

EUROHOME UK MORTGAGES 2007-1 PLC

(incorporated in England and Wales with limited liability under registered number 05931269)

£299,425,000 A Notes due 2044

£19,425,000 M1 Notes due 2044

£13,650,000 M2 Notes due 2044

£15,750,000 B1 Notes due 2044

£1,750,000 B2 Notes due 2044

£4,725,000 C Notes due 2044

The Mortgage Backed Floating Rate Notes of Eurohome UK Mortgages 2007-1 plc (the **Issuer**) will comprise £299,425,000 A Notes (the **A Notes**), £19,425,000 M1 Notes (the **M1 Notes**), £13,650,000 M2 Notes (the **M2 Notes** and, together with the M1 Notes, the **M Notes**), £15,750,000 B1 Notes (the **B1 Notes**), the £1,750,000 B2 Notes (the **B2 Notes** and, together with the B1 Notes, the **B Notes**) and £4,725,000 C Notes (the **C Notes**, and together with the A Notes, the M Notes and the B Notes, the **Notes**). The holders of the A Notes shall be defined as the **A Noteholders**. The holders of the M1 Notes shall be defined as the **M1 Noteholders** and the holders of the M2 Notes shall be defined as the **M2 Noteholders**. The M1 Noteholders together with the M2 Noteholders shall be referred to as the **M Noteholders**. The holders of the B1 Notes shall be referred to as the **B1 Noteholders** and the holders of the B2 Notes shall be defined as the **B2 Noteholders**. The B1 Noteholders together with the B2 Noteholders shall be referred to as the **B Noteholders**. The holders of the C Notes shall be referred to as the **C Noteholders**. The holders of the Notes shall be referred to as the **Noteholders**.

Interest is payable on the Notes, beginning on 15 June 2007 and thereafter quarterly in arrear on the 15th day in September, December, March and June in each year, unless such day is not a Business Day, in which case interest shall be payable on the following Business Day unless such Business Day falls in the next calendar month in which case interest is payable on the immediately preceding Business Day (each date on which interest is payable, a **Payment Date**). Interest on the A Notes shall accrue at an annual rate of the London Interbank Offered Rate (**LIBOR**) for deposits in sterling for three months or, in the case of the first Interest Period, at an annual rate obtained upon interpolation of LIBOR for two month sterling deposits and LIBOR for three month sterling deposits (**Note LIBOR**) plus 0.15 per cent. per annum. Interest on the M1 Notes shall accrue at an annual rate of Note LIBOR plus 0.30 per cent. per annum. Interest on the M2 Notes shall accrue at an annual rate of Note LIBOR plus 0.50 per cent. per annum. Interest on the B1 Notes shall accrue at an annual rate of Note LIBOR plus 0.90 per cent. per annum. Interest on the B2 Notes shall accrue at an annual rate of Note LIBOR plus 3.10 per cent. per annum. Interest on the C Notes shall accrue at an annual rate of Note LIBOR plus 3.00 per cent. per annum. The Notes will be issued on or about 21 March 2007 (the **Issue Date**).

In addition, on the Issue Date, the Issuer will issue to DB UK Bank Limited (the **Seller**) Mortgage Early Repayment Certificates due 2044 (the **MERCs** and the holders thereof, the **MERC Holders**) and Residual Certificates due 2044 (the **Residuals** and the holders thereof, the **Residual Holders**). The MERCs and Residuals are not being offered by this Offering Circular.

The period from (and including) a Payment Date to (but excluding) the next Payment Date is an **Interest Period**. The first Interest Period shall be from (and including) the Issue Date to (but excluding) the first Payment Date. The rate of interest payable from time to time (the **Rate of Interest**) in respect of each class of the Notes will be determined on each Payment Date or, in the case of the first Interest Period, on the Issue Date (each an **Interest Determination Date**).

All references herein to **Notes** and **Noteholders** are references to the specified Notes and the holders thereof unless otherwise specified.

Prior to redemption on the Payment Date falling in June 2044 (the **Final Payment Date**), the Notes will be subject to mandatory and/or optional redemption in certain circumstances. The Issuer may not purchase any Notes. See **Condition 5**.

The A Notes are anticipated to be rated AAA by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (**S&P**) and AAA by Fitch Ratings Ltd (**Fitch** and, together with S&P, the **Rating Agencies**). The M1 Notes are each anticipated to be rated AA by S&P and AA by Fitch. The M2 Notes are each anticipated to be rated A by S&P and A by Fitch. The B1 Notes are each anticipated to be rated BBB by S&P and BBB by Fitch. The B2 Notes are each anticipated to be rated BB by S&P and BB by Fitch. The C Notes are each anticipated to be rated BB by S&P and BB by Fitch. The MERCs are each anticipated to be rated AAA by S&P and AAA by Fitch. The issue of the Residuals is not conditional upon a rating and the Issuer has not requested any rating of the Residuals.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any of the Rating Agencies. The rating of the MERCs addresses the likelihood of receipt of MERC payments assuming that: (i) payment of the Mortgage Early Repayment Charges (as defined below) is legally valid, binding and enforceable against the Borrowers and (ii) the Mortgage Early Repayment Charges are actually collected from Borrowers, and not waived by the Seller.

Application has been made to the Irish Financial Services Regulatory Authority (**IFSRA**), as competent authority under Directive 2003/71EC (the **Prospectus Directive**), for this Offering Circular to be approved. Application has also been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on its regulated market. It is expected that admission to the Official List of the Irish Stock Exchange (the **Official List**) and to trading on the regulated market of the Irish Stock Exchange will be granted on or about the Issue Date subject to the issue of the Global Notes (as defined below). However, there can be no assurance that any such listing will be obtained, and if obtained, maintained. No such applications have been made or are being made in relation to the MERCs or the Residuals. This Offering Circular constitutes a prospectus for the purpose of the Prospectus Directive with respect to the Notes. References throughout this document to "**Offering Circular**" should be taken to read "Prospectus". This document does not constitute a prospectus for the purpose of the Prospectus Directive with respect to the Residuals or the MERCs.

See **Risk Factors** below for a description of certain factors which should be considered by prospective investors in connection with an investment in the Notes.

Notes	Initial Principal Amount in £	Margin over Three Month LIBOR	Maturity Date	Issue Price
A Notes	299,425,000	0.15%	June 2044	100%
M1 Notes	19,425,000	0.30%	June 2044	100%
M2 Notes	13,650,000	0.50%	June 2044	100%
B1 Notes	15,750,000	0.90%	June 2044	100%
B2 Notes	1,750,000	3.10%	June 2044	100%
C Notes	4,725,000	3.00%	June 2044	100%

Arranger and Lead Manager



Co-Manager

Lloyds TSB Bank

The date of this Offering Circular is [20] March 2007.

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, or be the responsibility of, Deutsche Bank AG, London Branch (the **Lead Manager**), Lloyds TSB Bank plc (the **Co-Manager** and, together with the Lead Manager, the **Managers**), Structured Finance Management Limited (the **Corporate Services Provider**), SFM Corporate Services Limited (the **Share Trustee**), Deutsche Bank AG, London Branch (in its capacity as account bank, the **Account Bank**, cash manager, the **Cash Manager**, liquidity provider, the **Liquidity Provider**, paying agent, the **Principal Paying Agent** or agent bank, the **Agent Bank**), Banque AIG, London Branch (in its capacity as swap and interest rate cap provider, the **Swap and Interest Rate Cap Provider**), American International Group, Inc. (the **Swap and Interest Rate Cap Guarantor**), Deutsche International Corporate Services (Ireland) Limited (the **Irish Paying Agent**) Vertex Mortgage Services Limited in its capacity as standby administrator (the **Standby Administrator**), Deutsche Trustee Company Limited (the **Trustee**), DB UK Bank Limited (in its capacity as administrator, the **Administrator** or seller, the **Seller**) or Deutsche Bank Luxembourg S.A. (the **Registrar**) (together, the **Transaction Parties**).

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

The Administrator accepts responsibility for the information contained in *The Administrator*. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Administrator as to the accuracy or completeness of any information contained in this Offering Circular (other than the information mentioned above) or any other information supplied in connection with the Notes or their distribution.

The Account Bank, Cash Manager, Agent Bank and Liquidity Provider respectively accept responsibility for the information related to it contained in *The Account Bank, Cash Manager, Agent Bank and Liquidity Provider*. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Account Bank, Cash Manager, Agent Bank or Liquidity Provider as to the accuracy or completeness of any information contained in this Offering Circular (other than the information mentioned above) or any other information supplied in connection with the Notes or their distribution.

The Swap and Interest Rate Cap Provider and the Swap and Interest Rate Cap Guarantor accept responsibility for the information related to it contained in *The Swap and Interest Rate Cap Provider and the Swap and Interest Rate Cap Guarantor*. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Swap and Interest Rate Cap Provider or the Swap and Interest Rate Cap Guarantor as to the accuracy or completeness of any information contained in this Offering Circular (other than the information mentioned above) or any other information supplied in connection with the Notes or their distribution.

Each initial and subsequent purchaser of the Notes will be deemed, by its acceptance of such Notes, to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer thereof as set forth therein and described in this Offering Circular and, in connection therewith, may be required to provide confirmation of its compliance with such resale and other transfer restrictions in certain cases. See *Notice to Investors*.

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

This Offering Circular does not constitute, and is not intended to be, an offer of, or an invitation by or on behalf of, the Issuer or the Managers to subscribe for or purchase any of the Notes. Other than the approval by the Financial Regulator in Ireland of this Offering Circular as a prospectus in accordance with the requirements of the Prospectus Directive and relevant implementing measures in Ireland, application having been made for the Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on the regulated market of the Irish Stock Exchange, no action has been, nor will be taken to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe such restrictions. For a description of certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see *Subscription and Sale* and *Notice to Investors*. This Offering Circular does not constitute, and may not be used for the purposes of, an offer or solicitation by any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation and no action is being taken to permit an offering of the Notes or the distribution of this Offering Circular in any jurisdiction where such action is required.

No Manager has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained in this Offering Circular. In making an investment decision, investors must rely on their own examination of the terms of this offering, including the merits and risks involved. The contents of this Offering Circular should not be construed as providing legal, business, accounting or tax advice. Each prospective investor should consult its own legal, business, accounting and tax advisers prior to making a decision to invest in the Notes. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

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

In this Offering Circular, unless otherwise noted, all references to specified percentages of the Mortgage Loans are references to those Mortgage Loans as a percentage of the aggregate principal balance of the Initial Mortgage Pool.

Any website referred to in this Offering Circular, and any information stated as being available from the Securities and Exchange Commission or the New York Stock Exchange, does not form part of this Offering Circular.

Unless the context otherwise indicates or requires, a reference to a particular numbered **Condition** in this Offering Circular shall be a reference to a Condition of the Notes as set out under *Terms and Conditions of the Notes*.

Payments of interest and principal in respect of the Notes will be subject to any applicable withholding taxes without the Issuer being obliged to pay additional amounts therefor.

This Offering Circular prepared in connection with the Notes has not been submitted to the clearance procedures of the *Autorité des marchés financiers*.

References in this Offering Circular to **£** or **sterling** are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

In connection with the issue of any class of the Notes, Deutsche Bank AG, London Branch (in this capacity the **Stabilising Manager**) or any person acting for it may over-allot the Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant class of the Notes) or effect transactions with a view to supporting the market prices of the Notes (or any class of them) at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilising action. Any stabilising action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of allotment of the relevant class of the Notes.

TABLE OF CONTENTS

Page

SUMMARY INFORMATION	6
STRUCTURE DIAGRAM.....	23
RISK FACTORS	24
CREDIT STRUCTURE	43
THE ISSUER	63
USE OF PROCEEDS	65
CAPITALISATION STATEMENT.....	66
THE SELLER.....	67
THE ACCOUNT BANK, CASH MANAGER, AGENT BANK AND LIQUIDITY PROVIDER	68
THE SWAP AND INTEREST RATE CAP PROVIDER AND SWAP AND INTEREST RATE CAP GUARANTOR.....	69
VERTEX MORTGAGE SERVICES LIMITED	70
THIRD PARTY INFORMATION	71
MORTGAGE POOL	72
CHARACTERISTICS OF THE MORTGAGE LOANS	80
LENDING CRITERIA	82
CHARACTERISTICS OF THE INITIAL MORTGAGE POOL	88
TITLE TO THE MORTGAGE POOL	98
SALE OF THE MORTGAGE POOL	100
ADMINISTRATION OF THE MORTGAGE POOL.....	104
WEIGHTED AVERAGE LIVES OF THE NOTES	112
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES	121
TERMS AND CONDITIONS OF THE NOTES	124
UNITED KINGDOM TAXATION	154
EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME	156
SUBSCRIPTION AND SALE	157
GENERAL INFORMATION	160
GLOSSARY	162

SUMMARY INFORMATION

The information set out below is a summary of the principal features of the issue of the Notes. In addition to the issue of the Notes to investors, the Issuer will issue the MERCs and the Residuals to the Seller. The MERCs, the Residuals and the other obligations of the Issuer under the Transaction Documents will benefit from the same security as the Notes. The MERCs and the Residuals are not being offered by this Offering Circular, and this Offering Circular is not to be used in connection with the consideration of the purchase of any of the MERCs or the Residuals. This summary should be read in conjunction with, and is qualified in its entirety by references to, the detailed information presented elsewhere in this Offering Circular.

The Issuer	Eurohome UK Mortgages 2007-1 plc (the Issuer) incorporated and registered in England and Wales with registered number 5931269, whose registered office is at 35 Great St. Helen's, London EC3A 6AP.
The Trustee	Deutsche Trustee Company Limited, whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB (the Trustee).
The Seller	DB UK Bank Limited, whose registered office is at 23 Great Winchester Street, London EC2X 2AP (the Seller).
The Cash Manager	Deutsche Bank AG, London Branch, whose principal office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB (the Cash Manager).
The Liquidity Provider	Deutsche Bank AG, London Branch, whose principal office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB (the Liquidity Provider).
The Administrator	DB UK Bank Limited whose registered office is at 23 Great Winchester Street, London EC2X 2AP (the Administrator).
The Standby Administrator	Vertex Mortgage Services Limited whose registered office is at Pegasus House, Kings Business Park, Kings Drive, Prescot, Merseyside L34 1PJ (the Standby Administrator).
The Account Bank	Deutsche Bank AG, London Branch, whose principal office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, or such other banking institution with a rating acceptable to the Rating Agencies (the Account Bank).
The Swap and Interest Rate Cap Provider	Banque AIG, London Branch, acting through its office at 5 th Floor, One Curzon Street, London W1Y 7FN (the Swap and Interest Rate Cap Provider).
The Agent Bank	Deutsche Bank AG, London Branch, whose principal office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB (the Agent Bank).
The Swap and Interest Rate Cap Guarantor	American International Group, Inc., acting through its office at 70 Pine Street, New York, NY 10270, U.S.A (the Swap and Interest Rate Cap Guarantor).

The Lead Manager	Deutsche Bank AG, London Branch, whose principal office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB (the Lead Manager).
The Co-Manager	Lloyds TSB Bank plc, whose registered office is 25 Gresham Street, London EC2V 7HN (the Co-Manager and, together with the Lead Manager, the Managers).
The Principal Paying Agent	Deutsche Bank AG, London Branch, whose principal office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB (the Principal Paying Agent).
The Registrar	Deutsche Bank Luxembourg S.A., whose registered office is 2 Boulevard Konrad Adenauer, L-1115 Luxembourg (the Registrar) in respect of the MERCs and Residuals.
The Irish Paying Agent	Deutsche International Corporate Services (Ireland) Limited, whose registered office is 5 Harbourmaster Place, International Financial Services Centre, Dublin 1, Ireland (the Irish Paying Agent).
The Corporate Services Provider	Structured Finance Management Limited, whose registered office is at 35 Great St. Helen's, London EC3A 6AP (the Corporate Services Provider).
The Listing Agent	Deutsche Bank Luxembourg S.A., whose registered office is 2 Boulevard Konrad Adenauer, L-1115 Luxembourg (the Listing Agent).
The Share Trustee	SFM Corporate Services Limited, whose registered office is 35 Great St. Helen's, London EC3A 6AP (the Share Trustee).
The Mortgage Pool	
<i>Sale of Mortgage Pool</i>	<p>The Issuer has been established:</p> <ul style="list-style-type: none"> (a) to acquire on the Issue Date a pool (the Completion Mortgage Pool) of residential mortgage loans together with the related security for their repayment, including the relevant mortgages, legal charges and standard securities (the Related Security) (each such mortgage loan, a Mortgage Loan, and each such mortgage, legal charge and standard security, a Mortgage) and ancillary rights in respect of the Mortgage Loans; (b) to acquire Substitute Mortgage Loans (as defined under <i>Administration of the Mortgage Pool – Further Advances and Substitution</i>); (c) to acquire further advances made by the Seller in respect of the Mortgage Loans (Further Advances); and (d) to acquire further pools of residential mortgage loans (the

Pre-Funded Mortgage Pool and each such Mortgage Loan, a **Pre-Funded Mortgage Loan**) together with their Related Security on (i) 21 March 2007 (the **Newly Originated Loan Eligible Date**) and (ii), at the option of the Seller, on one or more Business Days after the Issue Date, but on or prior to 31 May 2007 (such dates, together with the Newly Originated Loan Eligible Date, being the **Eligible Dates**).

For the avoidance of doubt, reference herein to Mortgage Loans shall, where the context so requires, include the Further Advances, the Substitute Mortgage Loans and the Pre-Funded Mortgage Pool.

Each Mortgage is a mortgage of, legal charge, or standard security over, a residential property in England and Wales, Scotland or Northern Ireland (a **Property**).

The mortgage pool owned by the Issuer from time to time (the **Mortgage Pool**) will comprise:

- (a) the Completion Mortgage Pool purchased by the Issuer on the Issue Date pursuant to the mortgage sale agreement to be entered into on the Issue Date between the Issuer, the Seller and the Trustee (the **Mortgage Sale Agreement**);
- (b) each Substitute Mortgage Loan acquired by the Issuer in accordance with the provisions of the Mortgage Sale Agreement and the Administration Agreement;
- (c) any Further Advances (see *Administration of the Mortgage Pool – Further Advances and Substitution*); and
- (d) the Pre-Funded Mortgage Pool purchased by the Issuer on the Eligible Dates pursuant to the Mortgage Sale Agreement,

other than Mortgage Loans in each case which have been repaid in full or in respect of which enforcement procedures have been completed or Mortgage Loans which have been repurchased by the Seller pursuant to the Mortgage Sale Agreement (see *Sale of the Mortgage Pool – Warranties and Repurchase*).

The Completion Mortgage Pool will be selected from a larger pool (the **Initial Mortgage Pool**). As at 28 February 2007, the Initial Mortgage Pool has the characteristics described under *The Mortgage Pool – Introduction*.

All Mortgage Loans in the Mortgage Pool have been (or in the case of Further Advances, will be) originated by the Seller.

Pre-Funded Mortgage Pool

The Issuer will agree to purchase the Pre-Funded Mortgage Pool on the Eligible Dates from the Seller. The Pre-Funded Mortgage Loans purchased by the Issuer will be required to comply with the same Lending Criteria (as defined under *The Mortgage Pool – Lending Criteria*) as apply to the Mortgage Loans comprising the Completion Mortgage Pool (including verification of receipt of the first Monthly Payment (as defined under *Sale of the Mortgage Pool*) except in relation to the Newly Originated Loans).

It is a requirement of the Mortgage Sale Agreement that at least one Monthly Payment in respect of a Mortgage Loan due from a Borrower be received in full before the relevant Mortgage Loan is sold by the Seller to the Issuer. However, as an exception to this requirement, a Pre-Funded Mortgage Loan in respect of which the first Monthly Payment has not fallen due by the second Business Day falling prior to the Newly Originated Loan Eligible Date (each a **Newly Originated Loan**) may be sold on the Newly Originated Loan Eligible Date, on the condition that the first Monthly Payment must be made and received in cleared funds by 30 April 2007 (the **Newly Originated Loan Qualifying Date**) and the Newly Originated Loan otherwise complies with the terms of the Mortgage Sale Agreement on the Newly Originated Loan Eligible Date. If the first Monthly Payment has not been made and received in cleared funds by the Newly Originated Loan Qualifying Date with respect to any Newly Originated Loan, on the next following Payment Date, the Seller will be obliged to repurchase such Newly Originated Loan as set out below under *Sale of the Mortgage Pool – Warranties and Repurchase*. Any Newly Originated Loans so repurchased may be replaced with Substitute Mortgage Loans or with Pre-Funded Mortgage Loans, in each case in respect of which the first Monthly Payment has been received in cleared funds and which also meet the other conditions for such replacement.

Of the net proceeds of the Notes being issued on the Issue Date, £[●] will be used to fund the purchase of the Pre-Funded Mortgage Pool (the **Pre-Funded Mortgage Pool Amount**). The purchase of the Pre-Funded Mortgage Pool will be subject to the satisfaction of the following conditions:

- (a) on the Issue Date, the Pre-Funded Mortgage Pool Amount is less than or equal to 15 per cent. of the aggregate principal amount of the Notes;
- (b) the amount applied in the purchase of Newly Originated Loans in the Pre-Funded Mortgage Pool does not exceed £50,000,000;
- (c) on the relevant Eligible Date, each Pre-Funded Mortgage Loan complies with the representations and warranties specified in the Mortgage Sale Agreement (except that in relation to Newly Originated Loans no Monthly Payment will have been received);

- (d) following the acquisition of the Pre-Funded Mortgage Pool, on any date the product of the weighted average foreclosure frequency (**WAFF**) and the weighted average loss severity (**WALS**) for the Mortgage Pool after such acquisition calculated on such date in the same way as for the Completion Mortgage Pool would not be more than 0.25 per cent. higher than the product of the WAFF and WALS as calculated by the Rating Agencies on the Issue Date; and
- (e) the Rating Agencies confirm that the then current ratings of the Notes then outstanding will not be withdrawn or downgraded as a result of the purchase of the Pre-Funded Mortgage Pool.

Pre-Funded Mortgage Loans Ledger

On the Issue Date, an amount equal to approximately £[●], consisting of the Pre-Funded Mortgage Pool Amount and the Pre-Funded Mortgage Pool Interest Shortfall (as defined under *Credit Structure – Use of Proceeds of the C Notes*), will be deposited in the Issuer Transaction Account and recorded to a ledger maintained by the Cash Manager (the **Pre-Funded Mortgage Loans Ledger**). The Pre-Funded Mortgage Pool Amount is intended to be used to acquire the Pre-Funded Mortgage Pool on the Eligible Dates. After the final purchase of the Pre-Funded Mortgage Pool, on 31 May 2007, an amount equal to the difference (if any) between the Pre-Funded Mortgage Pool Amount and the aggregate purchase price for the Pre-Funded Mortgage Pool (the **Principal Rebate**) will be paid to the holders of the Notes as a mandatory redemption in part in accordance with **Condition 5(g)**. See *Sale of the Mortgage Pool – Pre-Funded Mortgage Pool*. Although no assurance can be given, it is intended that the purchase of the Pre-Funded Mortgage Pool on the Eligible Dates will require the application of substantially all of the Pre-Funded Mortgage Pool Amount, and it is not intended that there will be significant amounts of principal being prepaid to holders of the Notes. However, it is unlikely that the Pre-Funded Mortgage Pool Amount will equal exactly the purchase price for the Pre-Funded Mortgage Pool, and the Seller may be unable to repurchase or to provide Substitute Mortgage Loans for the Newly Originated Loans, if any, that it is required to repurchase.

The Pre-Funded Mortgage Pool Interest Shortfall is intended to be used to make up the difference in the amount of additional interest the Issuer would have received from and including the Issue Date to (but excluding) the first Payment Date had the Issuer owned the Pre-Funded Mortgage Pool from the Issue Date.

Mortgage Administration and Servicing

DB UK Bank Limited (in such capacity, the **Administrator**, such term including the Standby Administrator (as defined below)) will be appointed under the terms of an administration agreement dated on or about the Issue Date between the Issuer, the Administrator and the Trustee (the **Administration Agreement**), to administer the Mortgage Loans and the Related Security, on behalf of, and as agent for, the Issuer.

Pursuant to the terms of the Administration Agreement, the Administrator will be obliged to report on a regular basis to the Trustee and the Issuer regarding the status and the performance of the Mortgage Pool, the administration of the Mortgage Loans and other matters relating to its administrative functions as described in *Administration of the Mortgage Pool*.

The Administrator has entered into an outsourcing agreement with Vertex Mortgage Services Limited (**VMS**) pursuant to which VMS provides mortgage administration and management services to the Administrator in relation to the mortgage loans of the Administrator. It is expected that VMS shall continue to provide such services to the Administrator after the Issue Date in respect of the Mortgage Loans. See *Administration of the Mortgage Pool*.

Neither the Administrator nor the Standby Administrator will be liable for any of the financial obligations of the Issuer, including any payments of principal or interest on the Notes.

Notwithstanding the outsourcing of the mortgage administration and management services by the Administrator to VMS, pursuant to and upon execution of the Administration Agreement, the Administrator in its capacity as Administrator will have responsibility and remain liable to the Issuer and the Trustee for the performance of its obligations under the Administration Agreement and shall procure that certain administration functions are carried out by VMS.

VMS will be appointed as standby administrator under the terms of a standby administration agreement to be dated on or about the Issue Date and made between it, the Administrator, the Issuer and the Trustee (the **Standby Administration Agreement**), such that, if the appointment of DB UK Bank Limited as Administrator is terminated, the Standby Administrator will assume the administration functions (see *Vertex Mortgage Services Limited* and *Administration of the Mortgage Pool* below).

The Notes

The £299,425,000 A Mortgage Backed Floating Rate Notes due 2044, the £19,425,000 M1 Mortgage Backed Floating Rate Notes due 2044, the £13,650,000 M2 Mortgage Backed Floating Rate Notes due 2044, the £15,750,000 B1 Mortgage Backed Floating Rate Notes due 2044, the £1,750,000 B2 Mortgage Backed Floating Rate Notes due 2044, the £4,725,000 C Mortgage Backed Floating Rate Notes due 2044, the Mortgage Early

Repayment Certificates due 2044 and the Residual Certificates due 2044 will be constituted by the Trust Deed and will share (subject to the priority described below) in the same security.

Form and Denomination

The Notes of each class will each be represented by a temporary global note in bearer form (each, a **Temporary Global Note**). The Temporary Global Note of each class will be exchangeable on or after the Exchange Date (as defined below) for a permanent global note of the same class (each, a **Permanent Global Note** and, together with the Temporary Global Notes, the **Global Notes** and each a **Global Note**). The Global Notes will be held by Deutsche Bank AG, London Branch as common safekeeper for Euroclear and Clearstream, Luxembourg (as defined below).

The Notes will be in minimum denominations of £50,000 and higher integral multiples of £1,000 up to and including £99,000.

The MERCs and Residuals will be in registered form.

Security

The A Notes will be secured by the same security that will secure the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes, the C Notes, the MERCs, the Residuals and the other obligations of the Issuer under the Transaction Documents, although, upon enforcement, the A Notes will rank *pari passu* and in priority to the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals in point of security; the M1 Notes will rank in priority to the M2 Notes, the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals but after the A Notes in point of security; the M2 Notes will rank in priority to the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals but after the A Notes and the M1 Notes in point of security; the B1 Notes will rank in priority to the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals, but after the A Notes, the M1 Notes and the M2 Notes in point of security; the B2 Notes will rank in priority to the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals but after the A Notes, the M1 Notes, the M2 Notes and the B1 Notes in point of security; and the C Notes will rank in priority to the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals but after the A Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes in point of security. Payments under the MERCs will be made in respect of amounts received by the Issuer by way of Mortgage Early Repayment Charges. Such amounts will not be available, before or after enforcement of the Security, for application towards repayment of amounts due to Noteholders or Residual Holders.

The A Notes will rank in priority to the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the

Residuals for all purposes other than as to payment of principal to the extent described in **Condition 2(d)**.

The M1 Notes will rank in priority to the M2 Notes, the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals for all purposes other than as to payment of principal to the extent described in **Condition 2(d)**.

The M2 Notes will rank in priority to the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals for all purposes other than as to payment of principal to the extent described in **Condition 2(d)**.

The B1 Notes will rank in priority to the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals for all purposes other than as to payment of principal to the extent described in **Condition 2(d)**.

The B2 Notes will rank in priority to the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals for all purposes other than as to payment of principal to the extent described in **Condition 2(d)**.

The C Notes will rank in priority to the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals for all purposes.

The MERCs

Each MERC will pay on each Payment Date amounts equal to Mortgage Early Repayment Charges received by the Issuer by way of Mortgage Early Repayment Amounts divided by the number of MERCs existing on the Determination Date prior to the relevant Payment Date. Following the earliest to occur of redemption of all the Notes or an enforcement of the Notes pursuant to **Condition 10**, no termination payment or other amount (other than amounts then payable in respect of Mortgage Early Repayment Charges) will be payable in respect of the MERCs and, following the payment of any amounts then payable in respect of Mortgage Early Repayment Charges, the MERCs shall no longer constitute a claim against the Issuer.

The MERCs will be in registered form.

The Residuals

Each Residual will pay on each Payment Date such residual amount as is available for such purpose in accordance with the Pre-Enforcement Revenue Priority of Payments (following payment of or provision for all higher ranking items) divided by the number of Residuals existing on the Determination Date prior to the relevant Payment Date.

Following the earliest to occur of redemption of all the Notes or an enforcement of the Notes pursuant to **Condition 10** and payment by the Issuer of all sums to be applied pursuant to the

Pre-Enforcement Revenue Priority of Payments or in the applicable manner and order of priority following enforcement of the Security (the **Post-Enforcement Priority of Payments**), as applicable, no termination payment or other amount will be payable in respect of the Residuals and the Residuals shall no longer constitute a claim against the Issuer.

The Residuals will be in registered form.

Interest

Payments of interest on the Notes shall be made on 15 June 2007 and thereafter quarterly in arrear on each Payment Date.

Interest on the A Notes shall accrue at a rate of Note LIBOR plus 0.15 per cent. per annum. Interest on the M1 Notes shall accrue at an annual rate of Note LIBOR plus 0.30 per cent. per annum. Interest on the M2 Notes shall accrue at an annual rate of Note LIBOR plus 0.50 per cent. per annum. Interest on the B1 Notes shall accrue at an annual rate of Note LIBOR plus 0.90 per cent. per annum. Interest on the B2 Notes shall accrue at an annual rate of Note LIBOR plus 3.10 per cent. per annum. Interest on the C Notes shall accrue at an annual rate of Note LIBOR plus 3.00 per cent. per annum.

To the extent that interest on the M1 Notes, M2 Notes, B1 Notes, B2 Notes or C Notes is not paid in accordance with the above paragraph or otherwise in accordance with **Condition 4(f)**, such shortfall shall accrue interest at Note LIBOR (as defined in **Condition 4(c)**) plus the Relevant Margin and a share of such shortfall plus any interest accrued thereon shall be deferred until such later Payment Date on which it can be paid in accordance with the Pre-Enforcement Revenue Priority of Payments. Any such deferral will cease on the Final Payment Date, when all accrued but unpaid interest will be extinguished. See **Condition 4(f)**.

Conflicts of Interest and Limitation of Powers

In respect of the interests of Noteholders, the Trust Deed will contain provisions requiring the Trustee to have regard to the interests of the Noteholders 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 the interests of:

- (a) the A Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the A Noteholders and those of the M1 Noteholders and/or those of the M2 Noteholders and/or those of the B1 Noteholders and/or those of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (b) the M1 Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the M1 Noteholders and those of the M2 Noteholders and/or those of the B1 Noteholders and/or those of the B2 Noteholders

and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;

- (c) the M2 Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the M2 Noteholders and those of the B1 Noteholders and/or those of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (d) the B1 Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the B1 Noteholders and/or those of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (e) the B2 Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (f) the C Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the C Noteholders and those of the MERC Holders and/or those of the Residual Holders;
- (g) the M1 Noteholders following redemption in full of the A Notes;
- (h) the M2 Noteholders following redemption in full of the A Notes and the M1 Notes;
- (i) the B1 Noteholders following redemption in full of the A Notes, the M1 Notes and the M2 Notes;
- (j) the B2 Noteholders following redemption in full of the A Notes, the M1 Notes, the M2 Notes and the B1 Notes; and
- (k) the C Noteholders following redemption in full of the A Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes.

In addition, the Trust Deed and **Condition 11** will contain provisions limiting the powers of:

- (a) the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders and the C Noteholders to request or direct the Trustee to take any action or to pass any Extraordinary Resolution according to the effect thereof on the interests of the A Noteholders;
- (b) the M2 Noteholders, the B1 Noteholders, the B2 Noteholders and the C Noteholders to request or

direct the Trustee to take any action or to pass any Extraordinary Resolution according to the effect thereof on the interests of the A Noteholders and/or the M1 Noteholders;

- (c) the B1 Noteholders, the B2 Noteholders and the C Noteholders to request or direct the Trustee to take any action or to pass any Extraordinary Resolution according to the effect thereof on the interests of the A Noteholders and/or the M1 Noteholders and/or the M2 Noteholders;
- (d) the B2 Noteholders and the C Noteholders to request or direct the Trustee to take any action or to pass any Extraordinary Resolution according to the effect thereof on the interests of the A Noteholders and/or the M1 Noteholders and/or the M2 Noteholders and/or the B1 Noteholders; and
- (e) the C Noteholders to request or direct the Trustee to take any action or to pass any Extraordinary Resolution according to the effect thereof on the interests of the A Noteholders and/or the M1 Noteholders and/or the M2 Noteholders and/or the B1 Noteholders and/or the B2 Noteholders.

Except in certain circumstances, the Trust Deed imposes no limitations on the powers of (a) the A Noteholders, the exercise of which will be binding on the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders; (b) the M1 Noteholders, the exercise of which will be binding on the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders; (c) the M2 Noteholders, the exercise of which will be binding on the B1 Noteholders, the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders; (d) the B1 Noteholders, the exercise of which will be binding on the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders; (e) the B2 Noteholders, the exercise of which will be binding on the C Noteholders, the MERC Holders and the Residual Holders; and (f) the C Noteholders, the exercise of which will be binding on the MERC Holders and the Residual Holders, irrespective of the effect thereof on each of their interests.

In respect of the interests of the MERC Holders and the Residual Holders, the Trust Deed contains provisions requiring the Trustee not to have regard to the interests of the MERC Holders and the Residual Holders as regards all powers, trusts, authorities, duties and discretions of the Trustee. The Trustee may only be directed by the MERC Holders and/or the Residual Holders and any Extraordinary Resolution of the MERC Holders and/or the Residual Holders will only be effective if the Trustee is of the opinion that the effect of the same will not be materially

prejudicial to the interests of any or all of the Noteholders or its action is sanctioned by an Extraordinary Resolution of each class of Noteholders and (in the case of the MERCs) the Residual Holders and (in the case of the Residuals) the MERC Holders.

The **Conditions** also contain provisions regarding certain of the Trustee's discretions and obligations in relation to enforcement, including provisions in respect of requests from classes of Noteholders for enforcement See **Condition 2(e)**, **Condition 9** and **Condition 10**.

Withholding Tax

Payments of interest and principal with respect to the Notes will be subject to any applicable withholding taxes and neither the Issuer nor any Paying Agent will be obliged to pay additional amounts in relation thereto.

Redemption

Optional Redemption of the Notes

The Notes are subject to redemption (in whole, but not in part and without the prior approval of the Noteholders) (subject to the conditions set out in **Condition 5**) at their principal amount outstanding (the **Principal Amount Outstanding**) in each of the following circumstances:

- (a) if on any Payment Date, the Issuer or any Paying Agent on behalf of the Issuer is obliged to make any withholding or deduction on account of tax from payments in respect of the Notes, or in the event of certain tax changes affecting the Mortgage Loans comprising the Mortgage Pool or the Issuer at any time (see **Condition 5(g)**); and
- (b) at the option of the Issuer, on any Payment Date following the Payment Date on which the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10 per cent. of the initial aggregate Principal Amount Outstanding of the Notes (see **Condition 5(f)**) provided that the Issuer shall have given not more than 60 days' nor less than 30 days' notice to the Trustee and 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 funds, not subject to any interest of any person, required to redeem the Notes and any amounts required to be paid in priority to the Notes.

The term **Optional Redemption** refers to redemption of the Notes under any of the foregoing circumstances or procedures.

Mandatory Redemption in Part

The Notes (excluding the C Notes) will be subject to mandatory redemption in part on each Payment Date other than a Payment Date on which the Notes are to be redeemed pursuant to an Optional Redemption or on the Final Payment Date, in accordance with the Principal Priority of Payments and

Condition 5(b) or otherwise as set out below. Such mandatory redemption in part will, in the case of the Notes (excluding the C Notes), be caused by principal payments (including principal prepayments) by the borrowers (the **Borrowers**) under the Mortgage Loans. The C Notes will be subject to mandatory redemption in part on each Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments and **Condition 5(c)**. Such mandatory redemption in part will, in the case of the C Notes, be caused by interest payments by the Borrowers and other payments constituting Available Revenue Funds.

On 15 June 2007, the Notes may be subject to a mandatory redemption in part in accordance with **Condition 5(g)** to the extent of any Principal Rebate (as defined above) in respect of Pre-Funded Mortgage Pool purchased by the Issuer on or prior to 31 May 2007.

The Notes may be subject to mandatory redemption in part in accordance with **Condition 5(h)** if there are not sufficient Substitute Mortgage Loans to replace any Newly Originated Loans repurchased by the Seller on the Payment Date following the Newly Originated Loan Qualifying Date.

Final Redemption

Unless previously redeemed, the Notes will be redeemed on the Final Payment Date in an amount equal in each case to its then Principal Amount Outstanding together with accrued and unpaid interest thereon in accordance with **Condition 5(a)**.

Cancellation of the MERCs and the Residuals

Subject to the prior payment to MERC Holders and Residual Holders of all amounts then payable to them at such time, the MERCs and Residuals will no longer constitute claims against the Issuer following a redemption of all (but not some only) of the Notes.

Ratings

The A Notes are each anticipated to be rated AAA by S&P and AAA by Fitch. The M1 Notes are each anticipated to be rated AA by S&P and AA by Fitch. The M2 Notes are each anticipated to be rated A by S&P and A by Fitch. The B1 Notes are each anticipated to be rated BBB by S&P and BBB by Fitch. The B2 Notes are each anticipated to be rated BB by S&P and BB by Fitch. The C Notes are each anticipated to be rated BB by S&P and BB by Fitch. The MERCs are each anticipated to be rated AAA by S&P and AAA by Fitch. The issue of the Residuals is not conditional upon a rating and the Issuer has not requested any rating of the Residuals.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any or all of the Rating Agencies.

The rating of the MERCs addresses the likelihood of receipt of MERC payments assuming that: (i) payment of the Mortgage Early Repayment Charges is legally valid, binding and enforceable against the Borrowers and (ii) the Mortgage Early

Repayment Charges are actually collected from Borrowers, and not waived by the Seller.

Security for the Notes, MERCs and Residuals

The security for the Notes, the MERCs and the Residuals will be created pursuant to, and on the terms of, a deed of charge and assignment to be entered into between, *inter alios*, the Issuer and the Trustee and dated as of the Issue Date (the **Deed of Charge**), as amended or supplemented from time to time, in favour of the Trustee on trust for, *inter alios*, the holders of the Notes, the MERCs and the Residuals.

The Notes, MERCs, Residuals and other obligations of the Issuer under the Transaction Documents will be secured by first ranking fixed security interests over (or, as applicable, an assignment by way of security of) all the Issuer's interests, rights and entitlements under and in respect of:

- (a) the Mortgage Loans and all payments of principal and interest in respect thereof and certain fees arising therefrom and the Mortgages and the other Related Security;
- (b) the subscription agreement dated 16 March 2007 between the Issuer and the Managers (the **Notes Subscription Agreement**);
- (c) the mortgage sale agreement dated on or about the Issue Date between the Issuer, the Seller and the Trustee (the **Mortgage Sale Agreement**);
- (d) the cash management agreement dated on or about the Issue Date between the Issuer, the Cash Manager, the Account Bank, the Administrator and the Trustee (the **Cash Management Agreement**);
- (e) the administration agreement dated on or about the Issue Date between the Issuer, the Administrator and the Trustee (the **Administration Agreement**);
- (f) the standby administration agreement dated on or about the Issue Date between the Standby Administrator and the Issuer (the **Standby Administration Agreement**);
- (g) the bank agreement to be entered into on or prior to the Issue Date between the Issuer and Deutsche Bank AG, London Branch as account bank (the **Account Bank**, which expression shall include its successors as account bank) in relation to the Issuer Transaction Account (the **Bank Agreement**);
- (h) the paying agency agreement to be entered into on or prior to the Issue Date between the Issuer, the Trustee, Deutsche Bank AG, London Branch as principal paying agent (the **Principal Paying Agent**, which expression

shall include its successors as paying agent), agent bank (the **Agent Bank**, which expression shall include its successors as agent bank), Deutsche Bank Luxembourg S.A. as registrar (the **Registrar**), Deutsche International Corporate Services (Ireland) Limited as Irish paying agent (the **Irish Paying Agent** and, together with the Principal Paying Agent, the **Paying Agents**) and the Trustee (the **Paying Agency Agreement**);

- (i) the liquidity facility agreement to be entered into on or prior to the Issue Date between the Liquidity Provider, the Issuer and the Trustee (the **Liquidity Facility Agreement**);
- (j) the swap and interest rate cap agreement to be entered into between the Issuer and the Swap and Interest Rate Cap Provider documented under a 1992 ISDA Master Agreement (Multicurrency Cross-Border), as published by the International Swaps and Derivatives Association Inc, (**ISDA**) (an **ISDA Master Agreement**) together with one or more separate confirmations each evidencing a basis rate swap transaction, a fixed/floating rate swap transaction and a interest rate cap transaction thereunder (together with the ISDA Master Agreement, the **Swap and Interest Rate Cap Agreement**);
- (k) the guarantee to be entered into on or prior to the Issue Date between the Issuer and the Swap and Interest Rate Cap Guarantor in relation to the guarantee provided to the Issuer by the Swap and Interest Rate Cap Guarantor in respect of the payment obligations of Banque AIG, London Branch under the Swap and Interest Rate Cap Agreement (together, the **Swap and Interest Rate Cap Guarantee**);
- (l) the corporate services agreement (the **Corporate Services Agreement**) to be entered into on or prior to the Issue Date between, *inter alios*, Structured Finance Management Limited (the **Corporate Services Provider**), the Share Trustee, Holdings and the Issuer pursuant to which the Corporate Services Provider will agree to provide certain corporate services to the Issuer and Holdings;
- (m) the Issuer's interest in the Mortgages secured by way of first ranking standard securities over heritable and long leasehold residential properties located in Scotland (the **Scottish Mortgages**) (comprising the Issuer's beneficial interest under a trust over the Scottish Mortgages, the Mortgage Loans secured thereby and certain collateral security relative to those Mortgages declared by the Seller in favour of the Issuer on the Issue Date pursuant to the Mortgage Sale Agreement (the **Scottish Declaration of Trust**) and any trusts supplemental

thereto in respect of any Scottish Mortgages sold by the Seller to the Issuer pursuant to the Mortgage Sale Agreement after the Issue Date (the **Supplemental Declarations of Trust**));

- (n) the Issuer Accounts and any other bank account in which the Issuer has an interest;
- (o) the Issuer's interests in the insurance contracts relating to the Mortgage Loans; and
- (p) all other contracts, agreements, deeds and documents entered into by the Issuer from time to time.

The Notes, MERCs, Residuals and the other obligations of the Issuer under the Transaction Documents will also be secured by a floating charge (ranking after the fixed security referred to above) over the whole of the undertaking, property and assets and rights of the Issuer which are not at any time, covered by the fixed security described above, and extending over all of the Issuer's Scottish and Northern Irish assets, including those covered by fixed security. The fixed and floating charges are together the **Security**, and such assets of the Issuer subject to the Security are together the **Charged Assets**. As a matter of English and Northern Irish law, certain of the charges which are expressed as fixed charges may only take effect as floating charges.

The Charged Assets will also secure amounts payable by the Issuer to the Noteholders, the MERC Holders, the Residual Holders, any receiver, the Trustee, the Cash Manager, the Administrator, the Corporate Services Provider, the Standby Administrator, the Account Bank, the Liquidity Provider, the Swap and Interest Rate Cap Provider, the Seller and the agents appointed under the Paying Agency Agreement, pursuant to the Trust Deed, the Cash Management Agreement, the Administration Agreement, the Standby Administration Agreement, the Bank Agreement, the Liquidity Facility Agreement, the Swap and Interest Rate Cap Agreement, the Corporate Services Agreement, the Mortgage Sale Agreement, the Paying Agency Agreement and the Deed of Charge (and any supplements thereto) according to their respective interests (the **Secured Creditors**).

The Deed of Charge will contain provisions regulating the priority of application of the Charged Assets (and proceeds thereof) among the persons entitled thereto after enforcement of the Security. Such priorities are described in **Condition 2(d)**.

Discount Reserve Account, Reserve Account, Pre-Funded Loans Interest Shortfall and Liquidity Facility

Amounts standing to the credit of the Discount Reserve Account, amounts standing to the credit of the Reserve Account, a Pre-Funded Loans Interest Shortfall and a Liquidity Facility (each as more particularly described under *Issuer Accounts* and/or *Credit Structure*) will be available to the Issuer to make good certain shortfalls of funds available to the Issuer to meet its

obligations as described under *Credit Structure*.

Bank Accounts

It is a condition of the Mortgage Loans that scheduled payments in respect of the Mortgage Loans be paid initially by direct debit. All such direct debit payments are paid into a collections account held with the Account Bank in the name of the Seller (the **Collections Account**). Payments received from Borrowers in respect of the Mortgage Loans other than by direct debit (including unscheduled principal prepayments, receipts in respect of Mortgage Early Repayment Charges, receipts in respect of valuation and other third party fees and any receipts in respect of scheduled payments paid by means other than direct debit) are paid into an operating account held with the Account Bank in the name of the Seller (the **Operating Account**). Amounts paid by the Issuer in respect of the purchase of the Further Advances shall be paid into a further advances account held with the Account Bank in the name of the Seller (the **Further Advances Account**).

Amounts standing to the credit of the Collection Account and the Operating Account representing receipts in respect of the Mortgage Loans other than certain amounts to be retained by the Administrator (comprising late payment fees, valuation fees, post completion administration charges and charges incurred in connection with arrears or default recovery) will be transferred on each business day to an account in the name of the Issuer (the **Issuer Transaction Account**) held with the Account Bank.

On the Issue Date, the Issuer will deposit £2,096,997.76 into the Discount Reserve Account and £5,250,000 into the Reserve Account. Such amounts will be available in certain circumstances to make good certain shortfalls of funds available to the Issuer to meet its obligations as described under *Credit Structure*.

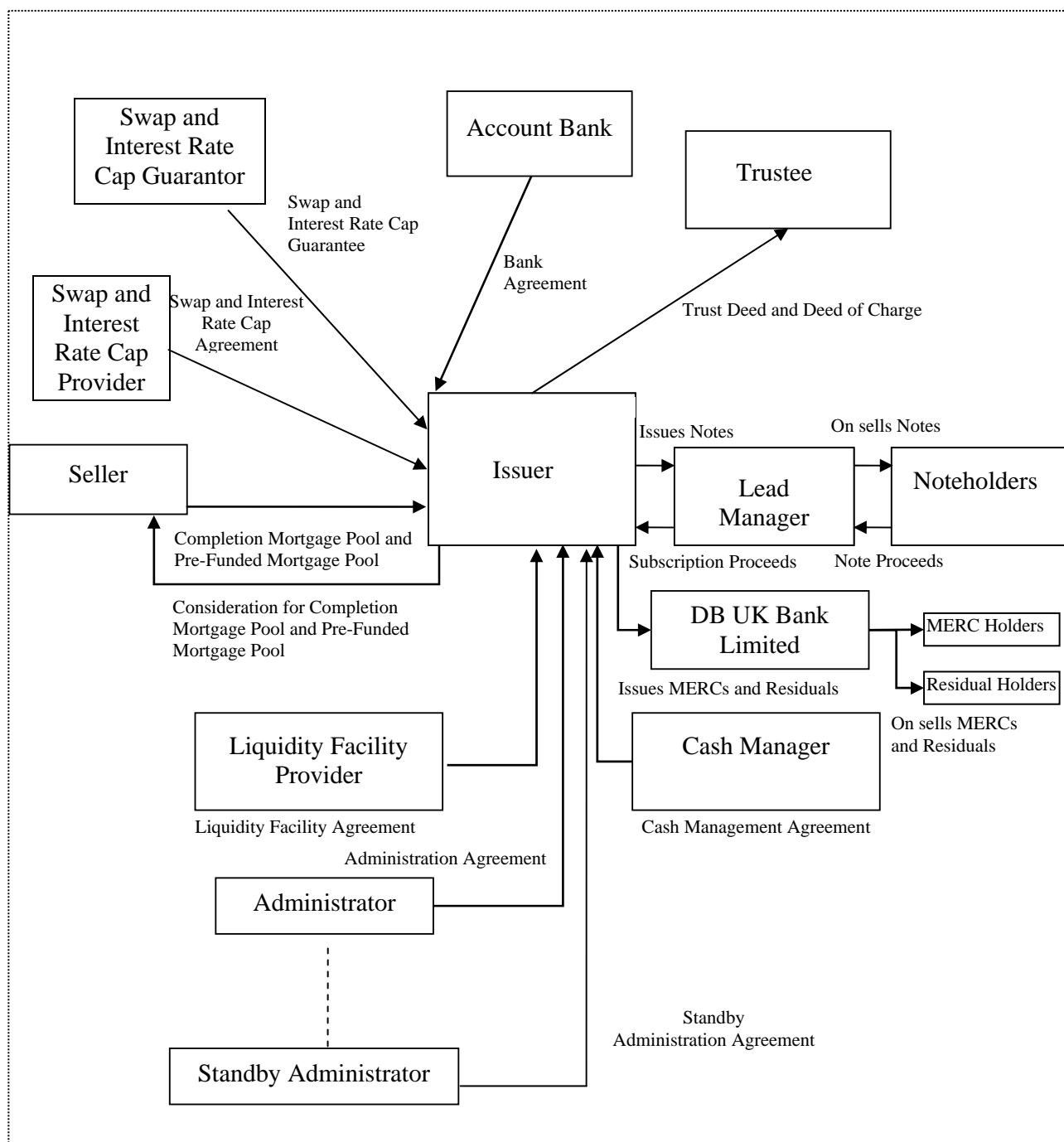
The Issuer Transaction Account, the Discount Reserve Account and the Reserve Account are together, the **Issuer Accounts**.

