

PROSPECTUS

PHOENIX FUNDING 3 LIMITED

(incorporated in Ireland with limited liability under registered number 463089)

€3,200,000,000 MORTGAGE BACKED FLOATING RATE NOTES DUE 2050

€3,040,000,000

Class A Mortgage Backed Floating Rate Notes due 2050

Issue Price: 100 per cent.

€160,000,000

Class B Mortgage Backed Floating Rate Notes due 2050

Issue Price: 100 per cent.

The €3,200,000,000 Mortgage Backed Floating Rate Notes due December 2050 of Phoenix Funding 3 Limited (the "Issuer") issued pursuant to this Prospectus will comprise of €3,040,000,000 Class A Mortgage Backed Floating Rate Notes due 2050 (the "Class A Notes") and €160,000,000 Class B Mortgage Backed Floating Rate Notes due December 2050 (the "Class B Notes" and together with the Class A Notes, the "Notes").

Interest on the Notes is payable quarterly in arrears on 10 March, 10 June, 10 September and 10 December (or if such day is not a business day, as defined under "Summary Information - The Notes" below, the next following business day) in each year, the first such payment to be made on 10 March, 2009. Interest on the Notes shall accrue at an annual rate equal to the sum of the European Interbank Offered Rate ("EURIBOR") for 3 month deposits in euro ("Note EURIBOR") plus a margin of 0.70 per cent. per annum in relation to the Class A Notes until the Interest Payment Date (as defined under "Summary Information - The Notes" below) falling in December 2015 and thereafter, 1.40 per cent. per annum; and 1.25 per cent. per annum in relation to the Class B Notes until the Interest Payment Date falling in December 2015 and thereafter 2.25 per cent. per annum.

The Notes constitute direct, secured and unconditional obligations of the Issuer and will be issued simultaneously. The Class A Notes will rank in priority to the Class B Notes in point of security and payment of interest and principal.

This prospectus ("Prospectus") has been approved by the Irish Financial Services Regulatory Authority (the "Financial Regulator"), as competent authority under Directive 2003/71/EC (the "Prospectus Directive"). The Financial Regulator only approves this prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange Limited (the "ISE") for the Notes to be admitted to the official list and trading on its regulated market.

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 KBC Mortgage Bank trading as KBC Homeloans ("KBCH"), KBC Bank Ireland plc ("KBCI"), Citicorp Trustee Company Limited (the "Trustee") or UBS Limited (the "Arranger").

The Class A Notes are expected, on issue, to be assigned an Aaa rating by Moody's Investors Service Limited ("Moody's" or the "Rating Agency"). The Class B Notes are expected, on issue, to be assigned an A1 rating by Moody's. 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 Moody's.

If any withholding or deduction for or on account of tax is applicable to payments of interest or principal on the Notes, such payment will be made subject to such withholding or deduction without the Issuer being obliged to pay any additional amounts as a consequence.

Each class of the Notes will initially be represented by a temporary global note in bearer form (each a "Temporary Global Note"), without interest coupons, which is expected to be deposited with a common safekeeper for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 11 November, 2008 (the "Issue Date" or the "Closing Date"). Each such Temporary Global Note will be exchangeable 40 days after the later of the Issue Date and the commencement of the offering of the Notes upon certification of non-U.S. beneficial ownership for interests in a permanent global note in bearer form (a "Permanent Global Note"), without interest coupons, (together with each Temporary Global Note, the "Global Notes") for the relevant class of Notes which will also be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Save in certain limited circumstances, Notes in definitive form, with interest coupons attached, will not be issued in exchange for the Global Notes.

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

A "Risk Factor" section is included in this Prospectus. Prospective Noteholders should be aware of the issues that are summarised in that section.

UBS Investment Bank

Arranger

The date of this Prospectus is 10 November, 2008

Except as set out below, the Issuer accepts responsibility for the information contained in this Prospectus. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus (save as set out below) is in accordance with the facts and does not omit anything likely to affect the import of such information.

KBCH has provided the descriptions under the headings “KBC Mortgage Bank trading as KBC Homeloans” and “The Mortgage Pool” and accepts responsibility for the information in those sections accordingly. To the best of the knowledge and belief of KBCH (having taken all reasonable care to ensure that such is the case), the information contained in these sections is in accordance with the facts and does not omit anything likely to affect the import of such information. KBCH does not accept responsibility for this document as a whole.

KBCI has provided the description under the heading “The Swap Counterparty and Transaction Account Bank” and accepts responsibility for the information contained in that section accordingly. To the best of the knowledge and belief of KBCI (having taken all reasonable care to ensure that such is the case), the information contained in such section is in accordance with the facts and does not omit anything likely to affect the import of such information. KBCI does not accept responsibility for this document as a whole.

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

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer or the Arranger, to subscribe for or purchase any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Arranger to inform themselves about and to observe such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Prospectus, see “Subscription and Sale” below.

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Financial Regulator. The Issuer is not regulated by the Financial Regulator by virtue of the issue of the Notes.

