

AUBURN SECURITIES 7 PLC
(incorporated in England and Wales with limited liability under registered number 6370667)
€2,360,000,000 Mortgage Backed Floating Rate Notes due August 2045
Issue Price 100 per cent.

The € 2,360,000,000 Mortgage Backed Floating Rate Notes due August 2045 of Auburn Securities 7 PLC (the "**Issuer**") described in this Prospectus will comprise the "**Notes**".

Application has been made to the Irish Financial Services Regulatory Authority ("**IFSRA**"), as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**"), for this Prospectus to be approved. Application has been made to the Irish Stock Exchange (the "**Irish Stock Exchange**") for the Notes to be admitted to the Official List (the "**Official List**") and trading on its regulated market.

References in this Prospectus to the Notes being "**listed**" shall mean that such Notes have been admitted to trading on the regulated market of the Irish Stock Exchange and have been admitted to the Official List. The regulated market of the Irish Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC). This Prospectus constitutes a "**Prospectus**" for the purposes of Article 5 of the Prospectus Directive.

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 Capital Home Loans Limited ("**CHL**" or "**Originator**"), Irish Life & Permanent plc ("**IL&P**"), Citicorp Trustee Company Limited (the "**Trustee**"), Citibank, N.A., London Branch (the "**Principal Paying Agent**" and the "**Agent Bank**"), the Basis Swap Counterparty, the Basis Swap Guarantor, the Currency Swap Counterparty, the GIC Provider or the Standby Servicer (each as defined below).

The Notes are expected, on issue, to be assigned AAA rating by Fitch Ratings Limited ("**Fitch**") (the "**Rating Agency**"). 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 Fitch.

Particular attention is drawn to the section herein entitled "*Risk Factors*".

The date of this Prospectus is 18 August 2008

Interest on the Notes is payable quarterly in arrear on the tenth day of February, May, August and November in each year, or, if such day is not a business day, the business day immediately following such date, (as defined under "*Overview of the Transaction – The Notes*"), the first such payment to be made on 10 November 2008. Interest on the Notes is payable at an annual rate equal to the sum of the Euro Interbank Offered Rate ("**EURIBOR**") for three month euro 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 EURIBOR for two month euro deposits and EURIBOR for three month euro deposits) ("**Note EURIBOR**") plus a margin of 0.17 per cent. per annum in relation to the Notes.

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 Euroclear Bank S.A./N.V. ("**Euroclear**") as Common Safekeeper (the "**Common Safekeeper**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**", which, together with Euroclear are the "**ICSDs**") on or about 15 August 2008 (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 Note 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 Notes which will also be deposited with the Common Safekeeper. Save in certain limited circumstances, the Notes in definitive form will not be issued in exchange for the Global Notes.

The Notes are intended to be held in a manner that will allow Eurosystem eligibility. This simply means that the Notes are intended upon issue to be deposited with the Common Safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

The Issuer accepts responsibility for the information contained in this Prospectus. 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 Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**Securities Act**"). Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to any U.S. persons.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer to subscribe for or purchase any of the Notes. Other than the approval of this document as a Prospectus in accordance with the rules made under Directive 2003/71/EC, no action has been or will be taken to permit a public offering of the Notes or the distribution of this document in any jurisdiction where action for that purpose is required. The distribution of this document and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this document (or any part hereof) comes are required by the Issuer and the Arranger to inform themselves about, and to observe, any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this document, see "*Note Purchase*" below.

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 Prospectus. 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 the Arranger. Neither the delivery of this Prospectus 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 Prospectus.

All references in this document to "**£**", "**pounds**" or "**Sterling**" are to the lawful currency for the time being of the United Kingdom and all references in this document to "**euro**", or "**EUR**" or "**€**" are to the lawful Single Currency introduced in the Member States of the European Community at the third stage of European Economic and Monetary Union pursuant to the Treaty Establishing the European Community, as amended.

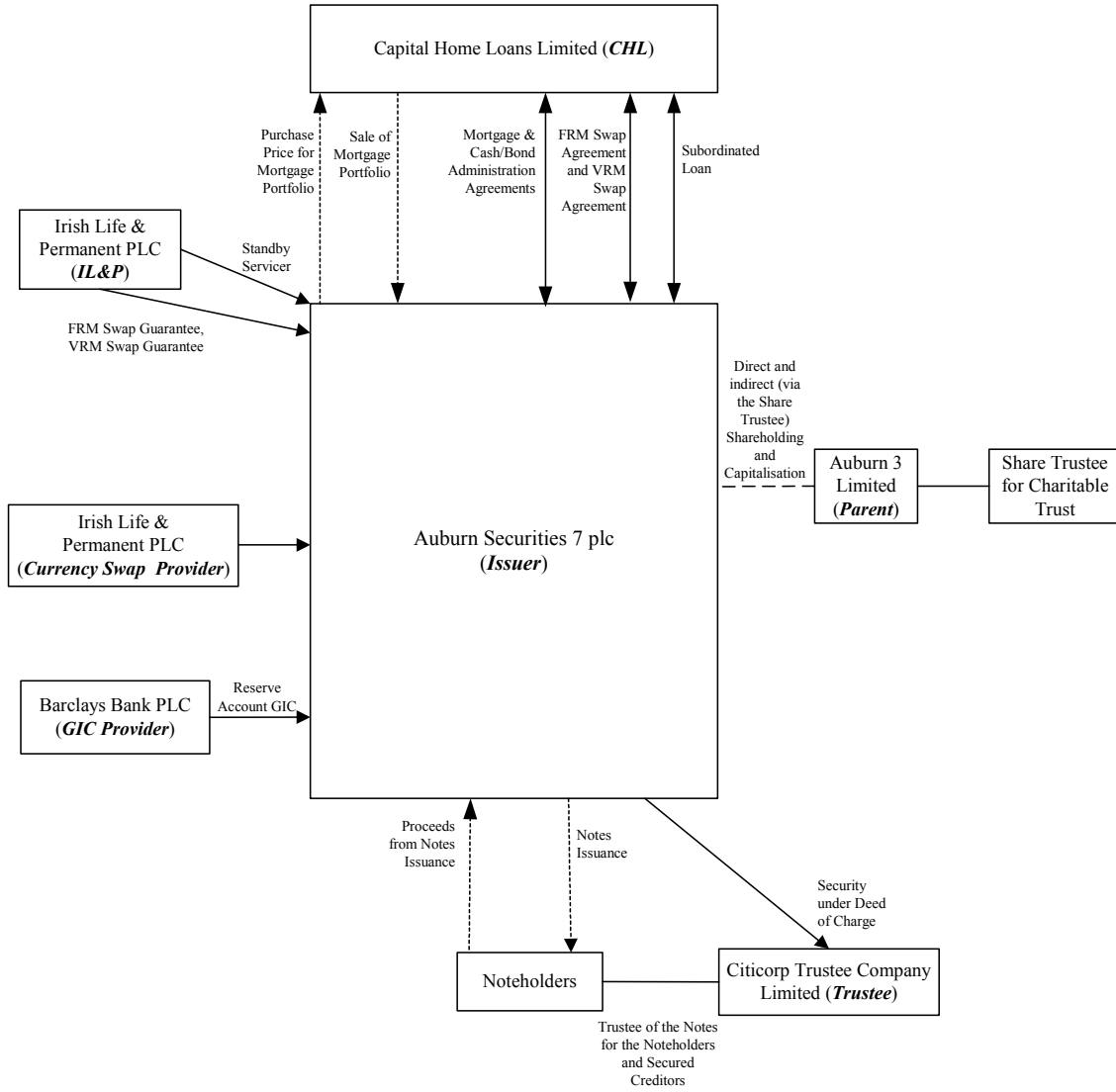
Capitalised terms used in this Prospectus, unless otherwise indicated, have the meanings set out in this Prospectus. An index of defined terms used in this Prospectus appears under "*Glossary*".

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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 Prospectus.



OVERVIEW OF THE TRANSACTION

The following is an overview of the transaction. This summary does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by reference to the more detailed information that appears elsewhere in this document.

The Issuer

The Issuer was established as a special purpose vehicle for the purpose of issuing asset backed securities. 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 and the proceeds of drawing on Tranche C of the Subordinated Loan. 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 3 Limited (the "**Parent**") and one ordinary share fully paid and held by ATC Corporate Services (UK) Limited (in this capacity, the "**Share Trustee**") on trust for the Parent. The entire issued share capital of the Parent is held by ATC Capital Markets (UK) Limited (the "**Charitable Trustee**") under the terms of a trust for charitable purposes. The share of the Parent held by the Charitable Trustee is held under the terms of a trust established under English law by a declaration of trust dated 6 August 2008. 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 6 August 2008.

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, *inter alia*, the Issuer, CHL and the Trustee (the "**Cash/Bond Administration Agreement**"), 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 this 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 and other Secured Creditors. Pursuant to a deed of charge to be entered into on the Issue Date between, *inter alios*, the Issuer and the Trustee (the "**Deed of Charge**"), the Issuer will grant certain security in favour of the Trustee for the benefit of Noteholders and other Secured Creditors.

The Notes

The Notes: the €2,360,000,000 Mortgage Backed Floating Rate Notes due August 2045, 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 tenth day of February, May, August and November in each year or, if such day is not a business day, the business day immediately following such date (a "**business day**" being, for the sole purpose of defining the date upon which an Interest Payment Date falls in respect of the 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 10 November 2008, at Note EURIBOR, in respect of all Notes plus a margin of 0.17 per cent. per annum in relation to the Notes;

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: the Notes (which will be in denominations of €50,000 each or any higher integral multiples of €1,000 up to a maximum of €99,000, subject to pro rata redemption of Notes) will initially be represented by Temporary Global Notes. 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 not be exchangeable for definitive notes save in certain limited circumstances (for which see further "*Description of the Notes*").

The Notes will be issued in bearer form and will be deposited, on the Issue Date, with a Common Safekeeper for Euroclear and for Clearstream, Luxembourg.

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 (the "**Life Policies**") relating to certain of the Mortgages;
- (iii) an assignment by way of first fixed security of the Issuer's interests in certain Buildings Policies and contingency 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, Citibank, N.A., London Branch as Agent Bank and as Principal Paying Agent and the Cash/Bond Administrator (the "**Agency Agreement**"), the Collection Account Declaration of Trust, the Bank Agreements, the Basis Swap Agreements, the Basis Swap Guarantees, the Currency Swap Agreement, 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 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.

Mortgage Revenue Receipts and Mortgage Principal Receipts

The Cash/Bond Administrator will be required to record all "**Mortgage Revenue Receipts**", being all amounts received from Borrowers in respect of the Mortgages or otherwise paid or recovered in respect of the Mortgages other than: (i) any Excluded Items, (ii) amounts received representing any repayments of principal, and (iii) redemption proceeds and amounts recovered on enforcement in each case representing principal (item (iii) being, together with item (ii), the "**Mortgage Principal Receipts**"), in a ledger for that purpose (the "**Revenue Ledger**"). The Cash/Bond Administrator will be required to record Mortgage Principal Receipts in a separate ledger for that purpose (the "**Principal Ledger**").

Revenue Priority of Payments Prior to Enforcement

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 Revenue Funds**", which, for the avoidance of doubt, do not include amounts which are credited to the Principal Ledger) 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 Revenue Ledger at close of business on the Business Day immediately preceding that Determination Date;
- (ii) interest which has been credited to the Issuer Accounts on or prior to the relevant Determination Date including interest which has been paid to the Issuer by the GIC Provider pursuant to the Reserve Account GIC Agreement, interest paid to the Issuer in respect of Authorised Investments, and interest paid to the Issuer in respect of subscription proceeds for the share capital of the Issuer held on trust by the Charitable Trustee in its client account;
- (iii) net amounts calculated to be receivable by the Issuer under the Basis Swap Agreements on or prior to that Interest Payment Date;
- (iv) net amounts calculated to be receivable by the Issuer under the Currency Swap Agreement on or prior to that Interest Payment Date;
- (v) where applicable, amounts drawn from the Reserve Account, 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,

in making the following payments or provisions in the following order of priority (the "**Revenue 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 or VAT; 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 ATC Corporate Services (UK) Limited (the "**Corporate Services Provider**") under the Corporate Services Agreement;
- (iv) to credit to a ledger established for such purposes (the "**Profit Ledger**") an amount as decided by the directors of the Issuer which is anticipated to be no more than £15,800 per annum for the first year commencing on the Issue Date and thereafter an amount which is anticipated to be no more than £2,000 per annum, in each case credited in equal portions on a quarterly basis (the "**Issuer Profit**");
- (v) *pari passu* and pro rata:
- (a) 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 under an Event of Default (each term as defined in the relevant Basis Swap Agreement));
 - (b) any amounts payable by the Issuer under the Currency Swap Agreement (other than amounts due as a result of the Currency Swap Counterparty being the defaulting party under an Event of Default (each term as defined in the Currency Swap Agreement));
- (vi) amounts payable in respect of the Notes other than in respect of principal on the Notes;
- (vii) amounts to be credited to the Note Principal Deficiency Ledger until the balance of the Note Principal Deficiency Ledger has reached zero (such amounts to be applied in redemption of the Notes in accordance with Condition 5(b));
- (viii) to pay an amount to the Reserve Ledger to top the Reserve Ledger up to the Reserve Ledger Required Amount;
- (ix) amounts to be credited to the SL Principal Deficiency Ledger until the balance of the SL Principal Deficiency Ledger has reached zero (such amounts to be applied in redemption of the Notes in accordance with Condition 5(b));
- (x) *pari passu* and pro rata:
- (a) any other amounts payable by the Issuer under the Basis Swap Agreements which are not paid under paragraph (v)(a) above; and
 - (b) any other amounts payable by the Issuer under the Currency Swap Agreement which are not paid under paragraph (v)(b) above;

and in making the following payments:

- (xi) amounts payable by the Issuer in respect of the Subordinated Loan other than in respect of principal on the Subordinated Loan;
- (xii) amounts payable by the Issuer, *pari passu* and *pro rata*, in respect of principal under Tranche A and Tranche B of the Subordinated Loan; and
- (xiii) Deferred Consideration due and payable to CHL under the Mortgage Sale Agreement.

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 (iv) and (viii) of the Revenue Priority of Payments) will be accumulated in the Issuer.

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 Revenue Priority of Payments:

- (i) certain monies 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**" (each Borrower which is a limited company incorporated in England & Wales being a "**Corporate Borrower**")) (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) certain amounts payable by the Issuer or any replacement basis swap counterparty to any Basis Swap Counterparty as a result of a transfer under the relevant Basis Swap Agreement or the entering into of a new Basis Swap Agreement;
- (iv) certain amounts payable by the Issuer or any replacement currency swap counterparty to any Currency Swap Counterparty as a result of a transfer under the Currency Swap Agreement or the entering into of a new Currency 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 Fitch 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;
- (vii) at any time, any asset (including, without limitation, cash or securities), which is paid or transferred by any Currency Swap Counterparty to the Issuer as collateral to secure the performance by that Currency Swap Counterparty of its obligations under the Currency Swap Agreement to such extent as Fitch 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 Currency Swap Counterparty's obligations under the Currency Swap Agreement; and

- (viii) amounts payable to the Issuer Account Banks under the Bank Agreements not otherwise recovered by the Issuer Account Banks in accordance with the Bank Agreements.

Redemption and Purchase

Final Redemption

Unless previously redeemed or cancelled as provided by Condition 5, the Notes will mature on the Interest Payment Date falling in August 2045.

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 an Actual Redemption Amount and applying the funds available in the manner described in Condition 5(b) towards such Actual Redemption Amount.

The "**Actual Redemption Amount**" will be determined by the Cash/Bond Administrator on the day which is first business day (a "**business day**", in this context, being a day (other than Saturday or Sunday) on which banks are open for business in London), of each of November, February, May and August (a "**Determination Date**") and will be an amount equal to:

- (i) the amount standing to the credit of the Principal Ledger (as described above); plus
- (ii) the amount (if any) calculated on that Determination Date pursuant to the Revenue Priority of Payments to be the amount by which the debit balance on the Principal Deficiency Ledger is expected to be reduced by the application of Available Revenue Funds or amounts standing to the credit of the Reserve Fund on the immediately succeeding Interest Payment Date; less
- (iii) at the discretion of the Cash/Bond Administrator, amounts allocated by it 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 Determination Date; less
- (iv) provided that no deficiency is recorded on the Principal Deficiency Ledger on such Determination Date, at the discretion of the Cash/Bond Administrator, amounts allocated by it 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 Determination Date;

Provided that (A) the Actual Redemption Amount does not exceed the sum of (1) the aggregate principal amount outstanding of the Notes on such Determination Date and (2) the principal amount outstanding of Tranche C of the Subordinated Loan on such Determination Date and (B) any amounts retained pursuant to (iii) and (iv) above, to the extent not debited to the Principal Ledger as Permitted Utilisation Amounts within 14 months shall be included in the Actual Redemption Amount.

The Cash/Bond Administrator shall apply the Actual Redemption Amount in making payment in the following priority (the "**Redemption Priority**"):

- (i) in redeeming the Notes pro rata until the Interest Payment Date on which the Notes have been redeemed in full; and
- (ii) after the Notes have been redeemed in full, in paying amounts payable by the Issuer in respect of principal under Tranche C of the Subordinated Loan.

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, the Currency Swap Agreement 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 August 2011 or on any Interest Payment Date falling thereafter. See further Condition 5(d); and
- (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 10% per cent. of the aggregate initial Principal Amount Outstanding of the Notes. See further Condition 5(d).

Purchase

The Issuer shall not purchase any Notes.

