification which would (*inter alia*) have the effect of altering the date of maturity of the relevant Notes or the day for payment of interest or principal thereon, or the amount of principal or the rate of interest payable in respect of the relevant Notes or the currency of payment of the Notes or related Coupons or the quorum or majority required in relation to this exception (a **Basic Terms Modification**), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing in aggregate not less than 75 per cent., or, at any adjourned such meeting, 25 per cent., of the Principal Amount Outstanding of the Notes of the relevant class then outstanding. An Extraordinary Resolution passed at any meeting of Noteholders of any class shall be binding on all Noteholders of such class whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75 per cent. of the votes cast on that resolution.

The Trust Deed contains provisions limiting the powers of the holders of Class M Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of: (i) in the case of the holders of the Class M Notes, the Senior Noteholders; (ii) in the case of the holders of the Class B Notes, the Senior Noteholders and the Class M Noteholders; (iii) in the case of the holders of the Class C Notes, the Senior Noteholders, the Class M Noteholders and the Class B Noteholders; (iv) in the case of the holders of the Class D Notes, the Senior Noteholders, the Class M Noteholders, the Class B Noteholders and the Class C Noteholders; and (v) in the case of the holders of the Class E Notes, the Senior Noteholders, the Class M Noteholders, the Class B Noteholders and the Class C Noteholders and the Class D Noteholders. Except in the circumstances set out in (b) below, the Trust Deed imposes no such limitations on the powers of the holders of Senior Notes, the exercise of which will be binding on the holders of the remaining Notes, irrespective of the effect on their interests.

- (b) No Extraordinary Resolution to sanction a modification which would have the effect of altering the date of maturity of the Notes or the date for payment of interest in respect of the Notes, changing the amount of principal or the rate of interest payable in respect of the Notes, or altering the currency of payment of the Notes, or altering the provisions of the Trust Deed, the Deed of Charge or any other Document or any Other Relevant Document shall take effect unless it shall have been sanctioned by an Extraordinary Resolution of each class of the holders of Notes or, in the case of such an Extraordinary Resolution passed by a class of Noteholders, the Trustee is of the opinion that it will not be materially prejudicial to the interests of those Noteholders whose classes of Notes rank in priority to those held by the Noteholders passing such Extraordinary Resolution.
- (c) The Trustee may agree, without the consent of the Noteholders or Couponholders of any class, (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, these Conditions or any of the Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or Couponholders of such class or (ii) to any modification of these Conditions or any of the Documents which, in the Trustee's opinion, is to correct a manifest error or is of a formal, minor or technical nature. The Trustee may also, without the consent of the Noteholders or the Couponholders of each class of Notes, determine that any Event of Default shall not, or shall not, subject to specified conditions, be treated as such. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and the Couponholders of each such class of Notes and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.
- (d) The Trustee may agree, at the request of the Issuer and subject to such amendment of these Conditions and of any of the Documents and to such other conditions as the Trustee may require and subject to the relevant provisions of the Trust Deed, but without the consent of the Noteholders or the Couponholders of each class of Notes, to the substitution of another body corporate in place of the Issuer as principal debtor under the Trust Deed and the Notes, subject to the Notes being unconditionally and irrevocably guaranteed by the Issuer (unless all or substantially all of the assets of the Issuer are transferred to such body corporate) and to such body corporate being a single purpose vehicle and undertaking itself to be bound by provisions corresponding to those set out in Condition 3, the Trust Deed and any other relevant document to which the Issuer is a party. In the case of a substitution pursuant to this paragraph (d), the Trustee may in its absolute discretion agree, without the consent of the Noteholders or the Couponholders of each class of Notes, to a change of the law governing the Notes and/or any of the Documents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders of each class of Notes. No Noteholder or Couponholder shall, in connection with any such substitution, be entitled to claim from the Issuer any indemnification or payment in respect of any tax consequences of any such substitution upon individual Noteholders or Couponholders.
- (e) Where the Trustee is required in connection with the exercise of its powers, trusts, authorities, duties and discretions to have regard to the interests of the Noteholders of each class of Notes, it shall have regard to the interests of the Noteholders as one class and, in particular but without prejudice to the generality of the foregoing, the Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Trustee shall not be entitled to require, and no Noteholder or Couponholder shall be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders or Couponholders.
- (f) The Trustee shall be entitled to assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Documents, that such exercise will not be materially prejudicial to the interests of the Noteholders if Fitch