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

References in this document to “€” and “euro” are to the lawful currency for the time being of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

TABLE OF CONTENTS

SUMMARY INFORMATION.....	4
RISK FACTORS	19
CREDIT AND LIQUIDITY STRUCTURE	31
THE ISSUER.....	37
USE OF PROCEEDS.....	39
KBC MORTGAGE BANK TRADING AS KBC HOMELOANS.....	40
THE SWAP COUNTERPARTY AND TRANSACTION ACCOUNT BANK	41
THE MORTGAGE POOL	42
ESTIMATED WEIGHTED AVERAGE LIVES OF THE NOTES	58
DESCRIPTION OF THE NOTES.....	61
TAXATION.....	83
SUBSCRIPTION AND SALE.....	85
GENERAL INFORMATION	87

SUMMARY INFORMATION

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

The Issuer

Phoenix Funding 3 Limited is a private limited company incorporated in Ireland with registered number 463089. The issued share capital of the Issuer comprises 1000 ordinary shares of €1 each which are fully paid up and held by Capita Trust Nominees No.1 Limited (in such capacity, the **“Share Trustee”**) under the terms of a discretionary trust.

The Issuer intends to acquire first ranking mortgages secured over residential properties situated in Ireland (**“Mortgages”**) from KBCH, such acquisition to be financed by the issue of the Notes.

Originator

KBC Mortgage Bank trading as KBC Homeloans (**“KBCH”**), whose registered office is at Sandwith Street, Dublin 2.

Mortgage Management

KBCH (in such capacity, the **“Mortgage Manager”**) will be appointed under the terms of the mortgage management and agency agreement between the Issuer, the Trustee and the Mortgage Manager to be dated the Issue Date (the **“Mortgage Management and Agency Agreement”**) as agent for the Issuer, *inter alia*, to manage the Mortgage Pool (as defined under “The Mortgages” below) on behalf of the Issuer and the Trustee and, *inter alia*, to manage all cash transactions and maintain all cash management ledgers as agent for the Issuer.

The Mortgage Manager is obliged under the terms of the Mortgage Management and Agency Agreement, *inter alia*, to manage the Mortgage Pool, including the collection of payments under the Mortgages, the operation of the arrears procedures and the setting of interest rates under the Mortgages and to report on a quarterly basis] to the Trustee and the Issuer on the Mortgage Pool and the management of the Mortgages and other matters relating to the administrative functions as described herein (see “The Mortgage Pool – Management of the Mortgage Pool” below).

The Mortgage Manager is not responsible for payment of principal or interest on the Notes.

The Trustee

Citicorp Trustee Company Limited (the **“Trustee”**) will be appointed pursuant to a trust deed (the **“Trust Deed”**) to be entered into on the Issue Date between the Issuer and the Trustee to represent, *inter alia*, the interests of the holders of the Notes.

The Trustee shall also hold the benefit of the security granted under a deed of charge and assignment to be entered into between, *inter alia*, the Issuer, KBCH and the Trustee (the **“Deed of Charge”**) on behalf of the Secured Creditors (as defined in the terms and conditions of the Notes), which shall include the Noteholders.

Transaction Account Bank

On the Issue Date, a bank account (the **“Transaction**

Account") will be opened in the name of the Issuer at KBCI, Sandwith Street, Dublin 2 (in such capacity, the **"Transaction Account Bank"**). Payments in respect of amounts due under the Mortgages which are credited to the Trust Account (as defined below) will be transferred to the Transaction Account. On each Interest Payment Date, amounts standing to the credit of the Transaction Account shall be applied in accordance with the Revenue Priority of Payments, the Principal Priority of Payments and the Transaction Documents (each as defined below).

The Swap Counterparty

The swap counterparty on the Issue Date will be KBCI (in such capacity, the **"Swap Counterparty"**). The Swap Counterparty will provide the Issuer with the benefit of a swap to hedge, inter alia, the mismatch between the actual interest charged by KBCH on the Mortgages and the floating interest rates on the Notes pursuant to the terms of an ISDA Master Agreement (Multi-Currency Cross Border) and Schedule and including the confirmations thereunder and any credit support annex relating thereto (the **"Swap Agreement"**).

The Rating Agency

It is expected that the Notes will be assigned ratings by Moody's Investors Service Limited (**"Moody's"** or the **"Rating Agency"**). It is expected that the Class A Notes, when issued, will be assigned a rating of Aaa by Moody's and the Class B Notes, when issued, will be assigned a rating of A1 rating by Moody's. 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 Moody's.

Subordinated Loan Provider:

On the Closing Date, KBCH (in this capacity, the **"Subordinated Loan Provider"**) will provide the Issuer with the benefit of a subordinated loan facility (the **"Subordinated Loan"**) for a maximum aggregate principal amount of €119,300,000 pursuant to the terms of an agreement to be entered into between the Subordinated Loan Provider, the Issuer and the Trustee (the **"Subordinated Loan Agreement"**). €900,000 of the proceeds of the Subordinated Loan will be used for meeting the fees and expenses arising in respect of the issue of the Notes on the Closing Date and €118,400,000 of the proceeds of the Subordinated Loan will be utilised to establish the Reserve Fund.

The Notes

The Notes: €3,040,000,000 Class A Mortgage Backed Floating Rate Notes due 2050 and €160,000,000 Class B Mortgage Backed Floating Rate Notes due December 2050; in each case to be constituted by the Trust Deed and sharing the same security.

Interest: payable in arrear on the 10th day of March, June, September and December in each year (unless such day is not a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System (**"TARGET"**) is open for business, in which case interest will be payable on the next such day (each such day a **"business day"**) (each an **"Interest Payment Date"**), the first Interest Payment Date being 10 March 2009, at a rate equal to Note EURIBOR plus a margin of:

- (i) 0.70 per cent. per annum in relation to the Class A Notes until the Interest Payment Date falling in December 2015, and thereafter 1.40 per cent. per annum; and
- (ii) 1.25 per cent. per annum in relation to the Class B Notes until the Interest Payment Date falling in December 2015,

and thereafter 2.25 per cent. per annum.