The Swap and Interest Rate Cap Guarantee

The Issuer will have the benefit of a guarantee from American International Group, Inc. in respect of all payment obligations of Banque AIG, London Branch under the Swap and Interest Rate Cap Agreement, pursuant to a guarantee, together, the **Swap and Interest Rate Cap Guarantee**.

STRUCTURE DIAGRAM

This structure diagram is an indicative summary of the proposed structure of the transaction at issuance of the Notes, MERCs and Residuals. This structure diagram must be read in conjunction with, and is qualified in its entirety by, the detailed information presented elsewhere in this Offering Circular.



RISK FACTORS

The following is a summary of certain aspects of the issue of the Notes about which prospective investors should be aware, but it is not intended to be exhaustive. Prospective investors should carefully consider the risk factors set out in this summary, in addition to the other information contained in this Offering Circular, in evaluating whether to purchase the Notes.

Risks Related to the Notes

Limited Recourse Obligations

The Notes represent obligations of the Issuer and do not constitute obligations or responsibilities of, or guarantees by, any other person (including the Seller, the Trustee, the Account Bank, the Standby Administrator, the Cash Manager, the Administrator, the Managers, the Liquidity Provider, the Swap and Interest Rate Cap Provider, the Corporate Services Provider, the Swap and Interest Rate Cap Guarantor, any agents appointed under the Paying Agency Agreement or any affiliates of any of the foregoing). The Issuer will rely primarily on monies received or recovered on the Mortgage Loans (whether by way of monthly payments, enforcement, disposal of the Mortgage Loans or otherwise). The Issuer may, in certain circumstances, obtain some monies from amounts standing to the credit of the Reserve Account and the Discount Reserve Account and may, in certain circumstances, be entitled to the receipt of funds (if available to be drawn) under the Liquidity Facility Agreement and to the a Pre-Funded Loans Interest Shortfall, in each case, to enable it to make payments in respect of the Notes other than in respect of payments of principal on the C Notes in some circumstances.

In the event that the proceeds of enforcement against the Security are insufficient (after payment of all other claims ranking higher in priority to or *pari passu* with amounts due under the Notes), the Issuer's obligation to pay such amounts will cease and the Noteholders will have no further claim against the Issuer in respect of such unpaid amounts, in which event the Issuer's liability to discharge the then unpaid amounts will be extinguished. Enforcement of the security created pursuant to the Deed of Charge is, therefore, the only remedy available for the purpose of recovering amounts owed in respect of the Notes. It should be noted that in certain limited circumstances, the Issuer will not be able to make any drawings under the Liquidity Facility Agreement.

Other than as provided in the Mortgage Sale Agreement, the Issuer and the Trustee will have no recourse to the Seller or any other entity (see *Risks Related to the Mortgage Loans – Limitation of the Seller's Liability* below).

Yield and Prepayment Considerations

The yield to maturity of the Notes of each class will depend on, among other things, the amount and timing of payment of principal (including full and partial prepayments, sale proceeds arising on enforcement of a Mortgage Loan or repurchases by the Seller due to breaches of warranties under the Mortgage Sale Agreement or repurchases by the Seller as a result of a request of a Borrower to convert their current Mortgage Loan into a mortgage loan of a different type or to change their Mortgage Loan to a different property or repurchases by the Seller of Mortgage Loans as a result of a Further Advance made to a Borrower in respect of such Mortgage Loan where such Further Advance does not satisfy certain conditions, or repurchases by the Seller of certain Newly Originated Loans on the Payment Date following the Newly Originated Loan Qualifying Date) on the Mortgage Loans, the Further Advances, the amount of Pre-Funded Mortgage Loans in the Mortgage Pool and the price paid by the Noteholders for the Notes. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments on the Mortgage Loans.

The rate of prepayment of the Mortgage Loans cannot be predicted and is 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 that the Mortgage Pool will experience. See *Weighted Average Lives of the Notes*.

Principal prepayments in full may result in connection with refinancings, sales of Properties by Borrowers voluntarily or as a result of enforcement proceedings under the relevant Mortgage, as well as the receipt of proceeds from building insurance policies. In addition, repurchases of Mortgage Loans will have the same effect as a prepayment in full of such Mortgage Loans.

Subordination of the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes and the C Notes

To the extent set forth in **Condition 2** (including, for clarity, **Condition 2(d)**), (a) the M1 Notes are subordinate in right of payment to the A Notes; (b) the M2 Notes are subordinate in right of payment to the A Notes and the M1 Notes; (c) the B1 Notes are subordinate in right of payment to the A Notes, the M1 Notes and the M2 Notes; (d) the B2 Notes are subordinate in right of payment to the A Notes, the M1 Notes, the M2 Notes and the B1 Notes and (e) the C Notes are subordinate in right of payment to the A Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes. See also *Credit Structure – Subordination of the M1 Notes, M2 Notes, B1 Notes, B2 Notes and C Notes*.

In respect of the interests of Noteholders, the Trust Deed will contain provisions requiring the Trustee to have regard to the interests of the Noteholders 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 the interests of:

- (a) the A Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the A Noteholders and those of the M1 Noteholders and/or those of the M2 Noteholders and/or those of the B1 Noteholders and/or those of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (b) the M1 Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the M1 Noteholders and those of the M2 Noteholders and/or those of the B1 Noteholders and/or those of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (c) the M2 Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the M2 Noteholders and/or those of the B1 Noteholders and/or those of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (d) the B1 Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the B1 Noteholders and/or those of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (e) the B2 Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (f) the C Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the C Noteholders and those of the MERC Holders and/or those of the Residual Holders;
- (g) the M1 Noteholders following redemption in full of the A Notes;
- (h) the M2 Noteholders following redemption in full of the A Notes and the M1 Notes;

- (i) the B1 Noteholders following redemption in full of the A Notes, the M1 Notes and the M2 Notes;
- (j) the B2 Noteholders following redemption in full of the A Notes, the M1 Notes, the M2 Notes and the B1 Notes; and
- (k) the C Noteholders following redemption in full of the A Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes.

If, upon default by Borrowers and after exercise on behalf of the Issuer of all available remedies in respect of the applicable Mortgage Loans, the Issuer does not receive the full amount due from such Borrowers, Noteholders may receive by way of principal repayment an amount less than the face amount of the Notes and the Issuer may be unable to pay in full interest due on the Notes. On any Payment Date, any such losses on the Mortgage Loans shall, to the extent that there are Available Revenue Funds sufficient to be applied towards item (vii), (ix), (xi), (xiii) and (xv) of the Pre-Enforcement Revenue Priority of Payments (or any of such items), be covered by such application of Available Revenue Funds and to the extent that such application of Available Revenue Funds is insufficient to cover such losses in full, such losses (or such amount thereof as has not been covered by application of Available Revenue Funds) will be allocated in the following manner: (a) first as withdrawals from the Reserve Account, to the extent of the funds on deposit therein on such Payment Date and subject to such withdrawals being permitted; (b) secondly to the B2 Principal Deficiency Sub-Ledger, until the amount on such sub-ledger is equal to the B2 Note Principal Deficiency Limit; (c) thirdly to the B1 Principal Deficiency Sub-Ledger, until the amount on such sub-ledger is equal to the B1 Note Principal Deficiency Limit; (d) fourthly to the M2 Principal Deficiency Sub-Ledger, until the amount on such sub-ledger is equal to the M2 Note Principal Deficiency Limit; (e) fifthly to the M1 Principal Deficiency Sub-Ledger, until the amount on such sub-ledger is equal to the M1 Note Principal Deficiency Limited; and (f) thereafter, to the A Principal Deficiency Sub-Ledger. The application of Available Revenue Funds towards redemption of certain of the Notes as described above will reduce the amounts that would otherwise be available to make payment of amounts of interest accruing on, or principal in respect of, the C Notes.

Interest on the C Notes is payable only from the Available Revenue Funds or, after enforcement of the Notes pursuant to **Condition 10**, from the proceeds of enforcement of the Security. Principal on the C Notes is payable in most circumstances from the Available Revenue Funds (other than amounts standing to the credit of the Reserve Account). Amounts of principal repaid or prepaid under the Mortgage Loans and amounts standing to the credit of the Reserve Account will not be available to make any payments of principal in respect of the C Notes other than after the enforcement of the Notes pursuant to **Condition 10** and other than as set out below. As set out further below, drawings under the Liquidity Facility or withdrawals from the Standby Account will not be available to make any payments of interest or principal in respect of the C Notes. The ability of the Issuer to make payments of interest and principal under the C Notes is likely to be sensitive to delinquencies and losses on the Mortgage Loans, as these are likely to reduce amounts of cash available for application towards payment of interest and principal on the C Notes. Delays by Borrowers in making payments under the Mortgage Loans may lead to the Issuer having insufficient funds on any given Payment Date to make payment in full of all amounts referred to in the Pre-Enforcement Revenue Priority of Payments.

The A Notes, M Notes and B Notes may, in the above circumstances, benefit from drawings made by the Issuer under the Liquidity Facility or withdrawals from the Standby Account (where applicable) which will be available to meet certain payments of interest under the Notes. No such drawings will be available to make payment of amounts accruing to the C Notes and the repayment of the amounts drawn under the Liquidity Facility from subsequent payments made by Borrowers under their Mortgage Loans may reduce the amounts that would otherwise be available to be paid to the C Notes on Payment Dates which fall after the drawing under the Liquidity Facility.

Amounts standing to the credit of the Reserve Account will not be available for making payments of principal in respect of the C Notes other than (i) when the Reserve Account Required Amount is reduced on

a Payment Date following a Reserve Account Determination Date, (ii) following the enforcement of the Notes and the application of funds pursuant to the Post-Enforcement Priority of Payments, or (iii) at the final redemption of the Notes, when all amounts standing to the credit of the Reserve Account will be released towards payment of amounts due and payable by the Issuer in accordance with the Pre-Enforcement Revenue Priority of Payments. In each case, application of any of such funds in or towards payment of amounts to the C Noteholders will be dependent on there being sufficient amounts available to the Issuer after paying in full all amounts owing in priority to the C Notes in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments, as the case may be.

At the Issue Date, the aggregate principal amount of the Notes which rank senior in priority to the C Notes is approximately 100 per cent. of the face value of the Mortgage Loans. Accordingly, the principal amount of the C Notes at the Issue Date is not represented by the principal amount of the Mortgage Loans. At the Issue Date, the aggregate of the amount deposited into the Reserve Account will be 1.5 per cent of the aggregate principal amount of the Notes. However, amounts standing to the credit of the Reserve Account are unlikely, other than in limited circumstances as set out above, to be available to apply in or towards payment of principal amounts payable to the C Noteholders.

If and to the extent that the Issuer acquires Mortgage Loans that are also Discounted Loans, the amounts available to pay principal in respect of the C Notes may be reduced, to the extent that the Issuer is required to deposit amounts into the Discount Reserve Account as a result of an increase in the Discount Reserve Required Amount.

Optional Redemption

Although the Issuer is entitled to redeem the Notes at its option (as to which see **Condition 5**) when the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10 per cent. of the initial aggregate Principal Amount Outstanding of the Notes, it is not obliged to do so.

The ability of the Issuer to redeem the Notes in the circumstances outlined above will be dependent primarily upon its ability to sell or refinance the Mortgage Pool for an amount sufficient to enable the Issuer to make payments of all sums due to Noteholders upon any such redemption and to pay or make provision for all amounts ranking in priority thereto. Accordingly, if the Issuer is unable to raise sufficient redemption funds, whether by sale or refinance of the Mortgage Pool or otherwise, the Issuer will not be able to exercise its rights of optional early redemption of the Notes.

Newly Originated Loans

The Pre-Funded Mortgage Pool will consist of Newly Originated Loans being Mortgage Loans in respect of which the first Monthly Payment has not fallen due as at the date of purchase of such Newly Originated Loan by the Issuer. The aggregate amount of Newly Originated Loans will not, however, exceed £50,000,000 in value. Pursuant to the Mortgage Sale Agreement, the Seller shall be obliged to repurchase any Newly Originated Loans in respect of which the first Monthly Payment has not been received by the Issuer in cleared funds on or before the Newly Originated Loan Qualifying Date. If the Seller is required to repurchase a Newly Originated Loan in the circumstances outlined above, such Newly Originated Loan shall be either repurchased by the Seller pursuant to the terms of the Mortgage Sale Agreement or replaced with a Substitute Mortgage Loan (including a Pre-Funded Mortgage Loan) provided that such Substitute Mortgage Loan is not a Newly Originated Loan and further provided that the other applicable conditions for such Substitute Mortgage Loan are met.

Pre-Funded Mortgage Pool

If the purchase price for the Pre-Funded Mortgage Pool is less than 100 per cent. of the Pre-Funded Mortgage Pool Amount, a prepayment of principal to the holders of the Notes will result. A prepayment of principal on the Notes will also result if there are not sufficient Substitute Mortgage Loans to replace any

Newly Originated Loans repurchased by the Seller on the Payment Date following the Newly Originated Loan Qualifying Date. Further, if the amount required to be applied in accordance with the Pre-Enforcement Revenue Priority of Payments is less than the sum of the Pre-Funded Mortgage Pool Interest Shortfall and the interest earned on the Pre-Funded Mortgage Pool Amount, a payment of principal to the holders of the C Notes may result.

In addition, prior to the purchase of the Pre-Funded Mortgage Pool, each Pre-Funded Mortgage Loan must comply with certain conditions, including, among others, that the Pre-Funded Mortgage Loans, as at the relevant Eligible Date, must conform to the representations and warranties specified in the Mortgage Sale Agreement (except that in the case of the Newly Originated Loans the first Monthly Payment has not fallen due). Upon inclusion of the Pre-Funded Mortgage Loans in the Mortgage Pool, the aggregate characteristics of the Mortgage Loans in the Mortgage Pool will likely vary from those of the Initial Mortgage Pool. There can be no certainty that the Pre-Funded Mortgage Pool will have a similar proportion of Mortgage Loans under the terms of which monthly instalments covering both interest and principal are paid by the Borrower until the Mortgage Loan is fully repaid by its maturity (the **Repayment Mortgage Loans**), Mortgage Loans in respect of which the Borrower is obliged to pay interest only during the term of that Mortgage Loan with the entire principal amount being payable only upon the relevant maturity date (the **Interest Only Mortgage Loans**), owner occupied properties and non-owner occupied properties or other characteristics as the Initial Mortgage Pool.

Basis Rate Risks

Payments of interest on the Notes will be made by the Issuer calculated by reference to Note LIBOR, but in some cases payments will be received by the Issuer from the Borrowers under the Mortgage Loans calculated by reference to the Bank of England base rate. In order to mitigate the Issuer's exposure to a divergence between Note LIBOR and the Bank of England base rate, the Issuer will enter into a basis rate swap transaction (the **Basis Rate Swap**, as described more fully under the section entitled *The Basis Rate Swap*) under the Swap and Interest Rate Cap Agreement with the Swap and Interest Rate Cap Provider.

If the Issuer does not have sufficient funds to make the full payment in respect of amounts due under the Basis Rate Swap, the amount payable by the Swap and Interest Rate Cap Provider in respect of the Basis Rate Swap will be reduced proportionately by a corresponding amount and such unpaid amounts will be deferred until the Issuer has sufficient funds to pay the relevant amounts. Such event will not give rise to an event of default or termination event in respect of the Basis Rate Swap under the Swap and Interest Rate Cap Agreement.

If the Swap and Interest Rate Cap Provider terminates the Basis Rate Swap or if the Swap and Interest Rate Cap Provider defaults in its obligations under the Basis Rate Swap to make payments of amounts determined by reference to Note LIBOR equal to the full amount to be paid to the Issuer on the payment dates under the Swap and Interest Rate Cap Agreement, the Issuer will be exposed to changes in interest rates and could have insufficient funds to enable it to make payments under the Notes.

If the Swap and Interest Rate Cap Provider defaults under the Basis Rate Swap, the Issuer will have the right under certain circumstances to terminate the Basis Rate Swap. Upon such termination the Issuer is obliged to obtain a replacement swap. There can be no assurance that a suitable swap provider could be so obtained. Unless a suitable replacement swap is entered into, the Issuer would be exposed to interest rate risks in connection with the Notes.

The Swap and Interest Rate Cap Guarantor will provide the Issuer with a guarantee in respect of all of the payment obligations of Banque AIG, London Branch under the Swap and Interest Rate Cap Agreement.

Fixed/Floating Rate Risks

Payments of interest on the Notes will be made by the Issuer calculated by reference to Note LIBOR, but in some cases payments will be received by the Issuer from the Borrowers under the Mortgage Loans calculated by reference to fixed interest rates. In order to mitigate the Issuer's exposure to a divergence between Note LIBOR and such fixed interest rates, the Issuer will enter into a fixed/floating rate swap transaction (the **Fixed/Floating Rate Swap**, as described more fully under the section entitled *The Fixed/Floating Rate Swap*) under the Swap and Interest Rate Cap Agreement with the Swap and Interest Rate Cap Provider.

If the Issuer does not have sufficient funds to make the full payment in respect of amounts due under the Fixed/Floating Rate Swap, the amount payable by the Swap and Interest Rate Cap Provider in respect of the Fixed/Floating Rate Swap will be reduced proportionately by a corresponding amount and such unpaid amounts will be deferred until the Issuer has sufficient funds to pay the relevant amounts. Such event will not give rise to an event of default or termination event in respect of the Fixed/Floating Rate Swap under the Swap and Interest Rate Cap Agreement.

If the Swap and Interest Rate Cap Provider terminates the Fixed/Floating Rate Swap or if the Swap and Interest Rate Cap Provider defaults in its obligations under the Fixed/Floating Rate Swap to make payments of amounts determined by reference to Note LIBOR equal to the full amount to be paid to the Issuer on the payment dates under the Swap and Interest Rate Cap Agreement, the Issuer will be exposed to changes in interest rates and could have insufficient funds to enable it to make payments under the Notes.

If the Swap and Interest Rate Cap Provider defaults under the Fixed/Floating Rate Swap, the Issuer will have the right under certain circumstances to terminate the Fixed/Floating Rate Swap. Upon such termination the Issuer is obliged to obtain a replacement swap. There can be no assurance that a suitable swap provider could be so obtained. Unless a suitable replacement swap is entered into, the Issuer would be exposed to interest rate risks in connection with the Notes.

The Swap and Interest Rate Cap Guarantor will provide the Issuer with a guarantee in respect of all of the payment obligations of Banque AIG, London Branch under the Swap and Interest Rate Cap Agreement.

Shortfall arising from Discounted Mortgage Loans

The initial Mortgage Pool contains Discounted Mortgage Loans. In order to address the Loan Expected Differential which will arise in respect of the Discounted Mortgage Loans in the Mortgage Pool (including the Pre-Funded Mortgage Pool), on the Issue Date the Issuer will deposit monies into the Discount Reserve Account using part of the proceeds of a fee paid by DB UK Bank Limited (for the definition of terms used see *Credit Structure – Discount Reserve Account*).

Termination Payments on the Swap and Interest Rate Cap Agreement

If the Swap and Interest Rate Cap Agreement terminates, the Issuer may be obliged to make a termination payment to the Swap and Interest Rate Cap Provider in respect of the Basis Rate Swap and/or the Fixed/Floating Rate Swap. The amount of the termination payment will be based on the cost of entering into a replacement basis rate swap agreement and/or fixed/floating rate swap agreement. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment due under the Swap and Interest Rate Cap Agreement.

Except where the Swap and Interest Rate Cap Provider has caused the Basis Rate Swap and/or Fixed/Floating Rate Swap to terminate as a result of the Swap and Interest Rate Cap Provider's own default or ratings downgrade, any termination payment due by the Issuer following termination of the Basis Rate Swap and/or Fixed/Floating Rate Swap will also rank in priority to the Notes.

Therefore, if the Issuer is obliged to make a termination payment to the Swap and Interest Rate Cap Provider or pay any other additional amounts as a result of the termination of the Basis Rate Swap and/or the Fixed/Floating Rate Swap, this could affect the Issuer's ability to make timely payments on the Notes.

In the event that the Issuer was to fail to perform its obligations under the respective agreements to which it is a party, investors may be adversely affected.

Limited Liquidity

There is not, at present, an active and liquid secondary market for the Notes. There can be no assurance that a secondary market for the Notes will develop or, if a secondary market does develop, that it will provide Noteholders with liquidity of investment or that it will continue for the life of the Notes. To date, no underwriter has indicated that they intend to establish a secondary market in the Notes. See *Notice to Investors*.

Definitive Notes and denominations in integral multiples

The Notes have a denomination consisting of a minimum authorised denomination of £50,000 plus higher integral multiples of £1,000. Accordingly, it is possible that the Notes may be traded in amounts in excess of the minimum authorised denomination that are not integral multiples of such denomination. In such a case, if definitive Notes are required to be issued, a Noteholder who holds a principal amount less than the minimum authorised denomination at the relevant time may not receive a definitive Note in respect of such holding and may need to purchase a principal amount of Notes such that their holding amounts to the minimum authorised denomination (or another relevant denomination amount).

If definitive Notes are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum authorised denomination may be illiquid and difficult to trade. No Definitive Notes will be issued with a denomination above £99,000.

Interest Rate Matching

Interest on the Notes is payable at a rate equal to Note LIBOR plus the applicable margin. Certain of the Mortgage Loans in the Initial Mortgage Pool accrue interest on the same basis as the Notes at a rate (which is either a discounted rate for a certain period or a rate applying after the expiry of an initial fixed period) equalling a specified margin over Note LIBOR. Certain of the Mortgage Loans in the Mortgage Pool accrue interest at a rate (which is either a discounted rate for a certain period or a rate applying after the expiry of an initial fixed period) equalling a specified margin over the Bank of England base rate. In the event that the Bank of England base rate, the fixed rate and LIBOR diverge such that LIBOR is significantly higher than the Bank of England base rate and/or the fixed rate, the Issuer may not receive sufficient income from the Mortgage Loans linked to the Bank of England base rate and/or from the fixed rate loans to meet its obligations due under the Notes. The Issuer will, however, enter into a basis rate swap and a fixed/floating rate swap with the Swap and Interest Rate Cap Provider to address risk arising as a result of such divergence. See further *Basis Rate Risks* and *Fixed/Floating Rate Risks*.

Risks Related to the Mortgage Loans

Lending Criteria

The Mortgage Pool will include Mortgage Loans to Borrowers who (a) may previously have been subject to one or more County Court Judgments or the Scottish or Northern Irish equivalent (**CCJs**), Individual Voluntary Arrangements or the Scottish equivalent (**IVAs**) or Bankruptcy Orders or the Scottish equivalent (**BOs**); (b) are self-employed; and/or (c) are otherwise considered by bank and building society lenders to be non-conforming borrowers (**Non-Conforming Borrowers**). Mortgage Loans made to Non-Conforming Borrowers are generally likely to experience higher rates of delinquency, write-offs, enforcement and

bankruptcy than have historically been experienced by mortgage loans made to standard borrowers and therefore carry a higher degree of risk. The Lending Criteria are more fully described in *The Mortgage Pool – Lending Criteria*.

Limitation of the Seller's Limited Liability

Neither the Managers, the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions in respect of the Mortgage Loans and their related Mortgages and the Issuer and the Trustee will rely instead on the warranties given by the Seller in the Mortgage Sale Agreement (the **Warranties**). The remedies provided for in the Mortgage Sale Agreement (subject to the relevant cure period as set out in the Mortgage Sale Agreement and save as described below) of each of the Issuer and the Trustee in respect of a breach of warranty which could have a material adverse effect on the relevant Mortgage Loan and related Mortgage (other than where such breach was disclosed and/or waived at the point of sale to the Issuer), shall be for the Seller to repurchase, or substitute a Substitute Mortgage Loan in replacement for, any Mortgage Loan which is the subject of such breach, provided that neither shall limit any other remedies available to the Issuer and/or Trustee if the Seller fails to repurchase a Mortgage Loan, or substitute a Substitute Mortgage Loan when obliged to do so. There can be no assurance that the Seller will have the financial resources to honour such obligations under the Mortgage Sale Agreement. Such obligations are not guaranteed by nor will they be the responsibility of any person other than the Seller and neither the Issuer nor the Trustee will have recourse to any other person in the event that the Seller, for whatever reason, fails to meet such obligations. See *Sale of the Mortgage Pool – Warranties and Repurchase*.

Collectability of Loans

The collectability of the Mortgage Loans is subject to credit, liquidity and interest rate risks and will generally vary in response to, among other things, market interest rates, general economic conditions, the financial standing of Borrowers and other similar factors. Other factors such as loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies and bankruptcy filings by Borrowers and could ultimately have an adverse impact on the ability of Borrowers to repay Mortgage Loans.

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 Loan will depend upon a number of factors including the age of the Borrower, availability of buyers for the Property and property values in general at the time.

Risks of Losses Associated with Declining Property Values

The Security for the Notes consists of the Charged Assets. This Security may be affected by, among other things, a decline in the value of the Properties. No assurance can be given that the values of the Properties have remained or will remain at the level at which they were on the dates of origination of the related Mortgage Loans. If the residential property market in the United Kingdom should experience a decline in property values, such a decline could in certain circumstances result in the value of the Related 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.

Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than will other regions and, consequently, will experience higher rates of loss and delinquency on mortgage loans generally. Such concentrations may present risk considerations in addition to those generally present for similar mortgage backed securities without such concentrations. See *Characteristics of the Initial Mortgage Pool*.

Investors should be aware that, other than the valuation of Properties undertaken as at origination (as more fully described in *The Mortgage Pool – Valuation*), no revaluation of any Property has been undertaken by

the Seller, the Issuer, the Administrator, the Trustee or any other person in respect of the transactions described in this document.

Risk of Losses Associated with Interest Only Mortgage Loans

Certain of the Mortgage Loans constitute Interest Only Mortgage Loans (see *Characteristics of the Initial Mortgage Pool*). Interest Only Mortgage Loans are originated with a requirement that the Borrower pay scheduled interest payments only during the term of the Interest Only Mortgage Loans, with the principal amount of the Interest Only Mortgage Loans being due upon maturity. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest Only Mortgage Loan, the Borrower will be required to make a bullet payment that will represent the entirety of the principal amount outstanding. The ability of such a Borrower to repay an Interest Only Mortgage Loan at maturity frequently depends on such Borrower's ability to refinance the Property or to obtain funds from another source such as pension policies, personal equity plans or endowment policies. The Seller has not required that such policies be established with respect to any Interest Only Mortgage Loans nor has it required that the benefit of any such policies be assigned to it. The only security that exists will therefore be the Mortgage covering the Property. The ability of a Borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the Borrower's equity in the Property, the financial condition of the Borrower, tax laws and general economic conditions at that time.

Risk of Losses Associated with Non-Owner Occupied Properties

Certain of the Properties are not owner occupied. These Properties are generally rented to tenants by the relevant Borrowers. It is possible that the rate of delinquencies, enforcement and losses on Mortgage Loans secured by non-owner occupied properties could be higher than for Mortgage Loans secured by the primary residence of the Borrower and it could be difficult to gain possession of the Properties on enforcement of the relevant Mortgages. See *Characteristics of the Initial Mortgage Pool*.

Realisation of Charged Assets and Liquidity Risk

The ability of the Issuer to redeem all the Notes in full and to pay all amounts due to the Noteholders, including after the occurrence of an Event of Default may depend upon whether the Mortgage Loans can be realised to obtain an amount sufficient to redeem the Notes. There is not at present an active and liquid secondary market in the United Kingdom for loans with characteristics similar to the Mortgage Loans. It may not, therefore, be possible for the Issuer or, as the case may be, the Trustee or a receiver to sell the Mortgage Loans on appropriate terms should such a course of action be required.

Administration of the Mortgage Loans and Reliance on Third Parties

The Administrator has entered into an outsourcing agreement with VMS whereby VMS provides all mortgage origination, processing, settlement and administration services to the Administrator in relation to the mortgage loans the Administrator owns, including the Mortgage Loans.

Notwithstanding the sub-contracting to VMS or any other sub-contracting or delegation of the performance of any of its obligations under the Administration Agreement, the Administrator will remain primarily responsible to the Issuer and the Trustee, for the performance of its obligations under the Administration Agreement and shall procure that certain administration functions are carried out by VMS. See *Administration of the Mortgage Pool – Sub-Contracting by the Administrator*.

If the appointment of the Administrator is terminated under the Administration Agreement, it would be necessary for the Standby Administrator to assume responsibility for the mortgage origination, settlement, processing and administration functions in accordance with the terms of the Administration Agreement. The ability of the Standby Administrator to fully perform the required services would depend on the information, software and records available at the time of the relevant appointment.

The Issuer will be a party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Liquidity Provider has agreed to provide the Issuer with the Liquidity Facility, the Swap and Interest Rate Cap Provider has agreed to provide the Issuer with the Interest Rate Cap, the Basis Rate Swap and the Fixed/Floating Rate Swap, the Swap and Interest Rate Cap Guarantor has agreed to provide the Issuer with a guarantee in respect of the payment obligations of Banque AIG, London Branch under the Swap and Interest Rate Cap Agreement, the Cash Manager has agreed to provide the Issuer with certain cash management services pursuant to the Cash Management Agreement, the Account Bank has agreed to provide the Issuer with certain banking services pursuant to the Bank Agreement and the Trustee, the Paying Agents and the Agent Bank have all agreed to provide services with respect to the Notes. If any of the above parties including VMS in relation to the outsourcing agreement referred to above, were to fail to perform their obligations under the respective agreements to which they are a party, investors may be adversely affected.

Insurance

It is a condition of each Mortgage Loan that each Property be insured for its full (index linked) reinstatement value (as stated in the valuation report in respect of the Property) with an acceptable insurance company and at the Borrower's cost (subject to certain exceptions in the case of leasehold properties). The Seller requires that the firm of solicitors acting on behalf of the Borrower informs it prior to completion if the insurance policy does not cover all required risks. Insurance policies must be in the joint names of the Seller and the Borrower (subject to certain exceptions in the case of leasehold properties). The Seller has the option to use any monies received under any insurance policy affecting the property to make good the loss or damage in respect of which the monies were received or to use them to reduce or repay the relevant Mortgage Loan.

Title of the Issuer

Legal title to the Mortgage Loans and (subject to registration at the Land Registry or Registers of Scotland or Northern Ireland Registries as applicable), their related Mortgages is currently vested in the Seller.

Legal title to the Mortgage Loans and their related Mortgages will only be transferred to the Issuer in the limited circumstances described under *Title to the Mortgage Pool*. Prior to the Issuer obtaining legal title to the Mortgages, a *bona fide* purchaser from the Seller for value of any of such Mortgage Loans without notice of any of the interests of the Issuer or the Trustee might obtain a good title free of any such interest. However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee in this way is likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, gross negligence or mistake on the part of the Seller or the Issuer or their respective personnel or agents. Further, the rights of the Issuer and the Trustee may be or become subject to the direct rights of the Borrowers against the Seller. Such rights may include the rights of set-off which arise in relation to transactions or deposits made between certain Borrowers and the Seller and the right of the relevant Borrowers to redeem their Mortgages by repaying the relevant Mortgage Loan directly to the Seller. These rights may result in the Issuer receiving less monies than anticipated from the Mortgage Loans.

For so long as neither the Issuer nor the Trustee has obtained legal title, the Seller will undertake for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required by the Issuer or the Trustee in relation to, any legal proceedings in respect of the Mortgage Loans and their related Mortgages.

In order for legal title to be transferred to the Issuer, transfers and assignments would have to be registered or recorded at the Land Registry, the Land Register of Scotland or the Register of Sasines (the Land Register of Scotland and the Register of Sasines are collectively referred to as the **Registers of Scotland**) or the Land Registry of Northern Ireland and the Registry of Deeds of Northern Ireland (the **Northern Ireland Registries**) and notice would have to be given to Borrowers of the transfer. There is no legal justification for Borrowers withholding payments because of a change in ownership of their mortgages. However, there can

be no assurance that the giving of notice to Borrowers of the transfer to the Issuer would not have an adverse effect on cashflows and, accordingly, on the Issuer's ability to make payments in respect of the Notes.

Enforcement

Even assuming that the Properties provide adequate security for the Mortgage Loans, delays could be encountered in connection with enforcement of the Mortgages and recovery of the Mortgage Loans with corresponding delays in the receipt of related proceeds by the Issuer.

In order to realise its security in respect of a Property, the relevant mortgagee (be it the legal owner or (in Scotland) heritable creditor (the Seller), the beneficial owner (the Issuer), the Trustee or its appointee (if the Trustee has taken enforcement action against the Issuer)) will need to obtain possession. There are two means of obtaining possession for this purpose: first, by taking physical possession (seldom done in practice, although more common in Scotland) and second, by obtaining a court order (and references throughout this Offering Circular to "court orders" and "orders" shall include references to "decrees", being the equivalent in Scotland).

If a mortgagee takes physical possession, it will, as mortgagee in possession, have an obligation to account to the Borrower for the income obtained from the Property, be liable for any damage to the Property, have a limited liability to repair the Property and, in certain circumstances, may be obliged to make improvements. In Scotland, these obligations also arise if possession is obtained by court order.

Actions for possession are regulated by statute and the courts have certain powers to adjourn possession proceedings, to stay any possession order or postpone the date for delivery of possession. The court will exercise such powers in favour of a Borrower, broadly, where it appears to the court that such Borrower is likely to be able, within a reasonable period, to pay any sums due under the Mortgage or to remedy any default consisting of a breach of any other obligation arising under or by virtue of the Mortgage.

The court has a very wide discretion in England and Wales, Scotland and Northern Ireland (subject to variation in the different jurisdictions), and may adopt a sympathetic attitude towards a Borrower faced with eviction. If a possession order in favour of the relevant mortgagee is granted, it may be suspended to allow the Borrower more time to pay. Once possession of the Property has been obtained, the relevant mortgagee has a duty to the Borrower to take reasonable care to obtain a proper price for the Property. Any failure to do so will put the relevant mortgagee at risk of an action for breach of such duty by the Borrower, although it is for the Borrower to prove breach of such duty. There is also a risk that a Borrower may also take court action to force the relevant mortgagee to sell the Property within a reasonable time.

General Regulatory Considerations

No assurance can be given that any relevant 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 UK generally, the particular sector in that market that pertains to the Seller or specifically in relation to the Seller. Any such action or developments may have a material adverse effect on the Mortgage Loans, the Seller, the Issuer or the Administrator and their respective businesses and operations. In particular, the cost of compliance with any such regulation, action or requirement may adversely affect the ability of the Issuer to meet its financial obligations under the Paying Agency Agreement, the Trust Deed, the Deed of Charge, the Mortgage Sale Agreement, the Administration Agreement, the Cash Management Agreement, the Bank Agreement, the Liquidity Facility Agreement, the Swap and Interest Rate Cap Agreement, the Bank Agreement, the Standby Administration Agreement, the Notes Subscription Agreement and the Corporate Services Agreement (all together the **Transaction Documents**).

Office of Fair Trading and Financial Services Authority

In February 2000, the Office of Fair Trading (the **OFT**) issued a guidance note (the **Guidance Note**) on what the OFT considers to be "fair" or "unfair" within the Unfair Terms in Consumer Contracts Regulations 1999 (the **1999 Regulations**) (see further below) for interest variation terms. The Guidance Note comments on a term linking an interest rate to an external rate 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.

Certain of the Mortgage Loans in the Initial Mortgage Pool are made on terms that provide for the mortgage rate (which is either a discounted rate for a certain period or a rate applying after the expiry of an initial fixed period) to be at a specified margin above LIBOR and that explain when and how the tracking will take effect. Certain of the Mortgage Loans in the Initial Mortgage Pool are made on terms that provide for the mortgage rate (which is either a discounted rate for a certain period or a rate applying after the expiry of an initial fixed period) to be at a specified margin above the Bank of England base rate and that explain when and how the tracking will take effect.

The Guidance Note does not apply to any period referred to above during which the applicable mortgage rate is fixed.

In view of mortgage regulation under the FSM Act by the Financial Services Authority (**FSA**) (as described below), the FSA and the OFT have agreed that the FSA has responsibility for the enforcement of the 1999 Regulations in respect of those mortgage agreements which are regulated mortgage contracts (as defined below) where the relevant firms are authorised by the FSA. 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.

It should also be noted, in the context of the OFT's investigation into credit card default charges, that the OFT on 5 April 2006 publicly announced that the principles that OFT considers should be applied in assessing the fairness of credit and default charges shall apply (or are likely to apply) also to analogous default charges in other agreements including mortgages.

Mortgage Loans Regulated by the FSM Act

The FSM Act requirements cover "regulated mortgage contracts" under the FSM Act.

Subject to any applicable exemption, each entity carrying on a regulated activity under the FSM Act is required to hold authorisation and permission from the FSA to carry on that activity. Generally, the carrying out of financial promotion activities relating to a regulated mortgage contract (or other credit agreement secured by a mortgage on land, where the lender carries on the regulated activity of entering into regulated mortgage contracts) has to be approved by a person holding authorisation and permission from the FSA. If such requirements as to financial promotions are not complied with, the regulated mortgage contract (or other credit agreement) is unenforceable against the borrower except with the approval of a court.

Further, under Section 150 of the FSM Act, a borrower would be entitled to claim damages for loss suffered as a result of any contravention of an FSA rule (including for example the FSA's Mortgages: Conduct of Business Sourcebook sets out the FSA's conduct of business rules in respect of regulated mortgage activities) by an authorised person thereunder. In the case of any such contravention by the originator, a borrower may claim such damages against the originator, or set off the amount of such claim against the amount owing by the borrower under the relevant mortgage loan or any other mortgage loan that the borrower has taken.

If any of the above were to apply in respect of the Mortgage Loans and/or the Seller (as applicable), any such unenforceability, claim or set-off may ultimately adversely affect the ability of the Issuer to make payments

to the Noteholders. In the case of any of the above applying to a Packager (as defined below) or to any other intermediary of the Seller, a Borrower may claim such damages against that Packager or intermediary, not the Seller, and thus no such set-off against any Mortgage Loan would apply in that case.

The Seller's mortgage origination business, the Packagers' mortgage business, the Administrator's mortgage origination and administration business and (depending on the circumstances) the mortgage business of any other intermediaries of the Seller from time to time constitute regulated activities. It is likely that the Issuer's business and the Trustee's business would not constitute a regulated activity, if the Issuer and Trustee arranged for mortgage administration to be carried out by an Administrator having the required permission. If such arrangement terminates, however, the Issuer and Trustee would have a period of no more than a month in which to arrange for mortgage administration to be carried out by any replacement Administrator having the required permission. The Seller has received all requisite authorisations and permissions from the FSA to carry on all of its activities in respect of the Mortgage Loans which were regulated activities on and from the start of its mortgage origination business. The Seller requires that each Packager hold all requisite authorisations and permissions to carry on any applicable regulated activities.

For the avoidance of doubt, it is intended that regulated mortgage contracts (as described above) will not be regulated by the Consumer Credit Act 1974 (the **Consumer Credit Act**) (regulations under the FSM Act are designed to clarify the position in this regard). A court order is necessary, however, to enforce a land mortgage or (as applicable) standard security securing a regulated mortgage contract to the extent that (if it were not a regulated mortgage contract) it would otherwise be regulated by the Consumer Credit Act or treated as such.

Distance Marketing

The Financial Services (Distance Marketing) Regulations 2004 (the **Distance Marketing Regulations**) apply to, *inter alia*, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A regulated mortgage contract under the FSM Act, if made by a UK originator from an establishment in the UK, will not be cancellable under the Distance Marketing Regulations (as described above). Any other credit agreement will be cancellable under the Distance Marketing Regulations if the borrower does not receive prescribed information at the prescribed time, or in any event for certain unsecured lending. If such applies, the borrower may send a notice of cancellation under the Distance Marketing Regulations at any time before the end of the fourteenth day after the day on which the cancellable agreement is made or, if later, the borrower receives the last of the prescribed information.

If a borrower cancels a credit agreement under the Distance Marketing Regulations, then:

- (a) the borrower is liable to repay the principal and any other sums paid by the originator to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower's sending notice of cancellation or, if later, the originator receiving notice of cancellation;
- (b) the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and
- (c) any security is to be treated as never having had effect for the cancelled agreement.

Unfair Terms in Consumer Contracts Regulations

The 1999 Regulations (as defined above) apply to agreements made on or after 1 July 1995 and affect all of the Mortgage Loans. The Unfair Terms in Consumer Contracts Regulations (**UTCCR**) provides that (a) a consumer may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR

and therefore not binding on the consumer and (b) the OFT, the FSA and any other "qualifying body" may seek to enjoin (or in Scotland, interdict) a business against relying on unfair terms, although the rest of the agreement will remain enforceable under the UTCCR if it is capable of continuing in existence without the unfair term.

This will not generally affect "core terms" of a mortgage contract, which set out the main subject matter of the contract (for example, a borrower's obligation to repay the principal), but may affect terms deemed to be ancillary terms, which may include terms of the application of which are in the lender's discretion, or the ability to impose a charge upon repayment by reference to the Mortgage Early Repayment Charges. See *Administration of the Mortgage Pool-Repayment*.

If a term imposing a charge upon redemption by reference to the Mortgage Early Repayment Charges is determined, in accordance with the 1999 Regulations, to be unfair, the Borrower will not be liable to pay such charge or, to the extent that he has paid it, will be able, as against the Seller or any assignee of an interest in the Mortgage Loans such as the Issuer, to claim restitution of the amount or to set off the amount of such claim against the amount owing by the Borrower under the relevant Mortgage Loan or any other mortgage loan that the Borrower has taken whether or not such mortgage loan is included in the Mortgage Pool. Any such non-recovery, claim or set-off may adversely affect the ability of the Issuer to make payments to the Noteholders.

In August 2002, the Law Commission and the Scottish Law Commission issued a joint consultation on proposals to consolidate the Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation, and a final report, together with a draft bill on unfair terms, was published in February 2005 (together, the **Joint Legislation**). It is not proposed in the Joint Legislation that there should be any significant increase in the extent of controls over terms in consumer contracts. Some changes are proposed, however, such as that (a) a consumer may also challenge a negotiated term in an agreement on the basis that it is unfair and unreasonable within the Joint Legislation and therefore not binding on the consumer and (b) in any challenge by a consumer (but not by the OFT, the FSA or any other qualifying body) of a standard term or a negotiated term, the burden of proof lies on the lender to show that the term is fair and reasonable. It is too early to tell how the proposals, if enacted, would affect the Mortgage Loans.

No assurance can be given that changes to the 1999 Regulations, if enacted, or changes to guidance on interest variation terms, if adopted, will not have a material adverse effect on the Mortgage Loans, the Seller, the Issuer, the Trustee or the Administrator and their respective businesses and operations.

Non-Status Lending Guidelines for Lenders and Brokers

The OFT issued Non-Status Lending Guidelines for Lenders and Brokers (the **Guidelines**) on 18 July 1997 (revised in November 1997). The Guidelines apply to all mortgage loans made to non-standard borrowers, defined for the purposes of the Guidelines as borrowers with a low or impaired credit rating. The Guidelines are therefore applicable to some of the Mortgage Loans in the Mortgage Pool. See *Mortgage Pool – General and Lending Criteria Categories*.

The actions of any broker or other intermediary involved in marketing the lender's products can jeopardise the lender's fitness to hold a consumer credit licence, and the Guidelines make clear that lenders must take all reasonable steps to ensure that such brokers and other intermediaries comply with the Guidelines and all relevant statutory requirements. This is so even if the lender has no formal or informal control or influence over the broker.

The Guidelines are not primary or subordinate legislation. As such, they set out certain "principles" to be applied in the context of the non-standard residential mortgage market. The Guidelines place certain constraints on lenders in the non-standard residential mortgage market in respect of matters such as advertisement of mortgage products, selling methods employed by lenders and their brokers, underwriting, dual interest rates and early redemption payments.

Charges payable on any early redemption (in whole or in part) are also restricted under the Guidelines. Essentially, partial repayments must be permitted and any early repayment charges must do no more than cover the costs reasonably incurred by the lender in processing the payments. Certain lenders had previously used the Rule of 78 to set the charges due from borrowers on early redemption, but the Guidelines state that this is unfair and oppressive and that lenders must discontinue its use at the earliest opportunity for loans not regulated by the Consumer Credit Act. The Seller has never used the Rule of 78 to set such charges.

Consumer Credit Act Considerations

Any credit agreement intended to be regulated by the FSM Act or unregulated might instead be wholly or partly regulated by the Consumer Credit Act or treated as such because of technical rules, and their interpretation by a court, on (a) determining whether the credit agreement or any part of it falls within the definition of "regulated mortgage contract", (b) determining whether any credit under the Consumer Credit Act arises, or finds a regulated agreement or an exempt agreement under that Act, or (c) changes to credit agreements.

A credit agreement that is wholly or partly regulated by the Consumer Credit Act or to be treated as such has to comply with requirements as to licensing of lenders and brokers, documentation and procedures of credit agreements, and (in so far as applicable) pre-contract disclosure. If it does not comply with those requirements, then to the extent that it is regulated by the Consumer Credit Act or to be treated as such, the credit agreement is unenforceable against the borrower: (a) without an order of the OFT, if requirements as to licensing of lenders and brokers are not met; (b) totally, if the form to be signed by the borrower is not signed by the borrower personally or omits or mis-states 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 by the lender.

Under the Mortgage Sale Agreement, the Seller will, as a precaution, be obliged to repurchase any Mortgage Loan that is wholly or partly regulated or to be treated as such under the Consumer Credit Act if a court or other dispute resolution authority finds that the obligation of the Borrower to repay principal and pay interest under the Mortgage Loan is not enforceable under that Act.

A credit agreement that is wholly or partly regulated by the Consumer Credit Act or to be treated as such can, under Section 75 of that Act in certain circumstances, have the effect that (a) the lender is liable to the borrower in relation to misrepresentation and breach of contract by the supplier in a transaction financed by the lender, so that the borrower may set off the amount of such claim against the amount owing under the relevant mortgage loan or under any other mortgage loan that the borrower has taken, and (b) the lender has a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier.

Proposed Consumer Credit Directive

In September 2002, the European Commission published a proposal for a Directive of the European Parliament and of the Council on consumer credit. The proposal as originally drafted applied to certain loan products. This proposal, and an amended proposal published in October 2004, were met with significant opposition. In July 2005, the European Commission published a Green Paper on mortgage credit, in which it announced its intention that loans secured by a mortgage on land will be excluded from the proposed Directive but will be covered by any initiatives resulting from the Green Paper process. In October 2005, the European Commission published a further amended form of the proposed Directive, which provides that (subject to certain exceptions) loans not exceeding 50,000 euro will be regulated, but that loans secured by a land mortgage will be excluded from the proposed Directive. The proposed Directive may be further substantially amended before it is brought into effect.

Until the final text of the Directive and of any initiatives resulting from the Green Paper process are decided and the details of the United Kingdom implementing legislation are published, it is not certain what effect

the adoption and implementation of the Directive will have on the Mortgage Loans, the Seller, the Issuer and/or the Administrator and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Notes when due.

Financial Ombudsman Service

Under the FSM Act, 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 have an adverse effect on the Mortgage Loans, the Seller, the Issuer and the Administrator and their respective businesses and operations.

Unfair Commercial Practices Directive

In May 2005, the European Parliament and the Council adopted a directive on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally, this directive applies full harmonisation, which means that member states may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, this directive permits member states to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

The Unfair Practices Directive provides that enforcement bodies may take administrative action or legal proceedings against a commercial practice on the basis that it is "unfair" within the directive. This directive is intended to protect only the collective interests of consumers, and so is not intended to give any claim, defence or right of set-off to an individual consumer.