Ratings Limited (**Fitch**) and Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (**S&P**), have confirmed that the then current rating of the Notes would not be adversely affected by such exercise.

12. Indemnification and Exoneration of the Trustee

The Trust Deed contains provisions governing the responsibility (and relief from responsibility) of the Trustee and providing for its indemnification in certain circumstances, including provisions relieving it from taking enforcement proceedings or enforcing the Security unless indemnified to its satisfaction. The Trustee and its related companies are entitled to enter into business transactions with the Issuer, CHL, the Mortgage Administrator, the Cash/Bond Administrator and/or the related companies of any of them without accounting for any profit resulting therefrom. The Trustee will not be liable, except in certain circumstances, for indirect or consequential loss of any kind. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Mortgage Administrator, the Cash/Bond Administrator or any agent or related company of the Cash/Bond Administrator or by clearing organisations of their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Trustee.

The Trust Deed provides that the Trustee shall be under no obligation to monitor or supervise compliance by the Issuer or CHL and/or the related companies of any of them with their respective obligations or to make any searches, enquiries or independent investigations of title in relation to any of the properties secured by the Mortgages.

13. Replacement of Definitive Notes and Coupons

If any Note or Coupon is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent. Replacement of any mutilated, defaced, lost, stolen or destroyed Note or Coupon will only be made on payment of such costs 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 Notes or Coupons must be surrendered before new ones will be issued.

14. Notice to Noteholders

Any notice to the Noteholders shall be validly given if published in the *Financial Times* or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in Europe; Provided that if, at any time, the Issuer procures that the information concerned in such notice shall appear on a page of the Reuters screen, or any other medium for electronic display of data as may be previously approved in writing by the Trustee (in each case a **Relevant Screen**), publication in the *Financial Times* shall not be required with respect to such information. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen on which) publication is required.

Any notice to Noteholders in respect of Notes represented by Global Notes shall be deemed to have been duly given if sent to Euroclear and/or Clearstream, Luxembourg (as applicable) and shall be deemed to have been given on the date on which notice was so sent.

The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or any category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require. The Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

15. Rights of Third Parties

No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

16. Governing Law

The Notes and the Coupons are governed by, and shall be construed in accordance with, English law.

UNITED KINGDOM TAXATION

The following is a general summary of the United Kingdom law and practice relating to taxation of the Notes at the date hereof. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide and should be treated with appropriate caution. Some aspects do not apply to certain cases of taxpayer (such as dealers or Noteholders who are connected with the Issuer for relevant tax purposes). Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions). In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom. This summary does not take into consideration any United Kingdom tax implications of a substitution of the Issuer.

The references to interest below mean interest as understood in United Kingdom tax law and do not take any account of any different definitions of interest or principal which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

United Kingdom Withholding Tax

The Notes will constitute "quoted Eurobonds" within the meaning of section 349 of the Income and Corporation Taxes Act 1988 (the Act) as long as they are and continue to be listed on a recognised stock exchange" within the meaning of section 841 of the Act. In the case of Notes to be traded on the London Stock Exchange which is a recognised stock exchange", this condition will be satisfied if the Notes are admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax. In all cases falling outside this exemption, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary by the United Kingdom Inland Revenue under the provisions of an applicable double taxation treaty, and except that the withholding obligation is disapplied in respect of payments to Noteholders who the Issuer reasonably believes are either a UK resident company or a non-UK resident company carrying on a trade in the UK (or through a UK permanent establishment) which is within the charge to corporation tax, or who fall within various categories enjoying a special tax status (including charities and pension funds), or are partnerships consisting of such persons (unless the Inland Revenue directs otherwise).