Estimated Weighted Average Lives: the average lives of the Notes cannot be accurately predicted, as the actual rate of redemption of the Mortgages and a number of other relevant factors are unknown. Calculations of the possible average lives can be made based on certain assumptions, including the rate at which the Mortgages are repaid or prepaid, whether the Issuer exercises its option to redeem the Notes (i) on the Interest Payment Date falling in December 2015 or on any Interest Payment Date thereafter; or (ii) on any Interest Payment Date on which the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Notes) of the Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes on the Issue Date; or (iii) on any Interest Payment Date in respect of which all of the holders of the Notes have consented to such redemption (see “Redemption and Purchase – Optional Redemption” and “Risk Factors – Yield and Prepayment Considerations” below). Based on the assumptions referred to under “Estimated Weighted Average Lives of the Notes” below and a constant prepayment rate of 12 per cent. per annum the average life of the Class A Notes is likely to be approximately 4.17 years and the average life of the Class B Notes is likely to be approximately 7.08 years in each case assuming that the Issuer redeems the Notes on the Interest Payment Date falling in December 2015 in accordance with the first paragraph of Condition 5(d).

The estimated weighted average lives of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the assumptions and estimates in this section will prove in any way to be realistic and they must therefore be viewed with considerable caution (see further “Estimated Weighted Average Life of the Notes” below).

Withholding Tax: payments of interest and principal on the Notes will be subject to any withholding taxes applicable to the Notes, the Swap Agreement and the Mortgages and neither the Issuer nor the Paying Agents will be obliged to pay additional amounts in relation thereto.

Form and Denomination: each class of Notes (which will be in the denomination of €50,000 each, subject to pro rata redemption of Notes of the same class) will initially be represented by a single Temporary Global Note, without interest coupons attached. Each Temporary Global Note will be exchangeable, subject as provided under the Conditions (as defined below) for a Permanent Global Note, without interest coupons attached. The Permanent Global Notes will not be exchangeable for definitive Notes save in certain limited circumstances (for which see further “Description of the Notes” below).

Redemption and Purchase:

(i) Final Redemption

Unless previously redeemed, the Notes will mature on the Interest Payment Date falling in December 2050.

(ii) *Mandatory Redemption in Part*

Prior to enforcement of the security for the Notes, the Class A Notes and the Class B Notes will be subject to mandatory redemption in part by the Issuer on each Interest Payment Date in an amount equal to the Class A Available Redemption Funds and the Class B Available Redemption Funds (each as defined in Condition 5 of the Notes), respectively.

(iii) *Optional Redemption*

- (a) The Issuer may, at its option, redeem all (but not some only) of the Notes at their Principal Amount Outstanding and accrued interest thereon in the event of certain tax changes affecting the Notes, the Swap Agreement or the Mortgages comprising the Mortgage Pool at any time;
- (b) The Issuer may, at its option, redeem all (but not some only) of the Notes at their Principal Amount Outstanding and accrued interest thereon on the Interest Payment Date falling in December 2015 or on any Interest Payment Date falling thereafter;
- (c) The Issuer may, at its option, redeem all (but not some only) of the Notes at their Principal Amount Outstanding and accrued interest thereon on any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Issue Date; and
- (d) The Issuer may at its option redeem all (but not some only) of the Notes at their Principal Amount Outstanding and accrued interest thereon on any Interest Payment Date in respect of which all of the holders of the Notes have consented to such redemption.

(iv) *Purchase*

The Issuer shall not purchase any Notes.

Security for the Notes

The Notes will be obligations of the Issuer only. Pursuant to the Deed of Charge, the Notes will be secured in favour of the Trustee for the benefit of itself and on trust for other persons expressed to be Secured Creditors (as defined in the Conditions of the Notes) thereunder, *inter alia*, by:

- (i) a first fixed charge over the Issuer's right, title, interest and benefit in the Mortgages and other collateral security relating to the Mortgages (as described under "The Mortgages" below) (which, until notice is served on the Borrowers (as defined below) and, in respect of Mortgages of property comprising registered land, until registration is effected will take effect in equity);
- (ii) an assignment by way of first fixed security of the Issuer's right, title, interest and benefit in certain block buildings policies, title insurance policies, contingency policies, and mortgage indemnity policies to the extent that they relate to the Mortgages and any other insurance policies relating to the Mortgages (the "**Insurance Contracts**") and in life policies relating to Mortgages;

- (iii) an assignment by way of first fixed security of the Issuer's right, title, interest and benefit in the Mortgage Management and Agency Agreement, the mortgage sale agreement to be entered into between KBCH, KBCL, the Issuer and the Trustee (the **"Mortgage Sale Agreement"**), the agency agreement between, *inter alia*, the Issuer, the Trustee, Citibank, N.A. as agent bank and as principal paying agent dated the Issue Date (the **"Agency Agreement"**), the Declaration of Trust, the Liquidity Facility Agreement (if any), the Bank Agreement, the Swap Agreement, the Subordinated Loan Agreement (all as defined under "Credit and Liquidity Structure" below) (all such documents together, the **"Transaction Documents"**);
- (iv) a first fixed charge over the Issuer's right, title, interest and benefit in the Trust Account (as defined under "Credit and Liquidity Structure" below) and the Transaction Account, and all amounts standing to the credit thereto and any other bank account of the Issuer from time to time; and
- (v) a first floating charge over the whole of the undertaking, property, assets and rights of the Issuer not subject to the security described in (i) to (iv) above.