The DTI published a consultation paper in December 2005 on implementing the Unfair Practices Directive into United Kingdom law. Member states have until 12 December 2007 in which to bring national implementing legislation into force, subject to a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies. It is too early to predict what effect the implementation of this directive would have on the Mortgage Loans, the Seller, the Issuer or the Administrator and their respective businesses and operations. No assurance can be given that the implementation of this directive will not adversely affect the ability of the Issuer to make payments to Noteholders.

Implementation of Basel II risk-weighted asset framework may result in changes to the risk-weighting of the Notes

Following the issue of proposals from the Basel Committee on Banking Supervision for reform of the 1988 Capital Accord, a framework has been developed which places enhanced emphasis on market discipline and sensitivity to risk. An updated and then consolidated version of the text of the proposed framework has been published under the title "Basel II: International Convergence of Capital Management and Capital Standards: a Revised Framework" (the **Framework**). The Framework is being implemented in stages (partly from year-end 2006 and the most advanced from year-end 2007). Implementation dates in participating countries are dependant on the relevant implementation process in those countries, for example through the EU Capital Requirements Directive. As and when implemented, the Framework could affect risk-weighting of the Notes for Noteholders who are subject to capital adequacy requirements that follow the Framework, as implemented. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the application of the Framework and any relevant implementing measures. Proposals and guidelines for implementing the Framework in certain participating jurisdictions are still in development and no predictions can be made as to the precise effects of potential changes on any investor or otherwise.

Prospective investors should consult their own tax advisers regarding the appropriate characterisation of the Notes.

United Kingdom Taxation Position of the Issuer

Pursuant to the Finance Act 2005 regulations have been made to establish a permanent regime for the taxation of "securitisation companies" such as the Issuer. For accounting periods beginning on or after 1 January 2007, companies to which the regulations apply will be taxed broadly by reference to their "retained profit" rather than by reference to their accounts. It is expected (and the Issuer has been so advised) that the Issuer will fall within the permanent regime for securitisation companies, but if it does not (or subsequently does not), then profits or losses could arise in the Issuer which could have tax effects not contemplated in the cashflows for the transaction and as such adversely affect the tax treatment of the Issuer and consequently payment on the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within each jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of or in respect of tax were to be withheld from that payment, neither the Issuer, any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Legal Considerations

European Monetary Union

Prior to the maturity of the Notes, the United Kingdom may become a participating member state in the European Economic and Monetary Union and the euro may become the lawful currency of the United Kingdom. Adoption of the euro by the United Kingdom may have the following consequences: (i) all amounts payable in respect of the Notes may become payable in euro; (ii) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Notes and the Mortgage Loans, or changes in the way those rates are calculated, quoted and published or displayed; and (iii) the Issuer may choose to redenominate the Notes into euro and take additional measures in respect of the Notes.

The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Mortgage Loan as well as adversely affect investors. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Notes.

Changes of law

The transactions described in this Offering Circular (including the issue of the Notes) and the ratings which are to be assigned to the Notes and the MERCs are based on the relevant law and administrative practice in

effect as at the date hereof, and having regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to the impact of any possible change to the law (including any change in regulation which may occur without a change in primary legislation), administrative practice or tax treatment after the date of this document or can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Notes and/or the MERCs.

English law security and insolvency considerations

The Issuer will enter into the Deed of Charge pursuant to which it will grant the Security in respect of certain of its obligations, including its obligations under the Notes (as to which, see *Security*). In certain circumstances, including the occurrence of certain insolvency events in respect of the Issuer, the ability to realise the Security may be delayed and/or the value of the security impaired. While the transaction structure is designed to minimise the likelihood of the Issuer becoming insolvent, there can be no assurance that the Issuer will not become insolvent and/or the subject of insolvency proceedings and/or that the Noteholders would not be adversely affected by the application of insolvency laws (including English insolvency laws).

In addition, it should be noted that, to the extent that the assets of the Issuer are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of section 176A of the Insolvency Act 1986, certain floating charge realisations which would otherwise be available to satisfy the claims of secured creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the Issuer in the Transaction Documents are intended to ensure it has no significant creditors other than the secured creditors under the Deed of Charge, it will be a matter of fact as to whether the Issuer has any other such creditors at any time. There can be no assurance that the Noteholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

Liquidation Expenses

Prior to the House of Lords' decision in the case of *Re Leyland Daf* in 2004, the general position was that, in a liquidation of a company, the liquidation expenses ranked ahead of unsecured debts and floating chargees' claims. *Re Leyland Daf* reversed this position so that liquidation expenses could no longer be recouped out of assets subject to a floating charge. The Companies Act 2006 contains provisions which will, when they are brought into force, broadly restore the pre-*Leyland Daf* position. However, these provisions will only come into force upon the enactment of secondary legislation which will deal with who is entitled to approve the remuneration and expenses of the liquidator. This is not expected to occur until mid-2007. No draft of any such secondary legislation is available yet. The Insolvency Service has indicated that the draft rules will be subject to consultation and debate.

At this stage, it is too early to say what form the secondary legislation will take. However, it seems likely that, following the coming into force of the relevant provisions of the Companies Act 2006, floating charge realisations upon the enforcement of the floating charge security granted by the Issuer, respectively, would be reduced by the amount of all, or a significant proportion of, any liquidation expenses.

Fixed charges over accounts may take effect under English law as floating charges

The Issuer will purport to grant, *inter alia*, fixed charges in favour of the Trustee over the Issuer's interest in the Issuer Accounts and any other bank account in which the Issuer has an interest.

The law in England and Wales and Northern Ireland relating to the re-characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than by way of assignment in security) may take effect under English law or Northern Irish law as floating charges only, if, for example, it is determined that the Trustee does not exert sufficient control over the relevant account or the proceeds thereof for the security to be said to "fix" over those assets. If the charges take effect as floating charges

instead of fixed charges then certain matters, which are given priority over the floating charge by law, will be given priority over the claims of the floating chargeholder.

CREDIT STRUCTURE

General

The following is a summary of the structure and credit arrangements underlying the Notes. Such summary should be read in conjunction with information appearing elsewhere in this Offering Circular.

The Notes will not be obligations of the Seller, the Trustee, the Account Bank, the Administrator, the Standby Administrator, the Swap and Interest Rate Cap Provider, the Swap and Interest Rate Cap Guarantor, the Cash Manager, the Liquidity Provider, the Corporate Services Provider, the Share Trustee, the Paying Agents, the Agent Bank, the Managers or any other party other than the Issuer and will not be guaranteed by any such party. Neither the Seller, the Trustee, the Account Bank, the Administrator, the Standby Administrator, the Swap and Interest Rate Cap Provider, the Swap and Interest Rate Cap Guarantor, the Cash Manager, the Corporate Services Provider, the Liquidity Provider, the Paying Agents, the Agent Bank, the Managers, the Share Trustee nor anyone other than the Issuer will accept any liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes.

Use of Available Revenue Funds

The interest rates payable by Borrowers in respect of the Mortgage Loans may vary. It is anticipated that, on the Issue Date, the revenue generated by applying the weighted average of the interest rates applicable to the Mortgage Loans and amounts made available from the Discount Reserve Account will exceed items (i) through (v), (vi), (viii), (x), (xii) and (xiv) of the Pre-Enforcement Revenue Priority of Payments by an amount, calculated as a percentage, which, on the Issue Date, will be approximately 0.29 per cent. The actual amount of the excess will vary during the life of the Notes. Among the key factors determining such variations will be the level of delinquencies and defaults experienced, the level of prepayments and the weighted average of the mortgage interest rates from time to time.

To the extent that the Available Revenue Funds on the relevant Payment Date are sufficient therefor, each amount referred to in items (i) to (xxii) of the Pre-Enforcement Revenue Priority of Payments shall, as the case may require, be paid to the persons entitled thereto, applied or provided for on such Payment Date and, after such payment, application or provision, it is not expected that any surplus will be accumulated by the Issuer.

Liquidity Facility

Pursuant to the terms of a liquidity facility agreement to be entered into on or prior to the Issue Date between the Liquidity Provider, the Issuer and the Trustee (the **Liquidity Facility Agreement**), the Liquidity Provider will provide the Issuer with a liquidity facility (the **Liquidity Facility**) and a standby facility (the **Standby Facility**) in aggregate up to the Available Commitment.

The Issuer will be entitled on any Payment Date, in the circumstances specified below, to make a drawing under the Liquidity Facility up to the Liquidity Maximum Amount (as defined below) (a **Liquidity Drawing**). Each Liquidity Drawing will be credited initially to the Issuer Transaction Account and recorded in a ledger maintained by the Cash Manager established for the purpose of recording Liquidity Drawings (the **Liquidity Ledger**).

The Issuer will be entitled to make a Liquidity Drawing when, after the application of amounts standing to the credit of the Reserve Account, there are insufficient amounts able to be withdrawn from the Issuer Transaction Account to meet items (i) to (xiv) (other than items (vii), (ix), (xi) and (xiii)) of the Pre-Enforcement Revenue Priority of Payments on a Payment Date, provided that no Liquidity Drawing may be made:

- (a) to meet interest payments on the M1 Notes but only if, after the application of the Available Revenue Funds and any amounts standing to the credit of the Reserve Account, the M1 Principal Deficiency Sub-Ledger would have a debit balance equal to or greater than 20 per cent. of the then aggregate Principal Amount Outstanding of the M1 Notes;
- (b) to meet interest payments on the M2 Notes but only if, after the application of the Available Revenue Funds and any amounts standing to the credit of the Reserve Account, the M2 Principal Deficiency Sub-Ledger would have a debit balance equal to or greater than 20 per cent. of the then aggregate Principal Amount Outstanding of the M2 Notes;
- (c) to meet interest payments on the B1 Notes but only if, after the application of the Available Revenue Funds and any amounts standing to the credit of the Reserve Account, the B1 Principal Deficiency Sub-Ledger would have a debit balance equal to or greater than 50 per cent. of the then aggregate Principal Amount Outstanding of the B1 Notes; or
- (d) to meet interest payments on the B2 Notes but only if, after the application of the Available Revenue Funds and any amounts standing to the credit of the Reserve Account, the B2 Principal Deficiency Sub-Ledger would have a debit balance equal to or greater than 50 per cent. of the then aggregate Principal Amount Outstanding of the B2 Notes.

The Issuer may not be entitled to make a Liquidity Drawing if certain events of default under the Liquidity Facility Agreement have occurred and are continuing (including if an Event of Default in respect of the Notes has occurred and is continuing).

Liquidity Drawings credited to the Liquidity Ledger on any Payment Date will be transferred to the Revenue Ledger on that Payment Date for application in accordance with items (i) to (xiv) (other than items (vii), (ix), (xi) and (xiii)) of the Pre-Enforcement Revenue Priority of Payments on that Payment Date. Likewise, any amounts due to be paid to the Liquidity Provider in accordance with the Pre-Enforcement Revenue Priority of Payments will be transferred from the Revenue Ledger to the Liquidity Ledger and the balance adjusted accordingly on the Business Day before the relevant Payment Date and thereafter (but only prior to the Liquidity Drawdown Date as defined below) will be utilised in repaying amounts outstanding under the Liquidity Facility.

The Issuer will, in the circumstances specified below, make a drawing of the whole of the Standby Facility (a **Standby Drawing**) up to the Available Commitment and shall credit such amount into a deposit account held with the Account Bank or, if the Account Bank ceases to have the requisite ratings, another bank with the requisite ratings (the **Standby Account**).

A Standby Drawing will be made if, at any time, the credit rating of the Liquidity Provider falls below A-1+ by S&P or F1 by Fitch or the Liquidity Provider refuses to grant an extension of the Liquidity Facility in accordance with the Liquidity Facility Agreement and in each case the Liquidity Facility is not replaced by an alternative Liquidity Facility.

The Issuer will be entitled on any Payment Date to withdraw, up to the Liquidity Maximum Amount, amounts credited to the Standby Account, in the same circumstances as it is entitled to make a Liquidity Drawing. Amounts withdrawn from the Standby Account in such circumstances shall be applied in the same manner as Liquidity Drawings.

Certain amounts paid to the Liquidity Provider will be capable of being redrawn under the Liquidity Facility.

The Issuer shall pay to the Liquidity Provider, *inter alia*, the following amounts:

- (i) a commitment fee on the Available Commitment; and

- (ii) interest at the rate of LIBOR for deposits in sterling for three months plus the applicable margin on an amount equal to the Liquidity Drawing or the Standby Drawing.

Available Commitment means an amount equal to the initial commitment of £19,250,000 provided by the Liquidity Provider to the Issuer under the Liquidity Facility Agreement subject to increase or reduction in accordance with the terms of the Liquidity Facility (the **Commitment**) less:

- (a) any Liquidity Drawing (but only if not repaid); or
- (b) any Standby Drawing (but only if not repaid).

The Issuer is not required to pay a commitment fee in respect of amounts standing to the credit of the Standby Account.

Liquidity Drawdown Date means any date on which a Liquidity Drawing or a withdrawal of amounts from the Standby Account is made in accordance with the Liquidity Facility Agreement.

Liquidity Maximum Amount means 5.50 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the C Notes) on the Issue Date, subject to reduction in accordance with the terms of the Liquidity Facility Agreement.

Under the terms of the Liquidity Facility, the Commitment and the Liquidity Maximum Amount shall be reduced on each Payment Date falling on or after the first Payment Date on which each of the Commitment and the Liquidity Maximum Amount as at the Issue Date is greater than or equal to 5.50 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the C Notes) following application of the Actual Redemption Funds on such Payment Date, to an amount which is the greater of:

- (a) 5.50 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the C Notes) on the relevant Payment Date; and
- (b) 1.00 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the C Notes) on the Issue Date.

No such reduction shall be permitted on a Payment Date if, following application of the Actual Redemption Funds as at such Payment Date:

- (a) there is a debit balance on any of the Principal Deficiency Sub-Ledgers;
- (b) the Administrator is notified by any party to the following Transaction Documents that it is in breach of any of its obligations in: the Deed of Charge, the Administration Agreement, the Mortgage Sale Agreement, the Corporate Services Agreement or the Bank Agreement;
- (c) the Cash Manager is in breach of any of its obligations under the Cash Management Agreement;
- (d) any amount is then outstanding under the Liquidity Facility;
- (e) the aggregate value of the principal losses experienced on the Mortgage Pool (whether or not such losses form part of the Principal Deficiency Sub-Ledgers at such time) at the immediately preceding Determination Date is greater than 1.25 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the C Notes) on the Issue Date;
- (f) as at the immediately preceding Payment Date the aggregate Balance of Mortgage Loans in respect of which payment is 90 days or more in arrears is higher than 17 per cent. of the aggregate Balance of all Mortgage Loans in the Mortgage Pool;

- (g) the aggregate balance of all Mortgage Loans foreclosed in the Mortgage Pool exceeds 2.25 per cent. of the original balance of the Mortgage Pool; or
- (h) the amount standing to the credit of the Reserve Account is lower than the Reserve Account Required Amount.

Reserve Account

To provide limited coverage for shortfalls in amounts under items (i) to (xvi) inclusive of the Pre-Enforcement Revenue Priority of Payments, the Cash Manager on behalf of the Issuer will open a bank account with the Account Bank (the **Reserve Account**) which, on the Issue Date, will be credited in the initial amount of £5,250,000, using part of the proceeds of a fee to be paid by DB UK Bank Limited on the Issue Date and all of the proceeds of issue of the C Notes.

Reserve Account Required Amount means £6,300,000, provided that, on each Payment Date falling on or after the first Payment Date on which the amount standing to the credit of the Reserve Account is equal to or greater than 3.6 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the C Notes) (the **Reserve Account Determination Date**) and if, following application of the Actual Redemption Funds on such Payment Date:

- (i) all balances on each of the Principal Deficiency Sub-Ledgers are zero;
- (ii) no amount in the Liquidity Facility has been drawn before the relevant Reserve Account Determination Date;
- (iii) the amount standing to the credit of the Reserve Account is equal to or greater than the Reserve Account Required Amount as of the relevant Reserve Account Determination Date;
- (iv) the aggregate Balance of all Mortgage Loans in the Mortgage Pool which are 90 days or more in arrears does not exceed 17 per cent. of the total balance of all the Mortgage Loans in the Mortgage Pool;
- (v) the aggregate balance of all Mortgage Loans foreclosed in the Mortgage Pool does not exceed 2.25 per cent. of the original balance of the Mortgage Pool; and
- (vi) the total losses suffered by the Issuer from the Issue Date until the relevant Reserve Account Determination Date are lower than 1.25 per cent. of the original balance of the Mortgage Pool,

then the Reserve Account Required Amount will be reduced to an amount equal, on each such Reserve Account Determination Date, to the greater of £1,750,000 and 3.6 per cent. of the then Principal Amount Outstanding of the Notes other than the C Notes.

If on any Reserve Account Determination Date, any of the conditions referred to in items (i) to (vi) above are not met, then the Reserve Account Required Amount shall be equal to the Reserve Account Required Amount as at the preceding Reserve Account Determination Date.

Following a reduction to the Reserve Account Required Amount, on or prior to each Payment Date, any amounts standing to the credit of the Reserve Account in excess of the Reserve Account Required Amount (the **Reserve Account Excess**) will be withdrawn from the Reserve Account and deposited into the Issuer Transaction Account as Available Revenue Funds and applied in accordance with the Pre-Enforcement Revenue Priority of Payments.

On any Payment Date to the extent that amounts are available after payment of any amounts under items (i) to (xvi) of the Pre-Enforcement Revenue Priority of Payments, the excess, if any, will be deposited into the

Reserve Account to the extent necessary to replenish and maintain the Reserve Account Required Amount as set out under item (xvii) of the Pre-Enforcement Revenue Priority of Payments. On any Payment Date, an amount equal to the amount standing to the credit of the Reserve Account in excess of the Reserve Account Required Amount will be withdrawn from the Reserve Account and deposited into the Issuer Transaction Account to be applied in accordance with the Pre-Enforcement Revenue Priority of Payments.

On any Payment Date on which the Notes are redeemed in full, amounts standing to the credit of the Reserve Account will be applied towards Available Revenue Funds.

Discount Reserve Account

To cover the Loan Expected Differentials (being amounts calculated for the entire duration of the relevant discount periods) resulting from Discounted Mortgage Loans (including such Discounted Mortgage Loans as are included in the Pre-Funded Mortgage Pool), the Issuer will establish a bank account with the Account Bank (the **Discount Reserve Account**) on the Issue Date and shall deposit monies therein using part of the proceeds of the payment of a fee by DB UK Bank Limited.

On the Issue Date, the Cash Manager on behalf of the Issuer will determine the Loan Expected Differential and the anticipated Expected Differential for the first Determination Period. In addition, an amount will be estimated by the Cash Manager on behalf of the Issuer that will represent the Loan Expected Differential of the Discounted Mortgage Loans for a time period for which it is estimated that discounts will apply in respect of the Discounted Mortgage Loans. This additional estimated amount will be included in the Discount Reserve Required Amount on the Issue Date. In respect of Pre-Funded Mortgage Loans which are also Discounted Mortgage Loans to be acquired by the Issuer, the Cash Manager on behalf of the Issuer will determine the Loan Expected Differential in respect of such Pre-Funded Mortgage Loans on or prior to the date of such acquisition. On each Determination Date, the Cash Manager on behalf of the Issuer will calculate the Loan Expected Differential in respect of any Substitute Mortgage Loans transferred into the Mortgage Pool or Further Advances made by the Seller in the immediately preceding Determination Period which are or are in respect of Discounted Mortgage Loans, and any Discounted Mortgage Loans to be transferred into the Mortgage Pool or in respect of which Further Advances are to be made by the Seller on the immediately succeeding Payment Date, and will calculate the Expected Differential in respect of the current Determination Period to take into account such substitutions or advances and any redemptions, repurchases or purchases of Discounted Mortgage Loans and their Related Security during the immediately preceding Determination Period.

On each Payment Date an amount equal to the amount of any Expected Differential determined in respect of the Determination Period ending immediately prior to such Payment Date (the **Discount Reserve Applicable Amount**) shall be withdrawn from the Discount Reserve Account and deposited into the Issuer Transaction Account and will be applied towards Available Revenue Funds in accordance with the Pre-Enforcement Revenue Priority of Payments (and any provisos thereto). Under item (xviii) of the Pre-Enforcement Revenue Priority of Payments, the Cash Manager on behalf of the Issuer shall, on each Payment Date, deposit additional amounts to the Discount Reserve Account to cover the additional Loan Expected Differential arising from anticipated discounts on Substitute Mortgage Loans, Pre-Funded Mortgage Loans and Further Advances made by the Seller in respect of Mortgage Loans.

The Cash Manager on behalf of the Issuer will adjust the Discount Reserve Required Amount to reflect the withdrawals, deposits and determinations described above.

In addition, if at any time the amount standing to the credit of the Discount Reserve Account exceeds the Discount Reserve Required Amount, an amount equal to such excess shall be withdrawn from the Discount Reserve Account and deposited into the Issuer Transaction Account for application in accordance with the Pre-Enforcement Revenue Priority of Payments on the next following Payment Date.

Determination Period means the period from and including (in the case of the first such period, the Issue Date) the last Business Day of each month which precedes a Payment Date to but excluding the last Business Day of the month which precedes the immediately following (or the first, as the case may be) Payment Date;

Discounted Mortgage Loans means any Discount LIBOR-linked Mortgage Loans and Discount BBR-linked Mortgage Loans which form part of the Mortgage Pool from time to time (see *Mortgage Pool – Interest Rate Setting – Discount LIBOR-linked Mortgage Loans* and *Mortgage Pool – Interest Rate Setting – Discount BBR-linked Mortgage Loans*);

Discount Reserve Required Amount means the amount calculated by the Cash Manager as being the amount required to meet the Loan Expected Differential in respect of the Mortgage Pool including, as at the Issue Date, an estimate in relation to any Discounted Mortgage Loans to be included in the Pre-Funded Mortgage Pool;

Effective Interest Margin means the weighted average margin above LIBOR for deposits in sterling for three months (in the case of the Discount LIBOR-linked Mortgage Loans) or the Bank of England base rate (in the case of the Discount BBR-linked Mortgage Loans) charged to the relevant Borrowers during the period when discounts apply to Discounted Mortgage Loans within the Mortgage Pool;

Expected Differential means an amount calculated in respect of each Determination Period that falls during the period when discounts apply to Discounted Mortgage Loans within the Mortgage Pool (including the Pre-Funded Mortgage Pool) as the difference between the Unadjusted Margin and the Effective Interest Margin, multiplied by the principal amount outstanding of the Discounted Mortgage Loans that form part of the Mortgage Pool (including the Pre-Funded Mortgage Pool) as of the first day of the relevant Determination Period and the actual number of days to elapse in the relevant Determination Period and divided by 365 (or 366 if the Payment Date following such Determination Period falls in a leap year);

Loan Expected Differential means, as calculated on each Determination Date, the aggregate of the Expected Differentials applying to each Determination Period that falls during the period when discounts apply to Discounted Mortgage Loans that form part of the Mortgage Pool (including the Pre-Funded Mortgage Pool) as at the first day of the relevant Determination Period; and

Unadjusted Margin means, on any Payment Date, the weighted average margin above LIBOR for deposits in sterling for three months (in the case of the Discount LIBOR-linked Mortgage Loans) or the Bank of England base rate (in the case of the Discount BBR-linked Mortgage Loans) that will apply in respect of such Mortgage Loans when the discount period expires.

On any Payment Date on which the Notes are redeemed in full or on which all discounts applicable to Discounted Mortgage Loans which then form part of the Mortgage Pool have expired, amounts standing to the credit of the Discount Reserve Account (if any) will be applied towards Available Revenue Funds.

Collections Account, Operating Account and Further Advances Account

It is a condition of the Mortgage Loans that scheduled payments in respect of the Mortgage Loans be paid initially by direct debit. All such direct debit payments are paid into the Collections Account. Payments received from Borrowers in respect of the Mortgage Loans other than by direct debit (including unscheduled principal prepayments, receipts in respect of Mortgage Early Repayment Charges, receipts in respect of valuation and other third party fees and any receipts in respect of scheduled payments paid by means other than direct debit) are paid into the Operating Account. Amounts paid by the Issuer in respect of the purchase of the Further Advances shall be paid into the Further Advances Account.

Amounts standing to the credit of the Collections Account and the Operating Account representing receipts in respect of the Mortgage Loans, other than certain amounts to be retained by the Administrator as specified below, will be transferred on each business day to the Issuer Transaction Account.

Each of the Collections Account, the Operating Account, the Further Account and the Issuer Transaction Account are held with the Account Bank. The long-term, unsecured, unguaranteed and unsubordinated debt obligations of the Account Bank are currently rated AA- (outlook positive) by S&P and AA- (outlook stable) by Fitch.

Administrator Retained Amounts

The following fees and charges received from Borrowers in respect of the Mortgage Loans will be retained by the Administrator and will not be transferred into the Issuer Transaction Account:

- (a) late payment fees;
- (b) valuation fees;
- (c) post completion administration charges; and
- (d) charges incurred in connection with arrears or default recovery.

Issuer Accounts

The Issuer shall open and maintain with the Account Bank, the Issuer Transaction Account, the Discount Reserve Account and the Reserve Account (together, the **Issuer Accounts**).

On the Issue Date, the Issuer will deposit £2,096,997.76 into the Discount Reserve Account and £5,250,000 into the Reserve Account. Such amounts will be available in certain circumstances to make good certain shortfalls of funds available to the Issuer to meet its obligations as described under *Credit Structure*.

Pursuant to the Bank Agreement, the Account Bank will contract to pay a specific rate of interest on funds on deposit in the Issuer Transaction Account.

Use of Ledgers

The Cash Manager will be required to record or cause to be recorded all amounts received from Borrowers in respect of the Mortgage Loans or otherwise paid or recovered in respect of the Mortgage Loans, all payments representing interest received and, as at a relevant Determination Date, expected to be received from the Swap and Interest Rate Cap Provider under the Basis Rate Swap or any guarantor in respect thereof (in each case to the extent not otherwise recorded) and any termination payment received from the Swap and Interest Rate Cap Provider under the Basis Rate Swap (the **Basis Rate Swap Termination Amounts**) and any payment received and, as at a relevant Determination Date, expected to be received by the Issuer from a replacement basis rate swap provider in consideration for the Issuer entering into a replacement basis rate swap agreement with such provider and all payments representing interest received and, as at a relevant Determination Date, expected to be received from the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap or any guarantor in respect thereof (in each case to the extent not otherwise recorded) and any termination payment received from the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap (the **Fixed/Floating Rate Swap Termination Amounts** and any payment received and, as at a relevant Determination Date, expected to be received by the Issuer from a replacement fixed/floating rate swap provider in consideration for the Issuer entering into a replacement fixed/floating rate swap agreement with such provider (in each of the above cases, other than:

- (i) principal amounts received representing monthly repayments of principal, redemption proceeds, amounts recovered on enforcement, sale or repurchase in each case representing principal (the **Principal Funds**);
- (ii) Administrator Retained Amounts;

- (iii) payments representing principal received (or, as at a relevant Determination Date, expected to be received) from the Swap and Interest Rate Cap Provider under the Basis Rate Swap or any guarantor in respect thereof and payments representing principal received (or, as at a relevant Determination Date, expected to be received) from the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap or any guarantor in respect thereof; and
- (iv) amounts calculated by reference to the Mortgage Early Repayment Charges),

each in a ledger for that purpose (the **Revenue Ledger**).

The Cash Manager will be required to record Principal Funds, payments representing principal received (and, as at a relevant Determination Date, expected to be received) from the Swap and Interest Rate Cap Provider under the Basis Rate Swap or any guarantor in respect thereof (in each case to the extent not otherwise recorded) and payments representing principal received (and, as at a relevant Determination Date, expected to be received) from the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap or any guarantor in respect thereof (in each case to the extent not otherwise recorded), in a ledger for that purpose (the **Principal Ledger**) and Mortgage Early Repayment Charges in a ledger for that purpose (the **MERC Ledger**). The Cash Manager will be also required to maintain or cause to be maintained (on the basis of information provided to it by the Administrator) a ledger in respect of such Further Advances (a) that the Seller has committed to advance (but has not yet advanced) as at each such Determination Date; and (b) that the Seller anticipates it will advance as at such Determination Date (the **Further Advances Ledger**).

On the 8th day of each month, the Cash Manager will be required to record payments representing principal paid (or required to be paid but otherwise netted against other payments owing to the Swap and Interest Rate Cap Provider under the Basis Rate Swap) to the Swap and Interest Rate Cap Provider under the Basis Rate Swap and payments representing principal paid (or required to be paid but otherwise netted against other payments owing to the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap) to the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap, in a ledger for that purpose (the **Swap Payments Ledger**).

The amounts standing to the credit, at any time, of the Further Advances Ledger, the Liquidity Ledger (see further *Credit Structure – Liquidity Facility*), the Principal Ledger, the MERC Ledger and the Revenue Ledger less amounts standing to the credit, at such time, of the Swap Payments Ledger (collectively, the **Ledgers**) will, in the aggregate, represent all sums standing to the credit of the Collection Account, the Operating Account, the Further Advances Account (but notably only to the extent they represent receipts in respect of Mortgage Loans within the Mortgage Pool (or, in the case of Further Advances, such Further Advances as are made or to be made by the Seller)) and the Issuer Transaction Account other than any collateral transferred to the Issuer by the Swap and Interest Rate Cap Provider as described under the Swap and Interest Rate Cap Agreement, and other than in respect of Administrator Retained Amounts.

The Ledgers will be used to monitor the receipt and subsequent utilisation of cash available to the Issuer from time to time and will be credited and debited in the manner described in *Pre-Enforcement Revenue Priority of Payments* below or otherwise as described above.

Principal Deficiency Ledger

A principal deficiency ledger (the **Principal Deficiency Ledger**) comprising five sub-ledgers, known as the **A Principal Deficiency Sub-Ledger**, the **M1 Principal Deficiency Sub-Ledger**, the **M2 Principal Deficiency Sub-Ledger**, the **B1 Principal Deficiency Sub-Ledger** and the **B2 Principal Deficiency Sub-Ledger**, respectively, and collectively the **Principal Deficiency Sub-Ledgers** will be established in order to record any principal deficiencies as they occur (each, respectively, the **A Principal Deficiency**, the **M1 Principal Deficiency**, the **M2 Principal Deficiency**, the **B1 Principal Deficiency** and the **B2 Principal Deficiency**, and each a **Principal Deficiency**). Any Principal Deficiency shall be debited (a) first, to the B2 Principal Deficiency Sub-Ledger so long as the debit balance on such sub-ledger is less than the Principal

Amount Outstanding of the B2 Notes (the **B2 Note Principal Deficiency Limit**), (b) second, to the B1 Principal Deficiency Sub- Ledger so long as the debit balance on such sub-ledger is less than the Principal Amount Outstanding of the B1 Notes (the **B1 Note Principal Deficiency Limit**), (c) third, to the M2 Principal Deficiency Sub-Ledger so long as the debit balance on such sub-ledger is less than the Principal Amount Outstanding of the M2 Notes (the **M2 Note Principal Deficiency Limit**), (d) fourth, to the M1 Principal Deficiency Sub-Ledger so long as the debit balance on such sub-ledger is less than the Principal Amount Outstanding of the M1 Notes (the **M1 Note Principal Deficiency Limit**), and (e) fifth, to the A Principal Deficiency Sub-Ledger. A Principal Deficiency will be recorded on the relevant, sub-ledger created and maintained by the Cash Manager in accordance with the Cash Management Agreement (the **Principal Deficiency Sub-Ledger**) in respect of any amount of principal which remains outstanding under any Mortgage Loan after completion by the Administrator of the arrears and default procedures (as more particularly described in the section *Administration of the Mortgage Pool – Arrears and Default Procedures*). Amounts allocated to each Principal Deficiency Sub-Ledger shall be reduced to the extent of Available Revenue Funds available therefor on any Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments.

Use of Proceeds of the C Notes

The proceeds of the issue of the C Notes is expected to be £4,725,000 and will be deposited into the Reserve Account on the Issue Date to fund part of the Reserve Account Required Amount on the Issue Date.

Use of Proceeds of Fee

On the Issue Date a fee will be paid by DB UK Bank Limited which will be used to fund:

- (a) the costs and expenses arising in respect of the Notes which are issued on the Issue Date (including the premium payable by the Issuer to the Swap and Interest Rate Cap Provider in respect of the Interest Rate Cap under the Swap and Interest Rate Cap Agreement and any other upfront amounts payable by the Issuer to the Swap and Interest Rate Cap Provider under the Swap and Interest Rate Cap Agreement);
- (b) an amount equal to the Discount Reserve Required Amount (which on the Issue Date will be deposited into the Discount Reserve Account and deposited into the Issuer Transaction Account as required);
- (c) such part of the Reserve Account Required Amount on the Issue Date as has not been paid by the proceeds of issue of the C Notes; and
- (d) the Pre-Funded Mortgage Pool Interest Shortfall which will be credited to the Pre-Funded Mortgage Loans Ledger.

The **Pre-Funded Mortgage Pool Interest Shortfall** will be calculated by the Issuer prior to the Issue Date as follows:

$$\frac{(A - B) \times C \times D}{365}$$

A = weighted average Rate of Interest (as defined in **Condition 4(c)**) for the Notes (excluding the C Notes) payable to the holders of such Notes for the first Interest Period.

B = the rate of interest payable by the Account Bank during the first Interest Period as calculated in accordance with the Bank Agreement.

C = the aggregate principal amount of the A Notes, the M Notes and the B Notes less the aggregate Balance of the Mortgage Loans purchased by the Issuer on the Issue Date.

D = the number of days from and including the Issue Date to but excluding the first Payment Date.

Subordination of the M1 Notes, M2 Notes, B1 Notes, B2 Notes and C Notes

M1 Noteholders, M2 Noteholders, B1 Noteholders, B2 Noteholders and C Noteholders will not be entitled to receive any payment of interest, unless and until all amounts to be paid senior to such interest, then due to, *inter alios*, the A Noteholders and the Liquidity Provider have been paid in full, in accordance with the Pre-Enforcement Revenue Priority of Payments.

If on any Determination Date there are insufficient Available Revenue Funds to make payment in full of amounts of interest due and payable on the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes and/or the C Notes then, to that extent, interest on such Notes shall be deferred until the next Payment Date on which there are sufficient Available Revenue Funds, as more fully described in **Condition 4(f)**.

The Notes will be constituted by the Trust Deed and will share the same security as amongst themselves and with the MERCs and Residuals and the other obligations of the Issuer under the Transaction Documents, although, upon enforcement, the A Notes will rank *pari passu* in priority to the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as to Mortgage Early Repayment Charges) and the Residuals in point of security; the M1 Notes will rank in priority to the M2 Notes, the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as to Mortgage Early Repayment Charges) and the Residuals but after the A Notes in point of security; the M2 Notes will rank in priority to the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as to Mortgage Early Repayment Charges) and the Residuals but after the A Notes and the M1 Notes in point of security; the B1 Notes will rank in priority to the B2 Notes, the C Notes, the MERCs (other than as to Mortgage Early Repayment Charges) and the Residuals but after the A Notes, the M1 Notes and M2 Notes in point of security; the B2 Notes will rank in priority to the C Notes, the MERCs (other than as to Mortgage Early Repayment Charges) and the Residuals but after the A Notes, the M1 Notes, the M2 Notes and the B1 Notes in point of security; and the C Notes will rank in priority to the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals but after the A Notes, the M1 Notes, M2 Notes, the B1 Notes and the B2 Notes in point of security. Payments received by the Issuer in respect of Mortgage Early Repayment Charges will be applied to MERC Holders. Such amounts will not be available, before or after enforcement of the Security, for application towards repayment of amounts due to Noteholders or Residual Holders. See also *Risk Factors – Risks Related to the Notes – Subordination of the M1 Notes, M2 Notes, B1 Notes, the B2 Notes and C Notes* and – *Risks Related to the Mortgage Loans*.

Interest Rate Matching

Certain of the Mortgage Loans in the Initial Mortgage Pool are **Discount LIBOR-linked Mortgage Loans**, which means that the interest payable thereunder is calculated as a specified margin (which will be discounted for a fixed period) in excess of LIBOR for deposits in sterling for three months (**Note LIBOR**). Certain of the Mortgage Loans in the Initial Mortgage Pool are **Discount BBR-linked Mortgage Loans** which means that the interest payable thereunder is calculated as a specified margin (which will be discounted for a fixed period) in excess of the Bank of England base rate. Certain of the Mortgage Loans are fixed rate mortgage loans which will either convert to LIBOR-linked rates (**Fixed LIBOR-linked Mortgage Loans**) or which will convert to rates linked to the Bank of England base rate (**Fixed BBR-linked Mortgage Loans**) after the expiry of an initial fixed rate period. As described below, LIBOR on Discount LIBOR-Linked Mortgage Loans and Fixed LIBOR-linked Mortgage Loans (following conversion to LIBOR) will be re-set on a quarterly basis. See *The Mortgage Pool – Interest Rate Setting - Discount LIBOR – Linked Mortgage Loans* and *Fixed LIBOR – Linked Mortgage Loans* and *The Mortgage Pool – Interest Rate Setting – Discount BBR-Linked Mortgage Loans* and *Fixed BBR– Linked Mortgage Loans*).

Swap and Interest Rate Cap Agreement

Basis Rate Swap

The BBR-linked Mortgage Loans comprised in the Mortgage Pool (in the case of the Fixed BBR-linked Mortgage Loans, after the expiry of an initial fixed period) are Bank of England base rate-linked mortgage loans, under which interest accrues at a rate equal to the Bank of England base rate plus a specified margin (after the expiry of a fixed or discounted period) however the rate of interest payable by the Issuer in respect of the Notes is determined by reference to LIBOR for three month sterling deposits (**Note LIBOR**) exposing the Issuer to a potential basis rate risk.

In order to mitigate these risks, the Issuer will enter into one or more basis rate swap transactions (the **Basis Rate Swap**) with the Swap and Interest Rate Cap Provider from the Issue Date, in each case documented under one or more basis rate swap confirmations each of which will supplement, amend, form part of and be subject to the Swap and Interest Rate Cap Agreement. Under the Basis Rate Swap, the Issuer will pay to the Swap and Interest Rate Cap Provider on the 12th day of each month an amount produced by applying the average Bank of England base rate for the relevant monthly calculation period to the aggregate principal amount of the BBR-linked Mortgage Loans (excluding, in the case of the Fixed BBR-linked Mortgage Loans, such BBR-linked Mortgage Loans as are subject to a fixed rate period) as at the beginning of the relevant monthly calculation period together with an amount equal to any scheduled payments or unscheduled pre-payments of principal it has received from the borrowers in respect of the BBR-linked Mortgage Loans (excluding, in the case of the Fixed BBR-linked Mortgage Loans, such BBR-linked Mortgage Loans as are subject to a fixed rate period) during the relevant monthly calculation period. In return, the Swap and Interest Rate Cap Provider will pay to the Issuer on the 12th day of each March, June, September and December an amount produced by applying Note LIBOR minus a specified margin to the aggregate principal amount of the BBR-linked Mortgage Loans (excluding, in the case of the Fixed BBR-linked Mortgage Loans, such BBR-linked Mortgage Loans as are subject to a fixed rate period) on the first day of the relevant quarterly calculation period, such aggregate principal amount to be adjusted on the first day of each quarterly calculation period to exclude any non-performing BBR-linked Mortgage Loans, together with an amount equal to the aggregate amount of scheduled payments or unscheduled pre-payments of principal it has received from the Issuer in respect of the BBR-linked Mortgage Loans (excluding, in the case of the Fixed BBR-linked Mortgage Loans, such BBR-linked Mortgage Loans as are subject to a fixed rate period) during the relevant quarterly calculation period.

If the Issuer does not have sufficient funds to make the full payment in respect of amounts due under the Swap and Interest Rate Cap Agreement in respect of the Basis Rate Swap, the amount payable by the Swap and Interest Rate Cap Provider in respect of the Basis Rate Swap will be reduced proportionately by a corresponding amount and such unpaid amounts will be deferred until the Issuer has sufficient funds to pay the relevant amounts. Such event will not give rise to an Event of Default or Termination Event in respect of the Basis Rate Swap (each as defined in the Swap and Interest Rate Cap Agreement).

Interest Rate Cap

To hedge against a possible rise in Note LIBOR to a rate in excess of 9 per cent., the Issuer will enter into one or more interest rate cap transactions (the **Interest Rate Cap**) with the Swap and Interest Rate Cap Provider from the Issue Date for a period of 4 years, in each case documented under one or more interest rate cap confirmations each of which will supplement, amend, form part of and be subject to the Swap and Interest Rate Cap Agreement. Under the Interest Rate Cap, in exchange for an upfront premium which will be paid by the Issuer to the Swap and Interest Rate Cap Provider on the Issue Date from part of the proceeds of the fee paid by DB UK Bank Limited, the difference between (a) the amount produced by applying Note LIBOR for the relevant Interest Period to the notional amount of £70,000,000 (the **Notional Amount**) and (b) the amount produced by applying 9 per cent. to the Notional Amount for the same period will be paid (if such figure is positive) by the Swap and Interest Rate Cap Provider to the Issuer on the next following Payment Date.

Fixed/Floating Rate Swap

Certain of the Mortgage Loans are fixed rate mortgage loans which, at the expiry of the relevant fixed rate period, will either convert to Fixed LIBOR-linked Mortgage Loans or Fixed BBR-linked Mortgage Loans (the fixed rate mortgage loans which are in a fixed rate period being the **Fixed Rate Mortgage Loans**) however the rate of interest payable by the Issuer in respect of the Notes is determined by reference to Note LIBOR exposing the Issuer to a potential interest rate risk.

In order to mitigate these risks, the Issuer will enter into one or more interest rate swap agreements (the **Fixed/Floating Rate Swap**) with the Swap and Interest Rate Cap Provider from the Issue Date, in each case documented under one or more fixed/floating rate swap confirmations each of which will supplement, amend, form part of and be subject to the Swap and Interest Rate Cap Agreement. Under the Fixed/Floating Rate Swap, the Issuer will pay to the Swap and Interest Rate Cap Provider on the 12th day of each month an amount produced by applying a fixed rate to the aggregate principal amount of the Fixed Rate Mortgage Loans as at the beginning of the relevant monthly calculation period together with an amount equal to any scheduled payments or unscheduled pre-payments of principal it has received from the borrowers in respect of the Fixed Rate Mortgage Loans during the relevant monthly calculation period. In return, the Swap and Interest Rate Swap Provider will pay to the Issuer on the 12th ay of each March, June, September and December an amount produced by applying Note LIBOR to the aggregate principal amount of the Fixed Rate Mortgage Loans on the first day of the relevant quarterly calculation period, such aggregate principal amount to be adjusted on the first day of each quarterly calculation period to exclude any non-performing Fixed Rate Mortgage Loans, together with an amount equal to the aggregate amount of scheduled payments or unscheduled pre-payments of principal it has received from the Issuer in respect of the Fixed Rate Mortgage Loans during the relevant quarterly calculation period.

If the Issuer does not have sufficient funds to make the full payment in respect of amounts due under the Swap and Interest Rate Cap Agreement in respect of the Fixed/Floating Rate Swap, the amount payable by the Swap and Interest Rate Cap Provider in respect of the Fixed/Floating Rate Swap will be reduced proportionately by a corresponding amount and such unpaid amounts will be deferred until the Issuer has sufficient funds to pay the relevant amounts. Such event will not give rise to an Event of Default or Termination Event in respect of the Fixed/Floating Rate Swap (each as defined in the Swap and Interest Rate Cap Agreement).

Minimum Swap and Interest Rate Cap Provider Ratings

In the event that the long-term unsecured and unsubordinated debt obligations of the Swap and Interest Rate Cap Provider are downgraded below A by S&P and A by Fitch (the **Minimum Swap and Interest Rate Cap Provider Ratings**) or any such rating is withdrawn by S&P or Fitch, the Swap and Interest Rate Cap Agreement will require that the Swap and Interest Rate Cap Provider, within 30 days of the occurrence of such downgrade, at its own cost either:

- (i) procures a third party to become guarantor or co-obligor in respect of its obligations under the Swap and Interest Rate Cap Agreement acceptable to the Trustee (whose consent shall be provided if the long-term unsecured and unsubordinated debt obligations of such guarantor or co-obligor are rated A or above by S&P and A or above by Fitch or who is otherwise approved by S&P or Fitch respectively); or
- (ii) transfers all of its rights and obligations under the Swap and Interest Rate Cap Agreement to a third party acceptable to the Trustee (whose consent shall be provided if such third party's long-term unsecured and unsubordinated debt obligations are rated A or above by S&P and A or above by Fitch and whose short-term unsecured and unsubordinated debt obligations are rated F1 by Fitch, or who is otherwise approved by S&P or Fitch respectively); or

- (iii) enters into a credit support annex with the Issuer pursuant to which it will provide collateral for its obligations under the Swap and Interest Rate Cap Agreement and on terms acceptable to S&P or Fitch; or
- (iv) establishes any other arrangement or takes such other action satisfactory to S&P or Fitch which will result in the ratings of the Notes being maintained at or restored to the level they were at immediately prior to such downgrade or withdrawal.

In the event that the rating of the Swap and Interest Rate Cap Provider falls below the Minimum Swap and Interest Rate Cap Provider Ratings to a further specified level (as set out in the Swap and Interest Rate Cap Agreement), the option of posting collateral will be subject to certain conditions or may no longer be available to the Swap and Interest Rate Cap Provider.

If the Swap and Interest Rate Cap Provider fails to take one of the above mentioned remedial measures within the time prescribed, then the Issuer will be entitled to terminate the Swap and Interest Rate Cap Agreement and the Swap and Interest Rate Cap Provider may be required to pay an amount to the Issuer as a result of such termination.

Where the Swap and Interest Rate Cap Provider provides collateral for its obligations under the Swap and Interest Rate Cap Agreement in accordance with the terms of the relevant credit support annex, such collateral will, upon receipt by the Issuer, be credited to a separate ledger (created to record such amounts) and transferred (if in cash form) to the Issuer Transaction Account or such other account established for such purpose. Any collateral provided by the Swap and Interest Rate Cap Provider will not form part of the Available Revenue Funds or the Actual Redemption Funds other than collateral amounts applied: (i) in satisfaction of termination payments due to the Issuer following the designation of an early termination date under the Swap and Interest Rate Cap Agreement; or (ii) in accordance with the terms of the collateral agreement providing for the payment of such collateral.

In the event that the Swap and Interest Rate Cap Provider is required to withhold or deduct an amount in respect of tax from payments due from it to the Issuer, the Swap and Interest Rate Cap Provider will be required pursuant to the terms of the Swap and Interest Rate Cap Agreement to pay to the Issuer such additional amounts as are required to ensure that the Issuer receives the same amounts that it would have received had such withholding or deduction not been made.

The Swap and Interest Rate Cap Agreement will be governed by English law.

Swap and Interest Rate Cap Guarantee

American International Group, Inc. (the **Swap and Interest Rate Cap Guarantor**) will provide a guarantee (the **Swap and Interest Rate Cap Guarantee**) in favour of the Issuer in respect of all payment obligations of Banque AIG, London Branch under the Swap and Interest Rate Cap Agreement. Under the Swap and Interest Rate Cap Guarantee, the Swap and Interest Rate Cap Guarantor as primary obligor will unconditionally and irrevocably guarantee, by way of continuing guarantee, the punctual payment when due, subject to any applicable grace period, of all present and future payment obligations of Banque AIG, London Branch to the Issuer arising out of the Swap and Interest Rate Cap Agreement and, if Banque AIG, London Branch fails to make such payments as and when they become due, the Swap and Interest Rate Cap Guarantor agrees to pay the guaranteed obligations by no later than the Business Day next succeeding demand thereof by the Issuer (without first requiring the Issuer to take steps against Banque AIG, London Branch or any other person or to enforce any other rights). The Swap and Interest Rate Cap Guarantee may be terminated by the Swap and Interest Rate Cap Guarantor upon five days written notice to the Issuer provided that it shall remain in full force and effect with respect to obligations incurred by Banque AIG, London Branch before such termination.

The Swap and Interest Rate Cap Guarantee will be governed by New York law.