Permitted Utilisation Amounts

On any day (including on a day other than an Interest Payment Date), amounts ("**Permitted Utilisation Amounts**") may be debited by the Cash/Bond Administrator from the Principal Ledger for the making by the Mortgage Administrator (on behalf of the Issuer) of Redraws or Further Advances, **provided that:**

- (i) in all cases, the Cash/Bond Administrator is satisfied that the Issuer will have sufficient Mortgage Principal Receipts on the Interest Payment Date following the next Determination Date to make such payments on that Interest Payment Date; and
- (ii) 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 Transaction 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. CHL will transfer its beneficial interest in the Mortgages to the Issuer pursuant to a mortgage sale agreement (the "**Mortgage Sale Agreement**") dated 18 August 2008 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 Loans, 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, *inter alia*, Repayment Mortgages and 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.

23.73 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**").

96.89 per cent. of the Mortgages by current balance in the Provisional Mortgage Pool are Buy to Let Mortgages and related to properties purchased by the relevant Borrower to be occupied by tenants or held as an investment. The other 3.11 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. 39.38 per cent. of the Buy to Let Mortgages by current balance in the Provisional Mortgage Pool have been granted by Corporate Borrowers.

Mortgage Product Type: The Mortgage Pool will consist of the following types of mortgage products: (a) Buy to Let Mortgages, comprising mortgages originated by CHL which are intended for (i) Corporate Borrowers or (ii) 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 "**Buy to Let Mortgages**"), and (b) 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**").

Identity of Corporate Borrower of Buy to Let Mortgage: Corporate Borrowers of a Buy to Let Mortgage will be limited companies incorporated in England & Wales. Each Corporate Borrower must provide:

- personal guarantees of (i) each of the individual directors of the Corporate Borrower and (ii) to the extent that they are not directors, each of the shareholders who each own 25% or more of the issued share capital of the Corporate Borrower (in respect of Loans advanced prior to 7 October 2003) or who each own 20% or more of the issued share capital of the Corporate Borrower (in respect of Loans advanced on or after 7 October 2003); and
- corporate documentation, including, but not limited to memorandum and articles of association, board minutes, evidence of its registered address, certificate of incorporation/certificate of trading or equivalent and a full list of shareholders and directors.

Identity of Borrowers of Buy to Let Mortgages who are not Corporate Borrowers: Borrowers of a Standard Mortgage who are not Corporate Borrowers may be either (i) an individual who is self-employed and for whom an accountant or book-keeper has completed an income verification 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**") Borrowers of a Buy to Let Mortgage who are not Corporate Borrowers must be a minimum of 18 (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 such Borrower's ability to repay the Mortgage can be proven at the time of the maturity of the Mortgage.

Identity of Borrowers of Standard Mortgages: Borrowers of a Standard Mortgage may be either (i) a Self-Certified Borrower; or (ii) a Full Status Borrower. Borrowers of a Standard Mortgage must be a minimum of 18 (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 such Borrower's ability to repay the Mortgage can be proven at the time of the maturity of the Mortgage. A maximum number of four Borrowers are allowed to be parties of any one Mortgage.

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 Loans**");
- (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 Loans, "**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 Loans, 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 repayment terms contained within each Mortgage Product will comprise one of the following types (including possible combinations thereof):

- (i) Mortgages in relation to which the principal amount is not repayable before maturity ("**Interest Only Mortgages**"); and
- (ii) 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.

The Completion Mortgage Pool and any Substitute Mortgages will comprise only Mortgages acquired from and originated by CHL.

The "**Completion Mortgage Pool**" will comprise the Mortgages 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 (i) the Mortgages contained in a provisional portfolio of mortgages owned and selected by CHL (the "**Provisional Mortgage Pool**") as at 16 July 2008 (the "**Cut-Off Date**"); and (ii) any additional mortgages (the "**Additional Mortgages**") originated prior to the Cut-Off Date and selected by CHL to (a) substitute for Mortgages which are removed in forming the Completion Mortgage Pool, and (b) to ensure that the aggregate balances of the Mortgages in the Completion Mortgage Pool are as close as possible to, but not exceeding £2,104,500,000 as at the Issue Date.

England and Wales comprise the legal jurisdictions that govern the Mortgage Pool.

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

Aggregate balances ⁽¹⁾	£2,118,150,759
Total number of mortgages	14,985
Average mortgage balance ⁽¹⁾	£141,351.40
Weighted average current loan to value ratio (LTV) ⁽²⁾	80.65%

- (1) The balances referred to are to all amounts outstanding under each Mortgage as at 16 July 2008 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 16 July 2008.
- (2) LTV means, in respect of a Mortgage, the ratio of the amount of the outstanding balance, excluding arrears, as of 16 July 2008 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 Prospectus. 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*").

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 be advanced to Borrowers with 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.

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 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 1 May 1998 and £25,001 for Mortgages originated thereafter;
- where a Loan takes the aggregate value of a Borrower's Loans from CHL from under £3,000,000 to in excess of £3,000,000 the Loan will be restricted to and LTV of 85% regardless of the aggregate portfolio LTV;
- if the title to a Property is leasehold, there must be a minimum term of 35 years remaining on the lease after the end of the mortgage term; and

- CHL requires that a valuer acceptable to CHL certifies that the Property will be able to achieve rental income equal to at least 115% of the interest payable on Interest Only Mortgages.

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*").

RISK FACTORS

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 and reach their own views prior to making any investment decision.

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 Arranger, CHL, Fitch, IL&P, the Trustee, the Paying Agents, the Agent Bank, the Basis Swap Counterparty, the Currency Swap Counterparty, the Basis Swap Guarantor, the GIC Provider or the Standby Servicer.

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

Limited Resources of the Issuer

The Issuer is a special purpose company and is not carrying on any business other than the issue of the Notes. 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, the Currency Swap Agreements, the Basis Swap Guarantees and proceeds received under certain insurance contracts in respect of the Mortgages. The Issuer may not, on any particular Interest Payment Date, have sufficient Available Revenue Funds and Available Redemption Amount to make payment of interest and repayments of principal, respectively, 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 Actual Redemption Amount available on an Interest Payment Date in relation to a mandatory partial redemption of the Notes and the amount of any Principal Deficiency, including for the purpose of determining whether certain payments may be made at particular points in the Revenue 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 and the Issuer Profit) 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 the 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 to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market.

Lack of Liquidity in the Secondary Market

The secondary mortgage markets are currently experiencing disruptions resulting from reduced investor demand for mortgage loans and mortgage-backed securities and increased investor yield requirements for those loans and securities. As a result, the secondary market for mortgage-backed securities is experiencing limited liquidity. These conditions may improve, continue or worsen in the future.

Limited liquidity in the secondary market for mortgage-backed securities has had an adverse effect on the market value of mortgage-backed securities. Limited liquidity in the secondary market may continue to have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to credit or interest rate risk and those securities that have been structured to meet the investment requirements of limited categories of investors. Consequently, investors may not be able to sell their Notes readily. The market values of the Notes are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to investors.

IL&P as Noteholder

On the Issue Date, IL&P will purchase 100 per cent. of the Notes to be issued by the Issuer. For so long as these Notes are held by IL&P, it will be entitled to all of the rights to which the holders of such Notes are entitled (including, without limitation, voting rights). By reason of its appointment as, *inter alia*, Standby Servicer, Currency Swap Counterparty and being the parent of CHL which is, *inter alia*, the Originator, Mortgage Administrator and Cash/Bond Administrator, IL&P's interests, with respect to the holding of such Notes, will be different from that of other Noteholders. So long as IL&P continues to hold the Notes, in the exercise of the rights to which it is entitled under the Notes, it will be in its interests to minimise any adverse impact or potential adverse impact on itself or CHL in its other capacities.

Interest Rate, Exchange Rate and Basis Risk on the Notes

Approximately 71.19% per cent. (by current balance) of the Mortgages in the Provisional Mortgage Pool as at 16 July 2008 consist of mortgages on fixed rates of interest for specific periods whereas the Notes pays interest on the basis of a floating rate of interest. In order to address certain 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 Loans 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. There can be no assurance that the Basis Swap Agreements will adequately address all interest rate risks.

The Notes are denominated in EUR, but the Fixed Rate Mortgages and Variable Rate Mortgages are all denominated in GBP. In order to address the foreign exchange risk associated with the Issuer converting part of the payments of principal and interest under the Fixed Rate Mortgages and the Variable Rate Mortgages into EUR, the Issuer will, on the Issue Date, enter into the Currency Swap Agreement with the Currency Swap Counterparty. The Currency Swap Agreement and the Basis Swap Agreements are together referred to as the "**Swap Agreements**", and the Basis Swap Counterparty and the Currency Swap Counterparty are together referred to as the "**Swap Counterparties**". There can be no assurance that the Currency Swap Agreement will adequately address all foreign exchange risks.

A failure by the Issuer to make timely payments of amounts due under any Swap Agreement will constitute a default thereunder and entitle the Swap Counterparty to terminate the relevant Swap Agreement. To the extent that the 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 Swap Agreement will provide that, upon the occurrence of certain events, the Swap Agreement may terminate and a termination payment may be payable by either the Issuer or the Swap Counterparty. Any

termination payment due from the Issuer (except where such termination arises as a result of a default or downgrade by the Swap Counterparty) will rank ahead of payments due to the Noteholder. Payments of such amounts to the 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 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. These Basis Swap Guarantees will, in part, mitigate some of the risks for Noteholders identified above.

The Currency Swap Counterparty's obligations under the Currency Swap Agreement are not guaranteed.

Market Disruption

The Rate of Interest for the Notes will be the aggregate of a specified margin and the rate for three month euro deposits in the Euro Interbank Offered Rate determined in accordance with Condition 4 (*Interest – Rates of Interest – Rates of Interest on the Notes*) (for the purposes of this paragraph, the **underlying rate**). Condition 4 (*Interest – Rates of Interest – Rates of Interest on the Notes*) contains provisions for the calculation of the underlying rate based on rates given by various market information sources, and Condition 4 (*Interest – Rates of Interest – Rates of Interest on the Notes*) and Condition 4 (*Interest – Rates of Interest – European Economic and Monetary Union*) contain alternative methods of calculating the underlying rate should those market information sources be unavailable. The market information sources might become unavailable for various reasons, including suspensions or limitations on trading, events which affect or impair the ability of market participants in general, or early closure of market institutions. These could be caused by physical threats to the publishers of the market information sources, market institutions or market participants in general, or unusual trading (as is specifically contemplated by Condition 4 (*Interest*)).

Yield and Prepayment Considerations

The yield to maturity of the Notes 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 Noteholders and other Secured Creditors

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Noteholder 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 (for so long as any Notes are outstanding) the interests of the holders of the Notes if, in the Trustee's opinion, there is a conflict between the interests of (A) the holder of the Notes 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.

Notes where denominations involve integral multiples: definitive Notes

So long as the Notes are represented by a Temporary Global Note or a Permanent Global Note and Euroclear and Clearstream, Luxembourg so permit, the Notes will be tradeable only in the minimum authorised denomination of €50,000 and higher integral multiples of €1,000. It is possible that the Notes may be traded in amounts in excess of €50,000 that are not integral multiples of €50,000. In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than €50,000 (a) may not be able to trade such holding and (b) may not receive a definitive note in respect of such holding (should definitive notes be printed) unless such Noteholder purchases a principal amount of Notes such that its holding amounts to at least €50,000.

The Mortgages

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, repayment ability and debt-service-to-income ratio, as well as the value of the Property and 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.

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. 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 after 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 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 Prospectus.

Risk of Losses Associated with Non-Owner Occupied Properties

Approximately 96.89 per cent. (by current balance) of the Mortgages in the Provisional Mortgage Pool as at 16 July 2008 are Buy to Let 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 effect 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 to the payment of any arrears of principal and interest under the Mortgage.

The Buy to Let Mortgages have been underwritten in accordance with the standards described in "*The Mortgage Pool – Lending Criteria*". These underwriting standards consider, among other things, 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 94.59 per cent. (by current balance) of the Mortgages in the Provisional Mortgage Pool as at 16 July 2008 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 Mortgage principal amount outstanding. The ability of a Borrower to repay an Interest Only Mortgage at maturity will depend on the Borrower's ability to refinance the Property or to obtain funds from another source such as capital contributions from shareholders (in the case of a Corporate Borrower), retained income on the sale of the relevant Property, or other properties or investments. The ability of a Borrower to repay the principal amount or 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.

Geographical Concentration

Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than other regions, and, consequently, will generally experience higher rates of loss and delinquency on mortgages. Mortgages over Properties in the South East of England, the North West of England and Greater London represent approximately 27.30 per cent., 9.92 per cent. and 24.03 per cent., respectively, of the total current 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 Prospectus designed to provide the Issuer with funds to enable the Mortgage Administrator (on behalf of the Issuer) to make Redraws in certain circumstances (see "*Overview of the Transaction – Revenue Priority of Payments Prior to Enforcement*" and "*Overview of the Transaction – Permitted Utilisation Amounts*").

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entities established in one of those territories.

The attention of Noteholders is drawn to Condition 8 of the Notes.

UK Special Regime for the Taxation of Securitisation Companies

The Taxation of Securitisation Companies Regulations (the "**Securitisation Company Regulations**") were made under section 84 of the Finance Act 2005 on 11 December 2006 to deal with the corporation tax position of securitisation companies such as the Issuer with effect for their periods of account beginning on or after 1 January 2007. If the Securitisation Company Regulations apply to a company, then, broadly, it will be subject to corporation tax on the cash profit retained by it for each accounting period in accordance with the transaction documents. The Issuer considers that it should be taxed under the special taxation regime for which provision is made by the Securitisation Company Regulations. Investors should note, however, that the Securitisation Company Regulations are in short-form and it is expected that advisors will rely significantly upon the guidance published by the UK tax authorities when advising on the scope and operation of the Securitisation Company Regulations (including whether any particular company falls within the new regime). Investors should note that if the Issuer did not fall to be taxed under the new regime then its profits or losses for tax purposes might be different from its cash position. Any unforeseen taxable profits in the Issuer could have an adverse effect on its ability to make payments to Noteholders.

Withholding Tax

Payments of interest and principal on the Notes may become subject to any withholding taxes applicable to the Notes. In the event that withholding taxes are imposed in respect of payments due in respect of the Notes, neither the Issuer nor any Paying Agent nor any other person is obliged to gross up or otherwise compensate Noteholders for the lesser amounts received as a result of the imposition of such withholding taxes. The imposition of such withholding taxes would entitle (but not oblige) the Issuer to redeem the Notes at their Principal Amount Outstanding (plus accrued and unpaid interest). See Condition 5(e) for further details.

Further, should the Borrowers be required to deduct or withhold any amount in respect of tax from payments of interest on the Mortgages, then the amount of income receivable by the Issuer would be reduced by the amount of such withholding or deduction and, as a result, the Issuer may not have sufficient funds to meet its payments obligations under the Notes. If the Borrowers are required to withhold or deduct amounts in respect of tax from interest payments to the Issuer, 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.

Regulatory Framework

Mortgage regulation prior to October 2004

Prior to the introduction of FSA regulation as from 31 October 2004, the business relating to the provision of residential owner-occupied mortgages was subject to self-regulation by the Council of Mortgage Lenders' Mortgage Code. The Mortgage Code was introduced for lenders on 1 July 1997 and April 1998 for mortgage intermediaries. When the Mortgage Code was extended to mortgage intermediaries, subscribing lenders undertook not to accept mortgage introductions from intermediaries who were not also registered as subscribers. The Mortgage Code remained in force until 31 October 2004, when it was superseded by the Financial Services Authority's Mortgages and Home Finance: Conduct of Business sourcebook ("**MCOB**"). CHL was a member of the Council of Mortgage Lenders and subscribed to the Code during the relevant period.

Mortgage Regulation under the Financial Services and Markets Act 2000

Since 31 October 2004, certain credit agreements have been subject to regulation under the Financial Services and Markets Act 2000 ("**FSMA**"). A credit agreement is a Regulated Mortgage Contract under Article 61(3) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "**RAO**"), if, at the time the contract is entered into on or after 31 October 2004: (a) the borrower is an individual or trustee; (b) the contract provides for the obligation of the borrower to repay to be secured by (in England and Wales) a first legal mortgage or (in Northern Ireland) a first ranking mortgage or charge or (in Scotland) a first ranking standard security over land (other than timeshare accommodation) in the United Kingdom; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with any dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

As of 31 October 2004, a number of activities relating to regulated mortgage contracts became "regulated activities" under section 19 of FSMA. These activities are: (a) entering into a regulated mortgage contract as lender; (b) administering a regulated mortgage contract (administering in this context means notifying borrowers of changes in payments, interest rates or other notifiable matters and/or collecting payments due); (c) advising on regulated mortgage contracts; (d) arranging regulated mortgage contracts; and (e) agreeing to do any of the foregoing.

CHL is authorised by the FSA to carry out such regulated activities (with the exception of advising) with registration number 307798.

Failure to comply with the provisions of MCOB will not render any regulated mortgage contract as unenforceable. However, breach of MCOB or other FSA rules is actionable by borrowers who suffer loss as a result of the contravention. A breach could therefore give rise to a claim by a borrower to set off sums due under a regulated mortgage contract. Regulated mortgage contracts will also be unenforceable if they are originated as a result of financial promotion in relation to which there has been a contravention of Section 21(1) of FSMA. In both cases a court may allow the regulated mortgage contract in question to be enforced against the borrower if it considers it just and equitable to do so in the circumstances of the particular case.

The FSA has significant regulatory flexibility to alter its rules and to provide guidance on existing rules, therefore, no assurance can be given that the FSA will not change its rules or guidance or take a particular regulatory approach which may adversely affect CHL's particular sector in the mortgage market or CHL specifically. Any such development may have a material adverse effect on the Issuer and/or the Mortgage Administrator, as applicable, and their respective businesses and operations.

Mortgage Loans regulated by the Consumer Credit Act 1974

Any credit agreement that is wholly or partly regulated by the Consumer Credit Act 1974 as amended (the "CCA") or treated as such has to comply with requirements as to licensing, the form and content of documentation and on-going compliance procedures.