Provision of Information

Noteholders who are individuals should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by any person in the United Kingdom acting on behalf of the Issuer (a **paying agent**), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a **collecting agent**), then the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to the United Kingdom Inland Revenue details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Noteholder is not so resident, the details provided to the United Kingdom Inland Revenue may, in certain cases, be passed by the United Kingdom Inland Revenue to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

EU Savings Directive

On 3 June 2003, the European Council of Economics and Finance Ministers adopted a directive on the taxation of savings income under which Member States will be required, if a number of

important conditions are met and from 1 July 2005, to provide to the tax authorities of other Member States details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual in another Member State, except that, for a transitional period, Austria, Belgium and Luxembourg will instead impose (unless during that period they elect otherwise) a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

Further United Kingdom Income Tax Issues for non-United Kingdom Resident Noteholders

Interest on the Notes constitutes United Kingdom source income and, as such, may be subject to tax by direct assessment even when paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom income tax will not be chargeable to United Kingdom income tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

United Kingdom Corporation Tax Payers

In general, Noteholders that are within the charge to United Kingdom corporation tax (other than investment trusts, venture capital trusts, authorised unit trusts and open-ended investment companies) will be treated as realising profits, gains or losses (including exchange gains or losses) for corporation tax purposes in respect of their holding of the Notes (and amounts payable thereunder) on a basis which is broadly in accordance with their statutory accounting treatment so long as the accounting treatment is in accordance with a mark to market basis or an accruals basis which (in either case) is authorised for tax purposes, or, for accounting periods beginning on or after 1 January 2005, generally accepted accounting practice as that term is defined for tax purposes. Such profits, gains and losses will be taken into account in computing taxable income for United Kingdom corporation tax purposes. Noteholders that are investment trusts, venture capital trusts, authorised unit trusts or open ended investment companies will be subject to the same taxation treatment in respect of the Notes as other Noteholders that are within the charge to United Kingdom corporation tax, other than with respect to profits, gains and losses carried to or sustained by a capital reserve in the case of investment trusts and venture capital trusts, and other than with respect to profits and losses of a capital nature in respect of the Notes in the case of authorised unit trusts and open-ended investment companies.

Other United Kingdom Tax Payers

Taxation of chargeable gains

The Notes may not be treated by the United Kingdom Inland Revenue as constituting qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992 because there is a provision for the Notes to be redeemed in or redenominated in a currency other than Sterling. Further, any Notes denominated in Euros will not be qualifying corporate bonds". Therefore a disposal (including a redemption) of a Note by a Noteholder who is resident or ordinarily resident in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the Note is attributable and who is not subject to United Kingdom corporation tax in respect of the Note may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains.

Accrued income scheme

The Notes are "variable rate securities" for the purposes of the "accrued income scheme" in Part XII of the Income and Corporation Taxes Act 1988. Accordingly, a transfer of a Note by a Noteholder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency (other than a Noteholder within the charge to United Kingdom corporation tax with respect to the Notes) to which the Note is attributable may give rise to a charge to tax on income in respect of an amount representing interest on the Note which has accrued since the preceding interest payment date in such amount as is just and reasonable. A transferee of Notes with accrued interest will not be entitled to any allowance under the accrued income scheme. Generally, persons who are neither resident nor ordinarily resident in the United Kingdom and who do not carry on a trade in the United Kingdom through a branch or agency to which the Notes are attributable will not be subject to the provisions of these rules. For further information in this regard, Noteholders should seek their own professional advice.

Stamp Duty and Stamp Duty Reserve Tax

No stamp duty or stamp duty reserve tax is payable on issue of the Notes or on a transfer of definitive Notes by delivery.