Permitted Withdrawals from the Issuer Transaction Account

On any date (including any Payment Date and, in respect of item (g), only on a Payment Date), the Cash Manager, on the basis of information provided to it by the Issuer or the Administrator, shall be permitted to make the following withdrawals and corresponding payments from amounts on deposit in the Issuer Transaction Account by transferring sufficient funds from the Issuer Transaction Account to the Further Advances Account (in the case of item (a) below), the Operating Account (in the case of items (b) to (k) below) (other than to the extent that an amount representing such withdrawal or payment has been retained in the Operating Account – see further *Administrator Retained Amounts*) and to any account nominated by the Swap and Interest Rate Cap Provider (in the case of items (l) and (m) below):

- (a) to pay consideration in respect of the purchase by the Issuer of the Seller's interests in a Further Advance;
- (b) to pay when due (but subject to any right to refuse or withhold payment or offset that has arisen by reason of the Borrower's breach of the terms of the Mortgage Loan concerned) any amount payable by the Issuer to a Borrower under the terms of the Mortgage Loan to which that Borrower is a party or by operation of law;
- (c) if any amount has been received from a Borrower for the express purpose of payment being made by the Issuer to a third party for the provision of a service to either that Borrower or the Issuer, to pay such amount when due to such third party;
- (d) to pay to any person (including the Seller and the Administrator) any amounts due arising from any overpayment by any person to the Issuer in respect of the Mortgage Loans or arising from any reimbursement by any person of any such overpayment;
- (e) to pay to HM Revenue and Customs or other UK taxation authority any amount due;
- (f) other than on a Payment Date, to pay when due and payable any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Trust Deed and not provided for payment elsewhere in items (a) to (e) above or (g) to (m) below and to pay any premiums in respect of any insurance policy relating to any Mortgage Loan;
- (g) to make payments to the Administrator pursuant to the Administration Agreement;
- (h) to refund any amounts due arising from the rejection of any direct debit payments in respect of a Mortgage Loan;
- (i) to refund any other overpayments made by a Borrower and all other amounts not relating to the Mortgage Loans owned by the Issuer or in respect of which the Issuer has no entitlement pursuant to the Mortgage Sale Agreement, or amounts credited to the Issuer Transaction Account in error;
- (j) to refund to the Seller any amounts which represent amounts received from Borrowers and which are amounts owed by such Borrowers in respect of any period prior to the Issue Date as and when identified by the Administrator and if a Borrower fails to pay the full amount that it owes, the Administrator shall be obliged to refund to the Seller only such portion of the amount received which relates to any period prior to the Issue Date;
- (k) to make payment to the Seller of the Pre-Funded Mortgage Pool Purchase Price on each Eligible Date;
- (l) (A) to make payments to the Swap and Interest Rate Cap Provider under the Basis Rate Swap of all Principal Funds received by the Issuer in respect of the BBR-linked Mortgage Loans (excluding, in

the case of the Fixed BBR-linked Mortgage Loans, such BBR-linked Mortgage Loans as are in a fixed rate period), and (B) only to the extent that sufficient amounts remain in the Issuer Transaction Account after making the payments or provisions for items (a) to (k) (inclusive) above and items (i) to (iv) (inclusive) of the Pre-Enforcement Revenue Priority of Payments (other than in respect of Basis Rate Swap Provider Default Payments in which case after making the payments or provisions for items (i) to (xx) (inclusive) of the Pre-Enforcement Revenue Priority of Payments) or items (i) to (iii) (inclusive) of the Post-Enforcement Priority of Payments (other than in respect of Basis Rate Swap Provider Default Payments in which case after making the payments or provisions for items (i) to (x) (inclusive) of the Post-Enforcement Priority of Payments) (as applicable) (but in each case only such amounts *pro-rata* to the period in respect of which such payments to the Swap and Interest Rate Cap Provider under the Basis Rate Swap apply), and together with the payments or provisions for item (m) to the extent described below, to pay any other amount due to the Swap and Interest Rate Cap Provider under the Basis Rate Swap (if any) and to cover any costs in relation to execution of a replacement basis rate swap agreement; and

- (m) (A) to make payments to the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap of all Principal Funds received by the Issuer in respect of such Fixed LIBOR-linked Mortgage Loans as are in a fixed rate period and in respect of such Fixed BBR-linked Mortgage Loans as are in a fixed rate period, and (B) only to the extent that sufficient amounts remain in the Issuer Transaction Account after making the payments or provisions for items (a) to (k) (inclusive) above and items (i) to (iv) (inclusive) of the Pre-Enforcement Revenue Priority of Payments (other than in respect of Fixed/Floating Rate Swap Provider Default Payments in which case after making the payments or provisions for items (i) to (xx) (inclusive) of the Pre-Enforcement Revenue Priority of Payments) or items (i) to (iii) (inclusive) of the Post-Enforcement Priority of Payments (other than in respect of Fixed/Floating Rate Swap Provider Default Payments in which case after making the payments or provisions for items (i) to (x) (inclusive) of the Post-Enforcement Priority of Payments) (as applicable) (but in each case only such amounts *pro-rata* to the period in respect of which such payments to the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap apply), and together with the payments or provisions for item (l) to the extent described above, to pay any other amount due to the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap (if any) and to cover any costs in relation to execution of a replacement fixed/floating rate swap agreement.

Each of the above payments shall be referred to as **Permitted Withdrawals**. To the extent that any of the above Permitted Withdrawals are made by the Cash Manager from and including the last Business Day of the month preceding a relevant Determination Date to and including a Payment Date (or in the case of a payment described in (g) above to but excluding such Payment Date), any such withdrawals in respect of items (b) through to (k), (inclusive) only, shall be made prior to the Pre-Enforcement Revenue Priority of Payments and, therefore, shall not be included in Available Revenue Funds for such Payment Date.

Permitted Withdrawals from the Discount Reserve Account

On each Payment Date an amount equal to the Discount Reserve Applicable Amount shall be withdrawn from the Discount Reserve Account and deposited into the Issuer Transaction Account and will be applied towards Available Revenue Funds in accordance with the Pre-Enforcement Revenue Priority of Payments (and any provisos thereto).

Permitted Withdrawals from the Reserve Account

Following a reduction to the Reserve Account Required Amount, on or prior to each Payment Date, an amount equal to the Reserve Account Excess will be withdrawn from the Reserve Account and deposited into the Issuer Transaction Account as Available Revenue Funds and applied in accordance with the Pre-Enforcement Revenue Priority of Payments.

Pre-Enforcement Revenue Priority of Payments

Prior to enforcement of the Security, the Issuer is required to apply monies available for distribution as at the date which falls five Business Days prior to each Payment Date (each such date a **Determination Date**) as determined in accordance with the Cash Management Agreement (the **Available Revenue Funds** which, for the avoidance of doubt, includes, if any:

- (n) the Discount Reserve Applicable Amount;
- (o) any amount standing to the credit of the Discount Reserve Account in excess of the Discount Reserve Required Amount;
- (p) the Reserve Account Excess;
- (q) on any Payment Date on which the Notes are redeemed in full, all amounts standing to the credit of the Reserve Account and the Discount Reserve Account;
- (r) on any Payment Date on which all discounts applicable to the Discounted Mortgage Loans which form part of the Mortgage Pool have expired, all amounts standing to the credit of the Discount Reserve Account;
- (s) Liquidity Drawings (to the extent that they are able to be made under the Liquidity Facility Agreement);
- (t) amounts representing interest received from the Swap and Interest Rate Cap Provider under the Basis Rate Swap (if any) and any Basis Rate Swap Termination Amounts and any payment received by the Issuer from a replacement basis rate swap provider in consideration for the Issuer entering into a replacement basis rate swap agreement with such provider; and
- (u) amounts representing interest received from the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap (if any) and any Fixed/Floating Rate Swap Termination Amounts and any payment received by the Issuer from a replacement fixed/floating rate swap provider in consideration for the Issuer entering into a replacement fixed/floating rate swap agreement with such provider,

(but in each case excludes any principal receipts, amounts representing principal received from the Swap and Interest Rate Cap Provider under the Basis Rate Swap and/or the Fixed/Floating Rate Swap, and any Mortgage Early Repayment Charges), in or towards the satisfaction of the payments or provisions in the following order of priority (the **Pre-Enforcement Revenue Priority of Payments**) (in each case only to the extent that the payments or provisions of a higher priority have been made in full (but in the case of payments to the Swap and Interest Rate Cap Provider under the Basis Rate Swap, only such amounts *pro rata* to the period in respect of which such payments to the Swap and Interest Rate Cap Provider under the Basis Rate Swap apply and, in the case of payments to the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap, only such amounts *pro rata* for the period in respect of which such payments to the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap apply)) on each Payment Date (and on the 12th day of each month in the case of payments to the Swap and Interest Rate Cap Provider under the Basis Rate Swap and on the 12th ay of each month in the case of payments to the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap), provided always that any Basis Rate Swap Termination Amounts and any Fixed/Floating Rate Swap Termination Amounts shall first be applied towards payments due to any replacement basis rate swap provider and/or fixed/floating rate swap provider (as applicable) and shall only be applied in accordance with the following priority, after a replacement basis rate swap agreement and/or fixed/floating rate swap agreement (as applicable) has been entered into to the extent that those termination amounts are not required to be paid to a replacement basis rate swap provider in respect of such replacement basis rate swap agreement and/or to a replacement fixed/floating rate swap provider in respect of such replacement fixed/floating rate swap agreement (as applicable):

- (i) first, to pay when due the remuneration payable to the Trustee (plus Value Added Tax, if any) and any costs, charges, liabilities and expenses incurred by it under the provisions of or in connection with the Trust Deed or the Deed of Charge or either or both of them together with interest as provided in the Trust Deed or the Deed of Charge or either or both of them;
- (ii) second, to pay when due amounts, including audit fees and company secretarial expenses (plus Value Added Tax, if any), which are payable by the Issuer to third parties and incurred without breach by the Issuer pursuant to the Trust Deed or the Deed of Charge and not provided for payment elsewhere and to provide for any such amounts expected to become due and payable by the Issuer after that Payment Date and to provide for the Issuer's liability or possible liability for corporation tax;
- (iii) third, to pay *pro rata*:
 - (A) the administration fee payable to the Administrator (including Value Added Tax, if any), such fee being an amount equal to 0.20 per cent. per annum of the average total principal balance of the Mortgage Loans outstanding on the first day of each of the three months immediately prior to the relevant Determination Date or if the appointment of the Administrator is terminated and a substitute Administrator, which is not an affiliate of the Seller is appointed, the figure 0.20 per cent. above shall be replaced with a figure agreed with such substitute Administrator in accordance with the procedures set out in the Administration Agreement and subject always to the consent of the Trustee; and
 - (B) amounts due to the Principal Paying Agent, the Paying Agent, the Registrar and the Agent Bank under the Paying Agency Agreement, the Account Bank under the Bank Agreement, the Standby Administrator under the Standby Administration Agreement, the Cash Manager under the Cash Management Agreement and the Corporate Services Provider under the Corporate Services Agreement;
- (iv) fourth, to pay all fees, costs, expenses, principal, interest and any other amounts due to the Liquidity Provider in accordance with the Liquidity Facility Agreement;
- (v) fifth, to pay (a) amounts payable to the Swap and Interest Rate Cap Provider in respect of any payment and any termination payment each under the terms of the Basis Rate Swap (except for any relevant Basis Rate Swap Provider Default Payment where **Basis Rate Swap Provider Default Payment** means any termination payment due or payable under the Swap and Interest Rate Cap Agreement in respect of the Basis Rate Swap as a result of the occurrence of a Swap Event of Default where the Swap and Interest Rate Cap Provider is the Defaulting Party or an Additional Termination Event relating to the credit rating of the Swap and Interest Rate Cap Provider), and (b) amounts payable to the Swap and Interest Rate Cap Provider in respect of any payment and any termination payment each under the terms of the Fixed/Floating Rate Swap (except for any relevant Fixed/Floating Rate Swap Provider Default Payment where **Fixed/Floating Rate Swap Provider Default Payment** means any termination payment due or payable under the Swap and Interest Rate Cap Agreement in respect of the Fixed/Floating Rate Swap as a result of the occurrence of a Swap Event of Default where the Swap and Interest Rate Cap Provider is the Defaulting Party or an Additional Termination Event relating to the credit rating of the Swap and Interest Rate Cap Provider);
- (vi) sixth, to pay amounts (other than in respect of principal) payable in respect of the A Notes;
- (vii) seventh, to pay amounts to be credited to the A Principal Deficiency Sub-Ledger (such amounts to be applied in redemption of the Notes in accordance with **Condition 5**) until the balance of the A Principal Deficiency Sub-Ledger has reached zero;

- (viii) eighth, to pay amounts (other than in respect of principal) payable in respect of the M1 Notes;
- (ix) ninth, to pay amounts to be credited to the M1 Principal Deficiency Sub-Ledger (such amounts to be applied in redemption of the Notes in accordance with **Condition 5**) until the balance of the M1 Principal Deficiency Sub-Ledger has reached zero;
- (x) tenth, to pay amounts (other than in respect of principal) payable in respect of the M2 Notes;
- (xi) eleventh, to pay amounts to be credited to the M2 Principal Deficiency Sub-Ledger (such amounts to be applied in redemption of the Notes in accordance with **Condition 5**) until the balance of the M2 Principal Deficiency Sub-Ledger has reached zero;
- (xii) twelfth, to pay amounts (other than in respect of principal) payable in respect of the B1 Notes;
- (xiii) thirteenth, to pay amounts to be credited to the B1 Principal Deficiency Sub-Ledger (such amounts to be applied in redemption of the Notes in accordance with **Condition 5**) until the balance of the B1 Principal Deficiency Sub-Ledger has reached zero;
- (xiv) fourteenth, to pay amounts (other than in respect of principal) payable in respect of the B2 Notes;
- (xv) fifteenth, to pay amounts to be credited to the B2 Principal Deficiency Sub-Ledger (such amounts to be applied in redemption of the Notes in accordance with **Condition 5**) until the balance of the B2 Principal Deficiency Sub-Ledger has reached zero;
- (xvi) sixteenth, to pay amounts (other than in respect of principal) payable in respect of the C Notes;
- (xvii) seventeenth, to deposit into the Reserve Account, until the amount standing to the credit of the Reserve Account is equal to the Reserve Account Required Amount;
- (xviii) eighteenth, to deposit into the Discount Reserve Account, to the extent that the amount standing to the credit of the Discount Reserve Account is less than the Discount Reserve Required Amount;
- (xix) nineteenth, to retain in the Issuer Transaction Account, an amount (the **Issuer Profit**) equal to £1,000 (or such lesser amount as may be determined from time to time by the directors of the Issuer acting in good faith (pursuant to their obligation to review such amount) and certified by them to the Trustee with a copy to the Rating Agencies);
- (xx) twentieth, to pay the holders of the C Notes in respect of principal of the C Notes until the C Notes are redeemed in full;
- (xxi) twenty-first, *pari passu* and *pro rata* in or towards payment of (a) any Basis Rate Swap Provider Default Payment payable to the Swap and Interest Rate Cap Provider made under the terms of the Basis Rate Swap, and (b) any Fixed/Floating Rate Swap Provider Default Payment payable to the Swap and Interest Rate Cap Provider made under the terms of the Fixed/Floating Rate Swap; and
- (xxii) twenty-second, to pay amounts payable in respect of the Residuals until the Residuals are cancelled.

Principal Priority of Payments

Prior to the enforcement of the Security, on each Payment Date, the Issuer is required to apply the Actual Redemption Funds on such Payment Date determined on the Determination Date immediately preceding such Payment Date in the following manner and order of priority (the **Principal Priority of Payments**):

- (i) first, to the holders of the A Notes in respect of principal of the A Notes until the A Notes are redeemed in full;

- (ii) second, to the holders of the M1 Notes in respect of principal of the M1 Notes until the M1 Notes are redeemed in full;
- (iii) third, to the holders of the M2 Notes in respect of principal of the M2 Notes until the M2 Notes are redeemed in full;
- (iv) fourth, to the holders of the B1 Notes in respect of principal of the B1 Notes until the B1 Notes are redeemed in full; and
- (v) fifth, to the holders of the B2 Notes in respect of principal of the B2 Notes until the B2 Notes are redeemed in full,

provided that, subject to the proviso below, the Actual Redemption Funds shall not be applied in the order set out in the Principal Priority of Payments but shall instead be applied *pro rata* by principal amount outstanding between items (i) to (v) of the Principal Priority of Payments on any such Payment Date immediately succeeding a Determination Date on which all of the following conditions are met:

- (i) after the previous Payment Date, the result produced by the fraction $(M+B)/(A+M+B)$ is greater than or equal to twice the result produced by that fraction as at the Issue Date;
- (ii) all balances on each of the Principal Deficiency Sub-Ledgers are zero;
- (iii) the balance of the Reserve Account is at the Reserve Account Required Amount;
- (iv) no Liquidity Drawings and no withdrawals from the Standby Account have been made (or made and not repaid);
- (v) the total balance of all Mortgage Loans in the Mortgage Pool which are 90 days or more in arrears does not exceed 17 per cent. of the total balance of all the Mortgage Loans in the Mortgage Pool;
- (vi) the aggregate balance of all Mortgage Loans foreclosed in the Mortgage Pool does not exceed 2.25 per cent. of the original balance of the Mortgage Pool; and
- (vii) the total losses suffered by the Issuer from the Issue Date until the relevant Reserve Account Determination Date are lower than 1.25 per cent. of the original balance of the Mortgage Pool,

unless on any Payment Date following the Payment Date immediately succeeding such Determination Date, the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10 per cent. of the initial aggregate Principal Amount Outstanding of the Notes (in which case the Actual Redemption Funds shall be applied in the order set out in the Principal Priority of Payments).

For the purposes of this paragraph, as at any date:

A = the aggregate Principal Amount Outstanding of the A Notes on such date;

M = the aggregate Principal Amount Outstanding of the M Notes on such date; and

B = the aggregate Principal Amount Outstanding of the B Notes on such date.

The Cash Manager is responsible, pursuant to the Cash Management Agreement, for determining the amount of the Actual Redemption Funds as at any Determination Date and each determination so made shall (in the absence of negligence, wilful default, bad faith or manifest error) be final and binding on the Issuer, the Trustee and all Noteholders and no liability to the Noteholders shall attach to the Issuer, the Trustee and all Noteholders and no liability to the Noteholders shall attach to the Issuer, the Trustee or (in such absence as

aforesaid) the Cash Manager in connection therewith. Such Actual Redemption Funds will be applied in accordance with the Principal Priority of Payments as set out in **Condition 2(d)**.

On each Payment Date, the Mortgage Early Repayment Charges calculated on the preceding Determination Date will be applied in payment to the MERC Holders.

On each Determination Date, the aggregate of (a) the amount of Further Advances which the Seller has committed to advance (but has not yet advanced) as at the relevant Determination Date for the forthcoming week and (b) the amount which the Seller anticipates it will require for future (but not yet advanced) Further Advances for the forthcoming week, such amount (in respect of this item (b) only) not to be greater than £1,000,000 (such aggregate amount, the **Committed Further Advances**) will be transferred from the Principal Ledger to the Further Advances Ledger. Available Capital Funds may be applied or set aside by the Issuer on any day for the purchase of Further Advances after any amounts then standing to the credit of the Further Advances Ledger have been exhausted.

The amount of **Actual Redemption Funds** as at any Determination Date preceding a Payment Date is an amount calculated as the aggregate of:

- (a) the amount standing to the credit of the Principal Ledger and the amount (if any) standing to the credit of the Further Advances Ledger (before the transfer of the Committed Further Advances as calculated on that Determination Date from the Principal Ledger) in each case as at the last Business Day of the month immediately preceding such Determination Date;
- (b) the amount (if any) calculated on the Determination Date pursuant to the Pre-Enforcement Revenue Priority of Payments to be the amount by which the debit balance on any Principal Deficiency Sub-Ledger is expected to be reduced by the application of Available Revenue Funds on the immediately succeeding Payment Date;
- (c) the amount (if any) of the Principal Rebate standing to the credit of the Pre-Funded Mortgage Loans Ledger on the first Determination Date after the latest Eligible Date; and
- (d) the amount (if any) standing to the credit of the Swap Payments Ledger as at such Determination Date (unless otherwise counted under paragraph (a), (b) or (c) above),

LESS

- (e) the Committed Further Advances calculated on such Determination Date.

For the purpose of the foregoing:

Available Capital Funds means, on any day during an Interest Period (including on a Determination Date) an amount represented by the amount standing to the credit of the Principal Ledger at the close of business on the preceding day less, in the period between the last Business Day of the month immediately preceding a Determination Date and the application of Actual Redemption Funds on the preceding Payment Date:

- (i) any commitments to purchase Substitute Mortgage Loans on the immediately succeeding Payment Date; and
- (ii) the amount of such Actual Redemption Funds calculated on the relevant Determination Date.

The amount of Actual Redemption Funds will be applied to redeem the Notes (excluding the C Notes) in the order provided in **Condition 5(b)**.

THE ISSUER

Introduction

The Issuer was incorporated and registered in England and Wales with registered number 05931269 under the Companies Act 1985 as a company with limited liability on 11 September 2006. On 7 December 2006 the Issuer changed its name from Teuton No. 1 plc to Eurohome UK Mortgages 2007-1 plc. The Issuer's registered office is at 35 Great St. Helen's, London, EC3A 6AP. The Issuer's authorised share capital comprises 50,000 ordinary shares of £1 each (of which £12,501.50 is paid up). 49,999 shares and all rights attaching thereto are held by Eurohome Mortgages Holdings Company Limited, a limited liability company incorporated and registered in England and Wales with registered number 05965343 under the Companies Act 1985 (**Holdings**). One share and all rights attaching thereto is held by SFM Nominees Limited as nominee for Holdings.

The Issuer is organised as a special purpose company, established for the purpose of issuing the Notes, the MERCs and the Residuals. The Issuer has no subsidiaries. The Seller does not own, directly or indirectly, any of the share capital of the Issuer.

Directors

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

<i>Name</i>	<i>Address</i>	<i>Principal Activities</i>
SFM Directors Limited	35 Great St. Helen's, London, EC3A 6AP	Director of special purpose vehicles
SFM Directors (No. 2) Limited	35 Great St. Helen's, London, EC3A 6AP	Director of special purpose vehicles

The Company Secretary of the Issuer is SFM Corporate Services Limited.

The registered office and the head office of the Issuer is at 35 Great St. Helen's, London EC3A 6AP telephone number 020 7398 6300.

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited are Jonathan Keighley, Robert Berry, James Macdonald, James France, Annika Goodwille, Helena Whitaker, Claudia Wallace, J-P Nowacki and Cane Pickersgill.

The entire beneficial interest in the Issuer is held by Holdings which is wholly owned by the Share Trustee subject to a trust for the benefit of charitable institutions.

In accordance with the Corporate Services Agreement, the Corporate Services Provider will provide directors and other corporate services to the Issuer. The Issuer will pay the Corporate Services Provider an annual fee.

Activities

The Issuer has been established specifically to acquire the Mortgage Pool and ancillary rights in respect thereof. Its activities will be restricted by the terms and conditions of the Notes, MERCs, Residuals and the Transaction Documents and will be limited to the issue of the Notes, MERCs and Residuals, the ownership of the Mortgage Loans and their Related Security and other assets referred to herein, the exercise of related rights and powers, and other activities referred to herein or reasonably incidental thereto. These activities

will include (a) the collection of all payments of (principal and interest) due from Borrowers on Mortgage Loans; (b) the operation of arrears procedures; (c) the enforcement of Mortgage Loans and their Related Security against Borrowers in default; (d) the funding of Further Advances purchased by the Issuer in respect of the Mortgage Loans; and (e) the acquisition of Substitute Mortgage Loans and Pre-Funded Mortgage Loans. Substantially all of the above activities will be sub-contracted to the Administrator or, in some cases, VMS, on an agency or (as applicable) sub-agency basis under the Administration Agreement. The Issuer (with the consent of the Trustee) or the Trustee may revoke the agency (and, simultaneously, the rights) of the Administrator in certain circumstances, following an Event of Default in relation to the Notes. Following such an event, the Issuer (with the consent of the Trustee) or the Trustee may, subject to certain conditions, appoint substitute administrators.

The Issuer has applied for a licence under the Consumer Credit Act and, pursuant to the Data Protection Act, has notified the Information Commissioner of certain information which may be held by it.

USE OF PROCEEDS

The net proceeds of the issue of the Notes (excluding the C Notes) are expected to amount to approximately £349,125,000 and will be applied in the purchase by the Issuer of the Completion Mortgage Pool from the Seller on the Issue Date and may also be applied in the purchase of the Pre-Funded Mortgage Pool on the Eligible Dates. To the extent that, on the Issue Date, the net proceeds of the Notes (excluding the C Notes) exceeds the purchase price for the Completion Mortgage Pool, all of that excess will be credited to the Pre-Funded Mortgage Loans Ledger on the Issue Date to be used to acquire the Pre-Funded Mortgage Pool on the Eligible Dates.

The net proceeds of the issue of the C Notes are expected to amount to £4,725,000 and will be deposited into the Reserve Account on the Issue Date.

The proceeds of payment of a fee from DB UK Bank Limited on the Issue Date are expected to amount to £[●] and will be used to fund: (a) the expenses of the issue of the Notes, MERCs and Residuals being start-up costs (including the underwriting and selling commissions payable in respect of the Notes, expenses incurred in connection with the offering of the Notes and the fees payable to the Swap and Interest Rate Cap Provider under the Swap and Interest Rate Cap Agreement); (b) the deposit of funds into the Discount Reserve Account on the Issue Date; (c) such part of the Reserve Account Required Amount on the Issue Date as has not been funded by the proceeds of issue of the C Notes; and (c) the Pre-Funded Mortgage Pool Interest Shortfall.

CAPITALISATION STATEMENT

Since the date of incorporation of the Issuer, the Issuer has not commenced operations and no financial statements have been made up as at the date of this document.

The following table shows the unaudited capitalisation of the Issuer as at the date hereof, adjusted for the issue of the Notes:

Share Capital	£
<i>Authorised</i>	
50,000 Ordinary Shares of £1 each	50,000
<i>Issued</i>	
50,000 Ordinary Shares of £1 each, 2 of which are fully paid and the remaining 49,998 paid up to 25%	12,501.50
	<hr/>
	<u>12,501.50</u>
Borrowings⁽¹⁾	
The Notes	354,725,000

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

The current financial period of the Issuer will end on 20 March 2007.

(1) The value of the MERCs and Residuals is contingent upon future events and they are not included under Borrowings above.

THE SELLER

The Seller is a private limited company incorporated in England and Wales on 30 June 1936 under the Companies Act 1929 as Morgan Grenfell & Co Limited. The Seller subsequently changed its name to DB UK Bank Limited on 5 April 2004. The Seller is a wholly owned subsidiary undertaking of Deutsche Holdings Limited which is ultimately owned by Deutsche Bank AG.

The registered office of the Seller is 23 Great Winchester Street, London EC2X 2AP.

In January 2006, the Seller received permission from the Financial Services Authority to enter into the mortgage origination business. The Seller commenced its business of originating residential mortgage loans in England and Wales, Scotland and Northern Ireland on or about 20 April 2006. It currently derives its mortgage lending business through mortgage intermediaries. The Seller also conducts other businesses which includes its international equities business which comprises largely of equity finance and equity derivatives.

The Eurohome UK Mortgages 2007-1 plc securitisation is the first residential mortgage-backed securitisation that has been undertaken by the Seller. Pursuant to a Mortgage Sale Agreement, the Seller will sell the beneficial interest to the Issuer in certain mortgage loans that it has originated while the Seller will retain legal title to the Mortgage Loans.

THE ACCOUNT BANK, CASH MANAGER, AGENT BANK AND LIQUIDITY PROVIDER

Deutsche Bank Aktiengesellschaft (**Deutsche Bank** or the **Bank**) originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. The Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions.

The Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real estate finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies (the **Deutsche Bank Group**).

As of 30 September 2006, Deutsche Bank's issued share capital amounted to Euro 1,334,735,508.48 consisting of 521,381,058 ordinary shares of no par value. The shares are fully paid up and in registered form. The shares are listed for trading and official quotation on all the German Stock Exchanges. They are also listed on the New York Stock Exchange. The Management Board has decided to pursue delisting on certain stock exchanges other than Germany and New York in order to benefit from the integration of financial markets. In respect of the stock exchanges Amsterdam, Brussels, London, Luxembourg, Paris, Vienna, Zurich and Tokyo, this decision has completely been implemented.

As of 30 September 2006, Deutsche Bank Group had total assets of EUR 1,096,546 million, total liabilities of EUR 1,065,496 million and total shareholders' equity of EUR 31,050 million on the basis of United States Generally Accepted Accounting Principles.

Deutsche Bank's long-term senior debt has been assigned a rating of AA- (outlook positive) by Standard & Poor's, Aa3 (outlook stable) by Moody's Investors Services and AA- (outlook stable) by Fitch Ratings.

THE SWAP AND INTEREST RATE CAP PROVIDER AND SWAP AND INTEREST RATE CAP GUARANTOR

Banque AIG, London Branch (**Banque AIG**) is the Swap and Interest Rate Cap Provider and American International Group, Inc. is the guarantor (the **Swap and Interest Rate Cap Guarantor**) of the Swap and Interest Rate Cap Provider's payment obligations under the Swap and Interest Rate Cap Agreement.

Banque AIG is a French bank, acting through its London branch, and is a subsidiary of AIG Financial Products Corp. (**AIGFP**). AIGFP is a wholly owned subsidiary of the Swap and Interest Rate Cap Guarantor. Banque AIG conducts, primarily as principal, a financial derivative products business. It also enters into investment contracts and other structured transactions, and invests in a diversified portfolio of securities. In the course of conducting its business, Banque AIG also engages in a variety of other related transactions. Banque AIG's London branch is located at 5th Floor, One Curzon Street, London W1J 5RT.

The Swap and Interest Rate Cap Guarantor is a Delaware corporation and a holding company which through its subsidiaries are primarily engaged in a broad range of insurance and insurance-related activities and financial services in the United States and abroad. Reports, proxy statements and other information filed by the Swap and Interest Rate Cap Guarantor with the Securities and Exchange Commission (the **Commission**) pursuant to the informational requirements of the Securities Exchange Act of 1934, as amended, can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the following regional offices of the Commission: Pacific Regional Office, 5670 Wilshire Boulevard, 11th Floor, Los Angeles, California 90036-3648; and Midwest Regional Office, Citicorp Center, Suite 1400, 500 West Madison Street, Chicago, Illinois 60661-2511. Copies of such material can be obtained from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Commission also maintains a web site at <http://www.sec.gov> which contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. The Swap and Interest Rate Cap Guarantor's common stock is listed on the New York Stock Exchange and reports, proxy statements and other information can also be inspected at the Information Center of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

VERTEX MORTGAGE SERVICES LIMITED

Vertex Mortgage Services Limited (**VMS**) is a company incorporated in England and Wales (Registered No 02042968), is Authorised and Regulated by the FSA (Reference No 306064) and has its registered office at Pegasus House, Kings Business Park, Kings Drive, Prescot, Merseyside L34 1PJ. VMS is wholly owned by Vertex Data Science which in turn is owned by United Utilities Plc. On 15 January United Utilities announced to the London Stock Exchange an agreement to sell Vertex to Oak Hill Capital Partners a leading US private equity company.

VMS has been approved by S&P as a rated third-party "Primary" servicer for residential loans, it provides computer software applications and Business Process Outsourcing to the financial services marketplace in the UK and abroad. VMS is based in offices in Cheltenham, Dudley and Chester in the UK and the IT systems at all sites are fully interchangeable so that in a disaster recovery situation mortgage loans can be serviced from any location.

VMS is currently servicing approximately 70,000 mortgage loans. Its existing client base includes Egg, Prudential, Deutsche Bank, Standard Life Bank, Victoria Mortgages, Livingstone Mortgages, London Mortgage Company and Rooftop Mortgages .

THIRD PARTY INFORMATION

The information contained in this Offering Circular with respect to the Seller, the Account Bank, the Cash Manager, VMS, the Liquidity Provider, the Swap and Interest Rate Cap Provider, the Swap and Interest Rate Cap Guarantor, the Agent Bank, the Account Bank and the Administrator relates to and has been obtained from each of them and has been accurately reproduced. As far as the Issuer is aware and is able to ascertain from the information provided by the above mentioned third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The delivery of this Offering Circular shall not create any implication that there has been no change in the affairs of the Seller, the Account Bank, the Liquidity Provider, the Swap and Interest Rate Cap Provider, the Swap and Interest Rate Cap Guarantor, the Cash Manager, VMS, the Agent Bank, the Account Bank or the Administrator since the date stated in respect of the relevant information in this Offering Circular, or that the information contained or referred to in this Offering Circular is correct as of any time subsequent to its date. None of the Noteholders will have any right to proceed directly against the Seller, the Account Bank, the Liquidity Provider, the Cash Manager, the Swap and Interest Rate Cap Provider, the Swap and Interest Rate Cap Guarantor, VMS, the Agent Bank, the Account Bank or the Administrator in respect of their respective obligations under any of the agreements to which they are party.

MORTGAGE POOL

Introduction

The Mortgage Pool will comprise:

- (a) the Completion Mortgage Pool;
- (b) any Substitute Mortgage Loans acquired by the Issuer in accordance with the provisions of the Mortgage Sale Agreement and the Administration Agreement; and
- (c) any Further Advances acquired by the Issuer in accordance with the provisions of the Mortgage Sale Agreement and the Administration Agreement; and
- (d) the Pre-Funded Mortgage Pool,

other than, in any such case, Mortgage Loans which have been repaid and discharged or in respect of which funds representing the principal outstanding have otherwise been received in full, or which have been repurchased by the Seller pursuant to the Mortgage Sale Agreement or in respect of which Enforcement Procedures have been completed.

The Completion Mortgage Pool will comprise the Mortgage Loans selected by the Seller from the Initial Mortgage Pool. As at 31 January 2007, the Initial Mortgage Pool had the characteristics shown below. See *Characteristics of the Initial Mortgage Pool*.

Key characteristics of Initial Mortgage Pool

Total Balance (£):	308,462,034
Number of Loans:	1,922
Weighted Average Original LTV (%):	83.17
Weighted Average Current LTV (%):	83.61
Weighted Average Current Rate (%):	5.98
Weighted Average Original Term (Months):	261.30
Weighted Average Remaining Term (Months):	259.34
Regional Concentration—London & South East (%):	39.19
Percentage of Buy to Let Mortgages:	53.32
Percentage of Previously Bankrupt Borrowers:	0.27
Percentage of Borrowers Previously Subject to an IVA:	0.27

All of the Mortgage Loans in the Initial Mortgage Pool have been originated in accordance with the Lending Criteria (as in effect on the relevant date) subject to the discretion of the Seller to lend outside the Lending Criteria as described in *Mortgage Pool – Discretion to Lend Outside Lending Criteria*.

Prior to the Issue Date, in forming the Completion Mortgage Pool, the Seller will exclude from the Initial Mortgage Pool all Mortgage Loans which do not comply with the Lending Criteria (as in effect on the relevant date) or permitted exceptions (as described below), or with the warranties to be given in respect of the Mortgage Loans in the Mortgage Sale Agreement. Accordingly, the aggregate balance of the Completion Mortgage Pool may be less than the aggregate balance of the Initial Mortgage Pool.

Material Legal Aspects of the Mortgage Loans

The following discussion is a summary of the material legal aspects of English, Welsh, Scottish and Northern Irish residential property loans and mortgages. It is not an exhaustive analysis of the relevant law. The Mortgage Loans secured over property located in England and Wales (the **English Mortgage Loans**) will be governed by the laws of England and Wales. The Mortgage Loans secured over property located in Scotland (the **Scottish Mortgage Loans**) will be governed by the laws of Scotland and the Mortgage Loans secured over property located in Northern Ireland (the **Northern Irish Mortgage Loans**) will be governed by the laws of Northern Ireland.

English and Welsh Mortgage Loans

General

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property. The second party is the mortgagee, who is the lender. Each English and Welsh Mortgage Loan will be secured by a mortgage which has a first ranking priority over all other mortgages secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the mortgagee, though such other mortgage or interest will rank below the mortgagee's mortgage in priority.

Nature of Property as Security

There are two forms of title to land in England and Wales: registered and unregistered. Both systems of title can include both freehold and leasehold land.

Freehold constitutes absolute ownership of land. Leasehold constitutes ownership of land (normally for a fixed period) subject to an annual payment of a ground rent to the owner of the freehold. A flying freehold exists when one part of a property extends over, or under, a neighbouring property.

Registered Title

Title to registered land is registered at the Land Registry. Each parcel of land is given a unique title number. Prior to 13 October 2003 title to the land was established by a land or (in the case of land which is subject to a mortgage or charge) charge certificate containing official copies of the entries on the register relating to that land, however, pursuant to the Land Registration Act 2002 which came into force on 13 October 2003 the provision of land certificates and charge certificates has now been abolished. Title to land is now established by reference to entries on the registers held by the Land Registry.

There are four classes of registered title. The most common is title absolute. A person registered with title absolute owns the land free from all interests other than those entered on the register and those classified as unregistered interests which override first registration and unregistered interests which override registered dispositions.

Title information documents provided by the Land Registry will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act 2002 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry such as unregistered interests which override first registration and

unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, this plan is not conclusive as to matters such as the location of boundaries.

Unregistered Title

All land in England and Wales is now subject to compulsory registration on the happening of any of a number of trigger events, which includes the granting of a first legal mortgage. However, a small proportion of land in England and Wales (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights would have to be registered at the Central Land Charges Registry in order to be effective against a subsequent purchaser of the land.

Taking Security Over Land

Where land is registered, a mortgagee must register its mortgage at the Land Registry in order to secure priority over any subsequent mortgagee. Prior to registration, the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register his mortgage. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any application for registration of another interest which is received by the Land Registry during this priority period.

In the system of unregistered land, the mortgagee protects its interest by retaining possession of the title deeds to the property. Without the title deeds to the property, the borrower is unable to establish the necessary chain of ownership, and is therefore effectively prevented from dealing with its land without the consent of the mortgagee. Priority of mortgages over unregistered land is governed first by the possession of title deeds, and in relation to subsequent mortgages by the registration of a land charge.

The Seller as Mortgagee

The sale of the English and Welsh mortgages by the Seller to the Issuer will take effect in equity only. The Issuer will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the mortgages. The consequences of this are explained in the section *Risk Factors – Title of the Issuer*.

Enforcement of Mortgages

If a borrower defaults under a loan, the Mortgage Conditions in respect of the English and Welsh Mortgage Loans provide that all monies under the Mortgage Loan will become immediately due and payable. The Seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the Borrower contained in such Mortgage Conditions to pay or repay those amounts. In addition, the Seller or its successors or assigns may enforce its Mortgage in relation to the defaulted Mortgage Loan. Enforcement may occur in a number of ways, including the following:

- the mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property;
- the mortgagee may lease the property to third parties;

- the mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagors' title to the property is extinguished so that the mortgagee becomes the owner of the property. This remedy is, because of procedural constraints, rarely used; and
- the mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Law of Property Act 1925. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

A court order under the Consumer Credit Act is necessary to enforce a land mortgage in certain circumstances as described under *Risk Factors – Mortgage Loans Regulated by the FSM Act and Mortgage Loans and the Consumer Credit Act*.

Scottish Mortgage Loans

General

A standard security is the only means of creating a fixed charge over heritable or long leasehold property in Scotland. Its form must comply with the requirements of the Conveyancing and Feudal Reform (Scotland) Act 1970 (the **1970 Act**). There are two parties to a standard security. The first party is the grantor, who is usually the borrower and homeowner. The grantor grants the standard security over its property (and is generally the only party to execute the standard security). The second party is the grantee of the standard security, who is usually the lender and is called the heritable creditor. Each Scottish Mortgage Loan will be secured by a standard security over the relevant Property which has a first ranking priority over all other standard securities secured on the relevant Property and over all unsecured creditors of the Borrower. Borrowers may create a subsequent standard security over the relevant Property without the consent of the Seller. Upon intimation to the Seller (in its capacity as trustee for the Issuer pursuant to the Scottish Declaration of Trust or any Supplemental Declaration of Trust) of any subsequent standard security the prior ranking of the Seller standard security shall be restricted to security for advances made prior to such intimation or advances made thereafter where the contract or agreement to make such advances was made prior to intimation and interest and expenses in respect thereof.

The 1970 Act automatically imports a statutory set of **Standard Conditions** into all standard securities, although the majority of these may be varied by agreement. The Seller, along with most major lenders in the residential mortgage market in Scotland, has elected to vary the Standard Conditions by means of its own set of Scottish mortgage conditions, the terms of which are in turn imported into each standard security. The main provisions of the Standard Conditions which cannot be varied by agreement relate to redemption and enforcement, and in particular the notice and other procedures that are required to be carried out prior to the exercise of the heritable creditor's rights on a default by the borrower.

Nature of Property as Security

While title to all land in Scotland is registered there are currently two possible forms of registration, namely the Land Register and Sasine Register. Both systems of registration can include both heritable (the Scottish equivalent to freehold) and long leasehold land.

Land Register

This system of registration was established by the Land Registration (Scotland) Act 1979 and now applies to the whole of Scotland. Any sale of land (including a long leasehold interest in land) the title to which has not been registered in the Land Register or the occurrence of certain other events in relation thereto (but not the granting of a standard security alone) trigger its registration in the Land Register, when it is given a unique title number. Title to the land is established by a land certificate containing official copies of the entries on the Land Register relating to that land. Similarly, the holder of any standard security over the land in

question receives a charge certificate containing official copies of the entries relating to that security. A person registered in the Land Register owns the land free from all interests other than those entered on the Land Register, those classified as overriding interests and any other interests implied by law.

The land certificate will reveal the present owners of the land, together with any standard securities and other interests (other than certain overriding interests) affecting the land. The land certificate will also contain a plan indicating the location and extent of the land. While this plan is not in all circumstances conclusive as to the extent of the land, it cannot be amended if this would be to the prejudice of a proprietor in possession of the land, unless the statutory indemnity in respect of such amendments has been expressly excluded in the land certificate itself.

Sasine Register

Title to all land in Scotland where no event has yet occurred to trigger registration in the Land Register is recorded in the General Register of Sasines (also known as the Sasine Register). Title to such land is proved by establishing a chain of documentary evidence of title going back at least ten years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights (including standard securities) would have to be recorded in the Sasine Register in order to be effective against a subsequent purchaser of the land.

Taking Security Over Land

A heritable creditor must register its standard security in the Land Register or the Sasine Register (as applicable) in order to perfect its security and secure priority over any subsequent standard security. Until such registration occurs, a standard security will not be effective against a subsequent purchaser or the heritable creditor under another standard security over the property. Priority of standard securities is (subject to express agreement to the contrary between the security holders) governed by their date of registration rather than their date of execution. There is no equivalent in Scotland to the priority period system which operates in relation to registered land in England and Wales.

The Seller as Heritable Creditor

The sale of the Scottish Mortgages by the Seller to the Issuer on the Issue Date will be given effect by a Scottish Declaration of Trust by the Seller (and the sale of any further Scottish Mortgages in the future will be given effect by Supplemental Declarations of Trust), by which the beneficial interest in the Scottish Mortgages will be transferred to the Issuer. Such beneficial interest (as opposed to the legal title) cannot be registered in the Land Register or Sasine Register. The consequences of this are explained in *Risk Factors – Title of the Issuer*.

Enforcement of Mortgages

If a borrower defaults under a Scottish loan, most Scottish mortgage conditions provide that all monies under the loan will become immediately due and payable. The heritable creditor or its successors or assignees would then be entitled to recover all outstanding principal, interest and fees under the obligation of the borrower contained in the Scottish mortgage conditions to pay or repay those amounts. In addition, the heritable creditor or its successors or assignees may enforce its standard security in relation to the defaulted loan. Enforcement must be in accordance with the 1970 Act, initiated by service on the grantor of the Standard Security of a specified form of notice and/or (depending on the circumstances) by direct court application, including the following four principle remedies:

- the heritable creditor may enter into possession of the secured property. If it does so, it does so in its own right and not as agent of the borrower, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property;

- the heritable creditor may grant a lease of the secured property of up to seven years (or longer with the courts' permission) to third parties;
- the heritable creditor may sell the secured property, subject to various duties to ensure that the sale price is the best that can reasonably be obtained. The purchaser of a property sold pursuant to a heritable creditor's power of sale becomes the owner of the property; and
- the heritable creditor may, in the event that a sale cannot be achieved, foreclose on the secured property. Under foreclosure procedures the borrower's title to the property is extinguished so that the heritable creditor becomes the owner of the property. However, this remedy is rarely used.

In contrast to the position in England and Wales, the heritable creditor has no power to appoint a receiver under the standard security.

A court order under the CCA is necessary to enforce a standard security in certain circumstances as described under *Risk Factors – Mortgage Loans Regulated by the FSM Act* and *– Mortgage Loans Regulated by the Consumer Credit Act*

Borrower's Right of Redemption

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

Northern Irish Mortgage Loans

General

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property. The second party is the mortgagee, who is the lender. Each Northern Irish Mortgage Loan will be secured by a mortgage which has a first ranking priority over all other mortgages secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the seller, though such other mortgage or interest will rank below the mortgagee's mortgage in priority.

Nature of Property as Security

There are two forms of title to land in Northern Ireland: registered and unregistered. Both systems of title can include both freehold and leasehold land.

Freehold constitutes absolute ownership of land. Leasehold constitutes ownership of land (normally for a fixed period) subject to an annual payment of a ground rent to the owner of the freehold. A flying freehold exists when one part of a property extends over, or under, a neighbouring property. In addition, fee farm land is effectively freehold subject to a yearly rent and, in certain cases, covenants on the part of the owner.

Registered Title

Title to registered land is registered at the Land Registry of Northern Ireland. Each parcel of land is given a unique folio number. Title to land is established by a land certificate containing official copies of the entries on the register relating to that land. There are four classes of registered title. The most common is title absolute. A person registered with title absolute owns the land free from all interests other than those entered on the register and those classified as unregistered interests which override first registration and unregistered interests which override registered dispositions. Title information documents provided by the Land Registry

will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act (N.I.) 1970 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry such as unregistered interests which override first registration and unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, this plan is not conclusive as to matters such as the location of boundaries.

Unregistered Title

All land in Northern Ireland is now subject to compulsory registration on the happening of any of a number of trigger events, which, unlike England and Wales, does not include the granting of a first legal mortgage. However, a large proportion of land in Northern Ireland (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights would have to be registered at the Registry of Deeds in order to be effective against a subsequent purchaser of the land.

Taking Security Over Land

Where land is registered, a mortgagee must register its mortgage at the Land Registry of Northern Ireland in order to secure priority over any subsequent mortgagee. Prior to registration, the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register his mortgage. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any application for registration of another interest which is received by the Land Registry during this priority period.

In the system of unregistered land, the mortgagee protects its interest by registering its mortgage at the Registry of Deeds, Belfast and by retaining possession of the title deeds to the property. Without the title deeds to the property, the borrower is unable to establish the necessary chain of ownership, and is therefore effectively prevented from dealing with its land without the consent of the mortgagee. Priority of mortgages over unregistered land is governed by the date of registration at the Registry of Deeds.

By virtue of Article 51 of the Judgements Enforcement (Northern Ireland) Order 1981 an order charging land, i.e. a judgement mortgage, if founded on a judgement in respect of rates payable in respect of that land, shall have priority over all other charges and encumbrances whatsoever affecting that land except other debts owing to the Crown.

The Seller as Mortgagee

The sale of the Northern Irish mortgages by the Seller to the Issuer will take effect in equity only. The Issuer will not apply to the Land Registry or the Registry of Deeds to register or record its equitable interest in the mortgages. The consequences of this are explained in the section *Risk Factor - Title of the Issuer*.

Enforcement of Mortgages

If a borrower defaults under a loan, the Northern Irish mortgage conditions provide that all monies under the loan will become immediately due and payable. The Seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the borrower contained in the Northern Irish mortgage conditions to pay or repay those amounts. In addition, the Seller or its successors or assigns may enforce its mortgage in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following:

- the mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property;
- the mortgagee may lease the property to third parties;
- the mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagor's title to the property is extinguished so that the mortgagee becomes the owner of the property. This remedy is, because of procedural constraints, rarely used; and
- the mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Conveyancing and Law of Property Act 1881. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

A court order under the Consumer Credit Act is necessary to enforce a land mortgage in certain circumstances as described under *Risk Factors – Mortgage Loans Regulated by the FSM Act and Mortgage Loans* and the *Consumer Credit Act*.

CHARACTERISTICS OF THE MORTGAGE LOANS

Interest Rates

(A) *Discount LIBOR-Linked Mortgage Loans*

The Initial Mortgage Pool contains some mortgage loans under which interest accrues at a rate equal to LIBOR for three month sterling deposits (the **LIBOR-linked Mortgage Rate**) plus a margin expressed as a specified percentage over such LIBOR that has been discounted by between 0.08 per cent and 1.87 per cent until one of several dates ending no later than 17 November 2009 (**Discount LIBOR-linked Mortgage Loans**). Following the end of their discounted period, the Discount LIBOR-linked Mortgage Loans will revert to the LIBOR-linked Mortgage Rate in accordance with the Mortgage Conditions. See *Characteristics of the Initial Mortgage Pool*.

Once the discounted period is ended the margin is fixed as a specified percentage (in relation to LIBOR for three month sterling deposits) for the term of the Discount LIBOR-linked Mortgage Loan.

(B) *Fixed LIBOR-linked Mortgage Loans*

A certain number of the Mortgage Loans are fixed rate mortgage loans that will convert to a rate linked to the LIBOR-linked Mortgage Rate at the expiry of a fixed rate period, such expiry occurring on one of several dates ending no later than 18 January 2010 (**Fixed LIBOR-linked Mortgage Loans** and, together with Discount LIBOR-linked Mortgage Loans, **LIBOR-linked Mortgage Loans**). Following the end of their fixed rate period, such Fixed LIBOR-linked Loans will revert to a margin over the LIBOR-linked Mortgage Rate in accordance with the Mortgage Conditions. See *Characteristics of the Initial Mortgage Pool*.