It is unlikely that these requirements of the CCA will apply to the mortgage Loans as:

- (a) Mortgages and Further Advances, which are subject to FSA regulation are exempt from CCA under section 16(6C); and
- (b) The CCA does not apply to Mortgages entered into prior to 6 April 2008, which are in excess of the applicable financial threshold. The lending criteria of the Mortgages state that the minimum value of the Mortgage at advance is £15,001 for Mortgages originated before 1 May 1998 and £25,001 for Mortgages originated thereafter which is in excess of the thresholds applicable at the time.

To the extent that the Mortgages are regulated by the CCA or treated as such, then non-compliance with the CCA may render an agreement unenforceable against the Borrower (a) without the order of the Office of Fair Trading (the "OFT"), if the lender or any broker does not hold the required licence at the relevant time, (b) totally, if the credit agreement was made before 6 April 2007 and if the form to be signed by the Borrower was not signed by the Borrower personally or omits or misstates a "prescribed term" or (c) without a court order in other cases 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 of the lender. The court has the power, if it appears just to do so, to amend the regulated agreement or any further advance that may fall within the scope of regulation under the CCA or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Recent reforms to the Consumer Credit Act 1974

The Consumer Credit Act 1974 is currently being updated and amended via the Consumer Credit Act 2006 (the "**2006 Act**"). It is anticipated that the 2006 Act will be fully implemented by October 2008. Recent reforms, which came into force on 6 April 2008 include:

- (a) the removal of the £25,000 financial limit in respect of credit for non-business lending (with the exception of transitional arrangements for buy to let lending);

- (b) exemptions relating to high net worth debtors and credit wholly or predominantly for the purposes of a business;
- (c) the creation of an independent ombudsman service, allowing consumers to challenge agreements without court proceedings and the creation of a Consumer Credit Appeals Tribunal;
- (d) the extension of the unfair relationship test to all existing credit agreements (except for those regulated by the FSA);
- (e) the strengthening of the powers of the Office of Fair Trading ("OFT") in relation to CCA licence holders;
- (f) new provisions relating to the licensing of consumer credit businesses.

The CCA and secondary legislation will be subject to further amendment when the Consumer Credit Directive is implemented in 2010, and may result in further amendment of the CCA.

Unfair relationships under the CCA

The 2006 Act has introduced the concept of an "unfair relationship". As from 6 April 2008, the unfair relationship test under Sections 140A to 140D of the CCA has applied to all new (i.e. post 6 April 2008) and existing (i.e. pre 6 April 2008) credit agreements subject to limited exemptions. It should be noted that the test does not apply to regulated mortgage contracts (Section 140A(5) CCA).

There is no statutory definition of what constitutes an unfair relationship. However, the test allows the courts to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement.

If a Mortgage subject to the unfair relationship test is found to be unfair, the court may require the creditor repay sums to the debtor, to do, not do or cease doing anything in relation to the agreement, reduce or discharge any sums payable by the debtor or surety, return surety, alter the terms of the agreement or direct accounts to be taken.

Sections 137 to 140 of the CCA regarding extortionate credit bargains were repealed as from 6 April 2007 by the CCA 2006. However, the repeal of these provisions does not affect the court's power to re-open an agreement, which is made before the repeal was brought into effect and which is a completed agreement before 5 April 2008.

The regulation of Buy-to-Let Mortgages under the CCA

During consultation and implementation of the 2006 Act, the Department for Business, Enterprise and Regulatory Reform (the "**BERR**") confirmed that it was not the BERR's intention that the CCA should regulate the buy-to-let market. The BERR defines buy-to-let mortgages as being agreements secured on land where the borrower or a connected person occupies or intends to occupy less than 40 per cent of the property as a dwelling. It is anticipated that the Legislative Reform Order 2008 (the "Order"), which is required to make changes to ensure that buy-to-let mortgages will not be regulated by the CCA, will be implemented as from 1 October 2008. In view of the disconnect between the removal of the financial limit in April 2008 and the Order coming into force, the BERR has implemented transitional arrangements within the 4th Commencement Order 2008 which temporarily disapplies the abolition of the £25,000 limit for buy-to-let Loans. This is to ensure that the Loans are not brought into CCA regulation during the intervening period. Consequential amendments are also being made to section 82 of the CCA to avoid bringing existing buy-to-let mortgages into regulation in the event that they are varied or supplemented.

Directive on Credit Agreements for Consumers and repealing Council Directive 87/102/EEC

The new EU Consumer Credit Directive (2008/48/EC) (the "**CCD**") was formally adopted on 23 April 2008. The Official Journal of the European Union specifies 12 May 2010 as the deadline for implementation of the Directive by Member States.

The BERR, which has charge of implementation, is currently discussing implementation issues informally with the industry and other interested parties, before formal consultation begins in Autumn

2008. The CCD is intended to provide a more effective community framework for consumer credit and to make it easier for lenders offering credit to operate in any EU country. It covers credit of between EUR 200 and 75 000 repayable after more than a month. It does not apply to mortgages or to deferred debit cards and offers simplified provisions for overdrafts and certain other types of credit agreement.

However, until the details of the implementing legislation are published, it is not certain what effect, if any, the implementation of the CDD would have on CHL, the Issuer and/or the Mortgage Administrator and their respective businesses and operations.

Unfair Terms in Consumer Contracts Regulations 1999

The Unfair Terms in Consumer Contracts Regulations 1999 (the "**Regulations**") affect all or almost all of the Mortgages and separate agreements for Further Advances in each case made on or after 1 July 1995. 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 if found to be "unfair" would not be 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. The Financial Services Authority (the "**FSA**") is a qualifying body under the Regulations and has agreed with the OFT to take responsibility for the enforcement of the Regulations in mortgage agreements within its scope of regulation.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is addressed to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides, inter alia, guidance relating to contracts that "lock in" consumers (being contracts where, in order to withdraw from the contract, the consumer is required to give advance notice or to pay a cost or to give up a benefit). Firms are warned to take care to ensure that interest rate variation terms that apply to locked in customers are fair. Firms may also consider drafting the contract to permit a change to be made only where any lock in term is not exercised.

In January 2007, the FSA issued a Statement of Good Practice relating to Mortgage Exit Administration Fees ("**MEAFs**"). The FSA stated that lenders could consider five options for the treatment of past and current customers, and all lenders had to decide which options to adopt and put this into practice by 28 February 2007. For new customers, lenders were required to decide whether to amend their terms and conditions by 31 July 2007. In August 2007 the FSA updated the statement after analysing the responses of a sample of firms, comprising a significant proportion of the mortgage market, on the outcome of their reviews of how to treat future customers. The results of this review found that most major lenders have opted either to charge a fee that would not be varied during the lifetime of the mortgage or to remove the MEAF altogether. Other lenders have decided to charge a MEAF which will reflect the administrative costs of exiting the mortgage and can only be varied for valid reasons clearly explained at the outset.

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". A final report was published in 2005. In July 2006, the Law Commission stated that the government

accepted the recommendations subject to a regulatory impact statement. No assurances can be given that changes to the Regulations, if implemented, will not have an adverse effect on the Seller, the Issuer and/or the Administrator.

Proposed Mortgage Credit Directive

The European Commission published its White Paper on the Integration of EU Mortgage Credit Markets on 18 December 2007. In the paper, the Commission stated that its goal is to improve the competitiveness and efficiency of mortgage markets by facilitating the cross-border supply and funding of mortgage credit as well as by increasing the diversity of products available. However, it was yet to be determined as to whether legislation was the most appropriate way forward. The Commission is therefore undertaking further assessments and cost-benefit analyses during 2008. The Commission has stated that no directive will be tabled if the costs of legislative measures outweigh their benefits.

On 14 March 2008, the European Commission published a notice, requesting tenders to undertake a study on the costs and benefits of the different policy options for mortgage credit. Tenders were required to be made by 13 May 2008. The tender anticipates that the study should take 9 months to complete.

Until the Mortgage Credit Directive is adopted and implemented, it is not certain what effect, such a directive would have on CHL, the Issuer and/or the Mortgage Administrator and their respective businesses and operations.

Consumer Protection from Unfair Trading Regulations 2008

The Unfair Practices Directive was implemented into United Kingdom law through the Consumer Protection from Unfair Trading Regulations 2008 (CPRs). The CPRs commenced 26 May 2008 and affect all contracts entered into with persons who are natural persons and acting for purposes outside their respective business. Although the CPRs are not concerned solely with financial services, they do apply to the residential mortgage market.

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

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

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

Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment.

The effect (if any) of the CPRs on the Mortgages, CHL, Issuer or Mortgage Administrator and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the Unfair Practices Directive.

Distance Marketing of Financial Services

With effect from 31 October 2004, the Distance Marketing of Financial Services Directive (the "DMD") has been implemented in the United Kingdom by way of the Financial Services (Distance Marketing) Regulations 2004 (the "**Distance Marketing Regulations**") and amendments to MCOB. In essence the regulations require that in respect of distance contracts, consumers have the right to receive certain information and, for some financial services, a right to cancel.

For the purposes of the Distance Marketing Regulations, a distance contract means "any contract concerning one or more financial services concluded between a supplier and a consumer under an organised distance sales or service provision scheme run by the supplier or by an intermediary, who, for the purposes of that contract, makes exclusive use of one or more means of distance communication up to and including the time at which the contract is concluded". A similar definition is adopted in the MCOB.

The Distance Marketing Regulations and the MCOB require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally has to be provided before the consumer is bound by a distance contract for supply of the financial services in question and includes, but is not limited to, general information in respect of the supplier and the financial service; contractual terms and conditions; and whether or not there is a right of cancellation. In general, consumers of distance contracts have a right to cancel contracts for financial services during a set period after commencement of the contract. However, cancellation rights will not apply, amongst others, in the case of contracts for financial services where (i) the price of the service depends on fluctuations in the financial market outside the supplier's control (such as interest rate changes); (ii) the supplier provides credit to a consumer and the consumer's obligation to repay is secured by a legal mortgage on land; or (iii) it is a restricted use credit agreement (within the meaning of the CCA) to finance the purchase of land or an existing building, or an agreement for a bridging Loan in connection with the purchase of land or an existing building. The above provisions may be enforced by way of injunction and any breach may render the Seller and possibly its officers liable to a fine.

Any term in a distance contract will be void and unenforceable if, and to the extent that, it is inconsistent with the application of a provision of the Distance Marketing Regulations.

If a significant portion of the Mortgages are characterised as being cancellable under the Distance Marketing Regulations, then there could be an adverse effect on CHL and the Issuer and which could affect the ability of the Issuer to make payments under the Notes.

General review of UK consumer law

In May 2008, the BERR published a consultation paper seeking views on whether and how it might reform UK consumer law. Specifically, comments were requested on whether consumer law should be consolidated in a single instrument, whether specific areas of legislation should be updated, and whether a review of UK consumer credit law should be undertaken. No assurance can be given that any such reform of UK consumer law would not have an adverse effect on CHL and the Issuer and which could affect the ability of the Issuer to make payments under the Notes.

Financial Ombudsman Service

Under the FSMA, the Financial Ombudsman Service (the "**Ombudsman**") is required to make decisions on, *inter alia*, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account, *inter alia*, law and guidance. Complaints brought before the Ombudsman for consideration must be decided on a case by case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman.

The Ombudsman may order a money award to a borrower, which may adversely affect the value at which the Mortgages could be realised and accordingly the ability of the Issuer to make payments and may have an adverse effect on the Issuer and its businesses and operations.

Change in Law

The structure of the issue of the Notes is based on English law, regulatory, accounting and administrative practice in effect as at the date of this Prospectus and having due regard to the expected tax treatment of all relevant entities under United Kingdom tax law and the published practice of H M Revenue & Customs in force or as applied in the United Kingdom each as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decisions or possible change to English law and United Kingdom tax, regulatory, accounting or administrative practice after the date of this Prospectus. Any changes in such matters may have a material adverse affect on the Issuer.

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 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 petition may be presented, no resolution may be passed or order made for the winding up of that company, no administrator of that company may be appointed (either by the court or using the out-of-court procedure) and no administrative receiver of that company may be appointed. In addition, no steps may be taken to enforce any security over the company's property (except with the leave of the Court) and no other proceedings and no execution or other legal process may be commenced or continued in relation to that company (except with the leave of the Court). Where any property of the company is subject to a security, if the holder of that security (the "**chargee**") consents, or the Court gives leave, the company may dispose of the secured property as if it were not subject to the security. Where property subject to a security which, as created, was a floating charge is disposed of in this manner, 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 property subject to a security other than a security which, as created, was a floating charge, is disposed of in this manner, it shall be a condition of the chargee's consent or the leave of the Court that the net proceeds of the disposal and, where those proceeds are less than such amount as may be agreed, or determined by the Court, to be the net amount which would be realised on a sale of the property or goods in the open market by a willing vendor, such sums as may be required to make good the deficiency shall be applied towards discharging the sums secured by the security. Further, during the period for which a moratorium is in force the company may only make any payment in respect of any debt or other liability of the company in existence before the beginning of the moratorium if there are reasonable grounds for believing that the payment will benefit the company, and the payment is approved by a committee of creditors of the company (if established) or, where there is no such committee, 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 on the date of filing party to an agreement which is or forms part of a capital market arrangement, under which a party has incurred, or when the agreement was entered into was expected to incur, a debt of at least £10 million and the arrangement 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 for the holder of a capital market investment, and the issue of a rated, listed or traded debt instrument, is excluded from being eligible for a moratorium. In addition, a company is also

excluded from being eligible for a moratorium if, on the date of filing, it has incurred a liability (which includes a present or future liability whether, in either case, it is certain or contingent) of £10 million or more under an agreement. 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 is eligible for a moratorium at the time a moratorium is sought; secondly, the directors are in a position to comply with all of the prescribed formalities for obtaining the moratorium; and, thirdly, the Issuer is considered not to fall within the capital market exclusion (as expressed or modified at the relevant time) or any other applicable exclusion 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) 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 in relation to that security, and therefore will not prevent 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 holders of any debenture of the company secured by a charge which, as created, was a floating charge, or by such a charge and one or more other securities 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, *inter alia*, certain transactions in the capital markets. The relevant exception provides that the appointment of an administrative receiver is not prohibited if it is made in pursuance of an agreement (being, in respect of the transactions described in this Prospectus, the Deed of Charge) which is or forms part of a capital market arrangement (as defined in the Insolvency Act) under which a party (such as the Issuer) incurs or, when the agreement was entered into was expected to incur, a debt of at least £50,000,000 under the arrangement and the arrangement involves the issue of a capital market investment (also defined, but generally a rated, listed or traded debt instrument). 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 relevant company itself or its directors. If the appointment is to be made by a qualifying floating chargeholder, it must give at least two business days' written notice of its intention to appoint to any prior qualifying floating chargeholder, or obtain its written consent. If notice is given, a copy of that notice may be filed at court. Upon such filing, an interim moratorium on enforcement of the relevant security will take effect. That moratorium lasts for five business days beginning with the date of filing, or until an administrator is appointed (whichever is earlier). If the appointment is to be made by the company or its directors, they must give at least five business days' written notice of their intention to appoint to any person who is or may be entitled to appoint an administrative receiver and to any person who is or may be the holder of any qualifying floating charge entitled to appoint an administrator out-of-court. A copy of that notice must be filed at court. Upon such filing, an interim moratorium on enforcement of the relevant security will take effect. That moratorium lasts for ten business days

beginning with the date of filing of the notice, or until an administrator is appointed (whichever is earlier). During the notice period, the holder of a qualifying floating charge can appoint its own insolvency practitioner, rather than the company's or directors' chosen insolvency practitioner, as administrator. If a person entitled to receive a notice of intention to appoint does not respond to the notice of intention to appoint, the appointor's chosen administrator will take office after the notice period has elapsed and upon a notice of appointment being filed at court. Where the holder of a qualifying floating charge created either prior to 15 September 2003 or after that date and which falls within an exception 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 commencement of the administration. 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 of the Insolvency Act) and section 176A of the Insolvency Act introduces provisions to enable unsecured creditors, as opposed to floating charge holders, to take the benefits of this change. Under this latter provision the unsecured creditors will have recourse to the company's net property (which is the amount of its property which would otherwise be available for satisfaction of claims of holders of debentures secured by, or holders of, any floating charge created by the company) 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 the company's net property; then 20 per cent. of the company's remaining net property 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 company's net property is less than £10,000 and the officeholder is of the view that the costs of making a distribution to unsecured creditors would be disproportionate to the benefits. If the company's net property is more than £10,000 the officeholder may apply to court for an order that the rule may be disapplied on the same basis. 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).

Implementation of Basel II Risk-Weighted Asset Framework may result in changes to the risk weighting of the Notes

A framework has been developed by the Basel Committee on Banking Supervision which places enhanced emphasis on market discipline and sensitivity to risk. A comprehensive version of the text of the framework was published in June 2006 under the title "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)" ("**Basel II**" and the "**Basel II Framework**"). The Basel II Framework is not self-implementing and, accordingly, implementation in participating countries is in some cases still in development or has not yet been put into effect.

In the UK, Basel II, through the EU Capital Requirements Directive, has been implemented through the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) and the Capital Requirements Regulations 2006, although the most advanced approaches have only become available from 1 January 2008.

The Basel Committee has announced its intention to propose certain changes to the Basel II Framework and within the European Union proposals are being consulted on to amend the Capital Requirements Directive.

As and when implemented, the Basel II Framework and the proposed amendments could affect risk-weighting of the Notes for investors who are subject to capital adequacy requirements that follow or are based on the Basel II Framework. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the implementation of the Basel II Framework and any relevant implementing measures and any amendments that may be made to either the Basel II Framework or any implementing measures. No predictions can be made as to the precise effects of potential changes on any

investor or otherwise as a result of the implementation of the Basel II Framework or any amendments thereto.