SUBSCRIPTION AND SALE

Pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 7 October, 2004, the Lead Managers have agreed to subscribe for: (i) the Senior Notes at a price equal to the issue price of 100 per cent. of their principal amount; (ii) the Class M Notes at a price equal to the issue price of 100 per cent. of their principal amount; (iii) the Class B Notes at a price equal to the issue price of 100 per cent. of their principal amount; (iv) the Class C Notes at a price equal to the issue price of 100 per cent. of their principal amount; (v) the Class D Notes at a price equal to the issue price of 100 per cent. of their principal amount; and (vi) the Class E Notes at a price equal to the issue price of 100 per cent. of their principal amount. The Lead Managers will be paid: (i) in respect of the Class A1 Notes a combined management, underwriting and selling commission of 0.050 per cent. of the aggregate principal amount of those Notes (plus any applicable value added tax); (ii) in respect of the Class A2 Notes a combined management, underwriting and selling commission of 0.100 per cent. of the aggregate principal amount of those Notes (plus any applicable value added tax); (iii) in respect of the Class M Notes a combined management, underwriting and selling commission of 0.125 per cent. of the aggregate principal amount of those Notes (plus any applicable value added tax); (iv) in respect of the Class B Notes a combined management, underwriting and selling commission of 0.200 per cent. of the aggregate principal amount of those Notes (plus any applicable value added tax); (v) in respect of the Class C Notes a combined management, underwriting and selling commission of 0.250 per cent. of the aggregate principal amount of those Notes (plus any applicable value added tax); (vi) in respect of the Class D Notes a combined management, underwriting and selling commission of 0.650 per cent. of the aggregate principal amount of those Notes (plus any applicable value added tax); and (vii) in respect of the Class E Notes a combined management, underwriting and selling commission of 0.850 per cent. of the aggregate principal amount of those Notes (plus any applicable value added tax). The Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment of the subscription price to the Issuer. The Issuer, IL&P and CHL have agreed to indemnify the Lead Managers against certain liabilities in connection with their subscription for the Senior Notes as more particularly described in the Subscription Agreement.

United Kingdom

Each Lead Manager has represented to and agreed with the Issuer that:

- (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part VI of the Financial Services and Markets Act 2000 (the **FSMA**) except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the **FSMA**;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the **FSMA**) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the **FSMA** does not apply to the Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the **FSMA** with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States of America

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the **Securities Act**.

Each Lead Manager has represented and agreed that it has not offered or sold and will not offer or sell, any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S (**Regulation S**). Accordingly, neither it, its affiliates, nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition:

- (i) except to the extent permitted under US Treas Reg§.163-5(c)(2)(i)(D) (the **D Rules**), each Lead Manager (1) has represented that it has not offered or sold, and has agreed that during the restricted period it will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person, and (2) has represented that it has not delivered and has agreed that it will not deliver within the United States or its possessions Notes in definitive form that are sold during the restricted period;
- (ii) each Lead Manager has represented that it has and has agreed that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (iii) if it is a United States person, each Lead Manager has represented that it is acquiring the Notes in bearer form for purposes of resale in connection with their original issue and if it retains Notes in bearer form for its own account, it will only do so in accordance with the requirements of US Treas Reg§.163-5(c)(2)(i)(D)(6); and
- (iv) with respect to each affiliate that acquires from it the Notes in bearer form for the purpose of offering or selling the Notes during the restricted period, each Lead Manager either (1) repeats and confirms the representations and agreements contained in paragraphs (i), (ii) and (iii) on its behalf or (2) agrees that it will obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in paragraphs (i), (ii) and (iii).

Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code and regulations thereunder, including the D Rules.

Ireland

Each Lead Manager has represented and agreed that the Notes have not been offered or sold and will not, directly or indirectly, be offered or sold to the public in Ireland and may only be offered or sold to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent and to persons in the context of their trades, professions or occupations. This Offering Circular and the Notes should only be distributed, offered or sold (as the case may be) in conformity with the provisions of the Irish Investment Intermediaries Act 1995 (as amended).