(C) *Discount BBR-Linked Mortgage Loans*

The Initial Mortgage Pool contains some Bank of England base rate-linked mortgage loans, under which interest accrues at a rate equal to the Bank of England base rate plus a margin that has been discounted by between 0.50 per cent and 1.75 per cent until one of several dates ending no later than 11 January 2010 (**Discount BBR-linked Mortgage Loans**). Following the end of their discounted period, the Discount BBR-linked Mortgage Loans will revert to a margin over the Bank of England base rate in accordance with the Mortgage Conditions. See *Characteristics of the Initial Mortgage Pool*.

(D) *Fixed BBR-linked Mortgage Loans*

A certain number of the BBR-linked Mortgage Loans are fixed rate mortgage loans that will convert to a rate linked to the Bank of England base rate at the expiry of the relevant fixed rate period until one of several dates ending no later than 31 January 2010 (**Fixed BBR-linked Mortgage Loans** and, together with Discount BBR-linked Mortgage Loans, **BBR-linked Mortgage Loans**). See *Characteristics of the Initial Mortgage Pool*.

Interest Rate Changes

In respect of the LIBOR-Linked Mortgage Loans (in the case of the Fixed LIBOR-linked Mortgage Loans after the expiry of an initial fixed period) LIBOR for three month sterling deposits is determined at 11:00am on the 15th day in March, June, September and December by the Administrator on behalf of the Issuer. The margin for these Mortgage Loans will differ, depending upon the characteristics of each Borrower and of the Mortgage Loan, such as the loan to value ratio (the **LTV**), the Borrower's credit history and the amount of the Mortgage Loan.

Under the Administration Agreement, the Administrator will be obliged to effect a change to the interest rate payable by a Borrower in respect of LIBOR-linked Mortgage Loans (in the case of the Fixed LIBOR-linked Mortgage Loans after the expiry of an initial fixed period) within two business days following a change in LIBOR for three month sterling deposits.

Under the Administration Agreement, the Administrator will be obliged to effect, from 00:00 hours on the second Business Day following the announcement of a change in the Bank of England base rate or within such other period as may be required by any applicable laws, regulations or guidelines, a change to the interest rate payable by Borrowers of BBR-linked Mortgage Loans to ensure that the interest rate payable by Borrowers of BBR linked Mortgage Loans is the applicable percentage over the Bank of England base rate (subject to any applicable fixed rate period having expired and generally subject to the Mortgage Conditions relating to the BBR-linked Mortgage Loans).

Repayment

The Mortgage Loans will have two different repayment methods as follows:

(A) *Repayment Mortgage Loan*

Under a repayment Mortgage Loan, monthly instalments covering both interest and principal are payable so that by the stated maturity date for that Mortgage Loan the full amount of principal advanced to the Borrower (in addition to the interest) has been repaid.

(B) *Interest Only Mortgage Loan*

Under an Interest Only Mortgage Loan, the Borrower is only obliged to pay interest during the term of that Mortgage Loan with the entire principal amount being payable only upon the relevant maturity date. As the principal amount associated with the Interest Only Mortgage Loan is repayable only upon the maturity of the Mortgage Loan, a life insurance or endowment policy or other repayment vehicle can be taken as a means of repayment of that Mortgage Loan. However, the Seller does not require the Borrower to provide evidence as to the existence of any such policies, and such policies are not charged by the way of collateral security nor has the Seller required that the benefit of any such policies be assigned to it.

Mortgage Payment Dates

All Borrowers are obliged to make monthly payments of interest and, when applicable, principal as required by the conditions of the Mortgage Loans (the **Mortgage Conditions**). The payment dates in respect of the Mortgage Loans in the Initial Mortgage Pool may be on any business day of the month, as stated in the Seller's mortgage offer to the Borrower or as specified later by the Seller or as agreed between the Seller and the Borrower. Payments are made by direct debit on each relevant Mortgage Payment Date other than where direct debit payments are not able to be collected, in which case alternative payment methods are arranged and such payments are received throughout the month. See *Administration of the Mortgage Pool – Collection of Payments*.

LENDING CRITERIA

The Seller will warrant to the Issuer and the Trustee in the Mortgage Sale Agreement (a) that the nature and amount of each Mortgage Loan, the circumstances of the relevant Borrower and the nature of the relevant Property satisfied the relevant guidelines of the Seller pursuant to which the Mortgage Loans have been originated (the **Lending Criteria**) as in effect on the relevant date or the permitted exceptions to the Lending Criteria and (b) that, subject to the completion of any pending registrations, legal and beneficial title of all the Mortgage Loans will be, immediately prior to the execution of the Mortgage Sale Agreement or at the relevant assignment date, vested absolutely in the Seller.

Lending Criteria Considerations

The Mortgage Loans were underwritten generally in accordance with the Lending Criteria.

These Lending Criteria consider, among other things, a borrower's credit history, employment history, status and repayment ability, as well as the value of the property to be mortgaged.

The Lending Criteria contain criteria that would generally be acceptable to residential mortgage lenders lending to borrowers who have an impaired credit history or do not satisfy the standard requirements of building societies or High Street banks.

The Initial Mortgage Pool may consist of some Mortgage Loans to Borrowers who have been subject to repossession in the past.

In order to obtain a Mortgage Loan, each prospective borrower must complete an application form which includes information with respect to the applicant's income, current employment details, financial commitments, current mortgage information (if applicable) and certain other personal information. A consumer credit search is made in all cases which may give details of any CCJs, BOs and IVAs and which may indicate persons who are listed on the voters' roll as being the residents of the Property.

In the first instance, applications for Mortgage Loans are processed automatically by the Seller's decisioning system, which runs a credit search, conducts credit-scoring and checks the applicant's details against an external fraud detection database as well as the Seller's own records. Credit-scoring applies statistical analysis to data available from outside sources and customer provided data to assess the likelihood of an account going into arrears. The system also applies a suite of case assessment rules to the application data and where a case does not meet published criteria, it is referred to an underwriter.

Changes to Lending Criteria

The Seller may vary the Lending Criteria from time to time. Further Advances and Substitute Mortgage Loans may only be included in the Mortgage Pool if they were originated in accordance with the Lending Criteria (varied as specified herein) and the conditions contained in *Administration of the Mortgage Pool – Further Advances and Substitution* have been satisfied and may include other types of Mortgage Loans if the Rating Agencies have confirmed that the then current ratings of the Notes would not be adversely affected thereby.

Discretion to Lend Outside Lending Criteria

Subject to approval in accordance with internal procedures, the Seller may have determined on an individual basis that, based upon compensating factors, a prospective borrower who did not strictly qualify under its Lending Criteria warranted an underwriting exception. Compensating factors may include a low LTV (less than 75 per cent.), mortgage loan amount less than or equal to 2.5 times salary, no arrears in last 12 payments on secured credit and no missed instalments on unsecured credit in last 3 months, stable employment and

time in residence at the applicant's current residence. This list is not exhaustive and underwriters will consider each individual application "in the round" before making a decision.

Term of the Mortgage Loans

Each Mortgage Loan has an original term of between five and thirty five years.

Amount of the Mortgage Loans

The Seller will not originate a Mortgage Loan that will be £25,000 or less at the time of completion. A Mortgage Loan, including Further Advances, will not exceed £1,000,000.

Loan To Value Ratio

The LTV is calculated by dividing the gross principal amount (net of any fees) committed at completion of the Mortgage Loan by the lower of the valuation of the Property as established by the valuer selected from the approved panel of surveyors (see *Valuation* below) or, in the case of a Mortgage Loan made for financing the purchase of a Property, the disclosed purchase price (except in exceptional cases, i.e. where the purchase price reflects a discount). The current policy of the Seller is not to originate Mortgage Loans with an LTV higher than 95 per cent. other than in the case of Buy To Let Mortgage Loans (see further below).

Minimum Age of Borrower

Other than in the case of Buy To Let Mortgage Loans (see further below), all borrowers must be at least 18 years of age at application and no older than 75 at the end of the mortgage term.

Number of Borrowers for a Mortgage Loan

No more than two borrowers may be parties to a Mortgage Loan.

Requirements for Borrowers' Employment

The policies of the Seller in regard to the verification of the details of an applicant's income distinguish between two different categories of applicant - employed and self-employed.

The income of employed applicants may be confirmed by: (a) a formal reference from the applicant's employer(s) supporting 12 months' employment history; or (b) a P60 and two months'/ three weeks' supporting payslips; or (c) four months'/ eight weeks' payslips; or (d) self-certification by the applicant (the Seller obtains verification of applicant's employment on a sample of self certification applications).

For the purpose of calculating an applicant's gross income items can be considered in addition to base salary such as guaranteed overtime, bonuses and commissions, confirmed pension income, rental income, employer subsidies, maintenance payments and fifty per cent. of regular investment income.

The income of self-employed applicants may be confirmed by: (a) an accountant's certificate of income; or (b) an accountant's certificate of last years' trading accounts; or (c) an Inland Revenue final assessment of tax liability; or (d) self-certification by the applicant (the Seller obtains verification of applicant's self-employment on a sample of self certification applications).

Income Multiples

The income multiples available to borrowers will be dependant on LTV.

Other than in the case of Buy To Let Mortgage Loans (see further below), a Mortgage Loan will not exceed, where the LTV is 75 per cent. or less, (a) the income of the primary borrower multiplied by 5.0 plus the

income of any secondary borrower or (b) the borrowers' joint income multiplied by 4.25, and where the LTV is greater than 75 per cent., (a) the income of the primary borrower multiplied by 4.25 plus the income of any secondary borrower or (b) the borrowers' joint income multiplied by 3.75. These income multiples are maxima and restricted multiples apply for applicants with higher levels of adverse credit history.

Credit History of Borrowers

In addition to employer references and valuation reports, the Seller may, depending upon the particular circumstances, require borrowers to furnish other references, e.g. from corporate landlords (that is, local authorities, housing authorities or letting agents). The Seller may also review a borrower's bank or building society statements but only does so in limited circumstances dependent upon the borrower's credit profile. In addition, the Seller requires that an approved credit search covering the preceding three years be undertaken for all borrowers.

The Seller generally considers the accumulated aggregate value of the CCJs lodged against a borrower in the preceding two-year period in its consideration of that borrower's mortgage loan application and/or in its setting of the rate to be charged on the mortgage loan (but will generally disregard any CCJs which have been satisfied in full at the time of application). See *Characteristics of the Mortgage Loans - Interest Rate Setting* above. Where satisfaction of a CCJ is a requirement of the Mortgage Loan, any of the following must be provided: a certificate of satisfaction, a credit search showing the date of satisfaction or a letter from the relevant finance company confirming the debt has been satisfied.

Borrowers who were extended a mortgage loan despite being previously subject to a BO are required to provide evidence of discharge. Borrowers who are subject to an IVA are generally required to provide a confirmation of satisfactory conduct of the IVA where appropriate. Where satisfaction of an IVA is a requirement of the Mortgage Loan, a letter from the IVA trustee, administrator or supervisor confirming satisfactory completion must be provided.

Repossessions of previously mortgaged property and previous mortgage or secured loan payment defaults will also be considered as relevant to a borrower's application for a mortgage loan.

Property Types

The Seller requires that each Mortgage Loan is secured by a first legal charge (an **English and Welsh Mortgage**) over a freehold or long leasehold residential property in England or Wales governed by English and Welsh law or a first ranking standard security (a **Scottish Mortgage**) over a heritable or long leasehold residential property located in Scotland governed by Scots law or a first legal mortgage (a **Northern Irish Mortgage**) over a freehold fee farm grant or long leasehold residential property in Northern Ireland. The expiry of a leasehold property that serves as security for a Mortgage Loan must post-date the maturity of the Mortgage Loan by at least 40 years.

Generally, only properties intended for use exclusively or at least primarily as a principal place of residence will be acceptable. New build properties are generally required to have the benefit of an NHBC Buildmark guarantee or a Zurich Municipal warranty or an architect's certificate.

Certain property types will not be considered for the purposes of providing security for a Mortgage Loan. Examples of properties that would not be deemed acceptable as security include: (a) freehold flats and freehold maisonettes in England and Wales; (b) holiday homes; (c) mobile homes, houseboats, caravans; (d) commercial property and (e) properties in shared ownership.

Buy To Let Mortgage Loans

The Seller offers a type of mortgage loan exclusively for investment properties (**Investment Properties**) (**Buy To Let Mortgage Loans**). Buy To Let Mortgage Loans fall into two categories by reference to whether the Lending Criteria applicable are determined by:

- (a) the applicant's income; or
- (b) the rental income.

In the case of the former, the income multiples are the same as those referred to under *Income Multiples* above.

In the case of the latter, the initial annual rental income for the relevant property must normally exceed the scheduled annual interest payment under the mortgage loan by at least 10 per cent. (20 per cent. for Buy To Let Mortgage Loans in excess of 85 per cent. LTV) and the borrower must let the property within 3 months of the date of the mortgage loan. No borrower may be granted Buy To Let Mortgage Loans secured over more than 25 properties (comprising no more than 20 properties in respect of which the Buy To Let Mortgage Loan is determined by reference to the rental income of the property and 5 properties in respect of which the Buy To Let Mortgage Loan is determined by reference to the borrower's income) in aggregate and the aggregate principal balance of any borrower's Buy To Let Mortgage Loans at origination may not exceed £6,250,000.

The borrower may only let an Investment Property on (in England and Wales) an assured shorthold tenancy or (in Scotland) a short assured tenancy (or a similar Northern Irish tenancy) not exceeding 12 months to tenants who have demonstrated themselves to be of acceptable character and able to meet their obligations to pay rent. No sub-letting by the tenants is permitted.

Buy To Let Mortgage Loans are extended only with the Investment Properties as collateral. The Seller takes no additional security for the purposes of the Buy To Let Mortgage Loans.

The Lending Criteria for Buy To Let Mortgage Loans also differs from the criteria applied to other Mortgage Loans in certain respects, including the following:

- (a) prior to applying the Buy To Let Mortgage Loan income multiples (where applicable), the borrower's existing main residence mortgage balance will be deducted from the borrower's income at a level of 6 per cent.;
- (b) for all Buy To Let Mortgage Loans, borrowers must be at least 21 years of age at application;
- (c) for rental based Buy to Let Mortgage Loans, the applicant must not be over 75 at the time of the application; and
- (d) the maximum LTV for a Buy To Let Mortgage Loan is 90 per cent. This LTV reduces dependant upon the credit profile of the borrower.

Valuations

For all Mortgage Loans, properties are required to be valued on-site by a qualified surveyor chosen from a panel of the Seller's approved valuation firms. Valuations must be completed before an offer can be made. The qualified surveyor will be instructed by the Seller or the packager. For Further Advances where the latest valuation on file is less than three years old and the value of debt is within certain parameters, no further valuation is carried out. Following completion of the on-site valuation, a number of valuations are

selected for audit. The Seller uses an automated process as the initial check within the valuation audit process, with further investigation carried out where the automated process highlights a concern.

Retention of Mortgage Loan monies

In cases where the property valuer determines that there is a need for additional remedial work to be performed on a property, the Seller may retain in whole or in part the monies to be extended to the borrower under the mortgage loan until such time as the work deemed to be necessary is successfully completed. Accordingly, the completion of the work serves as a condition for the release of the retained funds under the mortgage loan. The retention is released when the required work is completed to a satisfactory standard and if the Seller requires, it has been reinspected by a valuer. The Administrator will be responsible for releasing any existing outstanding retentions on Mortgage Loans in the Mortgage Pool.

As at 31 January 2007, approximately £142,086.00 in retention monies relating to the Mortgage Loans in the Initial Mortgage Pool were being held by the Seller awaiting the completion of required works on the Properties.

Maintenance Covenants

In relation to each of the Mortgage Loans in the Mortgage Pool, the relevant Borrower has covenanted to keep the Property in a good state of repair, to comply with all covenants and statutory requirements in respect of the Property and to pay in a timely fashion all taxes and other amounts required to be paid in connection with the Property. The relevant Borrower has also agreed to allow the Seller to enter the Property at any reasonable time to inspect it and to carry out work which the Seller has requested the relevant Borrower to do and which the Borrower has failed to do within a reasonable time. If the Seller becomes aware that the relevant Borrower is in violation of his covenants, statutory requirements or other obligations, the Seller will take appropriate action to protect its security.

Buildings Insurance

It is a condition of each Mortgage Loan that each Property be insured for its full (index linked) re-instatement value (as stated in the valuation report in respect of the Property) with a reputable insurance company and at the Borrower's cost (subject to certain exceptions in the case of leasehold properties). The Seller requires that the firm of solicitors acting on behalf of the Borrower informs it prior to completion if the insurance policy does not cover all required risks. Insurance policies must be in the joint names of the Seller and the Borrower (subject to certain exceptions in the case of leasehold properties). The Seller has the option to use any monies received under any insurance policy affecting the property to make good the loss or damage in respect of which the monies were received or to use them to reduce or repay the relevant Mortgage Loan.

Title Insurance

The Seller sometimes permits a solicitor to arrange local search insurance on a case by case basis where no local search is carried out by the solicitors involved in the mortgaging of a Property.

The Seller may require its solicitors to obtain a title insurance policy for a particular Property if a title issue has been identified in relation to that Property. For example, a Property may only have good leasehold title or may have been subject to a suspected transfer at an undervalue in the past. The Seller requires its solicitors to check each policy to ensure that the limit on cover is at least 100 per cent. of the valuation of the Property and that all policies are assignable.

The Mortgage Sale Agreement will contain a general assignment of any title policies linked to an individual Property.

Solicitors

The borrower will instruct a firm of solicitors to act on its behalf as well as on behalf of the Seller on the origination of the mortgage loan. The nominated firm must meet certain minimum requirements. For instance, the solicitors firm acting on behalf of the Seller must have a minimum of two registered partners. If the nominated firm of solicitors does not meet the minimum requirements, the Seller will instruct other solicitors to act on its behalf at the expense of the borrower. The Seller does not admit licensed or in the case of Scottish Mortgage loans, qualified conveyancers to its panel. The nominated firm may also act for the borrower.

Fraud Prevention

The Seller has a risk management team whose primary focus is on preventing fraud and maintaining the quality of the loan book. Fraud prevention measures used by the team include (a) the use of automated credit and fraud alert systems, including CIFAS, Hunter and Detect; (b) periodic staff training in identifying suspicious activity; and (c) strict borrower identification verification systems.

Origination Procedures and Monitoring of Packagers

None of the Mortgage Loans in the Initial Pool are derived from direct dealings with Borrowers.

The Seller sources its mortgage business through approved packagers (the **Packagers**) located throughout the United Kingdom. As at 31 January 2007 the Seller has entered into a packaging agreement with 233 Packagers. The Packagers market the Seller's mortgage products to intermediaries who deal directly with potential applicants. The Seller's mortgage origination business is undertaken centrally from its offices in Chester.

The Seller requires Packagers to enter into a Packaging Agreement before submitting mortgage applications. By signing the Packaging Agreement the Packager confirms, inter alia, that (a) it will comply with all legal and regulatory requirements applicable to its activities and (b) it will exercise its duties with due care and diligence.

The Seller actively monitors Packagers' compliance with the terms of the Packaging Agreement.

Further Advances

Any Further Advances purchased by the Issuer are governed by the Lending Criteria and, together with the initial advances, must not exceed the maximum loan amount permitted by the Lending Criteria.

CHARACTERISTICS OF THE INITIAL MORTGAGE POOL

The Initial Mortgage Pool has the aggregate characteristics indicated in Tables 1-23. (Columns of percentages may not add up to 100 per cent. due to rounding). The valuations quoted in this section are as at the date of the initial origination of the Mortgage Loans.

Table 1 – Current Balance (£)

Current Balance (£)	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance
<= 40,000.00	8	0.42	202,626	0.07
40,000.01 – 50,000.00	8	0.42	357,348	0.12
50,000.01 – 60,000.00	25	1.30	1,397,556	0.45
60,000.01 – 70,000.00	63	3.28	4,100,492	1.33
70,000.01 – 80,000.00	94	4.89	7,044,113	2.28
80,000.01 – 90,000.00	108	5.62	9,148,031	2.97
90,000.01 – 100,000.00	124	6.45	11,719,964	3.80
100,000.01 – 110,000.00	164	8.53	17,178,298	5.57
110,000.01 – 120,000.00	129	6.71	14,766,662	4.79
120,000.01 – 130,000.00	165	8.58	20,543,178	6.66
130,000.01 – 140,000.00	132	6.87	17,822,334	5.78
140,000.01 – 150,000.00	121	6.30	17,496,084	5.67
150,000.01 – 200,000.00	369	19.20	62,904,437	20.39
200,000.01 – 250,000.00	181	9.42	39,694,106	12.87
250,000.01 – 300,000.00	89	4.63	24,442,518	7.92
300,000.01 – 350,000.00	65	3.38	20,881,674	6.77
350,000.01 – 400,000.00	17	0.88	6,310,015	2.05
400,000.01 – 500,000.00	27	1.40	12,048,991	3.91
500,000.01 – 600,000.00	23	1.20	12,353,893	4.00
600,000.01 – 700,000.00	4	0.21	2,540,963	0.82
700,000.01 >=	6	0.31	5,508,751	1.79
Total:	1,922	100.00	308,462,034	100.00
Minimum:	£794.19			
Maximum:	£1,004,711.13			
Weighted Average:	£160,490.13			

Table 2 – Original Balance (£)

Original Balance (£)	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance
<= 40,000.00	7	0.36	201,831	0.07
40,000.01 – 50,000.00	8	0.42	357,348	0.12
50,000.01 – 60,000.00	24	1.25	1,337,620	0.43
60,000.01 – 70,000.00	64	3.33	4,160,428	1.35
70,000.01 – 80,000.00	96	4.99	7,204,474	2.34
80,000.01 – 90,000.00	114	5.93	9,709,055	3.15
90,000.01 – 100,000.00	117	6.09	11,102,929	3.60
100,000.01 – 110,000.00	165	8.58	17,184,766	5.57
110,000.01 – 120,000.00	138	7.18	15,860,449	5.14
120,000.01 – 130,000.00	153	7.96	19,079,928	6.19
130,000.01 – 140,000.00	135	7.02	18,222,267	5.91
140,000.01 – 150,000.00	128	6.66	18,557,717	6.02
150,000.01 – 200,000.00	360	18.73	61,522,355	19.94
200,000.01 – 250,000.00	183	9.52	40,124,173	13.01
250,000.01 – 300,000.00	87	4.53	23,893,164	7.75
300,000.01 – 350,000.00	69	3.59	22,238,724	7.21
350,000.01 – 400,000.00	14	0.73	5,252,209	1.70
400,000.01 – 500,000.00	28	1.46	12,549,331	4.07
500,000.01 – 600,000.00	22	1.14	11,853,552	3.84
600,000.01 – 700,000.00	4	0.21	2,540,963	0.82
700,000.01 >=	6	0.31	5,508,751	1.79
Total:	1,922	100.00	308,462,034	100.00
Minimum:	£25,421.00			
Maximum:	£1,000,644.00			
Weighted Average:	£160,234.34			

Table 3 – Original Term (Months)

Original Term (Months)	<i>Number of Loans</i>	<i>Percent by Number</i>	<i>Current Balance (£)</i>	<i>Percent by Balance</i>
1 – 60	11	0.57	1,347,246	0.44
61 – 120	96	4.99	16,935,075	5.49
121 – 180	195	10.15	34,643,090	11.23
181 – 240	432	22.48	68,166,896	22.10
241 - 300	1,078	56.09	172,340,700	55.87
301 – 360	74	3.85	10,347,438	3.35
361 – 420	36	1.87	4,681,589	1.52
Total:	1,922	100.00	308,462,034	100.00

Minimum: 60 months
Maximum: 420 months
Weighted Average: 261.30 months

Table 4 – Remaining Term (Months)

Remaining Term (Months)	<i>Number of Loans</i>	<i>Percent by Number</i>	<i>Current Balance (£)</i>	<i>Percent by Balance</i>
1 – 60	11	0.57	1,347,246	0.44
61 – 120	96	4.99	16,935,075	5.49
121 – 180	195	10.15	34,643,090	11.23
181 – 240	432	22.48	68,166,896	22.10
241 – 300	1,079	56.14	172,402,255	55.89
301 – 360	73	3.80	10,285,883	3.33
361 – 420	36	1.87	4,681,589	1.52
Total:	1,922	100.00	308,462,034	100.00

Minimum: 55 months
Maximum: 420 months
Weighted Average: 259.34 months

Table 5 – Loan Age (Months)

Loan Age (Months)	<i>Number of Loans</i>	<i>Percent by Number</i>	<i>Current Balance (£)</i>	<i>Percent by Balance</i>
<= 0	561	29.19	91,729,481	29.74
1 – 6	1,334	69.41	212,447,831	68.87
7 – 12	27	1.40	4,284,722	1.39
Total:	1,922	100.00	308,462,034	100.00

Minimum: 0 month
Maximum: 8 months
Non-zero Weighted Average: 2.78 months

Table 6 – Index

Index	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance	Weighted Average Reversionary Margin (%)
3m Libor	215	11.19	40,298,557	13.06	3.07
Bank of England Base Rate	1,707	88.81	268,163,477	86.94	2.13
Total:	1,922	100.00	308,462,034	100.00	2.25

Table 7 – Interest Rate Type

Interest Rate Type	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance	Weighted Average Current Interest Rate (%)
Fixed	1,314	68.37	208,781,236	67.68	5.91
Tracker	608	31.63	99,680,798	32.32	6.12
Total:	1,922	100.00	308,462,034	100.00	5.98

Table 8 – Current Interest Rate—3m Libor—Fixed (%)

Current Interest Rate — 3m Libor — Fixed (%)	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance	Weighted Average Months to Roll	Weighted Average Reversionary Margin (%)
4.51 – 5.00	1	0.52	144,407	0.40	20.00	2.00
5.01 – 5.50	9	4.71	1,230,328	3.40	20.59	2.08
5.51 – 6.00	16	8.38	4,150,737	11.46	23.36	2.18
6.01 – 6.50	50	26.18	7,924,232	21.89	23.67	2.68
6.51 – 7.00	56	29.32	10,998,743	30.38	23.50	3.20
7.01 – 7.50	33	17.28	5,332,418	14.73	24.80	3.46
7.51 – 8.00	26	13.61	6,427,185	17.75	24.40	4.01
Total	191	100.00	36,208.050	100.00	23.76	3.11
Minimum:	4.95%					
Maximum:	7.90%					
Weighted Average:	6.73%					

Table 9 – Current Interest Rate—BBR—Fixed (%)

Current Interest Rate— BBR — Fixed (%)	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance	Weighted Average Months to Roll	Weighted Average Reversionary Margin (%)
4.51 – 5.00	70	6.23	8,063,425	4.67	20.77	1.99
5.01 – 5.50	402	35.80	57,668,345	33.42	21.38	2.09
5.51 – 6.00	322	28.67	51,497,763	29.84	23.29	2.17
6.01 – 6.50	327	29.12	55,161,719	31.96	23.74	2.25
6.51 – 7.00	2	0.18	181,935	0.11	29.49	2.74
Total	1,123	100.00	172,573,186	100.00	22.68	2.16
Maximum:	4.95%					
Maximum:	6.85%					
Weighted Average:	5.74%					

Table 10 – Current Interest Rate – 3m Libor – Discount (%)

Current Interest Rate – 3m Libor – Discount (%)	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance	Weighted Average Months to Roll	Weighted Average Reversionary Margin (%)
5.51 – 6.00	1	4.17	149,655	3.66	20.00	2.00
6.01 – 6.50	8	33.33	1,237,757	30.26	21.05	2.33
6.51 – 7.00	6	25.00	600,180	14.67	21.97	2.58
7.01 – 7.50	7	29.17	1,648,490	40.30	23.08	3.04
7.51 – 8.00	2	8.33	454,426	11.11	24.04	2.86
Total:	24	100.00	4,090,508	100.00	22.30	2.70
Minimum:	5.70%					
Maximum:	7.72%					
Weighted Average:	6.82%					

Table 11 – Current Interest Rate – BBR – Discount (%)

Current Interest Rate – BBR – Discount (%)	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance	Weighted Average Months to Roll	Weighted Average Reversionary Margin (%)
5.01 – 5.50	2	0.34	247,051	0.26	27.63	2.00
5.51 – 6.00	335	57.36	54,057,814	56.55	23.11	2.07
6.01 – 6.50	188	32.19	30,679,728	32.10	22.34	2.07
6.51 – 7.00	58	9.93	10,483,982	10.97	21.83	2.13
7.01 – 7.50	1	0.17	121,716	0.13	21.00	2.75
Total:	584	100.00	95,590,291	100.00	22.73	2.08

Minimum: 5.45%

Maximum: 7.32%

Weighted Average: 6.09%

Table 12 – Repayment Type

Repayment Type	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance
Interest Only	1,634	85.02	271,639,771	88.06
Repayment	288	14.98	36,822,263	11.94
Total:	1,922	100.00	308,462,034	100.00

Table 13 – Original LTV (%)

Original LTV (%)	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance
0.01 – 25.00	7	0.36	240,615	0.08
25.01 – 50.00	56	2.91	4,420,970	1.43
50.01 – 55.00	18	0.94	2,227,537	0.72
55.01 – 60.00	29	1.51	3,459,291	1.12
60.01 – 65.00	41	2.13	4,977,636	1.61
65.01 – 70.00	59	3.07	8,273,016	2.68
70.01 – 75.00	130	6.76	19,961,208	6.47
75.01 – 80.00	159	8.27	30,533,297	9.90
80.01 – 85.00	764	39.75	127,325,867	41.28
85.01 – 90.00	631	32.83	103,763,449	33.64
90.01 – 95.00	27	1.40	3,192,682	1.04
95.01 – 100.00	1	0.05	86,465	0.03
Total:	1,922	100.00	308,462,034	100.00

Minimum: 11.16%

Maximum: 99.42%

Weighted Average: 83.17%

Table 14 – Current LTV (%)

Current LTV (%)	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance
0.01 – 25.00	8	0.42	241,409	0.08
25.01 – 50.00	49	2.55	3,699,157	1.20
50.01 – 55.00	24	1.25	2,724,180	0.88
55.01 – 60.00	29	1.51	3,432,005	1.11
60.01 – 65.00	35	1.82	4,373,398	1.42
65.01 – 70.00	59	3.07	8,165,821	2.65
70.01 – 75.00	93	4.84	14,744,241	4.78
75.01 – 80.00	128	6.66	19,057,498	6.18
80.01 – 85.00	236	12.28	45,527,025	14.76
85.01 – 90.00	707	36.78	116,598,460	37.80
90.01 – 95.00	532	27.69	87,298,443	28.30
95.01 – 100.00	21	1.09	2,513,933	0.81
100.01 >=	1	0.05	86,465	0.03
Total:	1,922	100.00	308,462,034	100.00
Minimum:	0.47%			
Maximum:	100.54%			
Weighted Average:	83.61%			

Table 15 – Region

Region	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance
East Anglia	38	1.98	5,347,832	1.73
East Midlands	93	4.84	12,237,484	3.97
Greater London	216	11.24	50,051,900	16.23
North	47	2.45	6,608,845	2.14
North West	165	8.58	22,384,052	7.26
Northern Ireland	70	3.64	9,169,103	2.97
Scotland	58	3.02	6,763,811	2.19
South East Inc London	381	19.82	70,848,924	22.97
South West	533	27.73	81,722,144	26.49
Wales	110	5.72	14,863,727	4.82
West Midlands	105	5.46	14,323,913	4.64
Yorks And Humber	106	5.52	14,140,298	4.58
Total:	1,922	100.00	308,462,034	100.00

Table 16 – Tenure

Tenure	<i>Number of Loans</i>	<i>Percent by Number</i>	<i>Current Balance (£)</i>	<i>Percent by Balance</i>
Heritable	52	2.71	6,217,527	2.02
Freehold	1,172	60.98	194,945,285	63.20
Leasehold	698	36.32	107,299,222	34.79
Total:	1,922	100.00	308,462,034	100.00

Table 17 – Loan Purpose

Loan Purpose	<i>Number of Loans</i>	<i>Percent by Number</i>	<i>Current Balance (£)</i>	<i>Percent by Balance</i>
First Time Buyer	261	13.58	39,892,914	12.93
Purchase	882	45.89	138,928,378	45.04
Remortgage	779	40.53	129,640,743	42.03
Total:	1,922	100.00	308,462,034	100.00

Table 18 – Investment Property

Investment Property	<i>Number of Loans</i>	<i>Percent by Number</i>	<i>Current Balance (£)</i>	<i>Percent by Balance</i>
N	811	42.20	143,989,895	46.68
Y	1,111	57.80	164,472,139	53.32
Total:	1,922	100.00	308,462,034	100.00

Table 19 – Self Certified Income

Self Certified Income	<i>Number of Loans</i>	<i>Percent by Number</i>	<i>Current Balance (£)</i>	<i>Percent by Balance</i>
Full Status	125	6.50	16,224,082	5.26
Not Applicable	602	31.32	81,713,709	26.49
Self Cert	1,195	62.17	210,524,243	68.25
Total:	1,922	100.00	308,462,034	100.00

Table 20 – Number of CCJs

Number of CCJs	Number of Loans	Percent by Number	Current Balance (£)	Percent by Balance
0	1,743	90.69	279,240,686	90.53
1	113	5.88	16,235,693	5.26
2	31	1.61	5,195,656	1.68
3	16	0.83	2,795,654	0.91
4	9	0.47	2,781,894	0.90
5	3	0.16	493,253	0.16
6	4	0.21	1,351,653	0.44
7	1	0.05	195,933	0.06
8	2	0.10	171,612	0.06
Total:	1,922	100.00	308,462,034	100.00

Percentage of Loans with 1 or more CCJs: 9.47%

Table 21 – Distribution of CCJs by Original LTV (%)

Distribution of CCJs by Original LTV (%)	Number of Loans	Percent by Number	No. 0 CCJ	% 0 CCJ	No. 1 CCJ	%1 CCJ	No. >1 CCJ	% >1 CCJ
0.01 – 25.00	7	0.36	7	0.36	0	0.00	0	0.00
25.01 – 50.00	56	2.91	45	2.34	9	0.47	2	0.10
50.01 – 55.00	18	0.94	17	0.88	1	0.05	0	0.00
55.01 – 60.00	29	1.51	22	1.14	5	0.26	2	0.10
60.01 – 65.00	41	2.13	37	1.93	3	0.16	1	0.05
65.01 – 70.00	59	3.07	51	2.65	7	0.36	1	0.05
70.01 – 75.00	130	6.76	115	5.98	9	0.47	6	0.31
75.01 – 80.00	159	8.27	139	7.23	12	0.62	8	0.42
80.01 – 85.00	764	39.75	689	35.85	42	2.19	33	1.72
85.01 – 90.00	631	32.83	598	31.11	20	1.04	13	0.68
90.01 – 95.00	27	1.40	22	1.14	5	0.26	0	0.00
95.01 – 100.00	1	0.05	1	0.05	0	0.00	0	0.00
Total:	1,922	100.00	1,743	90.69	113	5.88	66	3.43

Minimum: 11.16%

Maximum: 99.42%

Weighted Average: 83.17%

Table 22 – Value of CCJs (£)

Value of CCJs (£)	<i>Number of Loans</i>	<i>Percent by Number</i>	<i>Current Balance (£)</i>	<i>Percent by Balance</i>
<= 0	1,738	90.43	278,274,968	90.21
1 – 500	47	2.45	6,276,297	2.03
501 – 1000	36	1.87	4,757,600	1.54
1001 – 3000	45	2.34	7,363,184	2.39
3001 – 5000	13	0.68	2,001,507	0.65
5001 >=	43	2.24	9,788,479	3.17
Total:	1,922	100.00	308,462,034	100.00

Minimum: £40.00
Maximum: £48,375.00
Weighted Average: £4,690.58

Table 23 – Arrears (Months)

Arrears (Months)	<i>Number of Loans</i>	<i>Percent by Number</i>	<i>Current Balance (£)</i>	<i>Percent by Balance</i>
0	1,887	98.18	301,199,923	97.65
1	25	1.30	4,963,434	1.61
2	10	0.52	2,298,677	0.75
Total:	1,922	100.00	308,462,034	100.00

TITLE TO THE MORTGAGE POOL

The Mortgage Loans and the Mortgages will be sold by the Seller to the Issuer. The sale of the English and Welsh and Northern Irish Mortgage Loans will take effect in equity only, and the sale of the Scottish Mortgage Loans will take effect by means of a trust (save as mentioned below). The Issuer will grant a first fixed equitable charge (or, in the case of Scottish Mortgage Loans, a first fixed charge over its beneficial interest therein) in favour of the Trustee over its interest in the Mortgage Loans and the Mortgages.

The Administrator is required under the terms of the Administration Agreement to ensure the safe custody of title deeds (to the extent that such deeds have been retained by the Seller). The Administrator will have custody of any title deeds in respect of the Mortgage Loans and the Mortgages as agent of the Issuer. The Administrator has sub-contracted this responsibility (to the extent that such deeds have been retained by the Seller) to VMS (see *Administration of the Mortgage Pool—Sub-Contracting by the Administrator*).

The Seller will have legal title to, and beneficial interest in, each Mortgage Loan on the Issue Date (immediately prior to entering into the Mortgage Sale Agreement) or on the date on which such Mortgage Loan is assigned to the Mortgage Pool (immediately prior to its assignment), subject to the completion of registration or recording of legal title, as described herein.

Legal title to the Mortgages securing the Mortgage Loans has, since origination, remained, and in respect of the Mortgage Loans comprised in the Completion Mortgage Pool will remain, with the Seller. The holding by the Seller of legal title to Mortgages only recently originated by the Seller will be subject to completion of registration or recording (as applicable) at the Land Registry or the Registers of Scotland or the Northern Ireland Registries as appropriate.

Neither the Issuer nor the Trustee will require legal title to be transferred, conveyed or assigned to the Issuer or apply to the Land Registry, the Registers of Scotland or the Northern Ireland Registries to register or record their interest in such Mortgages except in the limited circumstances referred to below.

Save as mentioned below, notice of the assignment to the Issuer (or, in the case of Scottish Mortgage Loans, the trust granted in favour of the Issuer) and the equitable charge granted by the Issuer in favour of the Trustee will not be given to the Borrowers.

Under the Mortgage Sale Agreement and the Deed of Charge, the Issuer (with the consent of the Trustee) and the Trustee will each be entitled to require legal title to be transferred, conveyed or assigned to the Issuer and to effect such registrations and recordings and give such notices as it considers necessary to protect and perfect the interests respectively of the Issuer (as purchaser) and the Trustee (as chargee) in the Mortgage Loans and the Mortgages, *inter alia*, where (a) it is obliged to do so by law, by court order or by a mandatory requirement of any regulatory authority, (b) an Enforcement Notice (as defined in the Deed of Charge) has been given, (c) the Trustee considers that the Security (as defined in the Deed of Charge) or any part thereof is in jeopardy (including the possible insolvency of the Seller) or (d) any action is taken for the winding-up, dissolution, administration or reorganisation of the Seller. These rights are supported by irrevocable powers of attorney given by, *inter alios*, the Issuer and the Seller to the Trustee.

As a consequence of neither the Issuer nor the Trustee obtaining legal title to the Mortgages and not registering or recording their respective interest in the Land Registry or the Registers of Scotland or the Northern Ireland Registries (where applicable), a *bona fide* purchaser from the Seller for value of any of such Mortgages without notice of any of the interests of the Issuer or the Trustee (and certain similar third parties) might obtain a good title free of any such interest. Further, the rights of the Issuer and the Trustee may be or become subject to equities (for example, rights of set-off as between the relevant Borrowers or insurance companies and the Seller). However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee would be likely to be limited to circumstances arising from a breach by the Seller of its

contractual obligations or fraud, negligence or mistake on the part of the Seller or the Issuer or their respective personnel or agents.

Furthermore, for so long as neither the Issuer nor the Trustee has obtained legal title to the Mortgage Loans, the Seller will undertake pursuant to the Mortgage Sale Agreement to lend its name to any legal proceedings which may be taken in relation to the enforcement of any Mortgage Loans and their related Mortgages.

SALE OF THE MORTGAGE POOL

On the Issue Date, the Issuer will purchase the Completion Mortgage Pool. Each Mortgage Loan in the Completion Mortgage Pool will be a Mortgage Loan in respect of which the relevant Borrower has made at least one scheduled payment of interest and/or interest and principal (each a **Monthly Payment**) and such Monthly Payment has been verified by the Seller by the second Business Day prior to the Issue Date. On Eligible Dates, the Issuer will purchase the Pre-Funded Mortgage Pool from the Seller to the extent that the Pre-Funded Mortgage Loans in such Pre-Funded Mortgage Pool comply with the terms of the Mortgage Sale Agreement on the relevant Eligible Date (including for the avoidance of doubt, the warranties set out in *Warranties and Repurchase* below) (except in relation to Newly Originated Loans purchased on the Newly Originated Loan Eligible Date, when the first Monthly Payment has not yet fallen due). In addition, further Mortgage Loans may from time to time be included in the Mortgage Pool. These further Mortgage Loans, which may be Further Advances or Substitute Mortgage Loans, will be originated by the Seller under the same underwriting standards as the Completion Mortgage Pool or may include other types of Mortgage Loans if the Rating Agencies have confirmed that the current ratings of the Notes would not be adversely affected thereby.

Consideration

The initial consideration payable by the Issuer to the Seller for the Completion Mortgage Pool on the Issue Date consists of an amount equal to the aggregate Balances (as defined below) of the Mortgage Loans comprised in the Completion Mortgage Pool as at 6 March 2007, the MERCs and the Residuals. The Residuals and the MERCs, constituting such consideration payable by the Issuer, shall be issued to the Seller on the Issue Date. On Eligible Dates, the Issuer shall purchase the Pre-Funded Mortgage Pool from the Seller for an amount equal to the aggregate Balance of the Pre-Funded Mortgage Pool (**Pre-Funded Mortgage Pool Purchase Price**) as at the day before the relevant Eligible Date. The initial consideration for the purchase of Further Advances by the Issuer shall be an amount equal to the aggregate balance of such Further Advances. Further consideration payable by the Issuer for the purchase of the Mortgage Loans comprised in the Completion Mortgage Pool, the Pre-Funded Mortgage Pool and for the purchase of the Further Advances, shall consist of (a) the payments made in respect of the Residuals and (b) the payments made in respect of the MERCs. Interest accruing and all other sums received by the Seller on the Mortgage Loans comprised in the Completion Mortgage Pool up to but not including 6 March 2007 will be for the account of the Seller, and interest accruing and all other sums received by the Seller on the Mortgage Loans comprised in the Completion Mortgage Pool on or after 6 March 2007 will be for the account of the Issuer.

Pre-Funded Mortgage Pool

The Pre-Funded Mortgage Loans in the Pre-Funded Mortgage Pool purchased by the Issuer will be required to comply with the same lending criteria as apply to the Mortgage Loans comprising the Completion Mortgage Pool (including verification of receipt of the first Monthly Payment) (except in relation to Newly Originated Loans purchased on the Newly Originated Loan Eligible Date, when the first Monthly Payment on those Mortgage Loans has not yet fallen due). The purchase of the Pre-Funded Mortgage Pool will be subject to the satisfaction of the following conditions:

- (a) on the Issue Date, the Pre-Funded Mortgage Pool Amount is less than or equal to 15 per cent. of the aggregate principal amount of the Notes;
- (b) the amount applied in the purchase of Newly Originated Loans in the Pre-Funded Mortgage Pool does not exceed £50,000,000;
- (c) on the relevant Eligible Dates, each Pre-Funded Mortgage Loan complies with the representations and warranties specified in the Mortgage Sale Agreement (except that in relation to Newly Originated Loans no Monthly Payment will have been received);

- (d) following the acquisition of the Pre-Funded Mortgage Pool, on any date the product of the weighted average foreclosure frequency (**WAFF**) and the weighted average loss severity (**WALS**) for the Mortgage Pool after such acquisition calculated on such date in the same way as for the Completion Mortgage Pool would not be more than 0.25 per cent. higher than the product of the WAFF and WALS as calculated by the Rating Agencies on the Issue Date; and
- (e) the Rating Agencies confirm that the current ratings of the Notes then outstanding will not be withdrawn or downgraded as a result of the purchase of the Pre-Funded Mortgage Pool.

The Pre-Funded Mortgage Pool Amount together with the following amounts will be deposited in the Issuer Transaction Account and credited to the Pre-Funded Mortgage Loans Ledger:

- (a) part of the proceeds of the fee paid by DB UK Bank Limited in an amount equal to the Pre-Funded Mortgage Pool Interest Shortfall, which will be credited on the Issue Date;
- (b) interest earned on the sum of the Pre-Funded Mortgage Pool Amount and the Pre-Funded Mortgage Pool Interest Shortfall at the rate of interest payable pursuant to the Bank Agreement for the period from the Issue Date up to (but excluding) the second business day prior to the relevant Eligible Date (the **Eligible Advance Date**), which will be credited on the Eligible Advance Date; and
- (c) to the extent that after the final Eligible Date there are funds standing to the credit of the Pre-Funded Mortgage Loans Ledger, interest earned on such amount at the rate of interest payable pursuant to the Bank Agreement for the period from the final Eligible Date up to (but excluding) the Payment Date falling in June 2007.

It is a requirement of the Mortgage Sale Agreement that at least one Monthly Payment in respect of a Mortgage Loan due from a Borrower be received in full, before the relevant Mortgage Loan is sold by the Seller to the Issuer on the Issue Date. However, as an exception to this requirement, a Newly Originated Loan may be sold on the Newly Originated Loan Eligible Date, on the condition that the first Monthly Payment must be made and received in cleared funds by the Newly Originated Loan Qualifying Date and the Newly Originated Loan otherwise complies with the terms of the Mortgage Sale Agreement on the Newly Originated Loan Eligible Date. If a Newly Originated Loan has not had its first Monthly Payment made and received in cleared funds by the Newly Originated Loan Qualifying Date, the Seller will be obliged to repurchase such Newly Originated Loan on the next following Payment Date, as set out below in *Warranties and Repurchase*.

The Issuer, or the Cash Manager acting on the Issuer's instructions, may on the Eligible Dates utilise the Pre-Funded Mortgage Pool Amount towards payment of the Pre-Funded Mortgage Pool Purchase Price. To the extent that there are funds standing to the credit of the Pre-Funded Mortgage Loans Ledger after the payment of the Pre-Funded Mortgage Pool Purchase Price, these funds shall be applied on the Payment Date falling in June 2007 as follows:

- (a) an amount equal to the Principal Rebate will be remitted to the holders of the Notes as part of the mandatory repayment of the Notes on such date in accordance with **Condition 5(b)**; and
- (b) an amount equal to the interest on the Pre-Funded Mortgage Pool Amount (calculated at the weighted average of the Rate of Interest (as defined in **Condition 4(c)**) for the Notes for the period from the Issue Date to the final Eligible Date) will be distributed in accordance with the Pre-Enforcement Revenue Priority of Payments.

Warranties and Repurchases

The Mortgage Sale Agreement will contain warranties given by the Seller in relation to the Completion Mortgage Pool, the Pre-Funded Mortgage Pool, the Substitute Mortgage Loans and the Further Advances.

No searches, enquiries or independent investigations have been or will be made by the Issuer or the Trustee, each of whom will rely upon the warranties in the Mortgage Sale Agreement and the results of an audit of the Initial Mortgage Pool.

If there is an unremedied or unremediable breach of any of these warranties which could have a material adverse effect on the Mortgage Loan and related Mortgage then the Seller will be required to repurchase the relevant Mortgage Loan and its related Mortgage for a consideration in cash equal to the Balance of the relevant Mortgage Loan and all other amounts due and unpaid (but not capitalised) under such Mortgage Loan plus interest accrued (but not due) and unpaid less interest not then accrued but paid in advance to the Issuer (which amount paid in advance the Issuer shall be entitled to keep) or to transfer to the Issuer a Substitute Mortgage Loan. Performance of the obligation to repurchase a Mortgage Loan and its related Mortgage or to transfer to the Issuer a Substitute Mortgage Loan will be in satisfaction of all the Seller's liabilities in respect of the warranties relating to that Mortgage Loan and related Mortgage.

Balance means, in relation to any Mortgage Loan and on any date, the original principal amount advanced to the Borrower plus any other disbursement, legal expenses, fee, charge or premium capitalised and added to the amounts secured by the relevant Mortgage in accordance with the conditions of the Mortgage Loan on or prior to such date (including, for the avoidance of doubt, capitalised interest) plus, in relation to a Mortgage Loan and the Mortgage relating thereto, any advance of further monies to the Borrower thereof on the security of the relevant Mortgage after the date of completion of such Mortgage Loan (including advances of any retention) less any repayments of such amounts.