CREDIT AND LIQUIDITY STRUCTURE

The Notes are expected, on issue, to be assigned AAA rating by Fitch. 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 Fitch. The structure of the credit arrangements is summarised below.

Initial Available Revenue Funds:

Prior to any determination by the Cash/Bond Administrator as to whether it will need to draw on the Reserve Ledger for the purposes of making payments under the Revenue 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 Revenue Funds**") to make all of the payments provided for under items (i) to (viii) inclusive of the Revenue Priority of Payments on the immediately succeeding Interest Payment Date. Should the amount required to make all of the payments provided under items (i) to (viii) inclusive of the Revenue Priority of Payments on the immediately succeeding Interest Payment Date exceed the Initial Available Revenue Funds, an amount equal to such shortfall shall be drawn from the Reserve Account for the purposes of making up such shortfall. Prior to the Interest Payment Date on which the Notes are to be redeemed in full, Initial Available Revenue Funds in respect of a Determination Date will comprise the aggregate of the following:

- (a) amounts standing to the credit of the Revenue Ledger at the close of business on the business day immediately preceding that Determination Date;
- (b) interest which has been credited to the Issuer Accounts on that Determination Date including interest which has been paid to the Issuer by the GIC Provider pursuant to the Reserve Account GIC Agreement, interest payable to the Issuer in respect of Authorised Investments and interest paid to the Issuer in respect of subscription proceeds for the share capital of the Issuer held on trust by the Charitable Trustee in its client account;
- (c) net amounts calculated to be receivable by the Issuer under the Basis Swap Agreements on or prior to that Interest Payment Date; and
- (d) net amounts calculated to be receivable by the Issuer under the Currency Swap Agreement on or prior to that 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 Revenue 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 1 Churchill Place, London E14 5HP (in this capacity, 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, the Reserve Account Bank and the Cash/Bond Administrator (the "**Bank Agreement (Reserve Account)**").

On the Issue Date, £5,261,250 (represented by amounts drawn under Tranche B of the Subordinated Loan) will be deposited in the Reserve Account and credited to a ledger (the "**Reserve Ledger**").

"**Reserve Ledger Required Amount**" means £42,090,000 **provided that**, on any Interest Payment Date following the Issue Date, on which the credit balance of the Reserve Account is equal to or greater than 2% of the aggregate of the Principal Amount Outstanding of the Notes and the principal amount outstanding of Tranche C of the Subordinated Loan on such Interest Payment Date (the "**Reserve Ledger Determination Date**") and if:

- (i) all balances on the Principal Deficiency Ledger are zero;
- (ii) the cumulative losses suffered by the Issuer from the Issue Date until the Reserve Ledger Determination Date are equal to or less than 0.75% of the Completion Mortgage Pool balance;
- (iii) the Mortgage Administrator is not in breach of any of its obligations under the Transaction Documents or has been replaced;

- (iv) the credit balance of the Reserve Account is at the Reserve Ledger Required Amount on the relevant Interest Payment Date;
- (v) the cumulative total balance of all Loans in the Mortgage Pool in respect of which enforcement proceedings have been completed does not exceed 2% of the balance of the Completion Mortgage Pool; and
- (vi) the total balance of all Loans in the Mortgage Pool which are 90 days or more in arrears is less than or equal to 3% of the outstanding balance of all the Loans in the Mortgage Pool,

then the Reserve Ledger Required Amount will be reduced to an amount equal to the greater of £5,261,250 or 2% of the aggregate of the Principal Amount Outstanding of the Notes and the principal amount outstanding of Tranche C of the Subordinated Loan on such Interest Payment Date.

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 (viii) inclusive of the Revenue Priority of Payments if Initial Available Revenue 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 London Interbank Offered Rate ("**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) or the unsubordinated and unsecured short term debt rating of the GIC Provider assigned by Fitch falls below "F1" (unless Fitch confirms in writing that such event would not cause it to downgrade the current rating of the Notes), 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 (whose unsubordinated and unsecured short term debt is rated "F1" by Fitch) within 30 days from the date of such termination of the Reserve Account GIC Agreement.

Principal Deficiency Ledger:

A principal deficiency ledger (the "**Principal Deficiency Ledger**") comprising two sub-ledgers, known as the "**Note Principal Deficiency Ledger**" and the "**SL Principal Deficiency Ledger**" respectively, will be established to record any losses on the Mortgage Pool following the completion of enforcement proceedings in respect of any Mortgages (such losses respectively, the "**Note Principal Deficiency**" and the "**SL Principal Deficiency**", and in either case a "**Principal Deficiency**"). Such losses represent the amount by which the aggregate Mortgage Principal Receipts recovered in respect of a Mortgage are less than the sum of the outstanding principal balance of the Mortgage at such time. Any such losses shall be debited first to the SL Principal Deficiency Ledger (such debit items being re-credited at item (viii) of the Revenue Priority of Payments to the extent that there are sufficient funds on subsequent interest dates) so long as the debit balance on such sub-ledger is less than the Principal Amount Outstanding of Tranche C of the Subordinated Loan and thereafter such amounts shall be debited to the Note Principal Deficiency Ledger (such items being re-credited at item (vii) of the Revenue Priority of Payments to the extent that there are sufficient funds on subsequent Interest Payment Dates). To the extent such Principal Deficiencies exist following the application of the Available Revenue Funds (as defined in Condition 2), amounts (if any) standing to the credit of the Reserve Ledger shall be applied (as set out in "*Reserve Ledger and Reserve Account GIC Agreement*" above) to credit the two sub-ledgers of the Principal Deficiency Ledger in the reverse order set out above until such time as the Principal Deficiency Ledger balance is returned to zero.

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 1 Churchill Place, London E14 5HP (in this capacity, the "**Collection Account Bank**"). 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 credit rating of the Collection Account Bank assigned by Fitch falls below "F1" (unless Fitch confirms in writing that such event would not cause it to downgrade the current rating of the Notes), the Cash/Bond Administrator will be required to procure that any funds standing to the credit of the Collection Account allocable to the Loans are transferred to the Transaction Account within two business days of the Cash/Bond Administrator receiving notice of such downgrade. Should the unsubordinated and unsecured short term debt rating of the Collection Account Bank assigned by Fitch fall below "F2", then CHL shall procure, at its own cost, either that: (i) an unconditional and unlimited guarantee of the amounts standing to the credit of the Collection Account allocable to the Loans from time to time be provided by an entity whose unsubordinated and unsecured short term debt is rated "F1" by Fitch; or (ii) the Collection Account is transferred within 30 days to a bank whose unsubordinated and unsecured short term debt is rated "F1" by Fitch.

In the event that (a) where IL&P is rated by Fitch in its role as Standby Servicer, the short-term, unsecured, unsubordinated, unguaranteed rating of the Standby Servicer falls below "F2" as rated by Fitch, or (b) where the Standby Servicer is not rated by Fitch, the Cash/Bond Administrator is notified by Fitch that Fitch's internal credit view of the Standby Servicer has fallen below "F2" (short-term), CHL, in its capacity as Mortgage Administrator and 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 (together the "**Transaction Account**") in the name of the Issuer at Barclays Bank PLC, acting through its branch at 1 Churchill Place, London E14 5HP (the "**Transaction Account Bank**" and together with the Reserve Account Bank, the "**Issuer Account Banks**") (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, Barclays Bank PLC 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 that any amounts forming part of such payments and which amounts are under the terms of the Transaction Documents to be made to the holders of the Notes on the corresponding Interest Payment Date will 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 CHL 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 excluded from the sale of the Mortgages to the Issuer.

Deferred Consideration:

Subject to the prior payment or setting aside in full on the relevant Interest Payment Date of items (i) to (xii) inclusive in the Revenue 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 Revenue Funds, (ii) amounts standing to the credit of

the Reserve Ledger in excess of the Reserve Ledger Required Amount, (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 and (iv) any amounts payable pursuant to clause 10 of the Cash/Bond Administration Agreement. In addition, subject to the prior payment or setting aside in full of items (i) to (vi) 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 any amount already standing to the credit of the Profit 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 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 Accounts. If the rating of the unsubordinated and unsecured short-term debt of the bank at which an Issuer Account is held assigned by Fitch falls below "F1" (unless Fitch confirms in writing that such event would not cause it to downgrade the then current rating of the Notes) the Cash/Bond Administrator, within 30 days, will transfer the relevant Issuer Account to a bank whose unsubordinated and unsecured short term debt is rated "F1" by Fitch.

Authorised Investments:

The Cash/Bond Administrator will be entitled to invest cash from time to time standing to the credit of the Issuer 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 "F1" by Fitch and a long-term, unsecured, unsubordinated, unguaranteed rating of at least "A" (or such other rating subject to Fitch confirming in writing that such other rating would not cause it to downgrade the then current rating of the Notes) for investments maturing within 30 days of their initial investment; or, "F1+" and "AA-", respectively, by Fitch (or such other rating subject to Fitch confirming in writing that such other rating would not cause it to downgrade the then current rating of the Notes) for investments maturing from 30 days to 364 days from their initial investment, **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.

Subordinated Loan:

The Issuer will enter into a subordinated loan facility agreement (the "**Subordinated Loan Agreement**") with CHL (in this capacity, 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 three 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 £146,627. Tranche B will be used to credit the Reserve Account on the Issue Date in an amount of £5,261,250. Tranche C will be used to fund part of the Purchase Price of the Mortgages in the Completion Mortgage Pool on the Issue Date in an amount of £263,051,810. The rate of interest applicable under the Subordinated Loan will be LIBOR for the relevant Interest Period plus 0.17 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 Revenue Priority of Payments and the Redemption Priority, as applicable. 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 and Currency Swap Agreements:

The Issuer will enter into:

- (a) an interest rate swap agreement with CHL (in its capacity as the "**Basis Swap Counterparty**") to hedge its exposure against movements in the floating rate of interest payable by the Issuer on the Notes compared with the interest rate received from the Fixed Rate Mortgages (the "**FRM Swap Agreement**"); and
- (b) an interest rate swap agreement with the Basis Swap Counterparty to hedge its exposure against movements in the interest rate received from the Variable Rate Mortgages compared with the

floating rates of interest payable by the Issuer on the Notes (the "**VRM Swap Agreement**" together with the FRM Swap Agreement, the "**Basis Swap Agreements**").

Under the FRM Swap Agreement, on each Interest Payment Date:

- (a) the Issuer will pay:
 - (i) in respect of the period from and including the Issue Date to (but excluding) the first Determination Date falling in November 2008 (the "**Initial Calculation Period**"), an amount equal to the product of (A) the sum of the Balances of the Fixed Rate Mortgages in the Mortgage Pool as at the Issue Date, (B) the FRM Performance Adjustment Percentage, (C) the weighted average of the interest rates payable on the Fixed Rate Mortgages as at the Issue Date and (D) the number of days in the Initial Calculation Period divided by 360; and
 - (ii) in respect of any Determination Period (except the Initial Calculation Period) ending on the Determination Date immediately preceding the relevant Interest Payment Date (a "**Subsequent Calculation Period**"), an amount equal to the product of (A) the sum of the Balances of the Fixed Rate Mortgages in the Mortgage Pool as at the first day of such Subsequent Calculation Period, (B) the FRM Performance Adjustment Percentage, (C) the weighted average of the interest rates payable on the Fixed Rate Mortgages as at the first day of the Subsequent Calculation Period and (D) the number of days in the Subsequent Calculation Period divided by 360; and
- (b) the Swap Counterparty will pay an amount equal to the product of (A) the sum of the Balances of the Fixed Rate Mortgages in the Mortgage Pool as at (1) the Issue Date (in the case of payments in respect of the Initial Calculation Period) or (2) the first day of any Subsequent Calculation Period (in the case of payments in respect of any Subsequent Calculation Period), (B) the FRM Performance Adjustment Percentage, (C) 3-month LIBOR plus 40 basis points and (D) the number of days in the Initial Calculation Period or the relevant Subsequent Calculation Period (as applicable) divided by 360.

For the purposes of the foregoing, "**FRM Performance Adjustment Percentage**" means in respect of any Subsequent Calculation Period, the aggregate amount of all payments of interest actually received by the Issuer in respect of the Fixed Rate Mortgages during that Subsequent Calculation Period (including all payments of interest received in respect of any preceding Subsequent Calculation Period) expressed as a percentage of all payments of interest (excluding arrears of interest) scheduled to be received by the Issuer in respect of the Fixed Rate Mortgages for such Subsequent Calculation Period."

Under the VRM Swap Agreement, on each Interest Payment Date:

- (a) the Issuer will pay:
 - (i) in respect of the Initial Calculation Period, an amount equal to the product of (A) the sum of the Balances of the Variable Rate Mortgages in the Mortgage Pool as at the Issue Date, (B) the VRM Performance Adjustment Percentage, (C) the weighted average of the interest rates payable on the Variable Rate Mortgages as at the Issue Date and (D) the number of days in the Initial Calculation Period divided by 360; and
 - (ii) in respect of any Determination Period (except the Initial Calculation Period) ending on the Determination Date immediately preceding the relevant Interest Payment Date (a "**Subsequent Floating Calculation Period**"), an amount equal to the product of (A) the sum of the Balances of the Variable Rate Mortgages in the Mortgage Pool as at the first day of such Subsequent Floating Calculation Period, (B) the VRM Performance Adjustment Percentage, (C) the weighted average of the interest rates payable on the Variable Rate Mortgages as at the first day of the Subsequent Floating Calculation Period and (D) the number of days in the Subsequent Floating Calculation Period divided by 360; and
- (b) the Swap Counterparty will pay an amount equal to the product of (A) the sum of the Balances of the Variable Rate Mortgages in the Mortgage Pool as at (1) the Issue Date (in the case of

payments in respect of the Initial Calculation Period) or (2) the first day of any Subsequent Floating Calculation Period (in the case of payments in respect of any Subsequent Floating Calculation Period), (B) the VRM Performance Adjustment Percentage, (C) 3-month LIBOR plus 40 basis points and (D) the number of days in the Initial Calculation Period or the relevant Subsequent Floating Calculation Period (as applicable) divided by 360.

For the purposes of the foregoing, "**VRM Performance Adjustment Percentage**" means in respect of any Subsequent Floating Calculation Period, the aggregate amount of all payments of interest actually received by the Issuer in respect of the Variable Rate Mortgages during that Subsequent Floating Calculation Period (including all payments of interest received in respect of any preceding Subsequent Floating Calculation Period) expressed as a percentage of all payments of interest (excluding arrears of interest) scheduled to be received by the Issuer in respect of the Variable Rate Mortgages for such Subsequent Floating Calculation Period

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.

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) where the Basis Swap Guarantor is rated by Fitch, the short-term, unsecured, unsubordinated, unguaranteed rating of the Basis Swap Guarantor falls below "F1" as rated by Fitch or the long-term, unsecured, unsubordinated, unguaranteed rating of the Basis Swap Guarantor falls below "A" as rated by Fitch or the Basis Swap Guarantor ceases to be rated by Fitch, or (b) where the Basis Swap Guarantor is not rated by Fitch, the Basis Swap Counterparty is notified by Fitch that Fitch's internal credit view of the Basis Swap Guarantor has fallen below "F1" (short-term) or "A" (long-term), 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 "F1" by Fitch and a long-term, unsecured, unsubordinated, unguaranteed rating of at least "A" by Fitch to enter into an agreement with the Issuer on the same terms as each of the Basis Swap Agreements, or (ii) procure a party with a short-term, unsecured, unsubordinated, unguaranteed rating of at least "F1" by Fitch and a long-term, unsecured, unsubordinated, unguaranteed rating of at least "A" by Fitch to be a guarantor of the obligations of the Basis Swap Counterparty under each of the Basis Swap Agreements; and/or
- (b) provide collateral support for its obligations under each of the Basis Swap Agreements to such extent as Fitch 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 Basis Swap Guarantor is appointed or Fitch has confirmed in writing that Fitch's internal credit view of the Basis Swap Guarantor is at least as high as "F1" (short-term) or "A" (long-term); and/or
- (c) take such other action as may be agreed with Fitch to avoid a downgrade of 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 each of the Basis Swap Agreements.

In the event that (a) where the Basis Swap Guarantor is rated by Fitch, the long-term, unsecured, unsubordinated, unguaranteed rating of the Basis Swap Guarantor falls below "BBB+" by Fitch, or the short-term, unsecured, unsubordinated, unguaranteed rating of the Basis Swap Guarantor falls below "F2" by Fitch, or (b) where the Basis Swap Guarantor is not rated by Fitch, the Basis Swap Counterparty is notified by Fitch that Fitch's internal credit view of the Basis Swap Guarantor has fallen below "BBB+" (long-term) or "F2" (short-term), then the Basis Swap Counterparty will, at its own cost and expense, immediately transfer all of its rights and obligations with respect to each of the Basis Swap Agreements to a replacement party whose long-term, unsecured and unsubordinated debt obligations are rated at least as high as "A" by Fitch and whose short-term, unsecured and unsubordinated debt obligations are rated at least as high as "F1" by Fitch.

Each of the Basis Swap Agreements may be terminated by the non-defaulting or non-affected party, as applicable if (but not limited to):

- (a) the Notes has been declared immediately due and payable prior to their final maturity date or the Notes are redeemed in full in accordance with their terms;
- (b) 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
- (c) 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.

Currency Swap Agreement:

The Issuer will enter into a currency swap with IL&P (in its capacity as the "**Currency Swap Counterparty**") (the "**Currency Swap Agreement**") in order to hedge its exposure to fluctuations in the EUR:GBP exchange rate and enable it to satisfy its payment obligations to the Noteholders.