France

Each Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, the Notes to the public in France and that offers and sales of the Notes in France will be made only to qualified investors (*investisseurs qualifiés*) acting for their own account as defined and in accordance with Article L.411 2 of the French Code monétaire et financier and decree no. 98-880 dated 1st October, 1998. The Notes will not be subject to any approval by or registration (*visa*) with the French Autorités des Marchés Financiers.

In addition, each Lead Manager has represented and agreed that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in France this Offering Circular or any other offering material relating to the Notes other than to investors to whom offers and sales of the Notes in France may be made as described above.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the **Securities and Exchange Law**). Accordingly, each Lead Manager has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re offering or re sale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

Cayman Islands

Each Lead Manager has represented and agreed that no invitation may be made to the public in the Cayman Islands to subscribe for the Notes unless at the time of such invitation the Issuer is listed on the Cayman Islands Stock Exchange.

Bermuda

Each Lead Manager has represented and agreed that the Notes may not be offered, sold or transferred to any resident in Bermuda.

The Netherlands

The Notes may not be offered, sold, transferred or delivered, as part of their initial distribution, or at any time thereafter, directly or indirectly, other than to individuals or legal entities in The Netherlands who or which trade or invest in securities in the conduct of a profession or trade within the meaning of section 2 of the exemption regulation to the Netherlands Securities Market Supervision Act 1995 as amended from time to time (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*), which includes banks, securities firms, insurance companies, pension funds, investment institutions, central governments, large international and supranational organizations, other institutional investors and other parties, including treasury departments of commercial enterprises, which are regularly active in the financial markets in a professional manner.

Belgium

The offering is exclusively conducted under applicable private placement exemptions and therefore it has not been and will not be notified to, and this Offering Circular or any other offering material relating to the Notes has not been and will not be approved by, the Belgian Banking, Finance and Insurance Commission (*Commission bancaire, financière et des assurances/Commissie voor het Bank -, Financier - en Assurantiewezen*). Any representation to the contrary is unlawful.

Each Lead Manager has undertaken not to offer sell, resell, transfer or deliver, directly or indirectly, any Notes, or to distribute or publish this Offering Circular or any other material relating to the Notes, to any individual or legal entity in Belgium other than: (i) investors required to invest a minimum of €250,000 (per investor and per transaction); and (ii) institutional investors as defined in Article 3, 2°, of the Belgian Royal Decree of 7 July 1999 on the public character of financial transactions, acting for their own account.

This Offering Circular has been issued only for the personal use of the above qualified investors and exclusively for the purpose of the offering of the Notes. Accordingly, the information contained therein may not be reproduced or used for any other purpose nor disclosed to any other person in Belgium. Any action contrary to these restrictions will cause the recipient and the Issuer to be in violation of the Belgian securities laws.

Luxembourg

The Notes may not be offered or sold to the public in or from Luxembourg and each Lead Manager has represented and warranted and agreed that it will not offer the Notes or cause the offering of the Notes or contribute to the offering of the Notes in Luxembourg, unless all the relevant

legal and regulatory requirements have been complied with. In particular, this offer has not been and will not be announced to the public and offering material will not be made available to the public.

Germany

Each Lead Manager has confirmed that it is aware of the fact that no German sales prospectus (*Verkaufsprospekt*) within the meaning of the Securities and Sales Prospectus Act of December 13, 1990, as amended (*Wertpapier – Verkaufsprospektgesetz*, the Act) of the Federal Republic of Germany has been or will be published with respect to the Notes. In particular, each Lead Manager has represented that it has not engaged and has agreed that it will not engage in public offering (*öffentliches Angebot*) within the meaning of the Act with respect to any Notes unless an exemption of the Act applies.