The warranties referred to will include, *inter alia*, statements to the following effect:

- (a) each Mortgage Loan and its Related Security is valid, binding and enforceable in accordance with its terms and is non-cancellable, in each case save by virtue of the Unfair Terms in Consumer Contracts Regulations 1999 (the **UTCCR**), and each related Mortgage secures the repayment of all advances, interest, costs and expenses payable by the relevant Borrower to the Seller in priority to any other charges registered against the relevant Property;
- (b) subject to completion of any registration or recording which may be pending at the Land Registry or the Registers of Scotland or the Northern Ireland Registries each Mortgage constitutes a first ranking legal mortgage or first ranking standard security (as the case may be) over the relevant Property;
- (c) no lien or right of set-off or counterclaim has been created or has arisen between the Seller and any Borrower which would entitle such Borrower to reduce the amount of any payment otherwise due under the relevant Mortgage Loan save in relation to the UTCCR and save in relation to section 75 of the Consumer Credit Act;
- (d) prior to making a Mortgage Loan to a Borrower, the Seller instructed, or required to be instructed on its behalf, solicitors to carry out in relation to the relevant Property all investigations, searches and other actions that would have been undertaken by the Seller acting in accordance with its normal standard, when advancing money in an amount equal to such advance to an individual to be secured on a property of the kind generally permitted under the Lending Criteria and a certificate of title was received by or on behalf of the Seller from such solicitors which, either initially or after further investigation, revealed no material matter which would cause the Seller to decline the Mortgage Loan having regard to the Lending Criteria;
- (e) prior to making a Mortgage Loan, the relevant Property was valued by a valuer from the panel of valuers from time to time appointed by the Seller. That valuer complied with its obligations to the Seller relating to conflicts of interest, impartiality and independence;

- (f) prior to making a Mortgage Loan, the nature and amount of such Mortgage Loan, the circumstances of the relevant Borrower and the nature of the relevant Property satisfied the Lending Criteria as in effect on the relevant date in all material respects;
- (g) each Mortgage Loan and its related Mortgage has been made on the terms of the Seller's standard documentation (so far as applicable), which has not been varied in any material respect;
- (h) the Seller took all reasonable steps to ensure that each Property was at the date of completion of the relevant Mortgage Loan insured (i) under a buildings policy arranged by the Borrower or (ii) with respect to leasehold properties, by the relevant landlord and in all cases against risks usually covered by a comprehensive buildings insurance policy and in the joint names of the Seller and the Borrower, with effect from the origination of the relevant Mortgage Loan or, in the case of leasehold properties, with the Seller noted as co-insured;
- (i) no Mortgage Loan was purchased by the Seller subject to any discount and no Mortgage Loans have been previously declared defaulted by the Seller;
- (j) no Mortgage Loan has a final maturity beyond the date falling two years prior to the Final Payment Date;
- (k) the interest payable under the Mortgage Loans is calculated in relation to:
 - (i) the Fixed LIBOR-linked Mortgage Loans at a fixed rate until one of several dates ending no later than 18 January 2010 and thereafter converts to a LIBOR-linked Mortgage Loan; and
 - (ii) the Discount LIBOR-linked Mortgage Loans at the LIBOR-linked Mortgage Rate discounted by between 0.08 per cent. and 1.87 per cent. until one of several dates ending no later than 17 November 2009; and
 - (iii) the Fixed BBR-linked Mortgage Loans at a fixed rate until one of several dates ending no later than 31 January 2010 and thereafter converts to a BBR-linked Mortgage Loan; and
 - (iv) the Discount BBR-linked Mortgage Loans at a Bank of England base rate-linked mortgage rate discounted by between 0.50 per cent. and 1.75 per cent. until one of several dates ending no later than 11 January 2010.
- (l) the Borrower under each Mortgage Loan has made at least one monthly payment except in relation to a Newly Originated Loan; and
- (m) in respect of each Mortgage Loan (with the exception of a specified number of Mortgage Loans in the Initial Mortgage Pool) secured on leasehold property, the relevant leasehold interest has an unexpired term left to run of not less than 40 years after the maturity of the relevant Mortgage Loan.

Repurchase Upon Product Switching and Porting

Under the Mortgage Sale Agreement, the Seller will be obliged to repurchase a Mortgage Loan if the Seller agrees to a request of a Borrower to convert such Mortgage Loan into certain other Mortgage Loans of a different type, or if the Seller agrees to a request of a Borrower to change their Mortgage Loan to a different property. The cumulative total principal amount of the converted Mortgage Loans so repurchased shall not exceed 10 per cent. of the total principal amount of the Notes on the Issue Date.

ADMINISTRATION OF THE MORTGAGE POOL

Mortgage Loan Administration

The Administrator

The Administrator will be appointed under the terms of the Administration Agreement dated on or about the Issue Date between, *inter alios*, the Issuer and the Trustee to administer the Mortgage Loans and the Related Security (as defined in **Condition 2**) on behalf of, and as agent for, the Issuer.

The appointment of the Seller as Administrator may be terminated by the Issuer (with the consent of the Trustee) or by the Trustee acting on behalf of the Noteholders and other secured creditors on the occurrence of certain events of default, including non-performance of its obligations under the Administration Agreement or if insolvency or similar events occur in relation to the Administrator.

Following any such termination, the Standby Administrator will assume this function under the terms of the Standby Administration Agreement. If the Standby Administrator assumes the administration function under the Administration Agreement, the liability of the Standby Administrator shall be limited (except in certain circumstances provided for in the Standby Administration Agreement) to the greater of £10,000,000 and:

- (a) an amount equal to 125 per cent. of the Administration Fee paid or payable by the Issuer to the Administrator in respect of the three month period immediately preceding the event giving rise to a liability of the Standby Administrator multiplied by four; or
- (b) in relation to a claim or action made in respect of an event giving rise to a liability which event occurs after the termination or expiry of the Administration Agreement, an amount equal to 125 per cent. of the average monthly Administration Fee paid or payable by the Issuer to the Administrator in the 12 month period immediately preceding the termination or expiry of the Administration Agreement, as the case may be, multiplied by 12.

The Standby Administration Agreement may be terminated by the Standby Administrator by giving not less than 30 days' written notice to the Trustee, the Administrator and the Issuer if an amendment, addition or modification is made to the Administration Agreement or the Deed of Charge to which the Standby Administrator has reasonably refused its consent or the fees due to the Standby Administrator pursuant to the Standby Administration Agreement are not paid within 60 days of the due date.

The appointment of the Standby Administrator may be terminated by the Issuer by giving not less than 30 days' prior written notice to the Administrator, the Trustee and the Standby Administrator if the Issuer has appointed a successor standby administrator acceptable to the Trustee and the current rating of the Notes is confirmed by the Rating Agencies or the Rating Agencies confirm that a standby administrator is not required.

Collection of Payments

The Administrator will agree to procure that VMS collects payments made by Borrowers in respect of the Mortgage Loans. This function is currently undertaken by VMS on behalf of DB UK Bank Limited pursuant to an outsourcing agreement between DB UK Bank Limited and VMS. All direct debit payments are paid into the Collections Account. Payments received from Borrowers in respect of the Mortgage Loans other than by direct debit (including unscheduled principal prepayments, receipts in respect of Mortgage Early Repayment Charges, receipts in respect of valuation and other third party fees and any receipts in respect of scheduled payments paid by means other than direct debit) are paid into the Operating Account.

In respect of each mortgage loan, including the Mortgage Loans, VMS sets up a direct debit with a Borrower electronically via an automated direct debit instruction service. This is done at the time of origination of the Mortgage Loan. Prior to the relevant Mortgage Payment Date (or such other time as may be required by the BACS rules in force from time to time), VMS raises a direct debit request via the Bankers Automated Clearing System (**BACS**) for each Mortgage Loan account. VMS will receive on-line confirmation from BACS of the direct debits. VMS will also receive information on the rejection of direct debits with a description of the rejection. To the extent possible VMS will resubmit the direct debits eight to ten days after the first submission of the direct debit. In respect of rejected direct debit payments, VMS also raises a rejected direct debit letter and raises a rejected direct debit fee against the Borrower's mortgage loan account.

Scheduled payments received from a Borrower in respect of a Mortgage Loan are applied in the following order:

- (a) any fees applicable and charged to the Mortgage Loan account;
- (b) any interest owing on the Mortgage Loan; and
- (c) principal repayments of the Mortgage Loan.

The Collections Account and the Operating Account (see further *Collections Account, Operating Account and Further Advances Account*) will be operated by the Account Bank in accordance with the Bank Agreement.

Arrears and Default Procedures

The Administrator will be responsible to the Issuer and the Trustee for conducting arrears and default procedures under the Mortgage Loans. This function is currently undertaken by VMS on behalf of DB UK Bank Limited pursuant to the outsourcing agreement entered into between DB UK Bank Limited and VMS. Pursuant to such outsourcing agreement, VMS endeavours to collect payments due under the Mortgage Loans in accordance with the arrears procedures guidelines of DB UK Bank Limited (which include having regard to the circumstances of the relevant Borrower in each case). When a direct debit has been rejected after the first resubmission or a payment has not been received during the month for other methods of payments, VMS will follow the arrears procedures guidelines to collect the payment due under the Mortgage Loan. The procedures include telephone calls to the Borrower to assess the circumstances of the Borrower in arrears in order to find a solution to any financial difficulties, letters requesting payment and visits by a debt counsellor to the premises of the Borrower. When the Borrower has missed a second payment (or third payment depending on the Borrower's product and credit status), the procedures will usually include taking legal action for possession of the relevant Property and the subsequent sale of that Property. The time involved (assuming the instigation of legal proceedings) from the point when VMS begins repossession procedures to VMS taking possession of the Property may be approximately 9 to 12 months; however, there can be significant variations in the time taken to sell repossessed Properties. A court has discretion (the scope of which may be narrower in Scotland) as to whether, on application by a lender, it will order the borrower to vacate the property pursuant to a possession order after a default. A lender will usually apply for such an order so that it can sell the property with vacant possession. Broadly, the net proceeds of sale of the Property after payment of the costs and expenses of the sale would be applied against the sums owing from the Borrower to the extent necessary to discharge the Mortgage Loan. The Administrator will attempt to recover any shortfall from the Borrower to the extent that in its reasonable judgment it is cost-effective to do so. The Administrator's on site team in Chester manage the relationship and service level agreements of the solicitors, asset managers, debt counsellors and shortfall sale providers.

Until December 2001, on court applications being made by a lender for the relevant enforcement remedies (once a default by the borrower had been established by one of the methods detailed in the preceding paragraph), the Scottish courts were bound (except in very limited circumstances) to grant the enforcement remedies sought. This position has been altered by the Mortgage Rights (Scotland) Act 2001, which was

brought into force on 3 December 2001. The principal effect of this Act is to confer on the court discretion, on the application of the borrower (or the borrower's spouse or partner) within certain time limits, to suspend the exercise of the lender's enforcement remedies for such period and to such extent as the court considers reasonable in the circumstances, having regard amongst other factors to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation. The court's discretion, as described above is broadly similar to the discretion conferred on courts in England and Wales under Section 36 of the Administration of Justice Act 1970.

Sub-Contracting by the Administrator

The Administrator will be permitted in specified circumstances, or with the prior written consent of the Issuer and the Trustee, to sub-contract or delegate its obligations under the Administration Agreement subject to the proposed arrangement not adversely affecting the current ratings of the Notes assigned by the Rating Agencies.

The Administrator has entered into an outsourcing agreement with VMS whereby VMS provides mortgage administration and management services in relation to the Mortgage Loans. These services include:

- (a) processing mortgage applications that have been given in-principle approval;
- (b) daily, monthly and quarterly reporting to the Administrator;
- (c) verification of mortgage application and completion documents including anti-money laundering procedures;
- (d) setting up direct debit arrangements for borrowers;
- (e) collection of scheduled and unscheduled payments from borrowers;
- (f) custody of title deeds (where retained by the Seller); and
- (g) providing customer services including call centre and website management services.

Underwriting processes required to approve and offer mortgage applications, administrative support and sales support services will also be provided by certain personnel referred to as "smartsourced employees".

VMS is also responsible for day to day arrears management as further set out under *Arrears and Default Procedures*. VMS acts under the supervision of the Seller in carrying out its services pursuant to the outsourcing agreement.

The Issuer and the Trustee will consent to the sub-contracting of certain activities of the Administrator to VMS pursuant to the Administration Agreement to be entered into on or before the Issue Date.

Notwithstanding the sub-contracting to VMS or any other sub-contracting or delegation of the performance of any of its obligations under the Administration Agreement, the Administrator will remain primarily responsible to the Issuer and the Trustee for the performance of its obligations under the Administration Agreement and will procure that certain administration functions are carried out by VMS.

VMS will provide the above services in respect of mortgage loans other than the Mortgage Loans.

Administration Fees

The Administration Agreement makes provision for payments to be made to the Administrator. On each Payment Date, the Issuer will pay to the Administrator an administration fee (the **Administration Fee**) (including Value Added Tax, if any), such fee being an amount equal to 0.20 per cent. per annum of the

average total principal Balance of the Mortgage Loans outstanding on the first day of each of the three months immediately prior to the relevant Determination Date.

If the appointment of the Administrator is terminated and a substitute Administrator which is not an affiliate of the Administrator is appointed, the figure of 0.20 per cent. per annum referred to in the paragraph above will be replaced with a figure agreed with such substitute Administrator in accordance with the procedures set out in the Administration Agreement, subject always to the consent of the Trustee.

The Administration Fee and certain costs and expenses of the Administrator or any substitute Administrator are to be paid as provided in the Pre-Enforcement Revenue Priority of Payments. This order of priority has been agreed with a view to procuring the continuing performance by the Administrator of its duties in relation to the Issuer, the Mortgage Loans, the Notes, the MERCs and the Residuals.

Repayment

A Borrower may repay all or any part of the relevant Mortgage Loan at any time before the end of the mortgage term (a **Mortgage Early Repayment Amount**), subject to the Borrower paying any applicable early repayment charge calculated on the basis provided under the Mortgage Loan (the **Mortgage Early Repayment Charge**). Exceptions are made to the requirement to pay Mortgage Early Repayment Charges in the case of death of a Borrower or where the relevant mortgage loan has reached the end of its term. Any amount received by the Issuer in respect of a Mortgage Early Repayment Charge will be for the benefit of the MERC Holders and will not be applied towards repayment of any amounts outstanding on the Notes. Interest is calculated on the reduced balance of the Mortgage Loan starting with the next following interest period.

The Mortgage Early Repayment Charges for the Mortgage Loans are calculated as a percentage of the Mortgage Early Repayment Amount.

Early repayment will generally occur in two circumstances: (a) a Borrower may voluntarily prepay all or part of the Mortgage Loan or (b) a Borrower may default (or another event of acceleration may occur) and enforcement procedures, including the sale of the Property, may take place.

If a Borrower defaults and enforcement procedures are initiated, the proceeds arising from such enforcement procedures, including the sale proceeds of the relevant Property, may be insufficient to repay the entirety of the amounts owed by the Borrower under the Mortgage Loan.

Under the Administration Agreement, the Administrator will be responsible to the Issuer and the Trustee for handling the procedures connected with the redemption of Mortgage Loans and is authorised by the Trustee and the Issuer to release, or to authorise any party acting on its behalf to release, the relevant Mortgage Loan documents to the person or persons entitled thereto upon redemption.

Further Advances and Substitution

The Seller may make further advances to Borrowers after each Mortgage Loan has completed (a **Further Advance**). The Issuer shall purchase the Further Advances made by the Seller to a Borrower, which shall be repurchased by the Seller if the following conditions are not satisfied:

- (a) the relevant Borrower is not in material breach of any of the conditions of the relevant Borrower's existing Mortgage Loan and during the six-month period prior to the making of any Further Advance, the relevant Borrower is not in arrears of any payment;
- (b) in making the Further Advance, the Lending Criteria are met;

- (c) the provisions of the FSM Act, Consumer Credit Act and the regulations promulgated thereunder, the Financial Services (Distance Marketing) Regulations 2004 and all other relevant laws, regulations, authorisations and permissions have been complied with to the extent that they apply to any such Further Advance;
- (d) prior to making the Further Advance no second mortgage, charge or standard security has been created over the relevant Property unless such second mortgage, charge or standard security has been expressly postponed by deed (or, in Scotland, a ranking agreement registered or recorded at the Registers of Scotland) to the Mortgage securing such Further Advance or unless the Mortgage Loan secured by such second mortgage, charge or standard security is to be, and is, redeemed simultaneously with the making of the Further Advance;
- (e) no Enforcement Notice has been given by the Trustee which remains in effect;
- (f) the amount of the Further Advance (together with all other Further Advances made with respect to other Mortgage Loans and the aggregate balances of Substitute Mortgage Loans acquired by the Issuer on that day) when added to the amount of any Further Advances previously purchased by the Issuer and the aggregate balances of Substitute Mortgage Loans previously purchased does not exceed 10 per cent. of the aggregate Balances of the Mortgage Loans on the Issue Date, save the figure of 10 per cent. referred to above may be increased from time to time upon the Rating Agencies agreeing that such increase will not adversely affect the current ratings by the Rating Agencies of the Notes and subject to the consent of the Trustee;
- (g) the Seller is not in breach of any obligation on its part to repurchase any Mortgage Loan in accordance with the Mortgage Sale Agreement;
- (h) the amount of the Further Advance (together with all other Further Advances made with respect to other Mortgage Loans on that day) does not exceed an amount equal to the aggregate of the Available Capital Funds at such time and the amount standing to the credit of the Further Advances Ledger at such time;
- (i) the effect of the Further Advance would not be to extend the final maturity date of the related Mortgage Loan to beyond the date falling two years prior to the Final Payment Date;
- (j) the Administrator has no reason to believe that the making of the relevant Further Advance will adversely affect the current ratings of the Notes;
- (k) there is no deficiency recorded in the Principal Deficiency Ledgers;
- (l) the total balance of all Mortgage Loans in the Mortgage Pool which are 90 days or more in arrears does not exceed 17 per cent. of the total balance of all the Mortgage Loans in the Mortgage Pool;
- (m) the amount of the Further Advance (together with all other Further Advances made with respect to other Mortgage Loans and the aggregate balances of Substitute Mortgage Loans acquired by the Issuer on that day) when added to the amount of any Further Advances previously purchased by the Issuer and the aggregate balances of Substitute Mortgage Loans previously purchased, does not exceed an amount equal to 0.25 per cent higher than the product of the WAFF and WALs of the Completion Mortgage Pool as calculated by the Rating Agencies on the Issue Date (in each case calculated in the same way as for the Completion Mortgage Pool, save as otherwise varied from time to time with the approval of the Rating Agencies);
- (n) following the acquisition of the Further Advance by the Issuer, on any date the weighted average margin for the Mortgage Pool after such acquisition (and after all other acquisitions of Further Advances to be made on such date) calculated on such date in the same way as for the Completion

Mortgage Pool (save as otherwise varied from time to time with the approval of the Rating Agencies) would not have decreased by more than 0.15 per cent. from the weighted average margin of the Completion Mortgage Pool calculated on the Issue Date; and

- (o) all conditions set out in the Administration Agreement and the Mortgage Sale Agreement relating to Further Advances have been satisfied.

Each week the Administrator shall notify the Cash Manager of (a) the amount of Further Advances which the Seller has committed to advance (but has not yet advanced) for the forthcoming week and (b) the amount which the Seller anticipates it will require for future (but not yet advanced) Further Advances for the forthcoming week and shall certify in writing to the Issuer, the Trustee and the Cash Manager that a Further Advance has been made and that the above conditions have been satisfied in respect of such Further Advance. The Issuer will no later than two Business Days after the date on which the Administrator certifies in writing to the Issuer, the Trustee and the Cash Manager, that a Further Advance has been made and that the above conditions have been satisfied in respect of such Further Advance, pay to the Seller out of the Issuer Transaction Account an amount equal to the principal amount of such Further Advance at the date the Further Advance is made.

At any time that the Seller is entitled or obliged to repurchase a Mortgage Loan, including as a result of the making of a Further Advance to a Borrower, the Seller will be entitled instead to sell to the Issuer a Mortgage Loan (a **Substitute Mortgage Loan**) subject to the following conditions:

- (a) the Substitute Mortgage Loan will not, unless confirmed by the Trustee and the Rating Agencies as not affecting the current ratings of the Notes, be a different type of Mortgage Loan to those Mortgage Loans in the Completion Mortgage Pool;
- (b) all conditions set out in the Mortgage Sale Agreement and the Administration Agreement relating to the sale and purchase of Substitute Mortgage Loans will be satisfied;
- (c) if the Substitute Mortgage Loan is secured by a Scottish Mortgage, the Issuer and Trustee will obtain a legal opinion from Scottish counsel in respect of such Substitute Mortgage Loan confirming that the documents are legal, valid and binding in relation to such Substitute Mortgage Loan under Scots law;
- (d) if the Substitute Mortgage Loan is secured by a Northern Irish Mortgage, the Issuer and Trustee will obtain a legal opinion from Northern Irish counsel in respect of such Substitute Mortgage Loan confirming that the documents are legal, valid and binding in relation to such Substitute Mortgage Loan under Northern Irish law;
- (e) no Enforcement Notice has been given by the Trustee which remains in effect;
- (f) the Seller is not in breach of any obligation on its part to repurchase any Mortgage Loan in accordance with the Mortgage Sale Agreement;
- (g) the amount of the Substitute Mortgage Loan to be sold (together with all Further Advances made with respect to other Mortgage Loans and the aggregate balances of Substitute Mortgage Loans acquired by the Issuer on that day) when added to the amount of any Further Advances previously purchased by the Issuer and the aggregate balances of Substitute Mortgage Loans previously purchased, does not exceed an amount equal to 0.25 per cent higher than the product of the WAFF and WALs of the Completion Mortgage Pool as calculated by the Rating Agencies on the Issue Date (in each case calculated in the same way as for the Completion Mortgage Pool, save as otherwise varied from time to time with the approval of the Rating Agencies); and

- (h) the balance of the Substitute Mortgage Loan to be sold (together with the amount of all Further Advances made and the aggregate balances of the other Substitute Mortgage Loans acquired by the Issuer on that day) when added to the amount of any Further Advances previously purchased by the Issuer and the aggregate balances of Substitute Mortgage Loans previously purchased does not exceed 10 per cent. of the aggregate Balances of the Mortgage Loans on the Issue Date, save that the figure of 10 per cent. referred to above may be increased from time to time upon the Rating Agencies agreeing that such increase will not adversely affect the current ratings by the Rating Agencies of the Notes and subject to the consent of the Trustee.

Cash Management Functions

The Cash Manager

The Cash Manager will be appointed under the terms of the Cash Management Agreement dated on or about the Issue Date between, *inter alios*, the Issuer and the Trustee to provide certain cash management services in respect of the Notes on behalf of, and as agent for, the Issuer.

Pursuant to the terms of the Cash Management Agreement, the Cash Manager is obliged to report on a monthly basis to the Trustee and the Issuer on the status and the performance of the Mortgage Pool, the administration of the Mortgage Loans and on matters relating to its cash management functions.

The appointment of Deutsche Bank AG, London Branch as Cash Manager may be terminated by the Issuer (with the consent of the Trustee) or by the Trustee acting on behalf of the Noteholders and other secured creditors on the occurrence of certain events of default, including non-performance of its obligations under the Cash Management Agreement or if insolvency or similar events occur in relation to Deutsche Bank AG, London Branch.

Following any such termination, a substitute cash manger will assume the cash management functions under the terms of the Cash Management Agreement.

The Cash Manager will be permitted in specified circumstances, or with the prior written consent of the Issuer and the Trustee, to sub-contract or delegate its functions under the Cash Management Agreement subject to the proposed arrangement not adversely affecting the current ratings of the Notes assigned by the Rating Agencies. Notwithstanding any sub-contracting or delegation of the performance of any of its obligations under the Cash Management Agreement, the Cash Manager will remain primarily responsible to the Issuer and the Trustee for the performance of its obligations under the Cash Management Agreement.

Cash Management Fees

The Cash Management Agreement makes provision for payments including fees to be made to the Cash Manager.

If the appointment of the Cash Manager is terminated and a substitute Cash Manager which is not an affiliate of the Cash Manager is appointed, the substitute Cash Manager will receive a fee agreed with such substitute Cash Manager in accordance with the procedures set out in the Cash Management Agreement, subject always to the consent of the Trustee.

The Cash Management Fee and certain costs and expenses of the Cash Manager or any substitute Cash Manager are to be paid as provided in the Pre-Enforcement Revenue Priority of Payments. This order of priority has been agreed with a view to procuring the continuing performance by the Cash Manager of its duties in relation to the Issuer, the Mortgage Loans, the Notes, the MERCs and the Residuals.

Information and Reporting

The Cash Manager will be, under the Cash Management Agreement, responsible to the Issuer and the Trustee for providing records, on a Mortgage Loan by Mortgage Loan basis, as prepared and provided to it by the Administrator. The Cash Manager shall also, on the Determination Date prior to each next following Payment Date, deliver to the Issuer, the Rating Agencies and the Trustee the form of quarterly report required pursuant to the Cash Management Agreement, such report which will also be available to Noteholders from the website of the Trustee at <https://www.tss.db.com/invr>.

On the basis of information provided to it by the Administrator, the Cash Manager shall also provide a report each month to the Issuer, the Trustee and the Swap and Interest Rate Cap Provider on the aggregate principal amount of the BBR-linked Mortgage Loans (excluding, in the case of the Fixed BBR-linked Mortgages Loans, such BBR-Linked Mortgage Loans as are subject to a fixed rate period) and the Fixed Rate Mortgage Loans.

The Cash Manager will give notice to the Rating Agencies and the Trustee of (i) the Notes being repaid in full; (ii) any repurchase of any Mortgage Loan by the Seller pursuant to the Mortgage Sale Agreement; and (iii) the occurrence of any Event of Default under the Notes.

WEIGHTED AVERAGE LIVES OF THE NOTES

Weighted average life refers to the average amount of time that will elapse from the date of issuance of a security to the date of distribution to the investor of amounts distributed in net reduction of principal of such security. The weighted average lives of the Notes will be influenced by, among other things, the actual rate of redemption of the Mortgage Loans and the extent to which Available Revenue Funds are sufficient to cover any Principal Deficiencies.

The model used for the purposes of calculating the weighted average lives of the Notes as set out in this Offering Circular utilises an assumed constant per annum rate of prepayment (**CPR**) each month relative to the then outstanding principal balance of a pool of mortgages. 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 Completion Mortgage Pool.

The following tables were prepared based on the characteristics of the Mortgage Loans included in the Mortgage Pool and the following additional assumptions:

- (a) there are no arrears or enforcements;
- (b) no Mortgage Loan is sold by the Issuer;
- (c) no Principal Deficiency arises;
- (d) the Seller is not in breach of the terms of the Mortgage Sale Agreement;
- (e) no Mortgage Loan is repurchased by the Seller;
- (f) no Substitute Mortgage Loans are purchased;
- (g) no Further Advances are made;
- (h) the portfolio mix of loan characteristics remains the same throughout the life of the Notes;
- (i) following the expiry of the fixed rate/discount period (if applicable), the interest rate on each Mortgage Loan is equal to LIBOR for deposits in sterling for three months (**Note LIBOR**) plus a fixed margin or the Bank of England base rate plus a fixed margin as applicable;
- (j) the Notes are issued on 15 March 2007 and all payments on the Notes are received on the 15th day of every third calendar month commencing from 15 June 2007;
- (k) Note LIBOR is equal to 5.30 per cent. and is applied both to the aggregate Principal Amount Outstanding and the Mortgage Loans;
- (l) the Bank of England base rate is equal to 5.25 per cent.;
- (m) in the case of tables stating "with optional redemption", the Notes are redeemed at their Principal Amount Outstanding on the Payment Date following the Payment Date on which the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10 per cent. of the initial Principal Amount Outstanding of the Notes;
- (n) interest on the Notes is always calculated on the basis of actual days elapsed in a 365 year (without adjustment);

- (o) there is no pre-funding;
- (p) amounts standing to the credit of the Discount Reserve Account have not been included in these calculations;
- (q) the Notes will be redeemed in accordance with the **Conditions**; and
- (r) the Mortgage Pool will be purchased on the Issue Date and has the characteristics defined below.

<i>Collateral Line</i>	<i>Current Principal Balance (£)</i>	<i>Mortgage Rate (%)</i>	<i>Fully Indexed Margin (%)</i>	<i>Remaining Term to Maturity (months)</i>	<i>Next Interest Reset (months)</i>	<i>Interest Only Period (months)</i>	<i>Discount (%)</i>	<i>Months to Full Floating Rate</i>	<i>Amortisation Lag (Months)</i>
1 ¹	148,912,190	5.759	2.160	255	23	254	0.000	0	0
2 ¹	23,660,996	5.613	2.168	293	23	0	0.000	0	0
3 ¹	88,219,509	6.092	2.074	256	1	255	0.843	23	0
4 ¹	7,370,781	6.026	2.153	289	1	0	0.773	24	0
5 ²	31,530,177	6.746	3.129	249	24	248	0.000	0	0
6 ²	4,677,873	6.631	2.962	272	24	0	0.000	0	0
7 ²	2,977,895	6.78	2.807	284	2	283	1.490	22	0
8 ²	1,112,613	6.934	2.418	295	2	0	1.634	22	0
9 ¹	20,052,742	5.759	2.160	255	23	254	0.000	0	3
10 ¹	3,186,226	5.613	2.168	293	23	0	0.000	0	3
11 ¹	11,879,773	6.092	2.074	256	1	255	0.843	23	3
12 ¹	992,561	6.026	2.153	289	1	0	0.773	24	3
13 ²	4,245,901	6.746	3.129	249	24	248	0.000	0	3
14 ²	629,929	6.631	2.962	272	24	0	0.000	0	3
15 ²	401,008	6.78	2.807	284	2	283	1.490	22	3
16 ²	149,826	6.934	2.418	295	2	0	1.634	22	3

1 Collateral lines 1-4 and 9-12 are linked to BBR

2 Collateral lines 5-8 and 13-16 are linked to Note LIBOR

The actual characteristics and performance of the Mortgage Loans are likely to differ from the assumptions. The above tables are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios. For example, it is not expected that the Mortgage Loans will prepay at a constant rate until maturity, that all of the Mortgage Loans will prepay at the same rate or that there will be no defaults or delinquencies on the Mortgage Loans. Moreover, the diverse remaining terms to maturity and mortgage rates of the Mortgage Loans could produce slower or faster principal distributions than indicated in the tables at the various percentages of CPR specified, even if the weighted average remaining term to maturity and weighted average mortgage rates of the Mortgage Loans are as assumed. Any difference between such assumptions and the actual characteristics and performance of the Mortgage Loans, or actual prepayment of loss experience, will affect the percentage of the initial amount outstanding of the Notes which are outstanding over time and cause the weighted average lives of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated percentage CPR.

The weighted average lives shown below were determined by (i) multiplying the net reduction, if any, of the Principal Amount Outstanding of each class of Notes by the number of years from the date of issuance of the Notes to the related Payment Date, and (ii) adding the results and dividing the sum by the aggregate of the net reductions of the Principal Amount Outstanding described in (i) above.

Subject to the foregoing discussion and assumptions, the tables on the following pages indicate the weighted average lives of the Notes. These average lives have been calculated on a 30/360 basis.

**Percentage of the Original Principal Amount Outstanding of the A Notes at the Specified CPRs
(Without Optional Redemption)**

Payment Date	0%	15%	20%	25%	30%	35%	40%	15%/35%¹
15/03/2007	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
15/03/2008	99.7	82.7	77.0	71.4	65.7	59.9	54.2	82.7
15/03/2009	99.5	67.6	58.1	49.1	40.7	34.7	29.5	47.7
15/03/2010	99.2	54.8	43.0	34.8	28.5	22.5	17.7	29.7
15/03/2011	98.9	43.9	33.5	26.0	19.9	14.6	10.6	19.3
15/03/2012	98.7	36.6	26.7	19.5	13.9	9.5	5.9	12.5
15/03/2013	98.4	31.0	21.3	14.6	9.7	5.5	2.3	8.1
15/03/2014	98.0	26.3	17.0	10.9	6.2	2.4	0.1	4.1
15/03/2015	97.7	22.3	13.6	8.1	3.3	0.4	0.0	1.5
15/03/2016	97.3	18.9	10.8	5.2	1.3	0.0	0.0	0.0
15/03/2017	96.9	16.0	8.6	3.0	0.0	0.0	0.0	0.0
15/03/2018	96.4	13.5	6.3	1.4	0.0	0.0	0.0	0.0
15/03/2019	95.9	11.5	4.3	0.2	0.0	0.0	0.0	0.0
15/03/2020	95.4	9.7	2.7	0.0	0.0	0.0	0.0	0.0
15/03/2021	94.9	8.2	1.5	0.0	0.0	0.0	0.0	0.0
15/03/2022	94.3	6.4	0.5	0.0	0.0	0.0	0.0	0.0
15/03/2023	93.6	4.9	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2024	92.9	3.6	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2025	92.2	2.5	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2026	91.3	1.6	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2027	90.5	0.8	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2028	77.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2029	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2030	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Weighted Average Life (years)	20.4	5.2	3.9	3.0	2.5	2.1	1.8	2.6
First Payment Date	Jun-07	Jun-07	Jun-07	Jun-07	Jun-07	Jun-07	Jun-07	Jun-07
Last Payment Date	Sep-29	Dec-27	Dec-22	Jun-19	Mar-17	Jun-15	Jun-14	Mar-16

(With Optional Redemption)

Weighted Average Life (years)	20.4	5.0	3.7	2.9	2.4	2.0	1.7	2.6
First Payment Date	Jun-07	Jun-07	Jun-07	Jun-07	Jun-07	Jun-07	Jun-07	Jun-07
Last Payment Date	Dec-28	Jun-21	Sep-17	Jun-15	Dec-13	Dec-12	Mar-12	Jun-13

¹ relates to CPR 15 per cent. in the first 12 months, followed by 35 per cent. thereafter.

**Percentage of the Original Principal Amount Outstanding of the M1 Notes at the Specified CPRs
(Without Optional Redemption)**

Payment Date	0%	15%	20%	25%	30%	35%	40%	15%/35%*
15/03/2007	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.00
15/03/2008	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.00
15/03/2009	100.0	100.0	100.0	100.0	100.0	89.7	77.4	100.00
15/03/2010	100.0	100.0	100.0	86.5	69.9	58.2	46.3	72.3
15/03/2011	100.0	100.0	84.4	64.7	48.8	37.7	27.7	46.9
15/03/2012	100.0	88.4	67.4	48.4	34.1	24.5	18.9	30.4
15/03/2013	100.0	74.9	53.8	36.2	23.8	19.7	18.9	19.7
15/03/2014	100.0	63.5	42.9	27.1	19.9	19.7	18.9	19.7
15/03/2015	100.0	53.8	34.2	20.3	19.9	19.7	0.0	19.7
15/03/2016	100.0	45.6	27.3	20.3	19.9	5.3	0.0	16.3
15/03/2017	100.0	38.6	21.7	20.3	18.2	0.0	0.0	0.0
15/03/2018	100.0	32.7	20.5	20.3	3.1	0.0	0.0	0.0
15/03/2019	100.0	27.7	20.5	20.3	0.0	0.0	0.0	0.0
15/03/2020	100.0	23.4	20.5	9.0	0.0	0.0	0.0	0.0
15/03/2021	100.0	19.8	20.5	0.0	0.0	0.0	0.0	0.0
15/03/2022	100.0	19.8	20.5	0.0	0.0	0.0	0.0	0.0
15/03/2023	100.0	19.8	15.3	0.0	0.0	0.0	0.0	0.0
15/03/2024	100.0	19.8	5.4	0.0	0.0	0.0	0.0	0.0
15/03/2025	100.0	19.8	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2026	100.0	19.8	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2027	100.0	19.8	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2028	100.0	16.5	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2029	18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2030	9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2031	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Weighted	21.8	10.6	8.2	6.4	5.2	4.4	3.7	4.9
Average Life (years)								
First Payment Date	Sep-28	Sep-11	Sep-10	Dec-09	Jun-09	Mar-09	Dec-08	Sept-09
Last Payment Date	Dec-30	Jun-28	Dec-24	Mar-21	Sep-18	Sep-16	Mar-15	Mar-17

(With Optional Redemption)

Weighted Average Life (years)	21.5	9.2	6.9	5.4	4.4	3.8	3.2	4.3
First Payment Date	Sep-28	Sep-11	Sep-10	Dec-09	Jun-09	Mar-09	Dec-08	Sept-09
Last Payment Date	Dec-28	Jun-21	Sep-17	Jun-15	Dec-13	Dec-12	Mar-12	Jun-13

* relates to CPR 15 per cent. in the first 12 months, followed by 35 per cent. thereafter.

Date

**Percentage of the Original Principal Amount Outstanding of the M2 Notes at the Specified CPRs
(Without Optional Redemption)**

Payment Date	0%	15%	20%	25%	30%	35%	40%	15%/35%*
15/03/2007	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
15/03/2008	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
15/03/2009	100.0	100.0	100.0	100.0	100.0	89.7	77.4	100.0
15/03/2010	100.0	100.0	100.0	86.5	69.9	58.2	46.3	72.3
15/03/2011	100.0	100.0	84.4	64.7	48.8	37.7	27.7	46.9
15/03/2012	100.0	88.4	67.4	48.4	34.1	24.5	18.9	30.4
15/03/2013	100.0	74.9	53.8	36.2	23.8	19.7	18.9	19.7
15/03/2014	100.0	63.5	42.9	27.1	19.9	19.7	18.9	19.7
15/03/2015	100.0	53.8	34.2	20.3	19.9	19.7	18.7	19.7
15/03/2016	100.0	45.6	27.3	20.3	19.9	19.7	1.5	19.7
15/03/2017	100.0	38.6	21.7	20.3	19.9	8.8	0.0	18.9
15/03/2018	100.0	32.7	20.5	20.3	19.9	0.0	0.0	3.3
15/03/2019	100.0	27.7	20.5	20.3	9.2	0.0	0.0	0.0
15/03/2020	100.0	23.4	20.5	20.3	0.0	0.0	0.0	0.0
15/03/2021	100.0	19.8	20.5	18.1	0.0	0.0	0.0	0.0
15/03/2022	100.0	19.8	20.5	6.9	0.0	0.0	0.0	0.0
15/03/2023	100.0	19.8	20.5	0.0	0.0	0.0	0.0	0.0
15/03/2024	100.0	19.8	20.5	0.0	0.0	0.0	0.0	0.0
15/03/2025	100.0	19.8	17.0	0.0	0.0	0.0	0.0	0.0
15/03/2026	100.0	19.8	8.1	0.0	0.0	0.0	0.0	0.0
15/03/2027	100.0	19.8	1.0	0.0	0.0	0.0	0.0	0.0
15/03/2028	100.0	19.8	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2029	18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2030	18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2031	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Weighted Average	21.9	10.6	8.6	6.7	5.4	4.6	3.9	5.1
Life (years)								
First Payment Date	Sep-28	Sept-11	Sep-10	Dec-09	Jun-09	Mar-09	Dec-08	Sep-09
Last Payment Date	Dec-30	Sep-28	Jun-27	Mar-23	Mar-20	Dec-17	Jun-16	Sep-18

(With Optional Redemption)

Weighted Average Life (years)	21.5	9.2	6.9	5.4	4.4	3.8	3.2	4.3
First Payment Date	Sep-28	Sep-11	Sep-10	Dec-09	Jun-09	Mar-09	Dec-08	Sep-09

* relates to CPR 15 per cent. in the first 12 months, followed by 35 per cent. thereafter.

Last Payment Date	Dec-28	Jun-21	Sep-17	Jun-15	Dec-13	Dec-12	Mar-12	Jun-13
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**Percentage of the Original Principal Amount Outstanding of the B1 Notes at the Specified CPRs
(Without Optional Redemption)**

Payment Date	0%	15%	20%	25%	30%	35%	40%	15%/35%*
15/03/2007	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
15/03/2008	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
15/03/2009	100.0	100.0	100.0	100.0	100.0	89.7	77.4	100.0
15/03/2010	100.0	100.0	100.0	86.5	69.9	58.2	46.3	72.3
15/03/2011	100.0	100.0	84.4	64.7	48.8	37.7	27.7	46.9
15/03/2012	100.0	88.4	67.4	48.4	34.1	24.5	18.9	30.4
15/03/2013	100.0	74.9	53.8	36.2	23.8	19.7	18.9	19.7
15/03/2014	100.0	63.5	42.9	27.1	19.9	19.7	18.9	19.7
15/03/2015	100.0	53.8	34.2	20.3	19.9	19.7	18.9	19.7
15/03/2016	100.0	45.6	27.3	20.3	19.9	19.7	18.9	19.7
15/03/2017	100.0	38.6	21.7	20.3	19.9	19.7	11.2	19.7
15/03/2018	100.0	32.7	20.5	20.3	19.9	16.9	5.8	19.7
15/03/2019	100.0	27.7	20.5	20.3	19.9	10.2	2.6	13.8
15/03/2020	100.0	23.4	20.5	20.3	18.7	5.8	0.7	8.2
15/03/2021	100.0	19.8	20.5	20.3	12.4	3.0	0.0	4.5
15/03/2022	100.0	19.8	20.5	20.3	7.9	1.2	0.0	2.1
15/03/2023	100.0	19.8	20.5	19.0	4.9	0.0	0.0	0.6
15/03/2024	100.0	19.8	20.5	13.6	2.7	0.0	0.0	0.0
15/03/2025	100.0	19.8	20.5	9.5	1.2	0.0	0.0	0.0
15/03/2026	100.0	19.8	20.5	6.5	0.2	0.0	0.0	0.0
15/03/2027	100.0	19.8	20.5	4.3	0.0	0.0	0.0	0.0
15/03/2028	100.0	19.8	14.4	2.1	0.0	0.0	0.0	0.0
15/03/2029	18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2030	18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15/03/2031	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Weighted Average	22.0	10.7	9.1	7.4	6.0	5.1	4.3	5.6

Life (years)

First Payment Date	Sep-28	Sep-11	Sep-10	Dec-09	Jun-09	Mar-09	Dec-08	Sep-09
Last Payment Date	Sep-31	Dec-28	Sep-28	Jun-28	Jun-26	Mar-23	Dec-20	Dec-23

(With Optional Redemption)

Weighted Average Life (years)	21.5	9.2	6.9	5.4	4.4	3.8	3.2	4.3
First Payment Date	Sep-28	Sep-11	Sep-10	Dec-09	Jun-09	Mar-09	Dec-08	Sep-09

* relates to CPR 15 per cent. in the first 12 months, followed by 35 per cent. thereafter.

Payment Date								
Last Payment Date	Dec-28	Jun-21	Sep-17	Jun-15	Dec-13	Dec-12	Mar-12	Jun-13

**Percentage of the Original Principal Amount Outstanding of the B2 Notes at the Specified CPRs
(Without Optional Redemption)**

Payment Date	0%	15%	20%	25%	30%	35%	40%	15%/35%*
15/03/2007	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
15/03/2008	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
15/03/2009	100.0	100.0	100.0	100.0	100.0	89.7	77.4	100.0
15/03/2010	100.0	100.0	100.0	86.5	69.9	58.2	46.3	72.3
15/03/2011	100.0	100.0	84.4	64.7	48.8	37.7	27.7	46.9
15/03/2012	100.0	88.4	67.4	48.4	34.1	24.5	18.9	30.4
15/03/2013	100.0	74.9	53.8	36.2	23.8	19.7	18.9	19.7
15/03/2014	100.0	63.5	42.9	27.1	19.9	19.7	18.9	19.7
15/03/2015	100.0	53.8	34.2	20.3	19.9	19.7	18.9	19.7
15/03/2016	100.0	45.6	27.3	20.3	19.9	19.7	18.9	19.7
15/03/2017	100.0	38.6	21.7	20.3	19.9	19.7	18.9	19.7
15/03/2018	100.0	32.7	20.5	20.3	19.9	19.7	18.9	19.7
15/03/2019	100.0	27.7	20.5	20.3	19.9	19.7	18.9	19.7
15/03/2020	100.0	23.4	20.5	20.3	19.9	19.7	18.9	19.7
15/03/2021	100.0	19.8	20.5	20.3	19.9	19.7	15.2	19.7
15/03/2022	100.0	19.8	20.5	20.3	19.9	19.7	9.1	19.7
15/03/2023	100.0	19.8	20.5	20.3	19.9	19.5	5.4	19.7
15/03/2024	100.0	19.8	20.5	20.3	19.9	12.6	3.2	16.3
15/03/2025	100.0	19.8	20.5	20.3	19.9	8.1	1.9	10.5
15/03/2026	100.0	19.8	20.5	20.3	19.9	5.2	1.1	6.8
15/03/2027	100.0	19.8	20.5	20.3	14.8	3.4	0.7	4.4
15/03/2028	100.0	19.8	20.5	20.3	9.1	1.9	0.4	2.5
15/03/2029	18.1	17.2	4.5	1.1	0.2	0.0	0.0	0.1
15/03/2030	18.1	10.3	2.6	0.6	0.1	0.0	0.0	0.0
15/03/2031	18.1	1.4	0.3	0.1	0.0	0.0	0.0	0.0
Weighted	22.1	11.0	9.3	8.1	7.2	6.2	5.2	6.7
Average Life (years)								
First Payment Date	Sep-28	Sep-11	Sep-10	Dec-09	Jun-09	Mar-09	Dec-08	Sep-09
Last Payment Date	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Dec-31	Sep-31	Dec-31
(With Optional Redemption)								
Weighted Average Life	21.5	9.2	6.9	5.4	4.4	3.8	3.2	4.3

* relates to CPR 15 per cent. in the first 12 months, followed by 35 per cent. thereafter.

(years)

**First
Payment
Date**

Sep-28

Sep-11

Sep-10

Dec-09

Jun-09

Mar-09

Dec-08

Sep-09

**Last
Payment
Date**

Dec-28

Jun-21

Sep-17

Jun-15

Dec-13

Dec-12

Mar-12⁴

Jun-13

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

*The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together the **Global Notes**) which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.*

Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only if:

- (a) an event of default (as set out in Condition 9 (Events of Default) has occurred and is continuing; or
- (b) the Issuer has been notified that either Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no other clearing system acceptable to the Trustee is then in existence; or
- (c) 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 the 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 or any Paying Agent is or will on the next Payment Date be required to make any deductions or withholding from any payment in respect of such Notes which would not be required were such Notes in definitive form,

(each, an **Exchange Event**).

The Issuer will promptly give notice to Noteholders if an Exchange Event occurs. In the case of (a) or (b) above, the holder of the Permanent Global Note, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Issuer and the Principal Paying Agent and, in the case of (c) above, the Issuer may give notice to the Principal Paying Agent of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Paying Agency Agreement. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 30 days after that on which such notice is given, being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

Payments

On and after the Exchange Date, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made against

endorsement and, if no further payment falls to be made in respect of the Notes, surrender of such Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Note by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders, provided that, so long as the Notes are listed on the Irish Stock Exchange, notice will also be given by publication in a daily newspaper published in Ireland if and to the extent that the rules of the Irish Stock Exchange so require. Any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Notices to Noteholders may be published on the website located at <https://www.tss.db.com/invr>.

Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notices to the Issuer pursuant to **Condition 9**) other than with respect to the payment of principal and interest on the principal amount of such Notes, the right to which shall be vested, as against the Issuer solely in the bearer of the relevant Global Note in accordance with and subject to its terms. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in **Condition 7**).

Cancellation

Cancellation of any Note represented by a Global Note and required by the **Conditions** to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

Euroclear and Clearstream, Luxembourg

Notes represented by a Global Note are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate. References in the Global Notes and this

summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system through which interests in the Notes are held.

The Notes may be intended to be held in a manner which will allow Eurosystem eligibility. This simply means that the Notes may be intended upon issue to be deposited with one the Common Safekeeper and does not necessarily mean that the Notes will be recognized 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.

TERMS AND CONDITIONS OF THE NOTES

*The following are the terms and conditions of the Notes in the form (subject to amendment) in which they will be set out in the Trust Deed (the **Conditions**) . The terms and conditions set out below will apply to the Notes in global form.*

The Notes of Eurohome UK Mortgages 2007-1 plc will be constituted by a trust deed (the **Trust Deed**) expected to be dated 21 March 2007, or such later date as is agreed between the Issuer and the Trustee (the **Issue Date**) between the Issuer and Deutsche Trustee Company Limited (the **Trustee**, which expression includes the trustee or trustees for the time being of the Trust Deed) as trustee for the Noteholders. The holders of the A Notes shall be defined as the **A Noteholders**. The holders of the M1 Notes shall be defined as the **M1 Noteholders** and the holders of the M2 Notes shall be defined as the **M2 Noteholders** and together with the M1 Noteholders, the **M Noteholders**. The holders of the B1 Notes shall be defined as the **B1 Noteholders** and the holders of the B2 Notes shall be defined as the **B2 Noteholders** and together with the B1 Noteholders, the **B Noteholders**). The holders of the C Notes shall be defined as the **C Noteholders** and together with the A Noteholders, the M Noteholders and the B Noteholders, the **Noteholders**. The Notes will have the benefit of (to the extent applicable) a paying agency agreement (the **Paying Agency Agreement**) to be dated on or about the Issue Date, as amended or supplemented from time to time between the Issuer, the Trustee, Deutsche Bank AG, London Branch as principal paying agent (the **Principal Paying Agent**), Deutsche Bank AG, London Branch as agent bank (the **Agent Bank**), Deutsche Bank Luxembourg S.A. as registrar (the **Registrar**), Deutsche International Corporate Services (Ireland) Limited as the Irish paying agent (the **Irish Paying Agent**) and the other paying agents named therein (together with the Principal Paying Agent and Irish Paying Agent, the **Paying Agents**).

In these Conditions, all references to **Agent Bank** and **Paying Agent** shall mean any agent bank or paying agents appointed from time to time in accordance with the Paying Agency Agreement and shall include any successors thereto or to the Principal Paying Agent appointed from time to time in accordance with the Paying Agency Agreement and any reference to an **Agent** or **Agents** shall mean any or all (as applicable) of the above persons.