Pursuant to the Currency Swap Agreement:

- (a) On the Issue Date, the Issuer will pay to the Currency Swap Counterparty the euro proceeds from the issue of the Notes and the Currency Swap Counterparty will pay an equivalent amount converted to sterling at the Exchange Rate;
- (b) On each Interest Payment Date,
 - (i) the Currency Swap Counterparty will pay an amount equal to the product of (A) the Principal Amount Outstanding of the Notes (the "**EUR Principal Amount**"), (B) 3-month EURIBOR plus the Relevant Margin of the Notes and (C) the number of days in the relevant Interest Period divided by 360; and
 - (i) the Issuer will pay an amount equal to the product of (A) EUR Principal Amount converted to GBP at the Exchange Rate, (B) LIBOR plus the Relevant Margin of the Notes and (C) the number of days in the relevant Interest Period divided by 360;
- (c) On each Interest Payment Date on which the Issuer redeems the Notes in part pursuant to Condition 5(b) of the terms and conditions of the Notes, the Issuer will pay an amount in sterling equal to the amount available for redemption of the Notes in accordance with Condition 5(b) of the terms and conditions of the Notes (the "**Issuer Interim Exchange Amount**") and the Currency Swap Counterparty will pay an amount in euro equal to the Issuer Interim Exchange Amount converted to euro at the Exchange Rate;
- (d) On the earlier of (A) the date on which the Notes are redeemed in full in accordance with Conditions 5(d) or 5(e) of the terms and conditions of the Notes and (B) the Maturity Date (as defined in the Master Definitions Schedule) (the "**Termination Date**"), the Issuer will pay an amount (the "**Issuer Final Exchange Amount**") in sterling equal to the lesser of (as at the Termination Date) (i) the aggregate Principal Amount Outstanding of the Notes converted into sterling at the Exchange Rate and (ii) the funds available to the Issuer pursuant to the applicable Revenue Priority of Payments or Post Enforcement Priority of Payments (each as defined in the Master Definitions Schedule) to pay the amount so payable on the Termination Date; and the Currency Swap Counterparty will pay an amount in euro equal to the Issuer Final Exchange Amount converted into euro at the Exchange Rate.

In the event that (a) where the Currency Swap Counterparty is rated by Fitch, the short-term, unsecured, unsubordinated, unguaranteed rating of the Currency Swap Counterparty falls below "F1" as rated by Fitch or the long-term, unsecured, unsubordinated, unguaranteed rating of the Currency Swap Counterparty falls below "A" as rated by Fitch or the Currency Swap Counterparty ceases to be rated by Fitch, or (b) where the Currency Swap Counterparty is not rated by Fitch, the Currency Swap

Counterparty is notified by Fitch that Fitch's internal credit view of the Currency Swap Counterparty has fallen below "F1" (short-term) or "A" (long-term), then the Currency 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 "F1" by Fitch and a long-term, unsecured, unsubordinated, unguaranteed rating of at least "A" by Fitch to enter into an agreement with the Issuer on the same terms as the Currency Swap Agreement, or (ii) procure a party with a short-term, unsecured, unsubordinated, unguaranteed rating of at least "F1" by Fitch and a long-term, unsecured, unsubordinated, unguaranteed rating of at least "A" by Fitch to be a guarantor of the obligations of the Currency Swap Counterparty under the Currency Swap Agreement; and/or
- (b) provide collateral support for its obligations under the Currency Swap Agreement to such extent as Fitch 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 Currency Swap Counterparty or a suitably rated guarantor is appointed or Fitch has confirmed in writing that Fitch's internal credit view of the Currency Swap Counterparty is at least as high as "F1" (short-term) and "A" (long-term); and/or
- (c) take such other action as may be agreed with Fitch to avoid a downgrade of the then prevailing ratings on the Notes.

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

In the event that (a) where the Currency Swap Counterparty is rated by Fitch, in the event that the long-term, unsecured, unsubordinated, unguaranteed rating of the Currency Swap Counterparty falls below "BBB+" by Fitch, or the short-term, unsecured, unsubordinated, unguaranteed rating of the Currency Swap Counterparty falls below "F2" by Fitch, or (b) where the Currency Swap Counterparty is not rated by Fitch, the Currency Swap Counterparty is notified by Fitch that Fitch's internal credit view of the Currency Swap Counterparty has fallen below "BBB+" (long-term) or "F2" (short-term), then the Currency Swap Counterparty will, at its own cost and expense, immediately transfer all of its rights and obligations with respect to the Currency Swap Agreement to a replacement party whose long-term, unsecured and unsubordinated debt obligations are rated at least as high as "A" by Fitch and whose short-term, unsecured and unsubordinated debt obligations are rated at least as high as "F1" by Fitch.

In this section,

"Determination Period" means a period from and including one Determination Date to (but excluding) the next Determination Date;

"Exchange Rate" means the sterling:euro rate of exchange specified in the Currency Swap Agreement;

"Relevant Margin" has the meaning given to it in Condition 4(c) of the terms and conditions of the Notes.

USE OF PROCEEDS

The gross proceeds of the issue of the Notes are expected to amount to €2,360,000,000 and will be applied in the purchase of the Mortgages in the Completion Mortgage Pool on the Issue Date. The purchase of Mortgages in the Completion Mortgage Pool on the Issue Date will also be funded from the drawing, under the Subordinated Loan, of Tranche C thereof.

The total expenses of the issue of the Notes (estimated not to exceed approximately £146,627) and the funding for the Reserve Account to £5,261,250 will be met, on the Issue Date, by the Issuer from the drawing, under the Subordinated Loan, of Tranches A and B thereof, respectively.

THE ISSUER

Introduction

The Issuer was established as a special purpose vehicle for the purposes of issuing asset backed securities. The Issuer was incorporated and registered in England and Wales with registered number 6615313 under the Companies Act 1985 with limited liability as a public limited company on 10 June 2008. 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 3 Limited (the "**Parent**") and one share by ATC Corporate Services (UK) Limited (the "**Share Trustee**") on trust for the Parent. The Issuer has no subsidiaries. Corporate services are provided to the Issuer by ATC Corporate Services (UK) Limited. The Issuer, since 10 June 2008, has not commenced operations and has not published any statutory or other accounts.

Directors

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

Name	Address	Principal Activities
ATC Corporate Services (UK) Limited	10 New Street London EC2M 4TP	Corporate Director and Secretary
James Fairrie	c/o ATC Corporate Services (UK) Limited 10 New Street London EC2M 4TP	Director
Paul Winship	c/o ATC Corporate Services (UK) Limited 10 New Street London EC2M 4TP	Director

The Secretary of the Issuer is ATC Corporate Services (UK) Limited.

The registered office of the Issuer is c/o ATC Corporate Services (UK) Limited, 10 New Street, London EC2M 4TP, telephone +44 (020) 7398 4300.

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

Name	Address	Principal Activities
ATC Corporate Services (UK) Limited	10 New Street London EC2M 4TP	Corporate Director and Secretary
James Fairrie	c/o ATC Corporate Services (UK) Limited 10 New Street London EC2M 4TP	Director
Paul Winship	c/o ATC Corporate Services (UK) Limited 10 New Street London EC2M 4TP	Director

Activities

On the Issue Date, the Issuer will acquire from CHL a portfolio of Mortgages originated by CHL. Such acquisition will be financed by the proceeds of the issue of the Notes and by Tranche C of the Subordinated Loan. 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 has lodged an application to become registered under the Data Protection Act 1998.

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.

English company law, combined with the holding structure of the Issuer, covenants made by the Issuer in the Transaction Documents and the role of the Trustee are together intended to prevent any abuse of control of the Issuer.

CAPITALISATION STATEMENT

The following table shows the capitalisation of the Issuer as at 18 August 2008, adjusted for the issue of the Notes:

<i>Share Capital</i>	(£)
Authorised	
50,000 Ordinary Shares of £1 each	<u>50,000</u>
Issued	
49,998 Ordinary Shares of £1 each, 25p paid	<u>12,499.50</u>
2 Ordinary Shares of £1 each, fully paid	<u>2.00</u>
 <i>Borrowings</i>	
Mortgage Backed Floating Rate Notes Due August 2045	<u>1,841,448,190</u>
 Subordinated Loan	<u>268,459,687</u>

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.

THE ORIGINATOR'S GROUP

Capital Home Loans Limited

CHL is a limited company incorporated in England and Wales on 6 October 1987, under the Companies Act 1985 and 1989. CHL began trading on 2 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 Société Generale. Société Generale's 51 per cent. holding in CHL was later purchased by CFF on 23 October 1992. CHL was acquired from CFF by a predecessor to IL&P on 22 October 1996. CHL is engaged in the business of originating, purchasing and selling (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 2005. CHL is one of only two lenders in the United Kingdom to win the prestigious Five Star Award six 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 31 December 2007 was £18,200,000 before tax on new business revenues of £2.2 billion. At the year end, mortgage advances were £5.8 billion of which £4.18 billion of mortgages had been securitised as at 31 December 2007.

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 had a 20.8 market share of residential mortgages in Ireland in 2007. The IL&P Group's life and pensions business, Irish Life, had a domestic market share of approximately 30% of new business in 2007.

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 Fitch 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 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 "*Reserve Account GIC Provider*").

THE CURRENCY SWAP COUNTERPARTY

IL&P has agreed to enter into the Currency Swap Agreement with the Issuer.

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 head office at 1 Churchill Place, London, E14 5HP. 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 "**Group**") is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of the Group and one of the largest financial services companies in the world by market capitalisation.

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

Based on the Group's unaudited financial information for the period ended 30 June 2008, the Group had total assets of £1,365,752 million (June 2007: £1,158,539 million), total net loans and advances¹ of £449,981 million (June 2007: £364,434 million), total deposits² of £409,491 million (June 2007: £380,079 million), and total shareholders' equity of £32,627 million (June 2007: £28,789 million) (including minority interests of £1,826 million (June 2007: £1,810 million)). The profit before tax of the Group for the period ended 30 June 2008 was £2,784 million (June 2007: £4,128 million) after impairment charges on loans and advances and other credit provisions of £2,448 million (June 2007: £959 million). The financial information in this paragraph is extracted from the unaudited Results Announcement of the Group for the half year ended 30 June 2008.

¹ Total net loans and advances include balances relating to both bank and customer accounts.

² Total deposits include deposits from bank and customer accounts.

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 16 July 2008 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 and VRM 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:

- (a) the Initial Purchase Price of an amount equal to:
 - (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 monies 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**"); and
- (b) 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 up 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 "*Overview of the Transaction – 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 only be originated 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 "*Overview of the Transaction – The Mortgages*" but not non-Buy to Let 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 the outstanding Notes at their Principal Amount Outstanding and to make all other payments having priority thereto, CHL must obtain the consent of all Noteholders prior to the exercise of this option.

Lending Criteria

Buy to Let Mortgages

The following lending criteria (the "**Lending Criteria**") will have been applied subject to minor changes made prior to the date of this Prospectus and, in the case of Substitute Mortgages, minor changes to the Lending Criteria made thereafter in respect of the Buy to Let Mortgages comprising the Provisional Mortgage Pool and will apply in respect of all Substitute Mortgages, Further Advances and Redraws for the Mortgages.

Security

- (a) Each Loan under the Mortgage Sale Agreement (a "**Loan**") must be secured by a first legal mortgage (a "**Mortgage**") over a freehold or long leasehold residential Property (in the case of leasehold, the remaining term of the leasehold title must be 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**"). CHL will not have created more than one Mortgage over any Property. Property used as security for a Loan in the pool does not secure another Loan in the pool as a first ranking charge.
- (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 and Loans secured over such Properties are thus not included in the pool:
 - (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, continuing structural movement, or movement that requires monitoring, provided that the valuer does not make any detrimental comments in respect of the existence of tie bars;
 - (viii) multi-tenanted (presently or recently) Properties divided into bed sits with individual kitchen / kitchenette facilities;
 - (ix) steel-framed Properties (with the exception of new build flats steel frames);
 - (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, including but not limited to road widening;
 - (xiv) Properties where a third party retains an interest;
 - (xv) Properties deemed by the valuer to not be capable of being readily sold;
 - (xvi) Properties used for commercial purposes;
 - (xvii) freehold coach houses unless they are on a long term lease that covers the flat and garage related to that flat;
 - (xviii) Properties with a CHL panel valuation figure of less than £50,000;
 - (xix) Properties with more than six bedrooms;
 - (xx) Properties above food outlets;
 - (xxi) Properties with any dry rot;
 - (xxii) "Monkey Puzzle" style houses. These are mid-terrace houses where there are two houses interlocked with approximately 50 to 60 per cent. flying freehold;
 - (xxiii) Properties with an element of flying freehold; and
 - (xxiv) pre-1960 Timber Framed properties.
- (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 buildings insurance over the Property (a "**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) Each Corporate Borrower's repayment of the Mortgage will be guaranteed by personal guarantees from (i) each of the individual directors of the Corporate Borrower and (ii) to the extent that they are not directors, each of the shareholders who each own:
- (i) in respect of Loans advanced prior to 7 October 2003, 25 per cent. or more, or
 - (ii) in respect of Loans advanced on or after 7 October 2003, 20 per cent. or more,

of the issued shares of such Corporate Borrower. The ability of any Guarantor to service the Mortgage is determined on the same basis as if the Guarantor had been a Borrower. In the case of multiple guarantees in support of a Corporate Borrower's obligations under a Loan, such guarantees shall be joint and several as among the Guarantors.

- (g) Cross charges must be in place for Borrowers who have more than one Property with a CHL mortgage. Such cross charges will entitle CHL to refuse to release security over one Property if a Borrower fails to comply with its obligations under a Loan secured over another of its Properties. However, default under one Loan does not result in cross default under other Loans to the same Borrower.
- (h) 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.
- (i) Properties must be insured in accordance with a surveyor's recommended reinstatement valuation and the building insurance must recognise tenanted use.
- (j) Life assurance is not mandatory.

Borrowers who are not Corporate Borrowers

Borrowers who are not Corporate Borrowers must be a minimum of 18 (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 such Borrower's ability to repay the Mortgage can be proven at the time of the maturity of the Mortgage.

Loan Amount

The Mortgage at the time of completion must be at least £15,001 for Mortgages originated before 1 May 1998 and £25,001 for Mortgages originated thereafter. The Mortgage is not subject to any pre-set maximum, however no Mortgage within the Provisional Mortgage Pool currently exceeds £950,000 as at the Cut-Off Date.

Loan to value

- (a) The loan to value ratio (the "LTV") in respect of a Loan 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 and interest due in respect of the month which a Mortgage completes 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) 90 per cent. for advances secured on an individual Property up to a maximum lend of £750,000;
 - (ii) 85 per cent. for advances secured on an individual Property up to a maximum lend of £1 million; and
 - (iii) 80 per cent. for advances secured on an individual Property up to a maximum lend of £3 million.
- (d) where a Loan takes the aggregate value of a Borrower's Loans from CHL from under £3,000,000 to in excess of £3,000,000 the Loan will be restricted to an LTV of 85% regardless of the aggregate portfolio LTV.

Loan to Total Lend

- (a) The loan to total lend ratio (the "LTL") in respect of a Loan 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 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) 90 per cent. of the total aggregate valuation of all properties owned by the Borrower up to £3,000,000 lending;
 - (ii) 85 per cent. of the total aggregate valuation of all properties owned by the Borrower more than £3,000,000 and up to £5,000,000 lending; and
 - (iii) 75 per cent. of the total aggregate valuation of all properties owned by the Borrower (on a status basis) in excess of £5,000,000 lending (prior to March 2005, 85% to maximum lend of £850,000).

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 (5) and thirty-five (35) years.
- (b) For Interest Only Mortgages, the Mortgage's initial term must be between five (5) and thirty-five (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 26 June 2043.

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 Buy to Let 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;
- (d) the Mortgage must not have experienced arrears greater than 1 month at any time in the previous twelve months;
- (e) no Loans are in arrears as of the Issue Date.

Credit History of Borrowers and Guarantors

- (a) The credit history of the Guarantor(s) and/or the Borrowers will have been assessed with the aid of one or more of the following:
 - (i) a search supplied by credit reference agency;
 - (ii) accounts or accountant's certificate if a loan application on full status basis; and
 - (iii) references from current lenders or twelve months proof of payment evidenced by bank statements or mortgage statements if a system reference is not showing on Clarus.

- (b) Where past County Court Judgments relating to a Borrower or a Guarantor have been revealed by a credit reference search, such County Court Judgments must have been satisfied for at least two years before the mortgage is granted.
- (c) The Guarantor or Guarantors, and in relation to Loans originated after November 2004, the Borrower, shall have had no more than two County Court Judgments totalling no more than £500.
- (d) If a director of a Corporate Borrower has adverse credit, an advance will only be made if the Corporate Borrower has been set up in the last 12 months and the director with adverse credit has been removed.
- (e) If CHL becomes aware of issues regarding the potential insolvency of a Corporate Borrower, they may request the accountant of the Corporate Borrower to confirm that the Corporate Borrower is solvent.
- (f) The application form for Corporate Borrowers must state *inter alia*:
 - (i) the identity of shareholders of the Corporate Borrower, including (a) the names of the shareholders who each own 20% or more of the issued share capital of the Corporate Borrower; and (b) the names of all other shareholders; and
 - (ii) the names of the directors.

Legal Requirements

Each Corporate Borrower must be prepared to provide:

- (a) personal guarantees for the repayment of the Mortgage from (i) each of the individual directors of the Corporate Borrower and (ii) to the extent that they are not directors, each of the shareholders who each own 25% or more of the issued share capital of the Corporate Borrower (in respect of Loans advanced prior to 7 October 2003) or who each own 20% or more of the issued share capital of the Corporate Borrower (in respect of Loans advanced on or after 7 October 2003), which guarantees (in the case of multiple Guarantors) shall be joint and several as among such Guarantors;
- (b) a copy of its memorandum and articles of association;
- (c) relevant board minutes, and if required, shareholders' resolutions, including those authorising the purchase of the Property, the entering into of the Loan Agreement and the granting of the Mortgage;
- (d) certificate of incorporation;
- (e) confirmation of registered office; and
- (f) full list of shareholders and directors.