Spain

Neither the Notes nor this Offering Circular have been verified or registered in the administrative registries of the Spanish Securities Markets Commission (Comisión Nacional del Mercado de Valores). Accordingly, each Lead Manager has acknowledged that the Notes may not be offered, sold or distributed in the Kingdom of Spain or targeted to Spanish resident investors save in compliance and in accordance with the requirements of the Spanish Securities Market Law of 28th July, 1988 (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) as amended and restated, and Royal Decree 291/1992 on issues and Public Offerings for the Sale of Securities (*Real Decreto 291/1992, de 27 de marzo, sobre Emisiones y Ofertas Públicas de Venta de Valores*) as amended and restated and the decrees and regulations issued thereunder.

Portugal

In relation to the Notes, each Lead Manager has agreed, warranted and undertaken that (i) it has not directly or indirectly taken any action or offered, advertised or sold or delivered and will not directly or indirectly offer, advertise, sell, re-sell, re-offer or deliver any of the relevant Notes in circumstances which could qualify as a public offer pursuant to the *Código dos Valores Mobiliários* (the Portuguese Capital Markets Code) or in circumstances which could qualify the issue of the relevant Notes as an issue in the Portuguese market, and (ii) it has not directly or indirectly distributed and will not directly or indirectly distribute any document, circular, advertisements or any offering material except in accordance with all applicable laws and regulations.

The Notes have not been registered with the Portuguese Securities Market Commission.

Finland

Each Lead Manager has represented and agreed that the Notes will not be publicly offered or brought into general circulation in the Republic of Finland other than in compliance with all applicable provisions of the laws of the Republic of Finland and especially in compliance with the Finnish Securities Act (1989/495) and any regulation made thereunder, as supplemented and amended from time to time.

Norway

Each Lead Manager has acknowledged that the Notes may not be offered, sold or distributed in the Kingdom of Norway, except in accordance with the Norwegian Securities Trading Act of 19 June 1997, as amended, and all applicable regulations. The Notes may not be offered, sold or distributed in Norway except in circumstances which do not constitute a public offer of securities in Norway within the meaning of Norwegian securities laws and regulations. Neither the Notes nor this Offering Circular has been approved and registered by the Oslo Stock Exchange or registered with the Norwegian Register of Business Enterprises.

Denmark

Each Lead Manager has represented and agreed that the Notes have not been offered or sold and will not be offered, sold or delivered directly or indirectly in the Kingdom of Denmark by way of

a public offering, unless in compliance with the Danish Securities Trading Act, Consolidation Act No. 587 of 9th July, 2002 as amended from time to time and any Orders issued thereunder.

Sweden

Each Lead Manager has confirmed and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in the Kingdom of Sweden except in compliance with the laws of the Kingdom of Sweden.

Austria

Each Lead Manager has represented and agreed that it will offer or sell the Notes in Austria only in compliance with the provisions of the Austrian Capital Markets Act (*Kapitalmarktgesetz*), Federal Law Gazette 1991/625, as amended (the Act), and all other laws and regulations in Austria applicable to the offer and the sale of the Notes in Austria. This Offering Circular is not a prospectus within the meaning of the Act and it is not a public offering within the meaning of Section 2 of the Act. No prospectus has been or will be published pursuant to the Act. The Notes have not been and will not be registered or otherwise authorised for public offer in Austria under the Act or otherwise.

Hong Kong

Each Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent) or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies ordinance (Cap.32) of Hong Kong; and
- (b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors" within the meaning of the Securities and Futures ordinance (Cap.571) and any rules made thereunder.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289) of Singapore (the SFA). Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Notes may not be circulated or distributed, nor may Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor specified in Section 274 of the SFA (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

General

Save for the approval of this Offering Circular by the UK Listing Authority in accordance with Part VI of the FMSA and the delivery of a copy of this Offering Circular for registration to the Registrar of Companies in England, no action has been or will be taken in any jurisdiction that would or is intended to permit a public offering of the Notes, or possession or distribution of this Offering Circular or any amendment or supplement hereto or any other offering material, in any country or jurisdiction where action for that purpose is required. Each Lead Manager has agreed to comply with, and to obtain any consent, approval or permission required under, all applicable laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or

distributes this Offering Circular or any other offering circular or any other offering material, in all cases at its own expense.