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

These Conditions include summaries of, and are subject to, the detailed provisions of the following agreements, dated on or about the Issue Date and as amended or supplemented from time to time: the Trust Deed (which includes the form of the Notes), the Paying Agency Agreement and a deed of charge between, *inter alios*, the Issuer and the Trustee (the **Deed of Charge**). Copies of the Trust Deed, the Paying Agency Agreement, the Deed of Charge and the Master Definitions Schedule are available for inspection during usual business hours at the principal office of the Trustee (presently at Winchester House, 1 Great Winchester Street, London EC2N 2DB) and at the specified office of the Principal Paying Agent. The Noteholders are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, the provisions of the Trust Deed, the Paying Agency Agreement and the Deed of Charge.

Condition 1: Form, Denomination and Title

- 1.1 Each class of the Notes is initially represented by a temporary global note (each a **Temporary Global Note**) in bearer form in the aggregate principal amount on issue of £299,425,000 for the A Notes, £19,425,000 for the M1 Notes, £13,650,000 for the M2 Notes, £15,750,000 for the B1 Notes, £1,750,000 for the B2 Notes and £4,725,000 for the C Notes. Each Temporary Global Note has been deposited on behalf of the subscribers of the relevant class of Notes with a common safekeeper (the **Common Safekeeper**) for Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and Euroclear Bank S.A./N.V. (**Euroclear** and together with Clearstream,

Luxembourg, the **Clearing Systems**) on the Issue Date. Upon deposit of the Temporary Global Notes, the Clearing Systems credited each subscriber of Notes with the principal amount of Notes of the relevant class equal to the aggregate principal amount thereof for which it has subscribed and paid. Interests in each Temporary Global Note are exchangeable on and after the date which is 40 days after the Closing Date, upon certification of non-U.S. beneficial ownership by the relevant Noteholder, for interests recorded in the records of the Clearing Systems in a permanent global note (each, a **Permanent Global Note**) representing the same class of Notes (the expressions **Global Notes** and **Global Note** meaning, respectively, (i) all the Temporary Global Notes and the Permanent Global Notes or the Temporary Global Note and the Permanent Global Note of a particular class, or (ii) any of the Temporary Global Notes or Permanent Global Notes, as the context may require). The Permanent Global Notes have also been deposited with the Common Safekeeper for the Clearing Systems. Title to the Global Notes will pass by delivery.

Interests in a Global Note will be transferable in accordance with the rules and procedures for the time being of the relevant Clearing System.

For so long as the Notes are represented by a Global Note and the Clearing Systems so permit, the Notes will be tradeable only in the minimum authorised denomination of £50,000 and higher integral multiples of £1,000, notwithstanding that no Definitive Notes (as defined below) will be issued with a denomination above £99,000.

- 1.2 If, while any of the Notes are represented by a Permanent Global Note, (i) an Event of Default has occurred and is continuing; or (ii) either of the Clearing Systems 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 does in fact do so and no other clearing system acceptable to the Trustee is then in existence or (iii) 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 the 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 or any Paying Agent is or will on the next Payment Date (as defined below) be required to make any deduction or withholding from any payment in respect of such Notes which would not be required were such Notes in definitive form, then the Issuer will issue Notes of the relevant class in definitive form (**Definitive Notes**) in exchange for such Permanent Global Note (free of charge to the persons entitled to them) within 30 days of the occurrence of the relevant event. These Conditions and the Transaction Documents will be amended in such manner as the Trustee requires to take account of the issue of Definitive Notes.
- 1.3 Definitive Notes, if issued, will only be printed and issued in denominations of £50,000 and integral multiples of £1,000 in excess thereof up to and including £99,000. No Definitive Notes will be issued with a denomination above £99,000. Such Notes will be serially numbered and will be issued in bearer form with (at the date of issue) interest coupons, principal coupons and, if necessary, talons attached.
- 1.4 **Noteholders** means each person (other than the Clearing Systems themselves) who is for the time being shown in the records of the Clearing Systems as the holder of the applicable Principal Amount Outstanding (as defined in **Condition 5(d)** of the Notes of any class (in which regard any certificate or other document issued by Clearstream, Luxembourg or Euroclear as to the Principal Amount Outstanding of the Notes standing to the account of any person shall be conclusive and binding for all purposes)) and such person shall be treated by the Issuer, the Trustee and all other persons as the holder of such Principal Amount Outstanding of such Notes for all purposes, other than for the purpose of payments in respect thereof, the right to which shall be vested, as against the Issuer, the Trustee and all other persons, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and for which purpose **Noteholders** means the bearer of the relevant Global Note; and related expressions shall be construed accordingly.

- 1.5 (a) **A Noteholders** means Noteholders in respect of the A Notes;
- (b) **M1 Noteholders** means Noteholders in respect of the M1 Notes;
- (c) **M2 Noteholders** means Noteholders in respect of the M2 Notes and, together with the M1 Noteholders, the **M Noteholders**;
- (d) **B1 Noteholders** means Noteholders in respect of the B1 Notes;
- (e) **B2 Noteholders** means Noteholders in respect of the B2 Notes and, together with the B1 Noteholders, the **B Noteholders**; and
- (f) **C Noteholders** means Noteholders in respect of the Class C Notes.

Condition 2: Status, Security and Cash Management

(a) Status and relationship between classes of Notes

The Notes of each class constitute direct, secured (as more particularly described in the Deed of Charge) and unconditional obligations of the Issuer.

In accordance with the provisions of this Condition 2, but subject always to the provisions of Condition 5(b), the Trust Deed and the Deed of Charge, (aa) payments of principal and interest on the C Notes are subordinated to, *inter alia*, the payments of principal and interest on the A Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes, (bb) payments of principal and interest on the B2 Notes are subordinated to, *inter alia*, payments of principal and interest on the A Notes, the M1 Notes, the M2 Notes and the B1 Notes (other than with respect to payments of principal on the B2 Notes in some circumstances), (cc) payments of principal and interest on the B1 Notes are subordinated to, *inter alia*, payments of principal and interest on the A Notes, the M1 Notes and the M2 Notes (other than with respect to payments of principal on the B1 Notes in some circumstances), (dd) payments of principal and interest on the M2 Notes are subordinated to, *inter alia*, payments of principal and interest on the A Notes and the M1 Notes (other than with respect to payments of principal on the M2 Notes in some circumstances) and (ee) payments of principal and interest on the M1 Notes are subordinated to, *inter alia*, payments of principal and interest on the A Notes (other than with respect to payments of principal on the M1 Notes in some circumstances).

The Notes, the MERCs and the Residuals are all constituted by the Trust Deed and, together with the other obligations of the Issuer under the Transaction Documents, are secured by the same security although, upon enforcement, the A Notes rank in priority to the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals in point of security; the M1 Notes rank in priority to the M2 Notes, the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals but after the A Notes in point of security; the M2 Notes rank in priority to the B1 Notes, the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals but after the A Notes and the M1 Notes in point of security; the B1 Notes rank in priority to the B2 Notes, the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals, but after the A Notes, the M1 Notes and the M2 Notes in point of security; the B2 Notes rank in priority to the C Notes, the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals, but after the A Notes, the M2 Notes, the M2 Notes and the B1 Notes in point of security; and the C Notes rank in priority to the MERCs (other than as regards Mortgage Early Repayment Charges) and the Residuals but after the A Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes in point of security, each pursuant to the Deed of Charge.

In respect of the interests of Noteholders, the Trust Deed contains provisions requiring the Trustee to have regard to the interests of each class of the Noteholders equally, in the exercise or performance of any right,

power, trust, authority, duty or discretion of the Trustee (except where expressly provided otherwise) but requiring the Trustee in any such case to have regard to the interests of:

- (i) the A Noteholders only if, in the Trustee's opinion, there is a conflict between the interests of the A Noteholders and those of the M1 Noteholders and/or those of the M2 Noteholders and/or those of the B1 Noteholders and/or those of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (ii) subject to paragraph (i) above, the M1 Noteholders only if, in the Trustee's opinion, there is a conflict between the interests of the M1 Noteholders and those of the M2 Noteholders and/or those of the B1 Noteholders and/or those of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (iii) subject to paragraphs (i) and (ii) above, the M2 Noteholders only if, in the Trustee's opinion, there is a conflict between the interests of the M2 Noteholders and those of the B1 Noteholders and/or those of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (iv) subject to paragraphs (i), (ii) and (iii) above, the B1 Noteholders only if, in the Trustee's opinion, there is a conflict between the interests of the B1 Noteholders and those of the B2 Noteholders and/or those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (v) subject to paragraphs (i), (ii), (iii) and (iv) above, the B2 Noteholders only if, in the Trustee's opinion, there is a conflict between the interests of the B2 Noteholders and those of the C Noteholders and/or those of the MERC Holders and/or those of the Residual Holders;
- (vi) subject to paragraphs (i), (ii), (iii), (iv) and (v) above, the C Noteholders only if, in the Trustee's opinion, there is a conflict between the interests of the C Noteholders and those of the MERC Holders and/or those of the Residual Holders;
- (vii) the M1 Noteholders following redemption in full of the A Notes;
- (viii) the M2 Noteholders following redemption in full of the A Notes and the M1 Notes;
- (ix) the B1 Noteholders following redemption in full of the A Notes, the M1 Notes and the M2 Notes;
- (x) the B2 Noteholders following redemption in full of the A Notes, the M1 Notes, the M2 Notes and the B1 Notes; and
- (xi) the C Noteholders following redemption in full of the A Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes.

In addition, the Trust Deed and Condition 11 contain provisions limiting the powers of:

- (i) the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders and the C Noteholders to request or direct the Trustee to take any action or to pass any Extraordinary Resolution according to the effect thereof on the interests of the A Noteholders;
- (ii) the M2 Noteholders, the B1 Noteholders, the B2 Noteholders and the C Noteholders to request or direct the Trustee to take any action or to pass any Extraordinary Resolution according to the effect thereof on the interests of the A Noteholders and/or the M1 Noteholders;

- (iii) the B1 Noteholders, the B2 Noteholders and the C Noteholders to request or direct the Trustee to take any action or to pass any Extraordinary Resolution according to the effect thereof on the interests of the A Noteholders and/or the M1 Noteholders and/or the M2 Noteholders;
- (iv) the B2 Noteholders and the C Noteholders to request or direct the Trustee to take any action or to pass any Extraordinary Resolution according to the effect thereof on the interests of the A Noteholders and/or the M1 Noteholders and/or the B1 Noteholders; and
- (v) the C Noteholders to request or direct the Trustee to take any action or to pass any Extraordinary Resolution according to the effect thereof on the interests of the A Noteholders and/or the M1 Noteholders and/or the M2 Noteholders and/or the B1 Noteholders and/or the B2 Noteholders.

Except in certain circumstances, the Trust Deed imposes no limitations on the powers of (a) the A Noteholders, the exercise of which will be binding on the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders; (b) the M1 Noteholders, the exercise of which will be binding on the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders; (c) the M2 Noteholders, the exercise of which will be binding on the B1 Noteholders, the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders; (d) the B1 Noteholders, the exercise of which will be binding on the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders; (e) the B2 Noteholders, the exercise of which will be binding on the C Noteholders, the MERC Holders and the Residual Holders; and (f) the C Noteholders, the exercise of which will be binding on the MERC Holders and the Residual Holders, irrespective of the effect thereof on each of their interests.

(b) Security

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, *inter alios*, the Administrator in respect of amounts payable to it under the Administration Agreement, the Seller under the Mortgage Sale Agreement, the Paying Agents, the Registrar and Agent Bank under the Paying Agency Agreement, the Liquidity Provider under the Liquidity Facility Agreement, the Account Bank under the Bank Agreement, the Cash Manager under the Cash Management Agreement, the Corporate Services Provider under the Corporate Services Agreement, the Swap and Interest Rate Cap Provider under the Swap and Interest Rate Cap Agreement, and the Standby Administrator under the Standby Administration Agreement (the **Secured Creditors**), the Issuer will enter into the Deed of Charge, creating the following security in favour of the Trustee for itself and on trust for the other persons expressed to be secured parties thereunder:

- (i) first fixed charges in favour of the Trustee over the Issuer's interests, rights and entitlements in respect of the Mortgage Loans and all payments of principal and interest in respect thereof and certain fees arising therefrom and the Mortgages and certain other collateral security relating to the Mortgage Loans (such collateral security, together with the Mortgages, the **Related Security**);
- (ii) an equitable assignment in favour of the Trustee of the Issuer's interests in the insurance contracts to the extent that they relate to the Mortgage Loans;
- (iii) an assignment in favour of the Trustee of the benefit of the Administration Agreement, the Corporate Services Agreement, the Mortgage Sale Agreement, the Cash Management Agreement, the Bank Agreement, the Standby Administration Agreement, the Liquidity Facility Agreement, the Swap and Interest Rate Cap Agreement, the Notes Subscription Agreement, the Paying Agency Agreement, the Swap and Interest Rate Cap Guarantee and all contracts, agreements, deeds and documents entered into by the Issuer from time to time;

- (iv) a first fixed equitable charge in favour of the Trustee over the Issuer's interest in the Issuer Accounts and any other bank account in which the Issuer has an interest;
- (v) a first fixed charge in favour of the Trustee over the Issuer's interest in the Scottish Mortgages (comprising the Issuer's beneficial interest under the Scottish Declaration of Trust and the Supplemental Declarations of Trust); and
- (vi) a first floating charge in favour of the Trustee (ranking after the security referred to in (i) to (v) above) over the whole of the undertaking, property, assets and rights of the Issuer (and extending to all of the Issuer's Scottish and Northern Irish assets, including those charged by the fixed security) (the fixed and floating charges collectively, the **Security**).

(c) **Pre-Enforcement Revenue Priority of Payments**

Prior to enforcement of the Security, the Issuer is required to apply monies available for distribution as at the date which falls five Business Days prior to each Payment Date (each such date a **Determination Date**) as determined in accordance with the Cash Management Agreement (the **Available Revenue Funds** which, for the avoidance of doubt, includes, if any:

- (a) the Discount Reserve Applicable Amount;
- (b) any amount standing to the credit of the Discount Reserve Account in excess of the Discount Reserve Required Amount;
- (c) the Reserve Account Excess;
- (d) on any Payment Date on which the Notes are redeemed in full, all amounts standing to the credit of the Reserve Account and the Discount Reserve Account;
- (e) on any Payment Date on which all discounts applicable to the Discounted Mortgage Loans which form part of the Mortgage Pool have expired, all amounts standing to the credit of the Discount Reserve Account;
- (f) Liquidity Drawings (to the extent that they are able to be made under the Liquidity Facility Agreement);
- (g) amounts representing interest received from the Swap and Interest Rate Cap Provider under the Basis Rate Swap (if any) and any Basis Rate Swap Termination Amounts and any payment received by the Issuer from a replacement basis rate swap provider in consideration for the Issuer entering into a replacement basis rate swap agreement with such provider; and
- (h) amounts representing interest received from the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap (if any) and any Fixed/Floating Rate Swap Termination Amounts and any payment received by the Issuer from a replacement fixed/floating rate swap provider in consideration for the Issuer entering into a replacement fixed/floating rate swap agreement with such provider,

(but in each case excludes any principal receipts, amounts representing principal received from the Swap and Interest Rate Cap Provider under the Basis Rate Swap and/or the Fixed/Floating Rate Swap, and any Mortgage Early Repayment Charges), in or towards the satisfaction of the payments or provisions in the following order of priority (the **Pre-Enforcement Revenue Priority of Payments**) (in each case only to the extent that the payments or provisions of a higher priority have been made in full (but in the case of payments to the Swap and Interest Rate Cap Provider under the Basis Rate Swap, only such amounts *pro rata* to the period in respect of which such payments to the Swap and Interest Rate Cap Provider under the Basis Rate Swap apply and, in the case of payments to the Swap and Interest Rate Cap Provider under the

Fixed/Floating Rate Swap, only such amounts *pro rata* for the period in respect of which such payments to the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap apply)) on each Payment Date (and on the 12th day of each month in the case of payments to the Swap and Interest Rate Cap Provider under the Basis Rate Swap and on the 12th day of each month in the case of payments to the Swap and Interest Rate Cap Provider under the Fixed/Floating Rate Swap), provided always that any Basis Rate Swap Termination Amounts and any Fixed/Floating Rate Swap Termination Amounts shall first be applied towards payments due to any replacement basis rate swap provider and/or fixed/floating rate swap provider (as applicable) and shall only be applied in accordance with the following priority, after a replacement basis rate swap agreement and/or fixed/floating rate swap agreement (as applicable) has been entered into to the extent that those termination amounts are not required to be paid to a replacement basis rate swap provider in respect of such replacement basis rate swap agreement and/or to a replacement fixed/floating rate swap provider in respect of such replacement fixed/floating rate swap agreement (as applicable):

- (i) first, to pay when due the remuneration payable to the Trustee (plus Value Added Tax, if any) and any costs, charges, liabilities and expenses incurred by it under the provisions of or in connection with the Trust Deed or the Deed of Charge or either or both of them together with interest as provided in the Trust Deed or the Deed of Charge or either or both of them;
- (ii) second, to pay when due amounts, including audit fees and company secretarial expenses (plus Value Added Tax, if any), which are payable by the Issuer to third parties and incurred without breach by the Issuer pursuant to the Trust Deed or the Deed of Charge and not provided for payment elsewhere and to provide for any such amounts expected to become due and payable by the Issuer after that Payment Date and to provide for the Issuer's liability or possible liability for corporation tax;
- (iii) third, to pay *pro rata*:
 - (A) the administration fee payable to the Administrator (including Value Added Tax, if any), such fee being an amount equal to 0.20 per cent. per annum of the average total principal balance of the Mortgage Loans outstanding on the first day of each of the three months immediately prior to the relevant Determination Date or if the appointment of the Administrator is terminated and a substitute Administrator, which is not an affiliate of the Seller is appointed, the figure 0.20 per cent. above shall be replaced with a figure agreed with such substitute Administrator in accordance with the procedures set out in the Administration Agreement and subject always to the consent of the Trustee; and
 - (B) amounts due to the Principal Paying Agent, the Paying Agent, the Registrar and the Agent Bank under the Paying Agency Agreement, the Account Bank under the Bank Agreement, the Standby Administrator under the Standby Administration Agreement, the Cash Manager under the Cash Management Agreement and the Corporate Services Provider under the Corporate Services Agreement;
- (iv) fourth, to pay all fees, costs, expenses, principal, interest and any other amounts due to the Liquidity Provider in accordance with the Liquidity Facility Agreement;
- (v) fifth, to pay (a) amounts payable to the Swap and Interest Rate Cap Provider in respect of any payment and any termination payment each under the terms of the Basis Rate Swap (except for any relevant Basis Rate Swap Provider Default Payment where **Basis Rate Swap Provider Default Payment** means any termination payment due or payable under the Swap and Interest Rate Cap Agreement in respect of the Basis Rate Swap as a result of the occurrence of a Swap Event of Default where the Swap and Interest Rate Cap Provider is the Defaulting Party or an Additional Termination Event relating to the credit rating of the Swap and Interest Rate Cap Provider), and (b) amounts payable to the Swap and Interest Rate Cap Provider in respect of any payment and any termination payment each under the terms of the Fixed/Floating Rate Swap (except for any relevant

Fixed/Floating Rate Swap Provider Default Payment where **Fixed/Floating Rate Swap Provider Default Payment** means any termination payment due or payable under the Swap and Interest Rate Cap Agreement in respect of the Fixed/Floating Rate Swap as a result of the occurrence of a Swap Event of Default where the Swap and Interest Rate Cap Provider is the Defaulting Party or an Additional Termination Event relating to the credit rating of the Swap and Interest Rate Cap Provider);

- (vi) sixth, to pay amounts (other than in respect of principal) payable in respect of the A Notes;
- (vii) seventh, to pay amounts to be credited to the A Principal Deficiency Sub-Ledger (such amounts to be applied in redemption of the Notes in accordance with **Condition 5**) until the balance of the A Principal Deficiency Sub-Ledger has reached zero;
- (viii) eighth, to pay amounts (other than in respect of principal) payable in respect of the M1 Notes;
- (ix) ninth, to pay amounts to be credited to the M1 Principal Deficiency Sub-Ledger (such amounts to be applied in redemption of the Notes in accordance with **Condition 5**) until the balance of the M1 Principal Deficiency Sub-Ledger has reached zero;
- (x) tenth, to pay amounts (other than in respect of principal) payable in respect of the M2 Notes;
- (xi) eleventh, to pay amounts to be credited to the M2 Principal Deficiency Sub-Ledger (such amounts to be applied in redemption of the Notes in accordance with **Condition 5**) until the balance of the M2 Principal Deficiency Sub-Ledger has reached zero;
- (xii) twelfth, to pay amounts (other than in respect of principal) payable in respect of the B1 Notes;
- (xiii) thirteenth, to pay amounts to be credited to the B1 Principal Deficiency Sub-Ledger (such amounts to be applied in redemption of the Notes in accordance with **Condition 5**) until the balance of the B1 Principal Deficiency Sub-Ledger has reached zero;
- (xiv) fourteenth, to pay amounts (other than in respect of principal) payable in respect of the B2 Notes;
- (xv) fifteenth, to pay amounts to be credited to the B2 Principal Deficiency Sub-Ledger (such amounts to be applied in redemption of the Notes in accordance with **Condition 5**) until the balance of the B2 Principal Deficiency Sub-Ledger has reached zero;
- (xvi) sixteenth, to pay amounts (other than in respect of principal) payable in respect of the C Notes;
- (xvii) seventeenth, to deposit into the Reserve Account, until the amount standing to the credit of the Reserve Account is equal to the Reserve Account Required Amount;
- (xviii) eighteenth, to deposit into the Discount Reserve Account, to the extent that the amount standing to the credit of the Discount Reserve Account is less than the Discount Reserve Required Amount;
- (xix) nineteenth, to retain in the Issuer Transaction Account, an amount (the **Issuer Profit**) equal to £1,000 (or such lesser amount as may be determined from time to time by the directors of the Issuer acting in good faith (pursuant to their obligation to review such amount) and certified by them to the Trustee with a copy to the Rating Agencies);
- (xx) twentieth, to pay the holders of the C Notes in respect of principal of the C Notes until the C Notes are redeemed in full;

- (xxi) twenty-first, *pari passu* and *pro rata* in or towards payment of (a) any Basis Rate Swap Provider Default Payment payable to the Swap and Interest Rate Cap Provider made under the terms of the Basis Rate Swap, and (b) any Fixed/Floating Rate Swap Provider Default Payment payable to the Swap and Interest Rate Cap Provider made under the terms of the Fixed/Floating Rate Swap; and
- (xxii) twenty-second, to pay amounts payable in respect of the Residuals until the Residuals are cancelled.

Principal Priority of Payments

Prior to the enforcement of the Security, on each Payment Date, the Issuer is required to apply the Actual Redemption Funds on such Payment Date determined on the Determination Date immediately preceding such Payment Date in the following manner and order of priority (the **Principal Priority of Payments**):

- (i) first, to the holders of the A Notes in respect of principal of the A Notes until the A Notes are redeemed in full;
- (ii) second, to the holders of the M1 Notes in respect of principal of the M1 Notes until the M1 Notes are redeemed in full;
- (iii) third, to the holders of the M2 Notes in respect of principal of the M2 Notes until the M2 Notes are redeemed in full;
- (iv) fourth, to the holders of the B1 Notes in respect of principal of the B1 Notes until the B1 Notes are redeemed in full; and
- (v) fifth, to the holders of the B2 Notes in respect of principal of the B2 Notes until the B2 Notes are redeemed in full,

provided that, subject to the proviso below, the Actual Redemption Funds shall not be applied in the order set out in the Principal Priority of Payments but shall instead be applied *pro rata* by principal amount outstanding between items (i) to (v) of the Principal Priority of Payments on any such Payment Date immediately succeeding a Determination Date in the circumstances set out in Condition 5(b) unless on any Payment Date following the Payment Date immediately succeeding such Determination Date, the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10 per cent. of the initial aggregate Principal Amount Outstanding of the Notes (in which case the Actual Redemption Funds shall be applied in the order set out in the Principal Priority of Payments).

The amount of **Actual Redemption Funds** as at any Determination Date preceding a Payment Date is an amount calculated as the aggregate of:

- (a) the amount standing to the credit of the Principal Ledger and the amount (if any) standing to the credit of the Further Advances Ledger (before the transfer of the Committed Further Advances as calculated on that Determination Date from the Principal Ledger) in each case as at the last Business Day of the month immediately preceding such Determination Date;
- (b) the amount (if any) calculated on the Determination Date pursuant to the Pre-Enforcement Revenue Priority of Payments to be the amount by which the debit balance on any Principal Deficiency Sub-Ledger is expected to be reduced by the application of Available Revenue Funds on the immediately succeeding Payment Date;
- (c) the amount (if any) of the Principal Rebate standing to the credit of the Pre-Funded Mortgage Loans Ledger on the first Determination Date after the latest Eligible Date; and

- (d) the amount (if any) standing to the credit of the Swap Payments Ledger as at such Determination Date (unless otherwise counted under paragraph (a), (b) or (c) above),

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- (e) the Committed Further Advances calculated on such Determination Date.

For the purpose of the foregoing:

Available Capital Funds means, on any day during an Interest Period (including on a Determination Date) an amount represented by the amount standing to the credit of the Principal Ledger at the close of business on the preceding day less, in the period between the last Business Day of the month immediately preceding a Determination Date and the application of Actual Redemption Funds on the preceding Payment Date:

- (i) any commitments to purchase Substitute Mortgage Loans on the immediately succeeding Payment Date; and
- (ii) the amount of such Actual Redemption Funds calculated on the relevant Determination Date.

The amount of Actual Redemption Funds will be applied to redeem the Notes (excluding the C Notes) in the order provided in Condition 5(b).

(e) Post-Enforcement Priority of Payments

After the Trustee has given notice to the Issuer pursuant to Condition 9(a) declaring the Notes to be due and repayable, the Trustee shall apply all funds received by or on behalf of the Issuer (including amounts standing to the credit of the Issuer Transaction Account, the Discount Reserve Account and the Reserve Account) (excluding amounts in respect of Mortgage Early Repayment Charges) to make payments in the following order of priority pursuant to, in accordance with and as set out in the Deed of Charge:

- (i) first, to pay, *pro rata*, any remuneration then due to any liquidator or receiver and all amounts due in respect of legal fees and other costs, charges, liabilities, losses, damages, proceedings, claims and demands then incurred by such liquidator or receiver together with interest thereon and to pay the fees, costs, expenses and liabilities due to the Trustee (plus Value Added Tax, if any);
- (ii) second, to pay, *pro rata*, the fees, costs, interest, expenses and liabilities due to the Administrator under the Administration Agreement, the Principal Paying Agent, the Registrar, the Agent Bank, the Paying Agents, under the Paying Agency Agreement, the Account Bank under the Bank Agreement, the Cash Manager under the Cash Management Agreement, the Standby Administrator under the Standby Administration Agreement and the Corporate Services Provider under the Corporate Services Agreement;
- (iii) third, to pay any amount due to the Liquidity Provider pursuant to the Liquidity Facility Agreement;
- (iv) fourth, to pay, *pro rata* and *pari passu*:
 - (A) amounts payable to the Swap and Interest Rate Cap Provider in respect of any payment including any termination payment under the terms of the Basis Rate Swap (except in each case for the relevant Basis Rate Swap Provider Default Payment); and
 - (B) amounts payable to the Swap and Interest Rate Cap Provider in respect of any payment including any termination payment under the terms of the Fixed/Floating Rate Swap (except in each case for the relevant Fixed/Floating Rate Swap Provider Default Payment);

- (v) fifth, to pay, *pro rata* and *pari passu*:
 - (A) amounts (other than in respect of principal) payable in respect of the A Notes; and
 - (B) the holders of the A Notes in respect of principal of the A Notes until the A Notes are redeemed in full;
- (vi) sixth, to pay, *pro rata* and *pari passu*:
 - (A) amounts (other than in respect of principal) payable in respect of the M1 Notes;
 - (B) to the holders of the M1 Notes in respect of principal of the M1 Notes until the M1 Notes are redeemed in full;
- (vii) seventh, to pay, *pro rata* and *pari passu*:
 - (A) amounts (other than in respect of principal) payable in respect of the M2 Notes;
 - (B) to the holders of the M2 Notes in respect of principal of the M2 Notes until the M2 Notes are redeemed in full;
- (viii) eighth, to pay, *pro rata* and *pari passu*:
 - (A) amounts (other than in respect of principal) payable in respect of the B1 Notes;
 - (B) to the holders of the B1 Notes in respect of principal of the B1 Notes until the B1 Notes are redeemed in full;
- (ix) ninth, to pay, *pro rata* and *pari passu*:
 - (A) amounts (other than in respect of principal) payable in respect of the B2 Notes;
 - (B) to the holders of the B2 Notes in respect of principal of the B2 Notes until the B2 Notes are redeemed in full;
- (x) tenth, to pay, *pro rata* and *pari passu*:
 - (A) amounts (other than in respect of principal) payable in respect of the C Notes; and
 - (B) to the holders of the C Notes in respect of principal of the C Notes until the C Notes are redeemed in full;
- (xi) eleventh, *pro rata* and *pari passu*, in or towards payment of (a) any Basis Rate Swap Provider Default Payment payable to the Swap and Interest Rate Cap Provider under the terms of the Basis Rate Swap, and (b) any Fixed/Floating Rate Swap Provider Default Payment payable to the Swap and Interest Rate Cap Provider under the terms of the Fixed/Floating Rate Swap; and
- (xii) twelfth, to pay amounts payable in respect of the Residuals until the Residuals are cancelled.

The Security will become enforceable upon the occurrence of an Event of Default (as defined in Condition 9(a)) or upon the Issuer requesting the Trustee to exercise any of its powers under the Deed of Charge relating to the enforcement of the Security or a petition or application being presented for the making of an administration order in relation to the Issuer or any person who is entitled to do so giving written notice of its intention to appoint an administrator of the Issuer or filing such a notice with the court. If the Security has become enforceable otherwise by reason of a default in payment due under the Notes, the Trustee will not be

entitled to dispose of the assets comprised in the Security or any part thereof unless the Trustee is satisfied sufficient amounts would be realised to allow discharge in full of all amounts owing in respect of the Notes (and any amounts ranking in priority or *pari passu* therewith) or if the Trustee is of the opinion, reached after considering the advice of an investment bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer if the assets were not disposed of 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 in respect of the Notes.

Condition 3: Covenants

Save with the prior written consent of the Trustee or as provided in or envisaged by any of the Trust Deed, the Deed of Charge, the Paying Agency Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Standby Administration Agreement, the Corporate Services Agreement, the Cash Management Agreement, the Liquidity Facility Agreement, the Bank Agreement, the Notes Subscription Agreement the Swap and Interest Rate Cap Agreement and the Swap and Interest Rate Cap Guarantee (collectively, the **Transaction Documents**), the Issuer shall, for so long as any Note remains outstanding (as defined in the Trust Deed), *inter alia*:

(a) Negative Pledge

not create or permit to subsist any mortgage, standard security, 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) not engage in any activity which is not reasonably incidental to any of the activities which the Transaction Documents provide or envisage that the Issuer will engage in;
- (ii) not open any account whatsoever with any bank or other financial institution, save where such account is immediately charged in favour of the Trustee so as to form part of the Security described in Condition 2;
- (iii) not have any subsidiaries or employees or premises; or
- (iv) not act as a director of any company;

(c) Borrowings

not incur any indebtedness in respect of borrowed money whatsoever or give any guarantee in respect of any obligation of any person;

(d) Merger

not consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

(e) Disposal of Assets

not transfer, sell, lend, part with or otherwise dispose of or deal with, or grant any option over any present or future right to acquire, any of its assets or undertaking or any interest, estate, right, title or benefit therein;

(f) Value Added Tax

not become a taxable person for VAT purposes and not voluntarily register for VAT in the United Kingdom;

(g) Corporation Tax

not issue Notes to persons who are connected with it (as defined in Section 839 ICTA 1988 and modified by paragraph 2(3) of the Taxation of Securitisation Companies Regulations 2006);

(h) Dividends or Distributions

not pay any dividend or make any other distribution to its shareholders or issue any further shares; and

(i) Other

comply with and perform all its obligations under the Paying Agency Agreement and each other Transaction Document and use its best endeavours to procure that the Agent Bank and the Paying Agents, Euroclear, Clearstream, Luxembourg and each party to any of the other Transaction Documents comply with and perform all their respective obligations thereunder and (in the case of the Paying Agents) any notice given by the Trustee pursuant to the Trust Deed and not make any amendment or modification to such Agreement or any other Transaction Document without the prior written approval of the Trustee and use all reasonable endeavours to make such amendments to such Agreement or any other Transaction Document as the Trustee may require.

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 Transaction Documents or may impose such other conditions or requirements as the Trustee may deem expedient in the interests of the Noteholders.

Condition 4: Interest

(a) Period of Accrual

Each Note of each class bears interest from (and including) the Issue Date. Each Note shall cease to bear interest from its due date for redemption unless 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 (after as well as before any judgment or decree) 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). Any interest shortfall shall accrue interest during each Interest Period during which it remains outstanding in accordance with Condition 4(f). Whenever it is necessary to compute an amount of interest in respect of any Note for any period (including an Interest Period (as defined below)), such interest shall be calculated on the basis of actual days elapsed in a 365 day year or a 366 day year if the last day of such period falls in a leap year.

(b) Payment Dates and Interest Periods

Subject to Condition 6, interest on the Notes is payable in arrear on 15 June 2007, and thereafter quarterly in arrear on the 15th day in September, December, March and June in each year, unless such day is not a Business Day, in which case interest shall be payable on the following Business Day unless such Business Day falls in the next calendar month in which case interest is payable on the immediately preceding Business Day (each date on which interest is payable, a **Payment Date**). **Business Day** (other than for the purposes of Condition 6) means a day (other than Saturday or Sunday) on which banks are open for business in London, Luxembourg and Ireland. The period from (and including) a Payment Date (or the Issue Date) to (but excluding) the next (or first) Payment Date is called an **Interest Period** in these Conditions.

(c) **Rate of Interest**

Subject to Condition 7, the rate of interest payable from time to time (the **Rate of Interest**) and the Interest Amount (as defined below) in respect of the Notes will be determined on the basis of the provisions set out below:

- (i) for the purpose of determining the London Interbank Offered Rate (**LIBOR**) for three month sterling deposits (or, in respect of the first Interest Period, an annual rate obtained by linear interpolation of LIBOR for two month sterling deposits and LIBOR for three month sterling deposits) (**Note LIBOR**), on each Payment Date, or in respect 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 London interbank market for three month sterling deposits (or in respect of the first Interest Period, an annual rate obtained by linear interpolation of LIBOR for two month sterling deposits and LIBOR for three month sterling deposits) by reference to the display designated as the British Bankers Association's Interest Settlement Rate as quoted on LIBOR01 or (B) 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 LIBOR01) as at or about 11.00 am (London time) on that date (the **Screen Rate**). Note LIBOR in relation to the Notes for such Interest Period shall be the Screen Rate;
- (ii) if the Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks (as defined in paragraph (i) below) to provide the Agent Bank with its offered quotation as at or about 11.00 am (London time) on that date to leading banks for the applicable currency deposits for a period of three months (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 applicable currency deposits respectively). The applicable rate for such Interest Period shall, subject as provided below, be the arithmetic mean (rounded if necessary to the nearest 0.0001 per cent. 0.00005 per cent. being rounded upwards) of the quotations of the Reference Banks;
- (iii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only two of the Reference Banks provide such quotations, Note LIBOR for the relevant Interest Period shall be determined (in accordance with (c)(i) above) on the basis of the quotations of the two quoting Reference Banks;
- (iv) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only one or none of the Reference Banks provides such a quotation, then the applicable Base Rate for the relevant Interest Period shall be the Reserve Interest Rate. The **Reserve Interest Rate** shall be either (aa) the arithmetic mean (rounded if necessary to the nearest 0.0001 per cent. 0.00005 per cent. being rounded upwards) of the applicable currency lending rates which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting, as at or about 11.00 am (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 means, the average of the applicable currency 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 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 Base Rate in effect for the Interest Period ending on the relevant Interest Determination Date; and
- (v) the Rate of Interest for any Interest Period will be equal to the Relevant Margin (as defined below) and Note LIBOR (as determined in the manner provided above).

(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 Administrator, the Trustee, the Irish Stock Exchange plc (the **Irish Stock Exchange**) and the Principal Paying Agent of (i) the Rate of Interest applicable to the Interest Period beginning on and including such Interest Determination Date in respect of each Note and (ii) the amount of interest (the **Interest Amount**) payable in respect of such Interest Period in respect of each Note. The Interest Amount will be calculated by applying the Rate of Interest in respect of each Note multiplied by the Principal Amount Outstanding of such Note and then multiplied by the actual number of days elapsed in the Interest Period and divided by 365 (or 366, where the last day of such period falls in a leap year) rounded to the nearest penny with half a penny being rounded upwards.

(e) Publication of Rate of Interest and Interest Amount

As soon as practicable after receiving notification thereof, the Issuer will cause the Rate of Interest and the Interest Amount for each Interest Period and the immediately succeeding Payment Date to be notified to each stock exchange (if any) on which notice is to be given in accordance with Condition 14. The Interest Amount and 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) Deferral of Interest

Interest on the Notes shall be payable in accordance with this Condition 4 and Condition 6 subject to the terms of this paragraph (f) and subject further to Condition 17 (Limited Recourse):

- (i) in the event that, whilst there are A Notes outstanding, the aggregate funds (if any) calculated in accordance with the Pre-Enforcement Revenue Priority of Payments as being available to the Issuer on any Payment Date for application in or towards the payment of interest which is, subject to this Condition 4(f), due on the M1 Notes on such Payment Date (such aggregate available funds being referred to in this Condition 4(f) as the **M1 Residual Amount**) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Condition 4(f), due on the M1 Notes on such Payment Date, there shall be payable on such Payment Date, by way of interest on each M1 Note, a *pro rata* share of the M1 Residual Amount;
- (ii) in the event that, whilst there are A Notes or M1 Notes outstanding, the aggregate funds (if any) calculated in accordance with the Pre-Enforcement Revenue Priority of Payments as being available to the Issuer on any Payment Date for application in or towards the payment of interest which is, subject to this Condition 4(f), due on the M2 Notes on such Payment Date (such aggregate available funds being referred to in this Condition 4(f) as the **M2 Residual Amount**) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Condition 4(f), due on the M2 Notes on such Payment Date, there shall be payable on such Payment Date, by way of interest on each M2 Note, a *pro rata* share of the M2 Residual Amount;
- (iii) in the event that, whilst there are A Notes, M1 Notes or M2 Notes outstanding, the aggregate funds (if any) calculated in accordance with the Pre-Enforcement Revenue Priority of Payments as being available to the Issuer on any Payment Date for application in or towards the payment of interest which is, subject to this Condition 4(f), due on the B1 Notes on such Payment Date (such aggregate available funds being referred to in this Condition 4(f) as the **B1 Residual Amount**) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Condition 4(f), due on the B1 Notes on such Payment Date, there shall be payable on such Payment Date, by way of interest on each B1 Note, a *pro rata* share of the B1 Residual Amount;

- (iv) in the event that whilst there are A Notes, M1 Notes, M2 Notes or B1 Notes outstanding, the aggregate funds (if any) calculated in accordance with the Pre-Enforcement Revenue Priority of Payments as being available to the Issuer on any Payment Date for application in or towards the payment of interest which is, subject to this Condition 4(f), due on the B2 Notes on such Payment Date (such aggregate available funds being referred to in this Condition 4(f) as the **B2 Residual Amount**) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Condition 4(f), due on the B2 Notes on such Payment Date, there shall be payable on such Payment Date, by way of interest on each B2 Note, a *pro rata* share of the B2 Residual Amount;
- (v) in the event that, whilst there are A Notes, M1 Notes, M2 Notes, B1 Notes or B2 Notes outstanding, the aggregate funds (if any) calculated in accordance with the Pre-Enforcement Revenue Priority of Payments as being available to the Issuer on any Payment Date for application in or towards the payment of interest which is, subject to this Condition 4(f), due on the C Notes on such Payment Date (such aggregate available funds being referred to in this Condition 4(f) as the **C Residual Amount**) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Condition 4(f), due on the C Notes on such Payment Date, there shall be payable on such Payment Date, by way of interest on each C Note, a *pro rata* share of the C Residual Amount;
- (vi) in the event that, by virtue of the provisions of sub-paragraphs (i) to (v) above, a *pro rata* share of the M1 Residual Amount, the M2 Residual Amount, the B1 Residual Amount, the B2 Residual Amount or the C Residual Amount (as the case may be) is paid to Noteholders of the relevant class in accordance with such provisions, the Issuer shall create provisions in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes or the C Notes, as the case may be, on any Payment Date in accordance with this Condition 4(f) falls short of the aggregate amount of interest payable on the relevant class of Notes on that date pursuant to the other provisions of this Condition 4. Such shortfall shall accrue interest at a rate for each Interest Period during which it is outstanding equal to Note LIBOR plus the Relevant Margin for the relevant class of Notes for such Interest Period, as applicable. A *pro rata* share of such shortfall plus any interest accrued thereon shall be aggregated with the amount of, and treated for the purpose of this Condition as if it were interest due, subject to this Condition 4(f), on each M1 Note, M2 Note, B1 Note, B2 Note or C Note, as the case may be, on the next succeeding Payment Date. This provision shall cease to apply on the Payment Date referred to in Condition 5(a) at which time all accrued interest shall become due and payable.

(g) Determination and/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 in accordance with the foregoing paragraphs, the Trustee shall (but without any liability accruing to the Trustee as a result) (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 in the manner specified in paragraph (d) above, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

(h) 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, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Agent Bank, the Trustee and all Noteholders and (in such absence as aforesaid) no liability to the Trustee or the Noteholders 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.

(i) 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 an Agent Bank. The initial Agent Bank shall be Deutsche Bank AG, London Branch. In the event of Deutsche Bank AG, London Branch being unwilling to act as the Agent Bank, the Issuer shall appoint such other bank as may be approved 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. The reference banks shall be the principal London office of three major banks engaged in the London interbank market as may be selected by the Agent Bank (each, a **Reference Bank**).

Condition 5: Redemption

(a) Final Redemption of the Notes

Unless previously redeemed as provided in this Condition, the Issuer shall redeem the Notes at their Principal Amount Outstanding on the Payment Date falling in June 2044 (the **Final Payment Date**).

The Issuer may not redeem Notes in whole or in part prior to the Final Payment Date except as provided in this Condition but without prejudice to Condition 9.

(b) Mandatory Redemption in Part of the Notes other than the C Notes

On each Payment Date other than a Payment Date on which the Notes are to be redeemed under paragraph (a) above or (e), (f), (g) or (h) below, the Issuer shall make redemptions of the Notes (excluding the C Notes) in accordance with the Principal Priority of Payments and shall apply the following amounts (each as determined on the Determination Date immediately preceding such Payment Date): the amounts determined pursuant to sub-paragraph (i) of the Principal Priority of Payments, in redeeming the A Notes until the A Notes have been redeemed in full; after the A Notes have been redeemed in full, the Issuer shall apply the amounts determined pursuant to sub-paragraph (ii) of the Principal Priority of Payments in redeeming the M1 Notes until the M1 Notes have been redeemed in full; after the M1 Notes have been redeemed in full, the Issuer shall apply the amounts determined pursuant to sub-paragraph (iii) of the Principal Priority of Payments in redeeming the M2 Notes until the M2 Notes have been redeemed in full; after the M2 Notes have been redeemed in full, the Issuer shall apply the amounts determined pursuant to sub-paragraph (iv) of the Principal Priority of Payments in redeeming the B1 Notes until the B1 Notes have been redeemed in full; and after the B1 Notes have been redeemed in full, the Issuer shall apply the amounts determined pursuant to sub-paragraph (v) of the Principal Priority of Payments in redeeming the B2 Notes until the B2 Notes have been redeemed in full.

The circumstances for *pro rata* application referred to in Condition 2(d) arise on any such Payment Date immediately succeeding a Determination Date on which:

- (i) after the previous Payment Date, the result produced by the fraction $(M+B)/(A+M+B)$ is greater than or equal to twice the result produced by that fraction as at the Issue Date;
- (ii) all balances on each of the Principal Deficiency Sub-Ledgers are zero;
- (iii) the amount standing to the credit of the Reserve Account is equal to the Reserve Account Required Amount;
- (iv) no Liquidity Drawings or withdrawals from the Standby Account have been made (or made and not repaid);
- (v) the total balance of all Mortgage Loans in the Mortgage Pool which are 90 days or more in arrears does not exceed 17 per cent. of the total balance of all the Mortgage Loans in the Mortgage Pool;

- (vi) the aggregate balance of all Mortgage Loans foreclosed in the Mortgage Pool does not exceed 2.25 per cent. of the original balance of the Mortgage Pool; and
- (vii) the total losses suffered by the Issuer from the Issue Date until the relevant Reserve Account Determination Date are lower than 1.25 per cent. of the original balance of the Mortgage Pool.

For the purposes of this paragraph, as at any date:

A = the aggregate Principal Amount Outstanding of the A Notes on such date;

M = the aggregate Principal Amount Outstanding of the M Notes on such date;

B = the aggregate Principal Amount Outstanding of the B Notes on such date.

The Cash Manager is responsible, pursuant to the Cash Management Agreement, for determining the amount of the Actual Redemption Funds as at any Determination Date and each determination so made shall (in the absence of negligence, wilful default, bad faith or manifest error) be final and binding on the Issuer, the Trustee, and all Noteholders and no liability to the Noteholders shall attach to the Issuer, the Trustee, or (in such absence as aforesaid) to the Cash Manager in connection therewith.

(c) Mandatory Redemption in Part of the C Notes

On each Payment Date other than a Payment Date on which the C Notes are to be redeemed under paragraph (a) above or (e), (f) below, the Issuer shall apply an amount equal to the amounts available under item (xx) in the Pre-Enforcement Revenue Priority of Payments to redeem the C Notes in accordance with the terms of the Cash Management Agreement.

(d) Note Principal Payments, Principal Amounts Outstanding and Pool Factors

The principal amount redeemable in respect of each of the Notes (excluding the C Notes) (the **A-B Note Principal Payment**) on any Payment Date under paragraph (b) above shall be the amount of the Actual Redemption Funds on the Determination Date immediately preceding that Payment Date to be applied in redemption of the Notes of that class multiplied by the denomination of such Note and divided by the aggregate Principal Amount Outstanding of the Notes of that class on the relevant Payment Date (rounded down to the nearest pound); provided always that no such A-B Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note.

The principal amount redeemable in respect of each C Note (the **C Note Principal Payment** and, together with the A-B Note Principal Payments, a **Principal Payment**) on any Payment Date under paragraph (c) above shall be the amount of the funds on the Determination Date immediately preceding that Payment Date to be applied in redemption of the C Notes multiplied by the denomination of such C Note and divided by the Principal Amount Outstanding of the C Notes on the relevant Payment Date (rounded down to the nearest pound); provided always that no such C Note Principal Payment may exceed the Principal Amount Outstanding of the relevant C Note.

With respect to each of the Notes (excluding the C Notes) on (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Cash Manager to determine):

- (i) the amount of any A-B Note Principal Payment due on the Payment Date next following such Determination Date;
- (ii) the principal amount outstanding of each Note of such class on the Payment Date next following such Determination Date (after deducting any A-B Note Principal Payment due to be made on that Payment Date (such deduction not to be made for the purposes of future calculations with regard to

Conditions 4, 5, 9 and 10 if the A-B Note Principal Payment which has become due has not been paid)) (the **A-B Note Principal Amount Outstanding**); and

- (iii) the fraction expressed as a decimal to the sixth point (the **A-B Note Pool Factor**), of which the numerator is the Principal Amount Outstanding of a Note of that class (as referred to in (ii) above) and the denominator is the denomination of such Note.

With respect to each C Note on (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Cash Manager to determine):

- (i) the amount of any C Note Principal Payment due on the Payment Date next following such Determination Date;
- (ii) the principal amount outstanding of each C Note on the Payment Date next following such Determination Date (after deducting any C Note Principal Payment due to be made on that Payment Date); and
- (iii) the fraction expressed as a decimal to the sixth point (the **C Note Pool Factor** and, together with the A-B Note Pool Factor, the **Pool Factor**), of which the numerator is the Principal Amount Outstanding of such C Note and the denominator is the denomination of the relevant C Note.

Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding or Pool Factor shall in each case (in the absence of negligence, wilful default, bad faith or manifest error) be final and binding on all persons.

Principal Amount Outstanding shall mean the principal amount outstanding of one or more classes of Notes from time to time calculated by the Cash Manager in accordance with the provisions of this **Condition 5(d)**.

With respect to each of the classes of Notes, the Issuer will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified in writing 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 such determination to be given in accordance with Condition 14 by not later than two Business Days prior to the relevant Payment Date. If no Principal Payment is due to be made on the Notes on any Payment Date, a notice to this effect will be given to the Noteholders.