Income and Rental Income

- (a) The income of a Borrower or a Guarantor (as the case may be) is determined by reference to the application form and supporting documentation, where appropriate, and may consist of the following:
 - (i) a Guarantor's salary plus any guaranteed overtime and 75 per cent. of any proven but unguaranteed regular overtime or bonus payments (as evidenced by the director's or other guarantor's previous two years' P60s), or net profits plus any additional income confirmed by the accountant for self-employed directors or other guarantors (directors or other guarantors are considered as self-employed if they hold at least 25 per cent. of the issued share capital of a company);
 - (ii) investments and rental income; or
 - (iii) any other income approved by an authorised officer of CHL.

- (b) Sustainable gross monthly rental income (as assessed by a valuer from the originator's panel of approved valuers) of the Borrower must be at least 115 per cent. of the gross monthly interest charge.

Standard Mortgages

The following 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 "*Overview of the Transaction*" - *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 over a freehold or long leasehold residential Property (in the case of leasehold, the remaining term of the leasehold title must be 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).
- (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 (with the exception of new build flats steel frames);
 - (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;
 - (xvi) Properties used from 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)
 - (xvii) freehold coach house unless they are on a long term lease that covers the flat and garage related to that flat;
 - (xviii) Properties with a CHL panel valuation figure of less than £50,000;
 - (xix) Properties with more than six bedrooms;
 - (xx) Properties deemed by the valuer to represent potential resale difficulties;
 - (xxi) Properties with any dry rot;
 - (xxii) "Monkey Puzzle" style houses. These are mid-terrace houses where there are two houses interlocked with approximately 50 to 60 per cent. flying freehold; and
 - (xxiii) Properties with an element of flying freehold.
- (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 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 £945,756.02 as at the Cut-Off Date.

Loan to value

- (a) 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 premia in respect of a Buildings Policy 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 £360,000;

- (ii) 90 per cent, for advances secured by Property valued at more than £360,000 and up to £500,000;
 - (iii) 85 per cent, for advances secured by Property valued at more than £500,000 and up to £600,000;
 - (iv) 80 per cent. for advances secured by Property valued at more than £600,000 and up to £750,000;
 - (v) advances in excess of £500,000 are considered on an individual basis;
 - (vi) Self-Certified Borrowers are subject to a maximum Mortgage of £600,000 regardless of the value of the Property;
 - (vii) first time buyers are subject to a maximum Mortgage of £300,000 regardless of the value of the Property; and
- (d) 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 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 26 June 2043.

Borrowers

- (a) Borrowers must be a minimum of 18 (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 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.
- (d) Where past County Court Judgments relating to a Borrower have been revealed by the credit reference search the County Court Judgements 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' P60), 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 20 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 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 at 31 October, 2004, CHL will apply the following approach only to regulated mortgages as all requests for Further Advances made on unregulated mortgages will require CHL to redeem the original Loan and effectively remortgage the Property through a regulated mortgage. Further Advances to regulated mortgages 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.
- (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 or 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 July 2006. 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 performance of the Mortgages acquired by the Issuer will be similar.

(1) Historical Arrears by Balance (unaudited)

	<3 mths portfolio by book value ¹ (balance) (%)	3 - 6 mths portfolio by book value (balance) (%)	6+ mths - portfolio by book value (balance) (%)	Total book value (£)	Capital amount as % of total book value (%)
Jul 06.....	0.87	0.41	0.40	4,003,199,748	1.68
Aug 06.....	0.91	0.40	0.41	4,070,153,617	1.72
Sep 06.....	0.84	0.37	0.44	4,141,039,997	1.65
Oct 06.....	0.82	0.35	0.41	4,227,067,534	1.59
Nov 06.....	0.77	0.34	0.45	4,336,620,552	1.56
Dec 06.....	0.99	0.36	0.43	4,436,080,605	1.78
Jan 07.....	0.90	0.33	0.41	4,550,902,152	1.65
Feb 07.....	0.96	0.31	0.46	4,660,210,016	1.73
Mar 07.....	0.99	0.36	0.43	4,786,451,592	1.78
Apr 07.....	1.15	0.33	0.39	4,894,487,416	1.87
May 07.....	1.07	0.37	0.38	5,020,417,446	1.83
Jun 07.....	0.98	0.35	0.38	5,120,517,598	1.72
Jul 07.....	1.00	0.31	0.38	5,227,939,191	1.69
Aug 07.....	0.96	0.35	0.39	5,356,392,106	1.70
Sep 07.....	1.05	0.30	0.36	5,454,113,145	1.71
Oct 07.....	0.88	0.35	0.38	5,563,287,271	1.60
Nov 07.....	0.98	0.33	0.38	5,665,444,408	1.69
Dec 07.....	1.16	0.36	0.35	5,791,357,185	1.87
Jan 08.....	1.18	0.36	0.36	5,906,723,619	1.90
Feb 08.....	1.02	0.44	0.40	6,042,743,633	1.86
Mar 08.....	1.08	0.48	0.44	6,162,075,975	2.00
Apr 08.....	1.13	0.47	0.50	6,322,882,427	2.10
Mar 08.....	1.30	0.51	0.55	6,477,922,515	2.36
Jun 08.....	1.26	0.51	0.65	6,534,687,212	2.42
Jul 08.....	1.22	0.67	0.64	6,595,276,872	2.53

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

(2) Historical Arrears by Amount (unaudited)

	Book balance (£)	Arrears amount => 1 month (£)	% of book balance => 1 month (%)	Arrears amount => 3 months (£)	% of book balance => 3 months (%)
July 06.....	4,003,199,748	1,574,852	0.040	1,239,110	0.03095
Aug 06.....	4,070,153,617	1,599,620	0.040	1,267,277	0.03114
Sep 06.....	4,141,039,997	1,678,977	0.040	1,343,463	0.032
Oct 06.....	4,227,067,534	1,676,916	0.040	1,338,025	0.032
Nov 06.....	4,336,620,552	1,686,546	0.039	1,344,150	0.031
Dec 06.....	4,436,080,605	1,808,633	0.041	1,390,190	0.031
Jan 07.....	4,550,902,152	1,856,432	0.041	1,440,549	0.032
Feb 07.....	4,660,210,016	1,956,129	0.042	1,499,299	0.032
Mar 07.....	4,786,451,592	2,028,740	0.042	1,569,639	0.033
Apr 07.....	4,894,487,416	2,133,882	0.044	1,566,832	0.032
May 07.....	5,020,417,446	2,131,204	0.042	1,592,017	0.032
Jun 07.....	5,120,517,598	2,191,056	0.043	1,671,770	0.033
July 07.....	5,227,939,191	2,182,452	0.042	1,639,614	0.031
Aug 07.....	5,356,392,106	2,325,128	0.043	1,793,844	0.033
Sep 07.....	5,454,113,145	2,234,380	0.041	1,620,039	0.030
Oct 07.....	5,563,287,271	2,279,774	0.041	1,726,984	0.031
Nov 07.....	5,665,444,408	2,290,258	0.040	1,713,714	0.030
Dec 07.....	5,791,357,185	2,428,579	0.042	1,749,404	0.030
Jan 08.....	5,906,723,619	2,546,983	0.043	1,824,908	0.031
Feb 08.....	6,042,743,633	2,643,968	0.044	2,036,635	0.034
Mar 08.....	6,162,075,975	2,888,547	0.047	2,241,325	0.036
Apr 08.....	6,322,882,427	3,128,251	0.049	2,440,192	0.039
Mar 08.....	6,477,922,515	3,422,976	0.053	2,623,789	0.041
Jun 08.....	6,534,687,212	3,691,908	0.056	2,889,455	0.044
Jul 08.....	6,595,276,872	3,976,289	0.060	3,223,750	0.049

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 15 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 16 July 2008.³

1. Key Data

Current Balance (£)	Max Current Balance (£)	Number of Mortgages	Average Current Balance (£)	Weighted Average Original LTV (%)	Weighted Average Current LTV (%)	Weighted Average Remaining Term (years)	Weighted Average Seasoning (Months)
2,118,150,759	945,756.02	14,985	141,351.40	78.89	80.65	19.53]	11.63

2. Current LTV⁴

Current LTV (%)	Current Balance (£)	(%)	No	(%)
More than 0 and less than or equal to 50.....	51,403,993	2.43%	695	4.64%
More than 50 and less than or equal to 55.....	28,513,168	1.36%	251	1.68%
More than 55 and less than or equal to 60.....	43,469,842	2.05%	334	2.23%
More than 60 and less than or equal to 65.....	64,180,476	3.03%	473	3.16%
More than 65 and less than or equal to 70.....	108,701,980	5.13%	749	5.00%
More than 70 and less than or equal to 75.....	161,988,580	7.65%	1,046	6.98%
More than 75 and less than or equal to 78.....	154,616,969	7.30%	991	6.61%
More than 78 but less than or equal to 81.....	152,011,791	7.18	1,071	7.15%
More than 81 and less than or equal to 84.....	221,266,484	10.45	1,485	9.91%
More than 84 and less than or equal to 87.....	667,073,575	31.49	4,590	30.63%
More than 87 and less than or equal to 90.....	172,125,359	8.13	1,248	8.33%
More than 90 and less than or equal to 95.....	292,798,543	13.82	2,052	13.69%
Total.....	2,118,150,759	100.00%	14,985	100.00%
Weighted Average LTV.....	80.65%			
Maximum LTV.....	94.98%			
Minimum LTV.....	1.65%			

3. Original LTV

Original LTV (%)	Current Balance (£)	(%)	No	(%)
More than 0 and less than or equal to 50.....	65,916,668	3.11%	770	5.14%
More than 50 and less than or equal to 55.....	30,451,562	1.44%	267	1.78%
More than 55 and less than or equal to 60.....	49,632,007	2.34%	365	2.44%
More than 60 and less than or equal to 65.....	78,650,874	3.71%	571	3.81%
More than 65 and less than or equal to 70.....	135,110,595	6.38%	870	5.81%
More than 70 and less than or equal to 75.....	221,032,776	10.44%	1,403	9.36%
More than 75 and less than or equal to 78.....	117,514,402	5.55%	809	5.40%
More than 78 and less than or equal to 81.....	208,562,779	9.85%	1,421	9.48%
More than 81 and less than or equal to 84.....	192,922,009	9.11%	1,291	8.62%
More than 84 and less than or equal to 87.....	703,002,831	33.19%	4,984	33.26%

³ The balances referred to are all amounts outstanding under each Mortgage as at 16 July 2008 which includes (a) fees previously debited to a Borrower's amount and (b) the monthly amount of interest and any principal due to be collected in respect of each Mortgage on 16 July 2008.

⁴ LTV means in respect of a mortgagee, the ratio of the amount of the outstanding balance, excluding arrears, as at 16 July 2008 in respect of such mortgagee 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 Prospectus. 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").

More than 87 and less than or equal to 90.....	306,768,574	14.48%	2,158	14.40%
More than 90 and less than or equal to 95.....	8,585,680	0.41%	76	0.51%
Total		100.00%		100.00%
Weighted Average Original LTV.....	78.89%			
Maximum Original LTV	95.00%			
Minimum Original LTV.....	4.34%			

4. Current Balance

Range of Current Balance (£)	Current Balance (£)	(%)	No	(%)
More than £k 0 and less than or equal to £k 50	21,779,424	1.03%	629	4.20%
More than £k 50 and less than or equal to £k 100	409,038,230	19.31%	5,259	35.10%
More than £k 100 and less than or equal to £k 150	538,056,608	25.40%	4,449	29.69%
More than £k 150 and less than or equal to £k 200	354,631,634	16.74%	2,065	13.78%
More than £k 200 and less than or equal to £k 250	253,478,177	11.97%	1,146	7.65%
More than £k 250 and less than or equal to £k 300	149,021,845	7.04%	549	3.66%
More than £k 300 and less than or equal to £k 350	93,759,854	4.43%	290	1.94%
More than £k 350 and less than or equal to £k 400	65,043,796	3.07%	175	1.17%
More than £k 400 and less than or equal to £k 450	51,691,235	2.44%	123	0.82%
More than £k 450 and less than or equal to £k 500	33,394,154	1.58%	71	0.47%
More than £k 500 and less than or equal to £k 550	37,149,941	1.11%	41	0.27%
More than £k 550 and less than or equal to £k 600	23,459,687	0.85%	29	0.19%
More than £k 600 and less than or equal to £k 650	17,946,826	0.85%	29	0.19%
More than £k 650 and less than or equal to £k 700	10,158,585	0.48%	15	0.10%
More than £k 700 and less than or equal to £k 750	11,487,529	0.54%	16	0.11%
More than £k 750 and less than or equal to £k 800	8,466,525	0.40%	11	0.07%
More than £k 800 and less than or equal to £k 850	21,417,933	1.01%	26	0.17%
More than £k 850 and less than or equal to £k 900	7,012,538	0.33%	8	0.05%
More than £k 900 and less than or equal to £k 950	11,156,239	0.53%	12	0.08%
Total	2,118,150,759	100.00%	14,985	100.00%
Maximum Balance.....	945,756			
Minimum Balance	1,325			
Average Balance.....	141,351			

5. Geographic Distribution

Region	Current Balance (£)	(%)	No	(%)
East Anglia.....	68,406,968	3.23%	501	3.34%
East Midlands	58,698,179	4.05%	773	5.16%
Greater London.....	509,065,231	24.03%	1,992	13.29%
North	64,760,448	3.06%	709	4.73%
North West.....	210,017,495	9.92%	2,008	13.40%
Northern Ireland.....	153,888,432	7.27%	1,890	12.61%
Scotland	518,999	0.02%	9	0.06%
South East.....	578,302,160	27.30%	3,394	22.65%
South West.....	153,540,024	7.25%	995	6.64%
Wales	55,878,846	2.64%	495	3.30%
West Midlands.....	92,290,180	4.36%	830	5.54%
Yorks & Humber	145,783,797	6.88%	1,389	9.27%
Total	2,118,150,759	100.00%	14,985	100.00%

6. Flexible

Type	(£)	(%)	No	(%)
Flexible.....	502,657,380	23.73%	3,963	26.45%
Non flexible.....	1,615,493,378	76.27%	11,022	73.55%
Total	2,118,150,759	100.00%	14,985	100.00%

7. Occupancy Type

Occupancy Type	(£)	(%)	No	(%)
Owner-occupied.....	65,915,396	3.11%	512	3.42%

Occupancy Type	(£)	(%)	No	(%)
Non Owner Occupier	2,052,235,362	96.89%	14,473	96.58%
Total	2,118,150,759	100.00%	14,985	100.00%

8. Repayment Method

Type of Repayment Plan	Current Balance (£)	(%)	No	(%)
Repayment	111,000,959	5.24%	1,209	8.07%
Interest Only.....	2,003,486,253	94.59%	13,751	91.77%
Pat & Part	3,663,547	0.17%	25	0.17%
Total	2,118,150,759	100.00%	14,985	100.00%

9. Current Interest Rate Type

Mortgage Loan Products	Current Balance (£)	(%)	No	(%)
Fixed.....	1,507,961,948	71.19%	10,089	67.33%
Standard Variable.....	343,183,608	16.20%	2,977	19.87%
Discounted	267,005,203	12.61%	1,919	12.81%
Total	2,118,150,759	100.00%	14,985	100.00%

10. Current Fixed Interest Rates

Fixed Rate Mortgages	Current Balance (£)	(%)	No	(%)
More than 4.50% and less than or equal to 4.75%	109,257,484	7.25%	913	9.05%
More than 4.75% and less than or equal to 5.00%	372,989,908	24.73%	2,737	27.13%
More than 5.00% and less than or equal to 5.25%	-	0.00%	-	0.00%
More than 5.25% and less than or equal to 5.50%	330,744,209	21.93%	2,247	22.27%
More than 5.50% and less than or equal to 5.75%	135,497,908	8.99%	940	9.32%
More than 5.75% and less than or equal to 6.00%	476,750,401	31.62%	2,754	27.30%
More than 6.00% and less than or equal to 6.25%	16,732,631	1.11%	88	0.87%
More than 6.25% and less than or equal to 6.50%	65,989,407	4.38%	410	4.06%
Total	1,507,961,948	100.00%	10,089	100.00%
Maximum Interest Rate	6.35%			
Minimum Interest Rate	4.74%			
Weighted Average Interest Rate	5.44%			

11. Arrears Split

There are no Loans in arrears.