This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any country or jurisdiction where such an offer or solicitation is not authorised.

GENERAL INFORMATION

1. The issue of the Notes has been authorised by resolution of the Board of Directors of the Issuer passed on 6 October, 2004.
2. It is expected that the listing of the Notes by the UK Listing Authority on the Official List and admission of the Notes to trading by the London Stock Exchange will be granted on or around 11 October, 2004, subject only to issue of the Temporary Global Notes. The listing of the Notes will be cancelled if the Global Notes are not issued. Transactions will normally be effected for delivery on the third working day after the day of the transaction. Prior to such listing on the Official List and admission to trading, however, dealing in the Notes will be permitted by the London Stock Exchange in accordance with its rules.
3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Class A1 Notes is 020280468 and the ISIN number is ~~SD~~0202804687. The Common Code for the Class A2 Notes is 020281006 and the ISIN number is ~~SD~~0202810064. The Common Code for the Class M Notes is 020281073 and the ISIN number is ~~SD~~0202810734. The Common Code for the Class B Notes is 020281103 and the ISIN number is ~~SD~~0202811039. The Common Code for the Class C Notes is 020281162 and the ISIN number is ~~SD~~0202811625. The Common Code for the Class D Notes is 020281227 and the ISIN number is ~~SD~~0202812276. The Common Code for the Class E Notes is 020281251 and the ISIN number is ~~SD~~0202812516.
4. The accounts of the Issuer in this Offering Circular constitute non-statutory accounts as defined by section 240(5) of the Companies Act 1985 and have been audited by KPMG. The accounting reference date of the Issuer is 31st December. No statutory accounts of the Issuer have been required to be produced and, save as aforesaid, no audited accounts of the Issuer have been prepared since its date of incorporation.
5. The Issuer is not, and has not been, involved in any legal or arbitration proceedings which may have or have had since its date of incorporation a significant effect on its financial position nor is the Issuer aware that any such proceedings are pending or threatened.
6. In relation to this transaction the Issuer has entered into the Subscription Agreement referred to under "Subscription and Sale".
7. KPMG have given and not withdrawn their written consent to the inclusion herein of their report and references to its name in the form and context in which they are included and have authorised the contents of that part of the listing particulars for the purposes of Regulation 6(1)(e) of the FSMA (Official Listing of Securities) Regulations 2001.
8. Since 19th July, 2004, being the date of incorporation of the Issuer, there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or (save as disclosed under the Capitalisation Statement above) financial position of the Issuer.
9. Copies of the following documents may be inspected during usual business hours at the offices of Clifford Chance, Limited Liability Partnership for 14 days from the date of this document:
 - (i) the Memorandum and Articles of Association of the Issuer;
 - (ii) the balance sheet of the Issuer as at 6 October, 2004 and the Auditor's report thereon;
 - (iii) the consent referred to in paragraph 7 above;
 - (iv) the contracts referred to in paragraph 6 above; and
 - (v) drafts (subject to modification) of the following documents:
 - (a) the Agency Agreement;
 - (b) the Trust Deed;
 - (c) the Deed of Charge;
 - (d) the Mortgage Sale Agreement;
 - (e) the Mortgage Administration Agreement;

- (f) the Cash/Bond Administration Agreement;
- (g) the Liquidity Facility Agreement;
- (h) the Collection Account Declaration of Trust;
- (i) the Bank Agreements;
- (j) the Subordinated Loan Agreement;
- (k) the Basis Swap Agreements;
- (l) the Post Enforcement Call Option Agreement;
- (m) the Standby Servicer Agreement;
- (n) the Repurchase Guarantee;
- (o) the Master Definitions Schedule;
- (p) the Basis Swap Guarantees;
- (q) the Redraw Facility Agreement; and
- (r) the Reserve Account GIC Agreement.

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