The security interests referred to in (i) to (v) above are hereinafter referred to as the **"Security"**.

Priority of Payments

Revenue

Prior to the enforcement of the Security under the Deed of Charge, amounts standing to the credit of the Transaction Account and which will be recorded in the Revenue Ledger (as referred to below) in accordance with the provisions of the Deed of Charge and the Mortgage Management and Agency Agreement, will comprise, as at each Determination Date (as defined below), the sum of:

- (i) all payments (other than amounts representing principal and all other unpaid amounts accrued and/or falling due prior to the Issue Date) from time to time received by the Issuer into the Transaction Account during the relevant Collection Period (as defined below) in respect of Mortgages from Borrowers (as defined below) in respect of the Mortgage loans (but which will exclude all payments by Borrowers in respect of amounts properly belonging to third parties (including but not limited to monies owing to any party in respect of reimbursement for direct debit recalls and overpayments by Borrowers, all payments in respect of insurance premiums or payments in respect of the TRS scheme (as defined under "Risk Factors – TRS scheme" below)) and any other amounts which have not been received by the Issuer as cleared funds);
- (ii) all other payments (other than amounts representing principal and all other unpaid amounts accrued and/or falling due prior to the Issue Date and the payments described in item (i) above) standing to the credit of the Transaction Account at the end of the relevant Collection Period;

- (iii) interest received on amounts in the Transaction Account since the immediately preceding Interest Payment Date or expected to be received from (and including) such Determination Date up to (but excluding) the immediately succeeding Interest Payment Date;
- (iv) all payments to be received by the Issuer pursuant to the Swap Agreement on the immediately succeeding Interest Payment Date;
- (v) amounts in respect of interest received or expected to be received on Authorised Investments (as defined under "Credit and Liquidity Structure – Authorised Investments" below) made by or on behalf of, the Issuer prior to the immediately succeeding Interest Payment Date;
- (vi) the proceeds of any drawing from the Reserve Ledger (as defined below) required to cover any shortfall between the Initial Available Revenue Funds (as defined under "Credit and Liquidity Structure – Initial Available Revenue Funds" below) and the aggregate of items (i) to (vii) of the Revenue Priority of Payments to be made on the immediately succeeding Interest Payment Date;
- (vii) if applicable, the proceeds of any drawing from the Liquidity Ledger (as defined under "Credit and Liquidity Structure – Liquidity" below) required to cover any shortfall between Available Revenue Funds (as defined below) and the aggregate of items (i), (ii), (iii), (iv) and (vi) of the Revenue Priority of Payments on the immediately succeeding Interest Payment Date;
- (viii) if applicable, the proceeds of any drawing under any Liquidity Facility (as defined below) required to cover any shortfall between Available Revenue Funds and the aggregate of items (i), (ii), (iii), (iv) and (vi) of the Revenue Priority of Payments on the immediately succeeding Interest Payment Date; and
- (ix) to the extent that there are no funds or insufficient funds available to be drawn under the Reserve Ledger or, if applicable, the Liquidity Ledger or any Liquidity Facility, any amounts of Available Redemption Funds (as defined under "Priority of Payments – Principal" below) to be applied on the immediately succeeding Interest Payment Date as referred to in item (i) of the Principal Priority of Payments,

less any Excluded Items (save for item (iii) of the definition of Excluded Items) (as defined below) paid or payable on or prior to the immediately succeeding Interest Payment Date (such amounts being hereinafter referred to as "**Available Revenue Funds**"), which will be applied by the Issuer on the immediately succeeding Interest Payment Date as follows (in each case only

if and to the extent that payments or provisions having a higher order of priority have been made in full), the Revenue Ledger being debited to the extent of each such payment:

- (i) *first*, the remuneration payable to the Trustee and any appointee of the Trustee and any costs, charges, liabilities and expenses (plus value added tax, if any), incurred by it and any appointee of the Trustee under the provisions of, or in connection with, the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest on such amounts as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
- (ii) *second*, to pay *pro rata*: (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable by the Issuer in respect of legal or compliance matters to persons who are not party to any of the Transaction Documents and incurred with or without breach by the Issuer pursuant to the Trust Deed, the Deed of Charge and/or any other Transaction Document and not provided for payment elsewhere and to provide for any such amounts expected to become due and payable by the Issuer after that Interest Payment Date and prior to the next Interest Payment Date; (b) to provide for the Issuer's liability or possible liability for corporation tax and/or advance corporation tax; (c) an amount equal to any premia payable by or on behalf of the Issuer in respect of insurance contracts; (d) any fees and other amounts due and payable to Capita Trust Company (Ireland) Limited ("**Capita**") and (e) any fees due and payable to the directors of the Issuer;
- (iii) *third*, to pay *pro rata*: (a) amounts due and/or which will become due and payable (plus value added tax, if any) to the Paying Agents and Agent Bank under the Agency Agreement; and (b) the fees, costs and expenses (inclusive of value added tax) of any replacement or successor Mortgage Manager to KBCH appointed under the terms of the Mortgage Management and Agency Agreement;
- (iv) *fourth*, in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of (a) all amounts of interest accrued but unpaid in respect of the Class A Notes, (b) all amounts due and payable to the Swap Counterparty under the Swap Agreement (other than Swap Termination Amounts (as defined below)) and (c) in or towards satisfaction of any amounts of principal, interest, fees and any other amounts due and payable to any Liquidity Facility Provider under any Liquidity Facility (each as defined below);
- (v) *fifth*, in or towards satisfaction of sums to be credited to the Class A Principal Deficiency Ledger (as defined below) until the debit balance, if any, on the Class A Principal Deficiency Ledger is reduced to zero;