12. Purpose of Loan

Purpose of Loan	Current Balance (£)	(%)	No	(%)
Residential Purchase	1,027,981,422	48.53%	8,009	53.45%
Residential Remortgage	1,090,169,337	51.47%	6,976	46.55%
Total	2,118,150,759	100.00%	14,985	100.00%

13. Year in Which Fixed Rate Period Ends

Year	Current Balance (£)	(%)	No	(%)
2008	328,486,781	21.78%	2,495	24.73%
2009	432,741,651	28.70%	2,986	29.60%
2010	721,570,693	47.85%	4,424	43.85%
2011	5,065,868	0.34%	48	0.48%
2012	11,714,834	0.78%	86	0.85%

<u>Year</u>	<u>Current Balance (£)</u>	<u>(%)</u>	<u>No</u>	<u>(%)</u>
2013	8,382,121	0.56%	50	0.50%
Total	1,507,961,948	100.00%	10,089	100.00%

14. Seasoning (Months)

<u>Months Since Origination</u>	<u>Current Balance (£)</u>	<u>(%)</u>	<u>No</u>	<u>(%)</u>
More than 0 and less than or equal to 3	375,232,113	17.72%	2,411	16.09%
More than 3 and less than or equal to 6	487,970,652	23.04%	2,990	19.95%
More than 6 and less than or equal to 9	450,082,638	21.25%	2,914	19.45%
More than 9 and less than or equal to 12	150,014,342	7.08%	1,025	6.84%
More than 12 and less than or equal to 18	179,175,184	8.46%	1,260	8.41%
More than 18 and less than or equal to 24	155,832,689	7.36%	1,181	7.88%
More than 24 and less than or equal to 30	140,784,458	6.65%	1,258	8.40%
More than 30 and less than or equal to 36	122,870,094	5.80%	1,092	7.29%
More than 36 and less than or equal to 42	21,807,097	1.03%	244	1.63%
More than 42	34,381,492	1.62%	610	4.07%
Total	2,118,150,759	100.00%	14,985	100.00%
Maximum Seasoning	196.0 months			
Minimum Seasoning	0.53 months			
Weighted Average Seasoning	11.63 months			

15. Remaining term to maturity (years)

<u>Years to Maturity</u>	<u>Current Balance (£)</u>	<u>(%)</u>	<u>No</u>	<u>(%)</u>
More than 0 and less than or equal to 5	15,942,677	0.75%	138	0.92%
More than 5 and less than or equal to 10	162,500,462	7.67%	1,204	8.03%
More than 10 and less than or equal to 15	320,671,386	15.14%	2,348	15.67%
More than 15 and less than or equal to 20	634,209,988	29.94%	4,495	30.00%
More than 20 and less than or equal to 25	961,140,356	45.38%	6,605	44.08%
More than 25 and less than or equal to 30	16,774,482	0.79%	124	0.83%
More than 30 and less than or equal to 35	6,911,408	0.33%	71	0.47%
Total	2,118,150,759	100.00%	14,985	100.00%
Maximum Seasoning	34.95 years			
Minimum Seasoning	0.02 years			
Weighted Average Seasoning	19.53 years			

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 *inter alia* in its capacity as Seller and in such capacity will 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 created by the Issuer 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 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; and/or (ii) an Enforcement Notice has been given; and/or (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; and/or (v) the Issuer and/or the Trustee are notified by Fitch that Fitch's internal credit view of IL&P has fallen below "BBB" (long-term); and/or (vi) IL&P's appointment as Standby Servicer is terminated. 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) subject to completion of any registration which may be pending at the relevant Land Registry each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage over 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) At the time of completion, the relevant Property must have been either insured under a 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;
- (v) where the builder of a Property has granted a discount or incentive to the Borrower in relation to the purchase price of the Property (including, without limitation, any stamp duty paid on behalf of the Borrower, provision of white goods or furniture to the borrower or mortgage repayments made on behalf of the borrower), CHL has reduced the panel valuation for such Property by an amount equivalent to such discount or incentive;
- (vi) 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;
- (vii) prior to the making of an advance to a Borrower, all investigations, searches and other action which a Prudent Mortgage Lender would normally make when advancing money to an individual or a limited company on the security of Property in England or Wales were taken by CHL or on its behalf in respect of each Mortgage;
- (viii) 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;
- (ix) no payment of principal or interest in respect of a Loan was in arrears as at 18 August 2008. No Substitute Mortgage will be in arrears on the Determination Date immediately prior to the date it is transferred to the Issuer;

- (x) 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;
- (xi) in relation to each Mortgage:
 - (a) the relevant tenancy of a Property 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 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;
- (xii) 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;
- (xiii) no material term of any Mortgage would not be binding on the relevant Borrower as a result of a conflict with the Regulations;
- (xiv) no Loan to a Borrower and its related Mortgage has an outstanding balance less than £15,001 for Loans originated before 1 May 1998 or less than £25,000 for Loans originated thereafter, or greater than £950,000;
- (xv) no Loan to a Borrower was completed after 30 June 2008;
- (xvi) no Loan has a current LTV of more than 95 per cent; and
- (xvii) all Borrowers have made at least one monthly payment in full.

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, *inter alia*:

- (a) setting the interest rates on the Standard Variable Loans 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 any life policies and in other collateral security related to the Mortgages; and
- (g) dealing with conversion of Mortgages and the making of Further Advances and Redraws (see further "*Conversion of Mortgages*", "*Further Advances*" and "*Redraws*").

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 Revenue 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 Revenue 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 Revenue 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 relation 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 any 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

The Mortgage Administrator (on behalf of the Issuer) may only make Further Advances to Borrowers with 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.

The making by the Mortgage Administrator (on behalf of the Issuer) of Further Advances to Borrowers with existing 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(s) or Loan(s);
- (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 CCA, there will be compliance with the applicable provisions of the CCA relating to the regulated agreement;
- (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 Fitch has 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 which remains in effect has been given by the Trustee;
- (xi) the product of the weighted average foreclosure frequency of the Mortgage Pool ("WAFF") and the weighted average loss severity of the Mortgage Pool ("WALS"), each of which shall be at the AAA level as calculated in accordance with Fitch methodology, after such Further Advance is made does not exceed the product of the WALS and the WAFF as determined by Fitch with respect to the Provisional Mortgage Pool by more than 0.25 per cent.;
- (xii) immediately after the making of the proposed Further Advance, the Mortgage Pool shall have a weighted average margin that is greater than or equal to the weighted average margin as at the Issue Date;

- (xiii) immediately after the making of the proposed Further Advance, the weighted average LTV of the Mortgage Pool shall be no greater than the weighted average LTV of the Mortgage Pool as at the Issue Date plus 0.25 per cent;
- (xiv) sufficient Permitted Utilisation Amounts are available (and can be debited in accordance with Condition 5(b)) for the making of the proposed Further Advance;
- (xv) no Loan by the relevant Borrower is more than 30 days in arrears;
- (xvi) 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
- (xvii) 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, Fitch has notified in writing the Issuer that the making of such Further Advance will not cause the rating of the Notes to be adversely affected.

Redraws

Under the relevant mortgage terms, the Mortgage Administrator (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 the Mortgage Administrator on behalf of the Issuer. Where the Issuer does not have available funds for such purposes, pursuant to the Mortgage Sale Agreement the Originator shall repurchase such Mortgages.

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 CCA), there will be compliance with the applicable provisions of the CCA relating to the regulated agreements;
- (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) the Mortgage Administrator'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 which remains in effect has been given by the Trustee;
- (v) the product of the WAFF and the WALs, each of which shall be at the AAA level as calculated in accordance with Fitch methodology, after such Redraw is made does not exceed the product of the WALs and the WAFF as determined by Fitch with respect to the Provisional Mortgage Pool by more than 0.25 per cent.;
- (vi) immediately after the making of the proposed Redraw, the Mortgage Pool shall have a weighted average margin that is greater than or equal to the weighted average margin as at the Issue Date;
- (vii) immediately after the making of the proposed Redraw, the weighted average LTV of the Mortgage Pool shall be no greater than the weighted average LTV of the Mortgage Pool as at the Issue Date plus 0.25 per cent.;

- (viii) sufficient Permitted Utilisation Amounts are available (and can be debited in accordance with Condition 5(b)) for the making of the proposed Redraw;
- (ix) no Loan by the relevant Borrower is more than 30 days in arrears;
- (x) 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 Mortgages or Loan; and
- (xi) 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 its 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 a Repayment Mortgage, an Interest Only Mortgage, or a combination of 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, provided that Fitch has confirmed in writing that the introduction of such other type of Mortgage will not adversely affect the then current rating by Fitch of the Notes (a "**Converted Loan**"). The relevant conditions are, *inter alia*, that:

- (i) no Enforcement Notice which remains in effect at the date of the relevant conversion has been given by the Trustee;
- (ii) there will be compliance with the provisions of any applicable legislation (to the extent they apply);
- (iii) the Converted Loan 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 product of the weighted average foreclosure frequency WAFF and the WALs each of which shall be at the AAA level as calculated in accordance with Fitch methodology, after such conversion is made does not exceed the product of the WALs and the WAFF as determined by Fitch with respect to the Provisional Mortgage Pool by more than 0.25 per cent.;
- (vi) immediately after the making of the proposed conversion, the Mortgage Pool shall have a weighted average margin that is greater than or equal to the weighted average margin as at the Issue Date;
- (vii) immediately after the proposed conversion, the weighted average LTV of the Mortgage Pool shall be no greater than the weighted average LTV of the Mortgage Pool as at the Issue Date plus 0.25 per cent.;
- (viii) no Loan by the relevant Borrower is more than 30 days in arrears;
- (ix) 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;
- (x) the amount standing to the credit of the Reserve Ledger is greater than the Reserve Ledger Required Amount;
- (xi) the total balance of all Loans in the Mortgage Pool which are 90 days or more in arrears is less than or equal to 5% of the outstanding balance of all the Loans in the Mortgage Pool; and
- (xii) immediately after the proposed conversion, the principal amount of Loans which are not Flexible Mortgages that have been converted to Flexible Mortgages since the Closing Date shall be no greater than 10 per cent. of the principal amount of Flexible Mortgages on the Closing Date, save

that the 10 per cent. threshold may be increased from time to time upon Fitch confirming in writing that such increase will not adversely affect the then current rating by Fitch of the Notes.

Insurance Contracts

The Issuer and the Trustee will have the benefit of individual policies of insurance in respect of each mortgage to the extent of their respective interests in the Mortgages in the Mortgage Pool. Each of the individual policies of buildings insurance would have been effected with an insurer that is a member of the Association of British Insurers. Certain warranties will be given by CHL in relation to the various policies in the Mortgage Sale Agreement as described under "*The Mortgage Pool - 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.

Weighted average life refers to the average amount of time that will elapse from the date of issue of a security to the date of distribution to the investor of amounts distributed in net reduction of principal of such security (assuming no losses). The weighted average lives will be influenced by, inter alia, the actual rate of prepayment of the Loans in the Portfolio.

The model used in this Prospectus for the Mortgages represents an assumed constant per annum rate of prepayment (CPR) each month relative to the then outstanding principal balance of a pool of mortgages modelled based on representative lines. CPR does not purport to be either an historical description of the prepayment experience of any pool of mortgage loans or a prediction of the expected rate of prepayment of any mortgage loans, including the Mortgages to be included in the Provisional Mortgage Pool.

The following table was prepared based on the characteristics of the Loans included in the Provisional Mortgage Pool and the following main additional assumptions:

- (i) 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 August 2011 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;
- (ii) the Mortgages are subject to a constant annual rate of prepayment ("**CPR**") as shown in the table below;
- (iii) no Further Advances, Redraws or Payment Holidays are made;
- (iv) there are no delinquencies, or losses on the Mortgages;
- (v) the Issue Date is 18 August 2008 with Interest Payment Dates falling monthly commencing on 10 November 2008;
- (vi) no Enforcement Notice is delivered in relation to the Notes and no Event of Default occurs in relation to the Notes;
- (vii) the initial pool size of £2,118,150,759 matches the amortisation profile of the Provisional Mortgage Pool as at 16 July 2008;
- (viii) the Mortgage Pool characteristics regarding interest rates and interest are static over the life of the Notes; and
- (ix) there have been no breaches of the representations or warranties.

The yield to maturity of the Notes will depend upon a number of factors including those considerations set out in "*Risk Factors – Risks Relating to the Notes – Yield and Prepayment Considerations*" above.

Subject to these considerations and assumptions, an indication of the possible yield to maturity of the Notes is as set out in the tables below.

Average life Sensitivities

CPR (per cent.)	Average Life of the Notes (Years)
0	2.97
5	2.74
10	2.52
15	2.31
20	2.11
25	1.92
30	1.75

There is no assurance that redemption of the Notes will occur as described in assumption (i). 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 (ii) 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 €2,360,000,000 Mortgage Backed Floating Rate Notes due August 2045, which constitutes the "**Notes**") of Auburn Securities 7 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 18 August 2008 (the "**Issue Date**") and made between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression includes any further or other trustee of the Trust Deed) as trustee for, *inter alios*, 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, Citibank, N.A., London Branch as agent bank (the "**Agent Bank**" which expression includes any other agent bank appointed in respect of the Notes) and Citibank, N.A., London Branch 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 the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the Deed of Charge.

In the 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 alios*, the Issuer, the Trustee and the Principal Paying Agent.

Copies of the Trust Deed, the Agency Agreement, the Deed of Charge and the other Transaction Documents are available for inspection at the principal office for the time being of the Principal Paying Agent, being at the date hereof at Citigroup Centre, Canada Square, London E14 5LB and at the specified offices of the Paying Agents. The Noteholders and Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed 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 14 August 2008.

Global Notes

Temporary Global Notes and Permanent Global Notes

The Notes are initially represented by a temporary global note in the principal amount of €4,150,000,000 (the "**Temporary Global Note**"), without coupons.

The Temporary Global Notes will be deposited on behalf of the subscribers for the Notes with a Common Safekeeper for Euroclear Bank S.A./N.V. ("**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 Notes for which it has subscribed and paid.

Interests in the Temporary Global Notes 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 Noteholder has been received, for interests in a permanent global Notes (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 Safekeeper.

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 the 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 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 will be entitled to be treated by the Issuer and the Trustee as the holder of such principal amount of the Notes (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 expression "**Noteholder**" 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 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 the 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 the Notes 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 the 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, is issued in bearer form in denominations of €50,000 or any higher integral multiples of €1,000 up to a maximum of €99,000, 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.
- (b) The Notes, which have been issued by the Issuer on the Issue Date, are subject to the Trust Deed and are secured by the same Security. Certain other obligations of the Issuer rank in priority to the 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 Notes outstanding) the interests of the holders of the Notes if, in the Trustee's opinion, there is a conflict between the interests of (A) the holders of the Notes and (B) any other Secured Creditors;
 - (ii) 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 monies 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) 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 and contingency 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:
 - (A) 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**");
 - (B) 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**");
 - (C) the standby servicer agreement to be entered into on the Issue Date between the Mortgage Administrator, the Cash/Bond Administrator, IL&P as standby servicer (in such capacity, the "**Standby Servicer**"), the Issuer and the Trustee (the "**Standby Servicer Agreement**");
 - (D) the corporate services agreement to be entered into on the Issue Date between the Issuer, ATC Corporate Services (UK) Limited and Auburn 3 Limited relating to the provision of corporate services (the "**Corporate Services Agreement**");
 - (E) the mortgage sale agreement to be entered into on the Issue Date between CHL, the Issuer and the Trustee (the "**Mortgage Sale Agreement**");
 - (F) the interest rate swap agreement relating to the Fixed Rate Mortgages comprising an ISDA Master Agreement (the "**FRM ISDA Master Agreement**"), the Schedule thereto and a written Confirmation to be entered into between the Issuer and CHL on the Issue Date (together, the "**FRM Swap Agreement**");
 - (G) the interest rate swap 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 thereto 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 FRM Swap Agreement, the "**Basis Swap Agreements**");
 - (H) the swap guarantee to be entered into on the Issue Date between the Issuer, IL&P, CHL and the Trustee in relation to the FRM Swap Agreement (the "**FRM Swap Guarantee**");
 - (I) the swap guarantee to be entered into on the Issue Date between the Issuer, IL&P, 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**");
 - (J) the currency swap agreement comprising an ISDA Master Agreement (the "**Currency ISDA Master Agreement**"), the Schedule thereto and a written Confirmation to be entered into between the Issuer and IL&P on the Issue Date (together, the "**Currency Swap Agreement**");

- (K) 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**");
 - (L) the guaranteed investment contract 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 "**Reserve Account GIC Agreement**");
 - (M) 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**"); and
 - (N) 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 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.

Revenue 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 Revenue Funds**"), which, for the avoidance of doubt, do not include amounts which are credited to the Principal Ledger) 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 Revenue Ledger at close of business on the Business Day immediately preceding that Determination Date;
 - (ii) interest which has been credited to the Issuer Accounts on or prior to the relevant Determination Date including interest which has been paid to the Issuer by the GIC Provider pursuant to the Reserve Account GIC Agreement, interest paid to the Issuer in respect of Authorised Investments and interest paid to the Issuer in respect of subscription proceeds for the share capital of the Issuer held on trust by the Charitable Trustee in its client account;
 - (iii) net amounts calculated to be receivable by the Issuer under the Basis Swap Agreements on or prior to that Interest Payment Date;
 - (iv) net amounts calculated to be receivable by the Issuer under the Currency Swap Agreement on or prior to that Interest Payment Date;
 - (v) where applicable, amounts drawn from the Reserve Account, 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,

in making the following payments or provisions in the following order of priority (the "**Revenue 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 in respect of which payment is not provided for 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 or VAT; 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;
 - (G) amounts due to the Corporate Services Provider under the Corporate Services Agreement;
- (iv) to credit to a ledger established for such purposes (the "**Profit Ledger**") an amount as decided by the directors of the Issuer which is anticipated to be no more than £15,800 per annum for the first year commencing on the Issue Date and thereafter an amount which is anticipated to be no more than £2,000 per annum, in each case credited in equal portions on a quarterly basis (the "**Issuer Profit**");

- (v) *pari passu and pro rata*:
 - (A) 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 under an Event of Default (each term as defined in the relevant Basis Swap Agreement)); and
 - (B) any amounts payable by the Issuer under the Currency Swap Agreement (other than amounts due as a result of the Currency Swap Counterparty being the defaulting party under an Event of Default (each term as defined in the Currency Swap Agreement));
- (vi) amounts payable in respect of the Notes other than in respect of principal on the Notes;
- (vii) amounts to be credited to the Note Principal Deficiency Ledger until the balance of the Note Principal Deficiency Ledger has reached zero (such amounts to be applied in redemption of the Notes in accordance with Condition 5(b));
- (viii) to pay an amount to the Reserve Ledger to top the Reserve Ledger up to the Reserve Ledger Required Amount;
- (ix) amounts to be credited to the SL Principal Deficiency Ledger until the balance of the SL Principal Deficiency Ledger has reached zero (such amounts to be applied in redemption of the Notes in accordance with Condition 5(b));
- (x) *pari passu and pro rata*:
 - (A) any other amounts payable by the Issuer under the Basis Swap Agreements which are not paid under paragraph (v)(A) above; and
 - (B) any other amounts payable by the Issuer under the Currency Swap Agreement which are not paid under paragraph (v)(B) above;

and in making the following payments:

- (xi) amounts payable by the Issuer in respect of the Subordinated Loan other than in respect of principal on the Subordinated Loan;
- (xii) amounts payable by the Issuer, *pari passu and pro rata*, in respect of principal under Tranche A and Tranche B of the Subordinated Loan; and
- (xiii) Deferred Consideration due and payable to CHL under the Mortgage Sale Agreement.