If the Issuer does not at any time for any reason determine (or cause the Cash Manager to determine) with respect to each of the classes of Notes (including the C Notes), a Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the applicable provisions of the preceding paragraphs, such determination may be made by the Trustee in accordance with this paragraph (but without any liability accruing to the Trustee as a result) and each such determination or calculation shall be deemed to have been made by the Issuer.

(e) Optional Redemption

On any Payment Date following the Payment Date on which the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10 per cent. of the initial aggregate Principal Amount Outstanding of the Notes, the Issuer may give not more than 60 nor less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 14 and, following the giving of such notice, the Issuer shall be obliged to redeem all (but not some only) of the Notes at their relevant Principal Amount Outstanding, 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 or make provision for all amounts ranking in priority thereto.

(f) Optional Redemption for Tax Reasons

If the Issuer at any time immediately prior to the giving of the notice referred to below satisfies the Trustee that either (i) on the next Payment Date the Issuer or any Paying Agent on behalf of the Issuer would be required by reason of a change in law, or the interpretation, application or administration thereof, to deduct or withhold from any payment of principal or interest on the Notes (other than in respect of default interest), 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 Mortgage Loans during an Interest Period ceases or would cease to be receivable (whether by reason of any Borrower being obliged to deduct or withhold any amount in respect of tax therefrom or otherwise) by the Issuer during such Interest Period, or where the Issuer is treated as receiving amounts in relation to interest on the Mortgage Loans which are not in fact received), then the Issuer may, having given not more than 60 nor less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 14, redeem on any Payment Date all (but not some only) of the Notes at their relevant Principal Amount Outstanding, provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee (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 all the Notes and pay all amounts ranking in priority thereto as aforesaid and (b) if appropriate, a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in England (approved in writing by the Trustee) opining on the relevant change in tax law (or interpretation, application or administration thereof). 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.

The term **Optional Redemption** shall refer to redemption of the Notes under any of the circumstances or procedures referred to in paragraph (e) or (f) above.

(g) Mandatory Redemption in Part for Principal Rebate

On 15 June 2007, unless such date is a date on which the Notes are redeemed under paragraph (a), (e) or (f) above or (h) below, the Issuer shall apply an amount equal to the difference between the Pre-Funded Mortgage Pool Amount and the aggregate purchase price for the Pre-Funded Mortgage Pool (the **Principal Rebate**) (if any), to redeem the Notes as part of the mandatory redemption of the Notes on such date in accordance with **Condition 5(b)**.

(h) Mandatory Redemption in Part for Newly Originated Loans

On the Payment Date following the Newly Originated Loan Qualifying Date, unless such Payment Date is a date on which the Notes are to be redeemed under paragraph (a), (e), (f) or (g) above, the Issuer shall apply an amount equal to the aggregate of (a) the amount of Newly Originated Loans repurchased by the Seller on the Newly Originated Loan Qualifying Date less (b) the amount of Substitute Mortgage Loans provided by the Seller to replace the Newly Originated Loans repurchased by it on such date, to redeem the Notes as part of the mandatory redemption of the Notes on such date in accordance with **Condition 5(b)**.

(i) Notice of Redemption

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

(j) Purchase

The Issuer shall not purchase any Notes.

(k) Cancellation

All Notes redeemed pursuant to paragraphs (a), (b), (d), (e), (f), (g) or (h) above will be cancelled upon redemption and may not be resold or re-issued.

Condition 6: Payments

6(a) Payment in respect of Notes

Payments in respect of principal and interest in respect of any Global Note will be made to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders in accordance with Condition 14 for such purpose, subject, in the case of any Temporary Global Note, to certification of non-US beneficial ownership as provided in such Temporary Global Note. Each payment of principal, premium or interest made in respect of a Global Note will be recorded by the Clearing Systems in their records (which records are the records each relevant Clearing System holds for its customers which reflect such customers' interest in the Notes) and such records shall be prima facie evidence that the payment in question has been made. No person appearing from time to time in the records of either of the Clearing Systems as the holder of a Note shall have any claim directly against the Issuer in respect of due on such Note whilst such Note is represented by a Global Note and the Issuer shall be discharged by payment of the relevant amount to the bearer of the relevant Global Note. The Issuer shall procure that each payment shall be entered *pro rata* in the records of the relevant Clearing Systems but any failure to make such entries shall not affect the discharge referred to above.

6(b) Method of Payment

Payments will be made by credit or transfer to a sterling account maintained by the payee with or, at the option of the payee, by a cheque in sterling drawn on a bank in London.

6(c) Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment.

6(d) Payments only on a Presentation Date

A holder shall be entitled to present a Global Note for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date in respect of such payment.

Presentation Date means a day which (subject to Condition 7):

- (a) is or falls after the relevant due date in respect of such payment;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Global Note is presented for payment; and
- (c) in the case of payment by credit or transfer to a sterling account in London as referred to above, is a Business Day in London.

In this Condition 6(d), **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

6(e) Initial Paying Agents

The names of the initial Paying Agents and their initial specified offices are listed at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be a person appointed to perform the obligations of the Principal Paying Agent;
- (b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in such place as may be required by the rules and regulations of relevant stock exchange and competent authority; and
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive 5.8.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 14.

Condition 7: Prescription

Claims for principal and interest on the Notes shall become void unless presented for payment of principal within a period of 10 years from the Relevant Date in respect thereof and five years in respect of payment of interest. After the date on which a Note becomes void in its entirety, no claim may be made in respect thereof.

In this Condition, the **Relevant Date** in respect of a Note 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 due on or before that date has not been duly received by the Principal Paying Agent 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.

Condition 8: Taxation

All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessment or charges of whatsoever nature unless the Issuer or any 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, assessment or charges of whatsoever nature. In that event, the Issuer or such 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. None of the Principal Paying Agent, any other Paying Agent, the Seller, the Issuer nor any other person will be obliged to make any additional payments to holders of Notes in respect of such withholding or deduction.

Condition 9: Events of Default

- (a) The Trustee at its absolute discretion may, and if so directed in writing by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the A Notes or, if no A Notes are

outstanding, the M1 Notes, or, if no M1 Notes are outstanding, the M2 Notes, or, if no M2 Notes are outstanding, the B1 Notes, or, if no B1 Notes are outstanding, the B2 Notes, or, if no B2 Notes are outstanding, the C Notes, or if so directed by or pursuant to an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the A Notes, or, if no A Notes are outstanding, the M1 Notes, or, if no M1 Notes are outstanding, the M2 Notes, or, if no M2 Notes are outstanding, the B1 Notes, or, if no B1 Notes are outstanding, the B2 Notes, or, if not B2 Notes are outstanding, the C Notes (subject to the Trustee being indemnified and/or secured to its satisfaction against all Liabilities to which it may render itself liable or which it may incur by so doing), the Trustee shall give notice (an **Enforcement Notice**) to the Issuer declaring the Notes to be due and repayable at any time after the happening of any of the following events (each an **Event of Default**):

- (i) default being made for a period of ten Business Days in the payment of principal of or any interest on any Note when and as the same ought to be paid in accordance with these Conditions provided that a deferral of interest in accordance with Condition 4(f) shall not constitute a default in the payment of such interest for the purposes of this Condition 9; 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, the Cash Manager or the Administrator failing duly to perform or observe any obligation binding on it (taking into account any remedy periods) under the Cash Management Agreement, Administration Agreement or the Deed of Charge and, in any such case (except where the Trustee certifies that, in its opinion, such failure is incapable of remedy when no notice will be required) such failure is continuing for a period of 30 days following the service by the Trustee on the Issuer, the Cash Manager or the Administrator (as the case may require) of notice requiring the same to be remedied; or
- (iii) the Issuer, other 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 within the meaning of Section 123(2) of the Insolvency Act 1986 (as amended); 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 A Notes or, if no A Notes are outstanding, the holders of the M1 Notes, or, if no M1 Notes are outstanding, the holders of the M2 Notes, or, if no M2 Notes are outstanding, the holders of the B1 Notes, or, if no B1 Notes are outstanding, the holders of the B2 Notes, or, if no B2 Notes are outstanding, the holders of the C Notes; or
- (v) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, administration, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for the appointment of an administrator or liquidator) and such proceedings are not, in the opinion of the Trustee, being disputed in good faith with a reasonable prospect of success, or an administrator being appointed, or a 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 notice of intention to appoint an administrator in respect of the Issuer being served, 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 out 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 or its directors initiating or consenting to proceedings relating to itself under applicable liquidation, insolvency,

composition, administration 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-paragraphs (ii), (iii) or (v) of this paragraph (a), the Trustee has certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders.

- (b) Upon any declaration being made by the Trustee in accordance with paragraph (a) above that the Notes are due and repayable, the Notes shall immediately become due and repayable at the relevant Principal Amount Outstanding, together with accrued interest as provided in the Trust Deed.
- (c) So long as any part of the Notes remain outstanding the Issuer will, upon becoming aware of the occurrence of any Event of Default or Potential Event of Default, give notice in writing thereof to the Trustee.

Condition 10: Enforcement of Notes

At any time after the Notes have become due and repayable, 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 provided that the Trustee shall not be entitled to take any steps or proceedings to procure the winding-up, administration or liquidation of the Issuer.

The Trustee shall not be bound to take any action in relation to any Transaction Documents (including, but not limited to, the giving of an Enforcement Notice or the taking of any proceedings and/or steps and/or action or the giving of any direction) unless (x) directed to do so by an Extraordinary Resolution of the A Noteholders or, if no A Notes are outstanding, the M1 Noteholders or, if no A Notes and no M1 Notes are outstanding, the M2 Noteholders or, if no A Notes and no M Notes are outstanding, the B1 Noteholders or, if no A Notes, no M Notes and no B1 Notes are outstanding, the B2 Noteholders or, if no A Notes, no M Notes and no B Notes are outstanding, the C Noteholders or in writing by the holders of at least 25 per cent. in Principal Amount Outstanding of the A Notes or, if no A Notes are outstanding, the M1 Notes or, if no A Notes and no M1 Notes are outstanding, the M2 Notes, or if no A Notes and no M Notes are outstanding, the B1 Notes or, if no A Notes, no M Notes and no B1 Notes are outstanding, the B2 Notes, or, if no A Notes, no M Notes and no B Notes are outstanding, the C Notes; and (y) then only if it shall be indemnified and/or secured to its satisfaction against all Liabilities to which it may render itself liable or which it may incur by so doing and, for this purpose, the Trustee may demand, prior to taking any such action, that there be paid to it in advance such sums as it considers (without prejudice to any further demand) shall be sufficient so to indemnify it, provided that the Trustee shall not, and shall not be bound to, act at the direction of the M1 Noteholders as aforesaid unless either to do so would not in its opinion be materially prejudicial to the interests of the A Noteholders or such action is sanctioned by an Extraordinary Resolution of the A Noteholders; or the M2 Noteholders as aforesaid unless either to do so would not in its opinion be materially prejudicial to the interests of the A Noteholders and the M1 Noteholders or such action is sanctioned by an Extraordinary Resolution of the A Noteholders and the M1 Noteholders; or the B1 Noteholders as aforesaid unless either to do so would not in its opinion be materially prejudicial to the interests of the A Noteholders and the M Noteholders or such action is sanctioned by an Extraordinary Resolution of the A Noteholders, the M1 Noteholders and the M2 Noteholders; or the B2 Noteholders as aforesaid unless either to do so would not in its opinion be materially prejudicial to the interests of the A Noteholders, the M1 Noteholders, the M2 Noteholders and the B1 Noteholders or such action is sanctioned by an Extraordinary Resolution of the A Noteholders, the M1 Noteholders, the M2 Noteholders and the B1 Noteholders; or the C Noteholders as aforesaid unless either to do so would not in its opinion be materially prejudicial to the interests of the A Noteholders, the M Noteholders and the B Noteholders or such action is sanctioned by an Extraordinary Resolution of the A Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders and the B2 Noteholders.

No Noteholder shall be entitled to proceed directly against the Issuer or any other person to enforce the performance of any of the provisions of any Transaction Documents unless the Trustee having become

bound as aforesaid to take proceedings fails to do so within a reasonable period and such failure is continuing, provided that no Noteholder shall be entitled to take any steps or proceedings to procure the winding-up, administration or liquidation of the Issuer.

Condition 11: Meetings of Noteholders, Modifications, Consents, Waiver

The Trust Deed contains provisions for convening meetings of the A Noteholders, M1 Noteholders, M2 Noteholders, B1 Noteholders, B2 Noteholders and C Noteholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of such Noteholders of the relevant class of any modification of the Notes of the relevant class (including these Conditions as they relate to the Notes of such relevant class, as the case may be) or the provisions of any of the Transaction Documents, provided that no modification of certain terms by the Noteholders of any class including, *inter alia*, the date of maturity of the Notes of the relevant class or a modification which would have the effect of postponing any day for payment of interest in respect of such Notes, the reduction or cancellation of the amount of principal payable in respect of such Notes or any alteration of the priority of such Notes (any such modification in respect of any such class of Notes being referred to below as a **Basic Terms Modification**) shall be effective unless such Extraordinary Resolution complies with the relevant terms of the Trust Deed.

The quorum at any meeting of the Noteholders of any class of Notes for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50 per cent. of the aggregate Principal Amount Outstanding of the Notes of the relevant class then outstanding, or, at any adjourned meeting, two or more persons being or representing the Noteholders of the relevant class, whatever the aggregate Principal Amount Outstanding of the Notes of the relevant class then outstanding, except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing in the aggregate not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., of the aggregate Principal Amount Outstanding of the Notes of the relevant class then outstanding. The quorum at any meeting of the Noteholders of any class of Notes for all business other than voting on an Extraordinary Resolution shall be two or more persons holding or representing in the aggregate not less than five per cent. of the aggregate Principal Amount Outstanding of the Notes of the relevant class or, at any adjourned meeting, two or more persons being or representing the Noteholders of the relevant class, whatever the aggregate Principal Amount Outstanding of the Notes of the relevant class then outstanding so held.

For so long as the Notes (whether being Definitive Notes or represented by Global Notes) of any class are held by one party, such party and/or any proxy or representative for such party shall constitute two persons for the purposes of forming a quorum of that class of Noteholders.

Except in certain circumstances, an Extraordinary Resolution of the A Noteholders will be binding on the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders irrespective of the effect on their interests.

An Extraordinary Resolution of the M1 Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A Noteholders or it is sanctioned by an Extraordinary Resolution of the A Noteholders. Except in certain circumstances, an Extraordinary Resolution of the M1 Noteholders will be binding on the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders irrespective of the effect on their interests.

An Extraordinary Resolution of the M2 Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A Noteholders and the M1 Noteholders or it is sanctioned by an Extraordinary Resolution of the A Noteholders and the M1 Noteholders. Except in certain circumstances, an Extraordinary Resolution of the M2 Noteholders will be binding on the B1 Noteholders, the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders irrespective of the effect on their interests.

An Extraordinary Resolution of the B1 Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A Noteholders, the M1 Noteholders and the M2 Noteholders or it is sanctioned by an Extraordinary Resolution of the A Noteholders, the M1 Noteholders and the M2 Noteholders. Except in certain circumstances, an Extraordinary Resolution of the B1 Noteholders will be binding on the B2 Noteholders, the C Noteholders, the MERC Holders and the Residual Holders irrespective of the effect thereof on their interests.

An Extraordinary Resolution of the B2 Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A Noteholders, the M1 Noteholders, the M2 Noteholders and the B1 Noteholders or it is sanctioned by an Extraordinary Resolution of the A Noteholders, the M1 Noteholders, the M2 Noteholders and the B1 Noteholders. Except in certain circumstances, an Extraordinary Resolution of the B2 Noteholders will be binding on the C Noteholders, the MERC Holders and the Residual Holders irrespective of the effect thereof on their interests.

An Extraordinary Resolution of the C Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders and the B2 Noteholders or it is sanctioned by an Extraordinary Resolution of the A Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders and the B2 Noteholders. Except in certain circumstances, an Extraordinary Resolution of the C Noteholders will be binding on the MERC Holders and the Residual Holders irrespective of the effect thereof on their interests.

For the avoidance of doubt, these provisions regarding Extraordinary Resolutions are without prejudice to the rights of the requisite majority of the relevant Noteholders, either in conjunction with or separate from, any other class of Noteholders to direct the Trustee under Condition 9.

Subject to the preceding paragraphs, an Extraordinary Resolution passed at any meeting of the Noteholders of any class of Notes shall be binding on all Noteholders, whether or not they are present at the meeting. The majority required for an Extraordinary Resolution, including the sanctioning of a Basic Terms Modification, shall be not less than 75 per cent. of the votes cast on that Extraordinary Resolution.

Subject to Condition 12, the Trustee may agree, without the consent of the Noteholders of any class, (a) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, the Notes of such class (including these Conditions) or any of the Transaction Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders of such class or (b) to any modification of the Notes of such class (including these Conditions) or any of the Transaction Documents, which in the Trustee's opinion is to correct a manifest error or is of a formal, minor or technical nature (subject to the Trustee being indemnified and/or secured to its satisfaction against all Liabilities to which it may render itself liable or which it may incur by so doing). In respect of each class of Notes, the Trustee may also, without the consent of the Noteholders of such class, determine that any Event of Default or any condition, event or act which, with the giving of notice and/or lapse of time and/or the issue of a certificate and/or the making of any determination, would constitute an Event of Default shall not, subject to specified conditions, be treated as such (but the Trustee may not make any such determination of any Event of Default or any such waiver or authorisation of any such breach or proposed breach of the Notes (including the Conditions) or any of the Transaction Documents in contravention of an express direction of the Noteholders given by Extraordinary Resolution or a request under Condition 9 or 10). Any such modification, waiver, authorisation or determination shall be binding on the Noteholders of each such class and, unless the Trustee agrees otherwise, any such modification shall be notified to such Noteholders in accordance with Condition 14 as soon as practicable thereafter.

The Trustee shall be entitled to assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents, that such exercise will not be materially prejudicial to the interests of any Noteholders if S&P and/or Fitch have confirmed that the current ratings of the relevant Notes would not be adversely affected by such exercise.

Condition 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 (subject to the Trustee being indemnified and/or secured to its satisfaction against all Liabilities to which it may render itself liable or which it may incur by so doing). The Trustee and any director or officer or holding company, Subsidiary or associated company of the Trustee are entitled to enter into or be interested in any contract or financial or other transaction or arrangement with the Issuer or any other party to any Transaction Document (each a **Relevant Company**) or any person or body corporate associated with a Relevant Company without being in any way liable to account for any profit made or share of brokerage or commission or remuneration or other amount or benefit received thereby or in connection therewith. The Trustee shall not have any responsibility for, or have any duty to make any investigation in respect of, or in any way be liable whatsoever for the nature, status, creditworthiness or solvency of the Issuer or any other party to any Transaction Document, the execution, delivery, legality, validity, adequacy, admissibility in evidence, enforceability, genuineness, effectiveness or suitability of any Transaction Document or any other document entered into in connection therewith or of any transfer, security or trust effected or constituted or purported to be effected or constituted by any Transaction Document or any other document entered into in connection therewith or the title to, or the ownership, value, sufficiency or existence of any property comprised or intended to be comprised in the security constituted or purported to be constituted by any Transaction Document or the registration, filing, protection or perfection of the security constituted or purported to be constituted by any Transaction Document or the priority of any such security, whether in respect of any initial advance or any subsequent advance or any other sums or liabilities, the scope or accuracy of any recital, representation, warranty or statement made by or on behalf of any person in any Transaction Document or any other document entered into in connection therewith, the failure by any person to obtain or comply with any licence, consent or other authority in connection with any Transaction Document, the failure to call for delivery of documents of title to or require any transfers, assignments, legal mortgages, charges, standard securities or other further assurances pursuant to the provisions of any Transaction Documents or any accounts, books, records or files maintained by any person in connection with or in respect of any property comprised or intended to be comprised in the security constituted or purported to be constituted by any Transaction Document.

Condition 13: Replacement of Global Notes

If any Global Note 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 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 Global Notes must be surrendered before new ones will be issued.

Condition 14: Notices to Noteholders

Any notice shall be deemed to have been duly given to the relevant Noteholders if sent to the Clearing Systems for communication by them to the holders of the Notes and shall be deemed to be given on the date on which it was so sent and (so long as the relevant Notes are admitted to trading on, and listed on the official list of, the Irish Stock Exchange), any notice shall also be published in accordance with the relevant listing rules of the Irish Stock Exchange.

In addition, for so long as the Notes are admitted to trading and listed as described above, the Issuer shall give two copies of each notice in accordance with this Condition 14 to the Irish Stock Exchange in accordance with the relevant listing rules.

The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders 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 relevant Notes are then admitted to trading and provided

that notice of such other method is given to the Noteholders in such manner as the Trustee shall require (subject to the Trustee being indemnified and/or secured to its satisfaction against all Liabilities to which it may render itself liable or which it may incur by so doing).

Notices to Noteholders may be published on the website located at <https://www.tss.db.com/invr>.

Condition 15: Rights of Third Parties

No rights are conferred on any third person (except the Noteholders) under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

Condition 16: European Economic and Monetary Union

- (a) The Issuer may, without the consent of the Noteholders on giving at least 30 days' prior notice to the Trustee and the Paying Agents designate a date (the **Redenomination Date**), being a Payment Date falling on or after the date on which the United Kingdom becomes a Participating Member State.
- (b) Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:
 - (i) the Notes shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a principal amount for each Note equal to the Principal Amount Outstanding of that Note converted into euro at the rate for conversion of sterling into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Trustee, that the then market practice in respect of the redenomination into euro 0.01 of securities denominated in sterling is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, each stock exchange (if any) on which the Notes are then listed and the Paying Agents of such deemed amendments;
 - (ii) if the Notes have been issued in definitive form:
 - (A) the payment obligations contained in all Notes will become void on the euro exchange date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 17), shall remain in full force and effect; and
 - (B) new Notes denominated in euro will be issued in exchange for Notes in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the euro exchange notice; and
 - (iii) a Note may only be presented for payment on a day which is a business day in the place of presentation. In this Condition 16, **business day** means, in respect of any place of presentation, any day which is a day on which banks are open for business in such place of presentation.
- (c) Following redenomination of Notes pursuant to this Condition 16:
 - (i) where such Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the principal amount then outstanding of the

Notes presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01; and

- (ii) the amount of interest payable in respect of each such Note on each Payment Date shall be calculated by applying the Rate of Interest to the principal amount then outstanding of such Note, dividing the product by two and rounding the figure down to the nearest euro 0.01. If interest is required to be calculated for any other period, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed fall in a leap year, the sum of (a) the number of those days falling in a leap year divided by 366 and (b) the number of those days falling in a non-leap year divided by 365); provided, however, that, if the Issuer determines that the market practice in respect of internationally offered euro denominated securities is different from that specified above, the above shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, each stock exchange (if any) on which the Notes are then listed and the Paying Agents of such deemed amendment.

- (d) In this Condition 16:

EMU means European Economic and Monetary Union;

euro means the single currency introduced on 1 January 1999 at the start of the third stage of EMU pursuant to the Treaty;

Participating Member State means a Member State of the European Communities which has adopted the euro as its lawful currency in accordance with the Treaty; and

the **Treaty** means the Treaty establishing the European Communities, as amended by the Treaty on European Union and the Treaty of Amsterdam.

Condition 17: Limited Recourse

The ability of the Issuer to meet its obligations under the Notes will depend primarily on monies received or recovered on the Mortgage Loans, on some monies standing to the credit of the Reserve Account and/or the Discount Reserve Account and on receipt of funds (if available to be drawn) under the Liquidity Facility Agreement. In the event of non-payment, the only remedy for recovering amounts due on the Notes is through the enforcement of the Security. If the Security is enforced, the proceeds of enforcement may be insufficient to pay all principal and interest due on the Notes, and neither the Trustee nor the Noteholders may take any further steps against the Issuer in respect of amounts payable on the Notes and all such claims against the Issuer shall be extinguished and discharged.

Condition 18: Non Petition

18(a) Except as provided in Condition 18(b) below, each of the Secured Creditors (other than, in the case of paragraph (iii) below, the Trustee) agrees with the Issuer and the Trustee that:

- (i) only the Trustee may pursue the remedies available under applicable law, under the Deed of Charge and under the Transaction Documents, to enforce the Security;
- (ii) it will not petition or take any corporate action or other steps or legal proceedings for the winding-up, dissolution, court protection, administration, reorganisation, liquidation, bankruptcy or insolvency of the Issuer or for the appointment of a receiver, administrator, receiver manager, administrative receiver, trustee, liquidator or similar officer in respect of the Issuer or any of its revenues or assets; and

- (iii) it will not take any other steps or action against the Issuer or the Charged Property for the purpose of recovering any of the Secured Amounts (including by exercising any rights of set-off) or enforcing any rights arising out of the Transaction Documents against the Issuer or take any other action in respect of or concerning the Issuer or the Charged Property.

18(b) If the Trustee, having become bound under the terms of the Conditions, the Trust Deed or the Deed of Charge, as the case may be, so to do, has failed to serve an Enforcement Notice or the Trustee has failed to enforce the Security, in each case, within a reasonable period and that failure is continuing or if there are no Notes outstanding, then each of the Secured Creditors (other than the Noteholders to whom the provisions of Condition 10 as shall apply) will be entitled to take any steps and/or proceedings against the Issuer for the purpose of recovering any of the Secured Amounts or enforcing any rights arising out of the Transaction Documents as it considers necessary other than any steps or proceedings:

- (i) in respect of procuring the winding up, administration or liquidation of the Issuer; and/or
- (ii) which would result in the breach by it of Clause 6.1 (Post-Enforcement Priority of Payments) of the Deed of Charge and/or any term of the other Transaction Documents.

Condition 19: Governing Law

Except as indicated in the next sentence, the Transaction Documents and the Notes are governed by, and shall be construed in accordance with, English law and subject to the jurisdiction of the Courts of England (other than those aspects of the Transaction Documents specific to the Scottish Mortgage Loans, which are governed by, and shall be construed in accordance with, Scots law and those specific to the Northern Irish Mortgages, which are governed by, and shall be construed in accordance with Northern Irish Law).

In these Conditions:

Relevant Margin for the A Notes shall be 0.15 per cent. per annum; for the M1 Notes shall be 0.30 per cent. per annum; for the M2 Notes shall be 0.50 per cent. per annum; for the B1 Notes shall be 0.90 per cent. per annum; for the B2 Notes shall be 3.10 per annum; and for the C Notes shall be 3.00 per cent. per annum.

UNITED KINGDOM TAXATION

The following is a general description of certain aspects of current United Kingdom law and HM Revenue and Customs (HMRC) practice relating to the United Kingdom taxation of the Notes and is limited to a general consideration of the United Kingdom tax position of persons who are absolute beneficial owners of the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes and should therefore be treated with appropriate caution. Some aspects do not apply to certain classes of taxpayer (such as dealers) or to Noteholders where the object, or one of the main objects, of acquiring or holding the Notes was or is the securing, whether for the Noteholder or any other person, of a tax advantage.

A United Kingdom Withholding Tax

Interest payments on the Notes (whether in global or definitive form) will be payable without withholding or deduction for or on account of United Kingdom income tax provided that the Notes are listed on a recognised stock exchange within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (ICTA 1988). Under an HM Revenue and Customs interpretation, securities will be treated as listed on the Irish Stock Exchange if they are admitted to the Official List by the IFSRA. The Notes will satisfy this requirement if they are listed by the competent authority of Ireland and are admitted to trading by the Irish Stock Exchange.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax where interest on the Notes is paid to a person who belongs in the United Kingdom and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of United Kingdom income tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary by HM Revenue and Customs under an applicable double taxation treaty. Where any amounts are withheld on account of United Kingdom income tax, the Issuer will not be obliged to make additional payments to Noteholders to compensate them for such withholding.

Noteholders who are individuals may wish to note that HMRC has the power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual. Such information may, in certain circumstances, be exchanged by HMRC with the tax authorities of other jurisdictions.

B Direct Assessment of Non-United Kingdom Resident Noteholders to United Kingdom Tax on United Kingdom Interest

Interest on the Notes constitutes United Kingdom source income for United Kingdom tax purposes and, as such, may be subject to United Kingdom income tax by direct assessment even where paid without withholding or deduction for or on account of United Kingdom income tax, except in the hands of an Noteholder who is exempt from United Kingdom income tax under the terms of an applicable double taxation treaty.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom income tax, will not be chargeable to United Kingdom tax in the hands of an Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom, unless that Noteholder carries on a trade, profession or vocation through a branch or agency (or, in the case of a

Noteholder which is a company, which carries on a trade through a permanent establishment) in the United Kingdom in connection with which the interest is received or to which the Notes are attributable. There are certain exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

C Accrued Income Scheme – Individual Noteholders

For the purposes of the provisions known as the **Accrued Income Scheme** (contained in Chapter II of Part XVII of ICTA 1988), a transfer of an Note by an individual Noteholder who is resident or ordinarily resident in the United Kingdom or an Noteholder who carries on a trade in the United Kingdom through a branch or agency to which the Note is attributable, may give rise to a charge to United Kingdom tax on income in respect of an amount treated, under the Accrued Income Scheme, as representing interest accrued on the Note at the time of the transfer.

In particular, the Notes will be "variable rate securities" for the purposes of the Accrued Income Scheme. In relation to the disposal of such an Note, an Noteholder who is resident or ordinarily resident in the United Kingdom or an Noteholder who carries on a trade in the United Kingdom through a branch or agency to which the Note is attributable will be chargeable to tax on income in respect of interest which is deemed to have accrued on that Note at the time of transfer in such an amount as is just and reasonable. A transferee of such an Note will not be entitled to any corresponding relief in respect of that amount under the Accrued Income Scheme.

D Taxation of Chargeable Gains – Individual Noteholders

As a result of the provision for redenomination of the Notes into euro, it is not expected that the Notes will be treated by HMRC as qualifying corporate bonds within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal (including a redemption) of Notes by an individual Noteholder will give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains, depending on the individual circumstances of the Noteholder.

E United Kingdom Corporation Tax Payers

In general, Noteholders within the charge to United Kingdom corporation tax will not be subject to the taxation treatment set out in paragraphs C or D above. Instead, any profits, gains and losses, and fluctuations in the value of the Notes (whether attributable to currency fluctuations or otherwise) measured and recognised broadly in accordance with their statutory accounting treatment, are taxed or relieved as income. Noteholders within the charge to United Kingdom corporation tax are generally charged to tax in each accounting period by reference to interest accrued in that period and other profits recognised in that period.

F Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax is chargeable on the issue or transfer of an Note in global form, or on the issue or transfer (by delivery) of a Note in definitive form.

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

SUBSCRIPTION AND SALE

The Managers have pursuant to a subscription agreement in respect of the Notes, dated 16 March 2007 among the Managers, the Issuer and the Seller (the **Notes Subscription Agreement**) agreed with the Issuer to purchase the Notes at the issue price of, in relation to (a) the A Notes, 100 per cent. of the aggregate principal amount of the A Notes, (b) the M1 Notes, 100 per cent. of the aggregate principal amount of the M1 Notes, (c) the M2 Notes, 100 per cent. of the aggregate principal amount of the M2 Notes, (d) the B1 Notes, 100 per cent. of the aggregate principal amount of the B1 Notes, (e) the B2 Notes, 100 per cent. of the aggregate principal amount of the B2 Notes, and (f) the C Notes, 100 per cent. of the aggregate principal amount of the C Notes.

The Notes Subscription Agreement is subject to a number of conditions and may be terminated by the Managers in certain circumstances prior to payment for the Notes to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the issue of the Notes.

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

- (a) it has complied and will comply with all applicable provisions of the FSM Act 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 the FSM Act) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSM Act does not apply to the Issuer.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold in the United States or to or for the account or benefit of U.S. persons (as defined in Registration S under the Securities Act) except to certain persons in offshore transaction in reliance on Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Manager has represented to and agreed with the Issuer that, except as permitted by the Notes Subscription Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Issue and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each dealer to which it sells the Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

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

- (a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity than with the provisions of the Irish Investment Intermediaries Act 1995 (as amended), including, without limitation, Sections 9 and 23 thereof and any codes of conduct rules made under Section 37 thereof and the provisions of the Investor Compensation Act 1998;
- (b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Irish Central Bank Acts 1942 1999 (as amended) and any codes of conduct rules made under Section 117(1) thereof;

- (c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Irish Central Bank and Financial Services Regulatory Authority (**IFSRA**); and
- (d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Irish Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005 by IFSRA.

Each Manager has represented to and agreed with the Issuer that the Notes have not been and will not be offered or sold or publicly promoted or advertised by it in the Federal Republic of Germany other than in compliance with the provisions of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) of 22 June 2005 or of any other laws applicable in the Federal Republic of Germany governing the offer and sale of securities.

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

- (a) it has only made and will only make an offer of Notes to the public (appel public à l'épargne) in France in the period beginning (i) when an offering circular in relation to those Notes has been approved by the Autorité des marchés financiers (AMF), on the date of such publication or, (ii) when an Offering Circular has been approved in another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC, on the date of notification of such approval to the AMF, all in accordance with articles L.412-1 and L.621-8 of the French Code monétaire et financier and the Règlement général of the AMF, and ending at the latest on the date which is 12 months after the date of such publication; or
- (b) it has only made and will only make an offer of Notes to the public in France (appel public à l'épargne) and/or it has only required and will only require the admission to trading on Euronext Paris S.A. in circumstances which do not require the publication by the offeror of an offering circular pursuant to articles L.411-2 and L.412-1 of the French Code monétaire et financier; and
- (c) otherwise, it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Offering Circular or any other offering material relating to the Notes, and that such offers, sales and distributions have been and shall only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (investisseurs qualifiés) all as defined in, and in accordance with, articles L.411-1, L.411-2, D.411-1 of the French Code monétaire et financier.

The offering circular and related documents are not intended to constitute a public offer in Belgium and may not be distributed to the Belgian public. The Belgian Commission for Banking, Finance and Insurance has not reviewed nor approved this (these) document(s) or commented as to its (their) accuracy or adequacy or recommended or endorsed the purchase of Notes. Each Manager has represented and agreed with the Issuer that it will not:

- (a) offer for sale, sell or market in Belgium such Notes by means of a public offer within the meaning of the Law of 16 June 2006 on the public offer of investment instruments and the admission to trading of investment instruments on a regulated market; or
- (b) sell Notes to any person qualifying as a consumer within the meaning of Article 1.7° of the Belgian law of 14th July 1991 on consumer protection and trade practices unless such sale is made in compliance with this law and its implementing regulation.

Any offer will only be made in Belgium to qualified investors as defined in article 10 of the Law of 16 June 2006 on the public offer of investments and the admission to trading of investment instruments on a regulated market.

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Manager has represented and agreed with the Issuer that it will not offer, sell or deliver the Notes, nor distribute copies of the Offering Circular or of any other document relating to the Notes in the Republic of Italy, except:

- (a) to professional investors (*operatori qualificati*) (the Professional Investors), as defined in Article 31, second paragraph, of CONSOB (the Italian Securities Exchange Commission) Regulation No. 11522 of 1 July 1998, as amended (Regulation No. 11522); or
- (b) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the Financial Services Act) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended (Regulation No. 11971).

And that any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above by it will be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Regulation No. 11522 and Legislative Decree No. 385 of 1 September 1993, as amended (the Banking Act); and
- (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB.

These selling restrictions may be modified by the agreement of the Issuer and the Managers following a change in the relevant law, regulation or directive. Any such modifications will be set out in a supplement to this Offering Circular.

No action has been taken by the Issuer or the Managers which would or is intended to permit a public offer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes, in any country or jurisdiction where action for that purpose is required and neither this Offering Circular nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from or published in any country or jurisdiction, except under circumstances which will result in compliance with the applicable laws and regulations.

GENERAL INFORMATION

1. The issue of the Notes has been authorised by resolution of the Board of Directors of the Issuer passed on 15 March 2007.
2. It is expected that admission of the Notes to the Official List of the Irish Stock Exchange will be granted on or about 21 March 2007, subject only to issue of the Global Notes of each class of Notes. Prior to official listing, however, dealings in the Notes will be permitted by the Irish Stock Exchange in accordance with its rules. The issue will be cancelled if the Global Notes are not issued. The estimated cost of the application for admission to the Official List and admission to trading on the Irish Stock Exchange's market for listed securities is £4,500.
3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg as follows:

	<i>ISIN</i>	<i>Common Code</i>
A Notes	XS0290416527	29041652
M1 Notes	XS0290417418	29041741
M2 Notes	XS0290419380	29041938
B1 Notes	XS0290420396	29042039
B2 Notes	XS0290420982	29042098
C Notes	XS0290421956	29042195

4. The Issuer is not nor has it been involved in any legal, governmental 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.
5. In relation to this transaction, the Issuer on 16 March 2007 has entered into the Notes Subscription Agreement referred to under *Subscription and Sale* above which is or may be material.
6. No financial statements have been prepared in respect of the Issuer.
7. Since 11 September 2006 (being the date of incorporation of the Issuer), there has been (a) no significant change in the financial or trading position of the Issuer and (b) no material adverse change in the financial position or prospects of the Issuer.
8. Copies of the following documents may be inspected in physical form during usual business hours at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AO for the life of this Offering Circular:
 - (a) the Memorandum and Articles of Association of the Issuer;
 - (b) the Notes Subscription Agreement;
 - (c) drafts (subject to modification) of the following documents:
 - (i) the Paying Agency Agreement;

- (ii) the Trust Deed;
- (iii) the Deed of Charge;
- (iv) the Mortgage Sale Agreement;
- (v) the Administration Agreement;
- (vi) the Cash Management Agreement;
- (vii) the Bank Agreement;
- (viii) the Liquidity Facility Agreement;
- (ix) the Master Definitions Schedule;
- (x) the Standby Administration Agreement;
- (xi) the Swap and Interest Rate Cap Agreement;
- (xii) the Scottish Declaration of Trust;
- (xiii) the Corporate Services Agreement;
- (xiv) the Swap and Interest Rate Cap Guarantee; and
- (xv) the declaration by the Share Trustee in respect of its shareholding in Holdings dated 16 January 2007 (the **Share Trust Deed**).

9. 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 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 Offering Circular 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 Offering Circular together with any amendments or supplements thereto.

GLOSSARY

£.....	3
1970 Act	75
1999 Regulations	35
A Noteholders.....	1, 124, 126
A Notes	1
A Principal Deficiency	50
A Principal Deficiency Sub-Ledger	50
A-B Note Pool Factor	142
A-B Note Principal Amount Outstanding	142
A-B Note Principal Payment	141
Account Bank	2, 6, 19
Accountholder	122
Accrued Income Scheme	155
Actual Redemption Funds	62, 132
Administration Agreement	11, 19
Administration Fee	106
Administrator.....	2, 6, 11
Agent	124
Agent Bank.....	6, 19, 124
Agents.....	124
AIGFP	69
Available Capital Funds	62, 133
Available Commitment	45
Available Revenue Funds.....	58, 129
B Noteholders.....	1, 124, 126
B Notes	1
B1 Note Principal Deficiency Limit.....	51
B1 Noteholders.....	1, 124, 126
B1 Notes	1
B1 Principal Deficiency	50
B1 Principal Deficiency Sub-Ledger.....	50
B1 Residual Amount	138
B2 Note Principal Deficiency Limit.....	51
B2 Noteholders.....	1, 124, 126
B2 Notes	1
B2 Principal Deficiency	50
B2 Principal Deficiency Sub-Ledger.....	50
B2 Residual Amount	139
BACS.....	105
Balance	102
Bank.....	68
Bank Agreement.....	19
Banque AIG.....	69
Basic Terms Modification	148
Basis Rate Swap	28, 53
Basis Rate Swap Provider Default Payment.....	59, 130
Basis Rate Swap Termination Amounts.....	49
BBR-linked Mortgage Loans	80
Borrowers	17
BOs.....	30
business day.....	151

Business Day	136, 145
Buy To Let Mortgage Loans	85
C Note Pool Factor	142
C Note Principal Payment	141
C Noteholders	1, 124, 126
C Residual Amount	139
Cash Management Agreement	19
Cash Manager	2, 6
CCJs.....	30
Charged Assets	21
Clearing Systems	125
Clearstream, Luxembourg	124
Collections Account	22
Co-Managers	2, 7
Commission.....	69
Commitment.....	45
Committed Further Advances.....	62
Common Safekeeper	124
Completion Mortgage Pool	7
Condition	3
Conditions	124
Consumer Credit Act.....	36
Corporate Services Agreement.....	20
Corporate Services Provider.....	2, 7, 20
CPR	112
Deed of Charge.....	19, 124
Definitive Notes.....	125
Determination Date	58, 129
Determination Period.....	48
Deutsche Bank.....	68
Deutsche Bank Group.....	68
Discount BBR-linked Mortgage Loans	52, 80
Discount LIBOR- linked Mortgage Loans	52
Discount LIBOR-linked Mortgage Loans	80
Discount Reserve Account	47
Discount Reserve Applicable Amount	47
Discount Reserve Required Amount	48
Discounted Mortgage Loans.....	48
Distance Marketing Regulations	36
Effective Interest Margin.....	48
Eligible Advance Date.....	101
Eligible Dates	7
EMU	152
Enforcement Notice.....	146
English and Welsh Mortgage	84
English Mortgage Loans.....	73
euro	152
Euroclear	124
Event of Default	146
Exchange Date.....	121
Exchange Event.....	121
Expected Differential.....	48
Final Payment Date	1, 140
Fitch.....	1
Fixed BBR-linked Mortgage Loans	52, 80

Fixed LIBOR-linked Mortgage Loans	52, 80
Fixed Rate Mortgage Loans	54
Fixed/Floating Rate Swap	29, 54
Fixed/Floating Rate Swap Provider Default Payment.....	59, 131
Fixed/Floating Rate Swap Termination Amounts	49
Framework.....	39
FSA.....	35
Further Advance	107
Further Advances.....	7
Further Advances Account.....	22
Further Advances Ledger	50
Global Note	12, 125
Global Notes.....	12, 125
Guidance Note	35
Guidelines.....	37
HMRC	154
Holdings	63
ICTA 1988.....	154
IFSRA.....	1
Initial Mortgage Pool.....	8
Interest Amount	138
Interest Determination Date	1, 137
Interest Only Mortgage Loan	81
Interest Only Mortgage Loans.....	28
Interest Period.....	1, 136
Interest Rate Cap	53
Investment Properties	85
Irish Paying Agent.....	2, 7, 124
Irish Stock Exchange.....	138
ISDA.....	20
ISDA Master Agreement.....	20
Issue Date	1, 124
Issuer	1
Issuer Accounts	49
Issuer Profit	60, 131
Issuer Transaction Account.....	22
IVAs	30
Joint Legislation	37
Lead Manager.....	2, 7
Ledgers	50
Lending Criteria.....	82
LIBOR	1, 137
LIBOR-linked Mortgage Loans	80
LIBOR-linked Mortgage Rate.....	80
Liquidity Drawdown Date.....	45
Liquidity Drawing	43
Liquidity Facility	43
Liquidity Facility Agreement	20, 43
Liquidity Ledger.....	43
Liquidity Maximum Amount	45
Liquidity Provider	2, 6
Listing Agent.....	7
Loan Expected Differential	48
LTV	80
Luxembourg Paying Agent.....	19

M Noteholders	1, 124, 126
M Notes	1
M1 Note Principal Deficiency Limit	51
M1 Noteholders	1, 124, 126
M1 Notes	1
M1 Principal Deficiency	50
M1 Principal Deficiency Sub-Ledger	50
M1 Residual Amount	138
M2 Note Principal Deficiency Limit	51
M2 Noteholders	1, 124, 126
M2 Notes	1
M2 Principal Deficiency	50
M2 Principal Deficiency Sub-Ledger	50
M2 Residual Amount	138
Managers	7
Managers	2
Master Definitions Schedule	124
MERC Holders	1
MERC Ledger	50
MERCs	1
Minimum Swap and Interest Rate Cap Provider Ratings	54
Monthly Payment	100
Mortgage	7
Mortgage Conditions	81
Mortgage Early Repayment Amount	107
Mortgage Early Repayment Charge	107
Mortgage Loan	7
Mortgage Pool	8
Mortgage Sale Agreement	8, 19
Newly Originated Loan	9
Newly Originated Loan Eligible Date	7
Newly Originated Loan Qualifying Date	9
Non-Conforming Borrowers	30
Northern Ireland Registries	33
Northern Irish Mortgage	84
Northern Irish Mortgage Loans	73
Note LIBOR	1, 52, 53, 112, 137
Noteholders	1, 124, 125
Notes	1
Notes Subscription Agreement	19, 157
Notional Amount	53
Offering Circular	1
Official List	1
OFT	35
Ombudsman	39
Operating Account	22
Optional Redemption	17, 143
Packagers	87
Participating Member State	152
Paying Agency Agreement	19, 124
Paying Agent	124
Paying Agents	19, 124
Payment Date	1, 136
Permanent Global Note	12, 125
Permitted Withdrawals	57

Pool Factor	142
Post-Enforcement Priority of Payments	13
Pre-Enforcement Revenue Priority of Payments	58, 129
Pre-Funded Mortgage Loan.....	7
Pre-Funded Mortgage Loans Ledger.....	10
Pre-Funded Mortgage Pool.....	7
Pre-Funded Mortgage Pool Amount.....	9
Pre-Funded Mortgage Pool Interest Shortfall.....	51
Pre-Funded Mortgage Pool Purchase Price	100
Presentation Date.....	144
Principal Amount Outstanding	17, 142
Principal Deficiency	50
Principal Deficiency Ledger.....	50
Principal Deficiency Sub-Ledger	51
Principal Deficiency Sub-Ledgers.....	50
Principal Funds.....	49
Principal Ledger	50
Principal Paying Agent.....	2, 7, 19, 124
Principal Payment.....	141
Principal Priority of Payments.....	60, 132
Principal Rebate.....	10, 143
Property	8
Prospectus Directive.....	1
Rate of Interest	1, 137
Rating Agencies.....	1
Redenomination Date	151
Reference Bank	140
Registers of Scotland.....	33
Registrar	2, 7, 19, 124
Related Security.....	7, 128
Relevant Company	150
Relevant Date	145
Relevant Margin	153
Repayment Mortgage Loan	81
Repayment Mortgage Loans.....	28
Reserve Account.....	46
Reserve Account Determination Date	46
Reserve Account Excess.....	46
Reserve Account Required Amount	46
Reserve Interest Rate.....	137
Residual Holders	1
Residuals	1
Revenue Ledger.....	50
S&P	1
Scottish Declaration of Trust.....	20
Scottish Mortgage.....	84
Scottish Mortgage Loans	73
Scottish Mortgages	20
Screen Rate.....	137
Secured Creditors	21, 128
Securities Act	2, 157
Security.....	129
Seller.....	1, 2, 6
Share Trust Deed	161
Share Trustee	2, 7

Stabilising Manager.....	4
Standard Conditions	75
Standby Account	44
Standby Administration Agreement	11, 19
Standby Administrator.....	2, 6
Standby Drawing	44
Standby Facility.....	43
sterling	3
Substitute Mortgage Loan	109
Supplemental Declarations of Trust	20
Swap and Interest Rate Cap Agreement	20
Swap and Interest Rate Cap Guarantee	20, 22, 55
Swap and Interest Rate Cap Guarantor.....	2, 6, 55, 69
Swap and Interest Rate Cap Provider	2
Swap and Interest Rate Cap Provider	6
Swap Payments Ledger	50
Temporary Global Note.....	12, 124
the Agent Bank	2
Transaction Documents	34, 135
Transaction Parties	2
Treaty.....	152
Trust Deed	124
Trustee	2, 6, 124
Unadjusted Margin	48
Unfair Practices Directive	39
UTCCR.....	36, 102
VMS	11
WAFF	10, 101
WALS.....	10, 101
Warranties	31

ISSUER

Eurohome UK Mortgages 2007-1 plc

35 Great St. Helen's

London

EC3A 6AP

TRUSTEE

Deutsche Trustee Company Limited

Winchester House

1 Great Winchester Street

London

EC2N 2DB

LEGAL ADVISERS

To the Arranger, Lead Manager, Seller and Issuer

As to English Law

Allen & Overy LLP

One Bishops Square

London

E1 6AO

As to Scots Law

Tods Murray LLP

Edinburgh Quay

133 Fountainbridge

Edinburgh

EH3 9AG

As to Northern Irish Law

Cleaver Fulton Rankin Solicitors

50 Bedford Street

Belfast BT2 7FW

To the Trustee as to English Law

Baker & McKenzie LLP

100 New Bridge Street

London

EC4V 6JA

LEAD MANAGER

Deutsche Bank AG, London Branch

Winchester House

1 Great Winchester Street

London

EC2N 2DB

PRINCIPAL PAYING AGENT

Deutsche Bank AG, London Branch

Winchester House

1 Great Winchester Street

London

EC2N 2DB

IRISH PAYING AGENT

Deutsche International Corporate Services

(Ireland) Limited

5 Harbourmaster Place

International Financial Services Centre

Dublin 1

Ireland

LISTING AGENT

Deutsche Bank Luxembourg S.A.

2 Boulevard Konrad Adenauer

L-1115 Luxembourg

ACCOUNTANTS TO THE ISSUER

KPMG Audit plc

Member of the Institute of Chartered Accountants in England and Wales

8 Salisbury Square

London

EC4Y 8BB