- (vi) *sixth*, in or towards satisfaction of all amounts of interest accrued but unpaid in respect of the Class B Notes;
- (vii) *seventh*, in or towards satisfaction of sums to be credited to the Class B Principal Deficiency Ledger (as defined below) until the debit balance, if any, on the Class B Principal Deficiency Ledger is reduced to zero;
- (viii) *eighth*, to the Reserve Ledger (if required), until the credit balance of the Reserve Ledger has reached the Reserve Ledger Required Amount (as defined below);
- (ix) *ninth*, in or towards payment of the mortgage management fee (inclusive of value added tax, if any) payable to KBCH, together with costs and expenses incurred by KBCH as Mortgage Manager under the Mortgage Management and Agency Agreement which are due and/or which will become due and payable prior to the next Interest Payment Date to the extent that such amounts do not exceed 0.15 per cent. of the aggregate principal balance of the Mortgages on the immediately preceding Determination Date divided by twelve, together with all reasonable costs and expenses incurred by KBCH as Mortgage Manager during such Collection Period, subject to and in accordance with the provisions of the Mortgage Management and Agency Agreement and the Deed of Charge;

and then in making the following payments, provided that no amounts standing to the credit of the Reserve Ledger are to be applied such that the balance of the Reserve Ledger becomes less than the Reserve Ledger Required Amount and, after application of amounts in accordance with the Available Redemption Funds (as defined below), no deficiency is recorded on the Principal Deficiency Ledgers (as defined below) on such Interest Payment Date:

- (x) *tenth*, to pay any other amounts payable by the Issuer to the Mortgage Manager which are not paid under (ix) above;
- (xi) *eleventh*, to pay any other amounts payable by the Issuer under the Swap Agreement which are not paid under (iv) above;
- (xii) *twelfth*, to pay amounts payable in respect of the Subordinated Loan (as defined below); and
- (xiii) *thirteenth*, to pay the surplus (if any) to the Issuer which may be applied in paying dividends to the shareholders of the Issuer,

(together, the “**Revenue Priority of Payments**”).

“**Collection Period**” means the period from the Issue Date to (but excluding) the Determination Date prior to the first Interest Payment Date, and thereafter, each successive period from (and including) a Determination Date to (but excluding) the next following Determination Date.

“Determination Date” means each day which is five business days before an Interest Payment Date.

“Swap Termination Amounts” means any payment due to be made by the Issuer under the Swap Agreement upon termination of the Swap Agreement where the sole Defaulting Party or Affected Party (each as defined in the Swap Agreement) in respect of such termination was the Swap Counterparty.

See further the section “Credit and Liquidity Structure” below for a description of the Reserve Ledger, the Reserve Ledger Required Amount, the Class A Principal Deficiency Ledger and the Class B Principal Deficiency Ledger.

Principal

Prior to the enforcement of the Security under the Deed of Charge, amounts standing to the credit of the Transaction Account and which will be recorded in the Principal Ledger (as referred to below) in accordance with the provisions of the Deed of Charge and the Mortgage Management and Agency Agreement will comprise, as at each Determination Date, the sum of:

- (i) all payments representing principal and all other unpaid amounts accrued and/or falling due prior to the Issue Date from time to time received by the Issuer into the Transaction Account in respect of Mortgages from Borrowers in respect of the Mortgage loans during the relevant Collection Period;
- (ii) amounts (other than amounts described in item (i) above) in respect of principal received or expected to be received on Authorised Investments made by or on behalf of the Issuer and referable to principal amounts invested as Authorised Investments, prior to the immediately succeeding Interest Payment Date;
- (iii) amounts (if any) to be applied in reducing the Principal Deficiency Ledgers on such Interest Payment Date pursuant to items (v) or (vii) (as applicable) of the Revenue Priority of Payments; and
- (iv) amounts to be released from the Retained Principal Ledger at the discretion of the Issuer on the immediately succeeding Interest Payment Date;

less (a) any Excluded Items (save for item (iii) of the definition of Excluded Items) paid or payable on or prior to the immediately succeeding Interest Payment Date (b) amounts (if any) used or to be used to fund or acquire Further Advances, Redraws and Retention Advances (each as defined below) during the relevant Collection Period and prior to or on the immediately succeeding Interest Payment Date (to the extent that such Further Advances, Redraws and Retention Advances cannot be funded from the balance of the Retained Principal Ledger), (c) amounts (if any) to be credited to the Retained Principal Ledger on the immediately succeeding Interest Payment Date and (d) amounts (if any) which are to be credited to the Liquidity Ledger on the immediately succeeding Interest Payment Date, (such amounts being hereafter referred to as **“Available Redemption Funds”** and from which the Class A Available Redemption Funds and the Class B Available Redemption Funds will be calculated by the Mortgage Manager on the relevant Determination Date),

provided that no Excluded Items deducted in computing Available Revenue Funds shall be double counted as a deduction for the purposes of computing Available Redemption Funds. Such Available Redemption Funds will be applied by the Issuer on the immediately succeeding Interest Payment Date as follows (in each case only if and to the extent that payments having a higher order of priority have been made in full, the Principal Ledger being debited to the extent of each payment);