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 (iv) and (viii) above) will be accumulated in the Issuer.

"Excluded Items" means:

- (A) certain monies 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**" (each Borrower which is a limited company incorporated in England and Wales being a "**Corporate Borrower**")) (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) certain amounts payable by the Issuer or any replacement basis swap counterparty to any Basis Swap Counterparty as a result of a transfer under the relevant Basis Swap Agreement or the entering into of a new Basis Swap Agreement;
- (D) certain amounts payable by the Issuer or any replacement currency swap counterparty to the Currency Swap Counterparty as a result of a transfer under the Currency Swap Agreement or the entering into of a new Currency 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 Fitch 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;
- (G) at any time, any asset (including, without limitation, cash or securities), which is paid or transferred by any Currency Swap Counterparty to the Issuer as collateral to secure the performance by that Currency Swap Counterparty of its obligations under the Currency Swap Agreement to such extent as Fitch 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 Currency Swap Counterparty's obligations under the Currency Swap Agreement; and
- (H) amounts payable to the Issuer Account Banks under the Bank Agreements not otherwise recovered by the Issuer Account Banks in accordance with the Bank Agreements.

Principal Deficiency

A principal deficiency ledger (the "**Principal Deficiency Ledger**") comprising two sub-ledgers, known as the "Note Principal Deficiency Ledger" and the "SL Principal Deficiency Ledger" respectively, will be established to record any losses on the Mortgage Pool following the completion of enforcement proceedings in respect of any Mortgages (such losses respectively, the "**Note Principal Deficiency**" and the "**SL Principal Deficiency**", and in either case a "**Principal Deficiency**"). Such losses represent the amount by which the aggregate Mortgage Principal Receipts recovered in respect of a Mortgage are less than the sum of the outstanding principal balance of the Mortgage at such time. Any such losses shall be debited first to the SL Principal Deficiency Ledger (such debit items being re-credited at item (viii) of the Revenue Priority of Payments to the extent that there are sufficient funds on subsequent interest dates) so long as the debit balance on such sub-ledger is less than the Principal Amount Outstanding of Tranche C of the Subordinated Loan and thereafter such amounts shall be debited to the Note Principal Deficiency Ledger (such items being re-credited at item (vii) of the Revenue Priority of Payments to the extent that there are sufficient funds on subsequent Interest Payment Dates). To the extent such Principal Deficiencies exist following the application of the Available Revenue Funds (as defined in Condition 2), amounts (if any) standing to the credit of the Reserve Ledger shall be applied to credit the two sub-ledgers of the Principal Deficiency Ledger in the reverse order set out above until such time as the Principal Deficiency Ledger balance is returned to zero.

Priority of Payments Post Enforcement

- (a) On enforcement of the Security, the Trustee is required, subject to being indemnified to its satisfaction, to apply monies 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, pari passu and pro rata:*
 - (A) 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; and
 - (B) 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;
- (ii) *secondly, 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 Issuer 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;
- (iii) *thirdly, pari passu and pro rata:*
 - (A) all arrears of interest remaining unpaid in respect of the Notes, all principal due in respect of Notes and all other amounts payable under or in respect of 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 under an Event of Default (each term as defined in the relevant Basis Swap Agreement));
 - (C) any amounts payable by the Issuer under the Currency Swap Agreement (other than amounts due as a result of the Currency Swap Counterparty being the defaulting party under an Event of Default (each term as defined in the Currency Swap Agreement));
- (iv) *fourthly,* any other amounts payable by the Issuer under the Basis Swap Agreements and Currency Swap Agreement which are not provided for in paragraphs (iii)(B) and (iii)(C) above;

- (v) *fifthly*, any amounts payable to CHL pursuant to the Subordinated Loan Agreement;
- (vi) *sixthly*, to credit an amount equal to the Issuer Profit to the Profit Ledger; and
- (vii) *seventhly*, amounts payable by the Issuer in respect of Deferred Consideration.

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 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 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 360 day year.

(b) ***Interest Payment Dates and Interest Periods***

Interest on the Notes is payable quarterly in arrear on the tenth day of February, May, August and November in each year (or, if such day is not a business day, the next succeeding business day) (each such day an "**Interest Payment Date**") the first Interest Payment Date being 10 November 2008. 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 the 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 day which is two business days before an Interest Payment Date or, in the case of the first Interest Period, on the Issue Date (each an Interest Determination Date) the Agent Bank will determine the offered quotation to leading banks in the Eurozone interbank market for three month euro deposits (or, in the case of the first Interest Period, such rate shall be obtained by linear interpolation of the rate for two month and three month euro deposits) by reference to the display designated as 248 on the Dow Jones Telerate Service (or (aa) such other page as may replace 248 on the Dow Jones Telerate Service 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 EURIBOR Screen Rate). If the EURIBOR 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 euro deposits. The Rate of Interest for such Interest Period shall be, subject as provided below, the Relevant Margin above the EURIBOR 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 euro 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 euro 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 for the Notes 0.17 per cent. per annum;

(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, and (ii) the euro 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 360 (the "**Interest Amount**") payable in respect of such Interest Period in respect of the Principal Amount Outstanding of each Note.

(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 the 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 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 the 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 the 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 Citibank, N.A., London Branch. The initial Agent Bank shall be Citibank, N.A., London Branch. In the event of Citibank, N.A., London Branch 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 and Cancellation**

(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 August 2045.

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***

On each Interest Payment Date, prior to the enforcement of the Security, other than the Interest Payment Date on which the Notes are to be redeemed under paragraph (a) above or (d) or (e) below, the Cash/Bond Administrator shall apply the Actual Redemption Amount (as defined below), which shall be the amount available for the redemption of the Notes on such date, provided always that no such Actual Redemption Amount may

exceed the Principal Amount Outstanding of the relevant Note, in making payment in the following priority (the "**Redemption Priority**"):

- (i) in redeeming the Notes pro rata until the Interest Payment Date on which the Notes have been redeemed in full; and
- (ii) after the Notes have been redeemed in full, in paying amounts payable by the Issuer in respect of principal under Tranche C of the Subordinated Loan.

In connection with such redemption, on the first business day (a "**business day**" being a day (other than Saturday or Sunday) on which banks are open for business in London) of each of February, May, August and November of each year (a "**Determination Date**") the Cash/Bond Administrator will, pursuant to the Cash/Bond Administration Agreement, determine the Actual Redemption Amount.

The "**Actual Redemption Amount**" as at any Determination Date is an amount calculated as the aggregate of:

- (i) the amount standing to the credit of the Principal Ledger; plus
- (ii) the amount (if any) calculated on that Determination Date pursuant to the Revenue Priority of Payments to be the amount by which the debit balance on the Principal Deficiency Ledger is expected to be reduced by the application of Available Revenue Funds on the immediately succeeding Interest Payment Date; less
- (iii) at the discretion of the Cash/Bond Administrator, amounts allocated by it 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 Determination Date; less
- (iv) provided that no deficiency is recorded on the Principal Deficiency Ledger on such Determination Date, at the discretion of the Cash/Bond Administrator, amounts allocated by it 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 Determination Date,

Provided that (A) the Actual Redemption Amount does not exceed the sum of (1) the aggregate principal amount outstanding of the Notes on such Determination Date; and (2) the principal amount outstanding of Tranche C of the Subordinated Loan on such Determination Date and (B) any amounts retained pursuant to (iii) and (iv) above, to the extent not debited to the Principal Ledger as Permitted Utilisation Amounts within 14 months shall be included in the Actual Redemption Amount.

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.

"**Permitted Utilisation Amounts**" may be debited by the Cash/Bond Administrator from the Principal Ledger for the making by the Mortgage Administrator (on behalf of the Issuer) of Redraws or Further Advances, provided that:

- (i) in all cases, the Cash/Bond Administrator is satisfied that the Issuer will have sufficient Mortgage Principal Receipts on the Interest Payment Date following the next Determination Date to make such payments on that Interest Payment Date; and
- (ii) the various conditions for the funding of Further Advances and Redraws by the Issuer are satisfied.

(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 on the Interest Payment Date next following such Determination Date, (ii) the euro equivalent principal amount outstanding of each Note 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 each 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 or any higher integral multiples of €1,000 up to a maximum of €99,000, 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 the 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 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 the 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 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 August 2011 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 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 under items (i) to (vii) (inclusive) of the Revenue Priority of Payments.
- (ii) On any 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 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 under items (i) to (vii) (inclusive) of the Revenue 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 (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 sub-division 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, the Basis Swap Counterparty or the Currency Swap Counterparty would, by virtue of a change in the law (or the application or interpretation thereof) be required to deduct or withhold an amount from any payment under the Basis Swap Agreements or the Currency Swap Agreement, 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 under items (i) to (vii) (inclusive) of the Revenue 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.

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 euro at the specified office of any Paying Agent by euro cheque drawn on, or, at the option of the holder, by transfer to a euro account maintained by the payee with a branch of a euro 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 the Prospectus of which these Conditions form part. 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) a Paying Agent having specified offices in an EU member state that is not 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, Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments 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)
 - (i) If at any time there is a change in the currency of the member states of the European Community such that the European Central Bank recognises a different currency or currency unit or more than one currency or currency unit as the lawful currency of the member states of the European Community, then references in, and obligations arising under, the Notes outstanding at the time of any such change and which are expressed in euro 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 member states of the European Community. Any such translation shall be made at the official rate of exchange recognised for that purpose by the European Central Bank.
 - (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(i) will be binding upon holders of such Notes.

- (iii) Notification of the amendments made to Notes pursuant to this Condition 6(i) 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 monies 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 monies 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 THE 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 Notes then outstanding or if so directed by or pursuant to an Extraordinary Resolution of the Noteholders (subject, in each case, to being indemnified and/or secured 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 five business days in the payment of the principal of any Note or any interest on any Note 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, 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 14 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 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 or so requested in writing by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the Notes, and
 - (ii) in each case, it shall have been indemnified and/or secured 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 Notes is outstanding, be required to enforce the Security at the request of 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 Couponholders; 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.

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

- (a) The Trust Deed contains provisions for convening meetings of 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 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 for passing an Extraordinary Resolution shall be one or more persons holding or representing in aggregate not less than 50 per cent. in Principal Amount Outstanding of the Notes or, at any adjourned meeting, one or more persons being or representing Noteholders as they relate to the Notes whatever the Principal Amount Outstanding of the relevant Note 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 the 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 one 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. An Extraordinary Resolution passed at any meeting of Noteholders shall be binding on all Noteholders and all Couponholders whether or not they are present at the meeting. The majority required for an Extraordinary Resolution shall be 75 per cent. of the votes cast on that resolution.

- (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 the holders of Notes.
- (c) The Trustee may agree, without the consent of the Noteholders or Couponholders, (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 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 the 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 the 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 the 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 the 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 the 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 the 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) Notwithstanding that none of the Trustee and the Noteholders may have any right of recourse against Fitch in respect of any confirmation given by them and relied upon by the Trustee, the Trustee shall be entitled to assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to the Conditions or any of the Transaction Documents, that such exercise will not be materially prejudicial to the interests of the Noteholders (or any series and/or class thereof) if Fitch has confirmed that the then current rating of the applicable series and/or class or classes of Notes would not be adversely affected by such exercise. It is agreed and acknowledged that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevance to the Noteholders. In being entitled to rely on the fact that Fitch has confirmed that the then current rating of the relevant series and/or class or classes of Notes would not be adversely affected, it is expressly agreed and acknowledged by the Trustee and specifically notified to the Noteholders (and to which they are bound by the Conditions) that the above does not impose or extend any actual or contingent liability for Fitch to the Trustee, the Noteholders or any other person or create any legal relations between Fitch and the Trustee, the Noteholders or any other person whether by way of contract or otherwise.

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 the Definitive Notes**

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**

Whilst the Notes are listed on the Official List of the Irish Stock Exchange and traded on the Irish Stock Exchange, copies of all notices given in accordance with this Condition shall be sent to any of the Company Announcements Office of the Exchange ("CAO") approved from time to time for the purposes of the rules of Directive 2003/71/EC.

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.

Notwithstanding the Notices Condition, while any of the Global Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a Common Safekeeper for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with the Notices Condition on the date of delivery to Euroclear and Clearstream Luxembourg.

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.

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 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 withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. It is based on the current law and practice of HM Revenue and Customs, which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. 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 in respect of their acquisition, holding or disposal of the Notes 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.

United Kingdom withholding tax

The Notes issued by the Issuer will constitute “quoted Eurobonds” provided they are and continue to be listed on a recognised 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. Securities will be regarded as “listed on a recognised stock exchange” for this purpose if (and only if) they are admitted to trading on an exchange designated as a recognised stock exchange by HM Revenue and Customs and either:

- (a) they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000), or
- (b) they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

HM Revenue and Customs have confirmed the Irish Stock Exchange is a recognised stock exchange for these purposes. The Issuer's understanding of current HM Revenue and Customs' practice is that being officially listed and admitted to trading on the Irish Stock Exchange may be regarded as “listed on a recognised stock exchange” for these purposes.

In all other cases, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available including under the provisions of any applicable double taxation treaty or to any other exemption which may apply.

Provision of information

Noteholders should note that where any interest on the Notes is paid to them (or to any person acting on their behalf) by the Issuer or 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 Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue and Customs 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 tax purposes. In certain circumstances, the details provided to HM Revenue and Customs may be passed by HM Revenue and Customs to the tax authorities of certain other jurisdictions.

With effect from 6 April 2009, the provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Notes which constitute “deeply discounted securities” for the purposes of Section 18 of the Taxes Management Act 1970.

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

NOTE PURCHASE

Pursuant to a Note Purchase Agreement (the "**Note Purchase Agreement**") dated 18 August 2008 between, among others, the Issuer, IL&P and the Trustee, as parties thereto have, subject to the terms and conditions set forth in the Note Purchase Agreement, IL&P has agreed to purchase the Notes at a price equal to the issue price of 100 per cent. of their principal amount. The Note Purchase Agreement is subject to a number of conditions and may be terminated by the purchasers thereunder in certain circumstances prior to payment for the Notes to the Issuer.

No action has been taken in any jurisdiction that would permit a public offering of any of the Global Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for the purpose is required. The purchaser under the Note Purchase Agreement will to the best of its knowledge comply with all relevant securities laws and directives in each jurisdiction in which it purchases Global Notes or have in its possession this Prospectus or any other offering material, in all case at its own expense, and neither the Issuer nor such purchaser shall have responsibility therefor.

United Kingdom

The purchaser of the Global Notes has represented to and agreed, *inter alia*, with the Issuer that:

- (a) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (b) 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 FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of FSMA does not apply to the Issuer.

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.

The purchaser of the Global Notes 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§1.163-5(c)(2)(i)(D) (the D Rules), each purchaser of the Global Notes (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) the purchaser of the Global Notes 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, the purchaser of the Global Notes 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§1.163-5(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 party to the Note Purchase Agreement 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.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), the purchaser of the Global Notes is deemed to have represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of Notes to the public in that Relevant Member State prior to the publication of a Prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the purchaser of the Global Notes; or
- (d) in any other circumstances which do not require the publication by the Issuer of a Prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

General

Save for the approval of this Prospectus by the IFSRA in accordance with Directive 2003/71/EC, 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 Prospectus or any amendment or supplement hereto or any other offering material, in any country or jurisdiction where action for that purpose is required. The purchaser of the Global Notes is deemed to have 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 Prospectus or any other Prospectus or any other offering material, in all cases at its own expense.

This Prospectus 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 14 August 2008.
2. Application has been made to the IFSRA, as competent authority under Directive 2003/71/EC, for this Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market.
3. The listing of the Notes will be cancelled if the Global Notes are not issued. The listing agent responsible for such listing is Davy.
4. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Notes is 037961574 and the ISIN number is XS0379615742.
5. The Issuer is not, and has not been, involved in any governmental, legal or arbitration proceedings which may have or have had since its date of incorporation a significant effect on its financial position or profitability 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 Note Purchase Agreement referred to under "*Note Purchase*".
7. The Issuer has not published any annual financial statements and has not published and does not intend to publish any interim financial statements. It is anticipated that first published annual financial statements of the Issuer will be in respect of the period ending 31 December 2008. As soon as published, such financial statements and all future financial statements of the Issuer will be available, free of charge, at the office of the Paying Agent.
8. The Issuer's auditors are KPMG whose address is at 1 Stokes Place, St. Stephen's Green, Dublin 2, Ireland. KPMG is a member of the Institute of Chartered Accountants in Ireland.
9. Since 10 June 2008, 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.
10. Copies of the following documents may be physically inspected during usual business hours at the offices of the Issuer, the Principal Paying Agent or Clifford Chance LLP from the date of this Prospectus and for so long as any of the Notes remain outstanding:
 - (i) the Memorandum and Articles of Association of the Issuer;
 - (ii) the contract referred to in paragraph 6 above; and
 - (iii) executed versions of the following documents:
 - (A) the Agency Agreement; and
 - (B) the Trust Deed.
11. The total expenses related to the admission of the Notes to trading are estimated at €146,627.
12. The Issuer confirms that the assets backing the issue of Notes, taken together with the other arrangements to be entered into by the Issuer on the Issue Date (including those described in "*Credit and Liquidity Structure*" above), have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. However investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Consequently investors are advised to review carefully the disclosure in the Prospectus together with any amendments or supplements thereto.

13. The Issuer does not intend to provide post issuance transaction information regarding the securities to be admitted to trading and the performance of the underlying collateral.

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