- (i) *first*, to the extent that the Issuer has insufficient funds available on a Determination Date to pay items (i) to (vi) (inclusive) of the Revenue Priority of Payments, in or towards the payments, transfers, provisions and credits referred to at items (i) to (v) inclusive of the Revenue Priority of Payments and, for so long as the B Test is satisfied at item (vi) of the Revenue Priority of Payments, to the extent that the Available Revenue Funds are less than amounts required to make such payments, transfers, provisions and credits;
- (ii) *second*, if applicable, in or towards establishing or replenishing the Liquidity Reserve up to the Liquidity Reserve Required Amount (as defined below);
- (iii) *third*, in or towards payment of principal due or overdue on the Class A Notes in accordance with the provisions of Condition 5(b) until no Class A Notes remain outstanding; and
- (iv) *fourth*, provided no Class A Notes remain outstanding, in or towards payment of principal due or overdue on the Class B Notes in accordance with the provisions of Condition 5(b),

(together the “**Principal Priority of Payments**”).

To the extent that the monies available on the relevant Interest Payment Date are sufficient, such amount shall be paid to the persons entitled thereto or so applied on such Interest Payment Date and after such payment or application it is not intended that any surplus will be accumulated in the Issuer.

Excluded Items

The following items are included in those items (“**Excluded Items**”) which may be paid or provided for prior to the allocation of sums under the Revenue Priority of Payments and/or the Principal Priority of Payments:

- (i) certain monies which properly belong to third parties (including, but not limited to monies owing to any party in respect of reimbursement for direct debit recalls and overpayments by Borrowers, certain amounts payable by Borrowers to third parties such as insurance providers, or by the Revenue Commissioners in Ireland under the TRS scheme for the deduction of tax relief at source);
- (ii) amounts payable to KBCH under the Mortgage Sale Agreement in respect of further consideration or reconciliations of any amount in respect of the purchase on the Issue Date of the relevant Mortgages acquired;
- (iii) amounts to be applied by the Issuer in funding and/or acquiring Further Advances, Redraws (as defined below) or Retention Advances (as defined below) during an

Interest Period subject to the conditions as to the granting of Further Advances, Redraws or Retention Advances contained in the Mortgage Management and Agency Agreement;

- (iv) any amounts received by the Issuer from the Swap Counterparty, in respect of collateral transferred to the Issuer in accordance with the terms of the Swap Agreement (other than collateral amounts applied in satisfaction of termination payments due to the Issuer following the designation of an early termination date under the Swap Agreement), and any interest earned on all such transferred collateral; and
- (v) amounts to be applied by the Issuer in the amortisation of the Subordinated Loan in accordance with the Subordinated Loan Agreement, provided that such payments of principal are made from amounts released from the Reserve Ledger pursuant to sub-clauses (ii) and (iii) of the definition of Reserve Ledger Required Amount.

Covenants

The Issuer will be subject to covenants including a negative pledge and an undertaking not to engage in any activity other than the ownership of the Mortgages and related assets and all activity provided for or envisaged pursuant to the Transaction Documents, the exercise of related rights and powers and other activities referred to herein or reasonably incidental thereto and to provide the Trustee with an annual certificate confirming amongst other things that no Event of Default (as defined in the Conditions of the Notes) or potential Event of Default has occurred.

The Mortgages

Mortgage Product Types: The Mortgage Pool (as defined below) will consist of Mortgages originated by KBCH which are intended for borrowers ("**Borrowers**") who are individuals who wish to use the Mortgages as a means to purchase or refinance a residential property situated in Ireland to be used either (i) as the Borrower's own residence, or (ii) for investment purposes.

Identity of Borrower: The identity of the Borrower will comprise any of the following:

- (i) an individual who is self-employed and for whom an accountant has furnished an income certificate or a set of financial statements as evidence of the individual's ability to repay the Mortgage (a "**Self-Employed Borrower**"); and
- (ii) any other individual (a "**Standard Borrower**"),

each such Self-Employed Borrower or Standard Borrower being referred to as a "**Borrower**".

Types of Interest Rate Terms: The interest rate terms for each Mortgage will comprise any of the following types:

- (i) Mortgages which are subject to or based on a variable rate of interest set by KBCH from time to time ("**Standard Variable Mortgages**") or which are initially subject to a discounted variable rate of interest set by KBCH from time to time and which then reverts to a variable rate of interest set by KBCH from time to time ("**Discounted Standard Variable Mortgages**");

- (ii) Mortgages which are subject to a fixed rate of interest set by reference to a pre-determined rate or series of rates for a fixed period or periods ("**Fixed Rate Mortgages**");
- (iii) Mortgages which are subject to a variable rate of interest calculated by reference to the European Central Bank benchmark main refinancing operations minimum bid rate (the "**ECB Rate**") and the relevant loan to value ratio ("**Tracker Rate Mortgages**");
- (iv) Mortgages which are subject to a variable rate of interest calculated by reference to the ECB Rate and the relevant loan to value ratio where the maximum rate of interest is capped for a maximum of three years from the date of initial drawdown and thereafter the variable rate of interest is uncapped ("**Capped Tracker Rate Mortgages**").

Mortgages which were but are no longer subject to a fixed or capped rate of interest are treated as and are referred to herein as Standard Variable Mortgages or Tracker Rate Mortgages.

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

- (i) Mortgages in relation to which monthly instalments, which can cover both interest and principal, are payable until the mortgage is fully repaid by its maturity ("**Repayment Mortgages**");
- (ii) Mortgages in relation to which the principal amount is not repayable before maturity and which require a policy of endowment life assurance (which is in certain cases a unit-linked policy) / or pension policy (an "**Endowment /Pension Policy**") to be charged by way of collateral security ("**Endowment /Pension Mortgages**"); and
- (iii) **Flexible Mortgages:** All Mortgages in the Completion Mortgage Pool (as defined below) are "**Flexible Mortgages**". Flexible Mortgages provide a Borrower with an option to redraw a portion of the principal of such Borrower's Mortgage ("**Redraws**") if and to the extent that such Borrower has previously made prepayments on his Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments and provided that the amount of such Redraw is limited to ensure that the outstanding balance of such Mortgage after such Redraw is no greater than the principal balance of such Mortgage which would have been outstanding at such time if the Borrower had made payments in accordance with the repayment plan for the repayment of such Mortgage. Redraws are only permitted at the discretion of KBCH.
- (iv) Mortgages in relation to which the Borrower has the option of paying interest only for a period during the term of the Loan. The maximum duration of such period is 3 years from the date of original drawdown of the Loan where the LTV ratio is greater than 80% and 5 years where the LTV ratio is less than 80%. At maturity of

these periods, KBCH may in certain circumstances at its discretion agree to extend a further interest only period to individual borrowers.

- (v) Certain Mortgages in the Mortgage Pool allow the Borrower to draw down a retained amount of principal upon satisfaction of certain conditions imposed by KBCH at the time of the initial Mortgage advance (“**Retention Advances**”). These conditions relate to the provision of satisfactory final inspection and valuation reports to KBCH in respect of works carried out to the relevant Property.

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

- (i) the Completion Mortgage Pool (as defined below);
- (ii) any Substitute Mortgages (as defined under “Substitutions” below) acquired by the Issuer; and
- (iii) any Further Advances (as defined below), Redraws and Retention Advances made on the security of a Mortgage comprised in the Mortgage Pool and funded and/or acquired by the Issuer in accordance with the provisions of the Mortgage Management and Agency Agreement and the Mortgage Sale Agreement,

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

The Mortgage Pool will comprise only of Mortgages originated by KBCH.

The “**Completion Mortgage Pool**” will comprise of the Mortgages (including accrued interest) purchased by the Issuer from KBCH on the Issue Date.

The Completion Mortgage Pool will be drawn (in accordance with the criteria summarised below) only from, and will substantially comprise the mortgages contained in a provisional portfolio of mortgages owned and selected by KBCH as at 3 November 2008 (the “**Cut-Off Date**”) (the “**Provisional Mortgage Pool**”). On the Cut-Off Date, the Provisional Mortgage Pool had the characteristics shown below:

Aggregate balances ⁽¹⁾	€3,225,728,007
Total number of Mortgages	18,719
Longest Maturity Date	4 October 2043
Weighted Average Seasoning	42.10 months
Average mortgage balance ⁽¹⁾	€172,324
Weighted average loan to value ratio (LTV) ⁽²⁾	66.06%
Weighted Average Interest Rate	5.19%

- (1) The balances referred to are to all principal amounts outstanding under each Mortgage.
- (2) LTV means the ratio of the amount of the principal balance outstanding to each Borrower as at 3 November 2008 to the latest valuation completed.

Prior to the Issue Date, in forming the Completion Mortgage Pool, KBCH will remove from the Provisional Mortgage Pool all Mortgages which (a) are fully redeemed or (b) do not comply with the warranties to be set out in the Mortgage Sale Agreement or (c) such Mortgages as are necessary to ensure that the aggregate principal balance of Mortgages comprised in the Completion Mortgage Pool are as close as possible to, but will not exceed, €3,200,000,000.

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

Further Advances, Redraws and Retention Advances: The Issuer may fund and acquire additional advances made to Borrowers (the "**Further Advances**"), Redraws and Retention Advances on the security of the relevant Property. Such Further Advances, Redraws and Retention Advances will be funded and acquired by the Issuer subject to the Issuer having available funds for such purposes and subject to the satisfaction of certain conditions as more particularly described in "The Mortgage Pool – Further Advances, Redraws and Retention Advances" below.

Substitutions: The Issuer may acquire Substitute Mortgages in the event that: (i) KBCH repurchases a Mortgage from the Issuer in the circumstances described under "The Mortgage Pool – Substitute Mortgages" below; and/or (ii) an unremedied breach of any of the representations and warranties set out in the Mortgage Sale Agreement in respect of a Mortgage occurs and KBCH is obliged to repurchase the relevant Mortgage and its collateral security and as consideration for such repurchase KBCH elects to transfer to the Issuer another mortgage originated by KBCH, in accordance with the Mortgage Sale Agreement.

Each such Mortgage acquired by the Issuer under (i) and/or (ii) above shall be a "**Substitute Mortgage.**"

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

- all customers must pass a credit search;
- each advance must be secured by a first legal mortgage over a freehold or leasehold residential property (with a minimum term of 70 years of the term remaining on the

lease from the granting of the Mortgage) in Ireland (the “**Property**” or the “**Properties**”);

- Borrowers must be at least 18 years old at the time of advance;
- each Mortgage must have an initial term of between 10 and 40 years from the date of the initial advance;
- the initial minimum advance required for a Mortgage is €10,000; and
- the loan to value ratio of each Mortgage at the date of the initial advance must be no more than 100 per cent. Where the loan to value ratio of a Mortgage is greater than 75 per cent. (or 80 per cent. in the case of Mortgages originated after 31 December 2005), mortgage indemnity insurance is normally required. Such mortgage indemnity insurance is taken out by KBCH and funded by KBCH.

Liquidity Facility

Initially, no liquidity facility provided by a third party will be made available to the Issuer. In certain circumstances, the Issuer may enter into a facility with a liquidity facility provider (a “**Liquidity Facility Provider**”). See “Credit and Liquidity Structure – Liquidity” below.

RISK FACTORS

The following is a summary of certain aspects of the issue of the Notes about which prospective Noteholders should be aware. The summary is not intended to be exhaustive and prospective Noteholders should read the detailed information set out in the section below entitled “Credit and Liquidity Structure” and elsewhere in this document and reach their own views prior to making any investment decision regarding the Notes.

The Issuer's Ability to meet its Obligations Under the Notes

The ability of the Issuer to meet its obligations in full in respect of payments of interest and principal on the Notes, including following the occurrences of any event of default of the Issuer (an “Event of Default” as set out in Condition 9(a)), will depend upon and is limited to the receipt by it (i) of funds, through the Mortgage Manager, from Borrowers in respect of their Mortgages and their related collateral security, (ii) of interest on the Transaction Account or otherwise from certain Authorised Investments and (iii) of funds from the Swap Counterparty under the Swap Agreement. In addition, the Issuer will have available to it the Reserve Ledger for the purposes specified in “Credit and Liquidity Structure” below.

On enforcement of the security created under the Deed of Charge, the obligation of the Issuer to repay moneys due and owing to the Noteholders will depend upon whether the Mortgages and their related collateral security can be realised to obtain an amount sufficient to effect repayment thereof. It should be noted that there is currently no recognised secondary market in Ireland for the sale of mortgage portfolios (see “Limited Secondary Market for Mortgages” below).

Warranties

The Issuer, the Trustee and the Arranger have not undertaken nor will they undertake any investigations, searches or other actions in respect of the Mortgages and their related collateral security and, in the case of the Issuer and the Trustee, will rely instead on the warranties given by KBCH in the Mortgage Sale Agreement (the “**Warranties**”). The sole remedy (save as described below) of each of the Issuer and the Trustee in respect of a breach of Warranty (see “The Mortgage Pool”) shall be the requirement that KBCH repurchases or procures the repurchase, or substitutes or procures the substitution of a similar Mortgage in replacement for, any Mortgage which is the subject of any breach, provided that this shall not limit any other remedies available to the Issuer and/or the Trustee if KBCH fails to repurchase or procure the repurchase, or substitutes or procures the substitution, of a Mortgage when obliged to do so. There can be no assurance that KBCH will have the financial resources to honour its obligations to repurchase any Mortgages in respect of which such a breach of warranty arises.

Title of the Issuer

The sale of the Mortgages and their collateral security will take effect in equity only. Save in the limited circumstances described below under “The Mortgage Pool” (such as, inter alia, where an Enforcement Notice (as defined under “Title to the Mortgage Pool” below) has been given or where the Trustee considers the Charged Property (as defined under “Title to the Mortgage Pool” below) to be in jeopardy), neither the Issuer nor the Trustee will obtain legal title to the Mortgages and their related collateral security by effecting any registration of their interests in the Mortgages and collateral security and by giving notice of assignment or assignment (as appropriate) to the Borrowers.

Prior to the Issuer or the Trustee obtaining legal title to the Mortgages and their related collateral security (as described above), the rights of the Issuer and the Trustee may be or may become subject to equities (e.g. rights of set-off between the Borrowers or insurance companies and KBCH) and to the interests of third parties who perfect a legal interest, namely, a bona fide purchaser from KBCH for value of any such Mortgage without notice of any interest of the Issuer or the Trustee, who may obtain a good title to the Mortgages and collateral security free of any such interests. Such equities and third party rights may diminish or negate the value of the Issuer's or Trustee's interest in the Mortgages and their related collateral security and could acquire priority over the interests of the Issuer and the Trustee.

In Ireland, it is normal practice for a mortgagee's interest not to be registered at the Land Registry immediately on completion. Registration can take a considerable period of time. On completion of the sale of a residential property, it is normal practice for a borrower's solicitor to give an undertaking to complete registration in due course. Until that registration is complete in respect of a Mortgage, KBCH will not have received a certificate of title and neither it, nor the Issuer or the Trustee will be registered as the mortgagee of the relevant property. During that period, there is a risk that another party could be registered as the mortgagee and obtain priority to the Issuer and the Trustee.

However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee in this way would be likely to be limited to circumstances arising from a breach by KBCH of its contractual obligations, representations or warranties or from fraud, negligence or mistake on the part of KBCH or the Issuer or their respective personnel or agents or the relevant Borrower's solicitor.

Further, the rights of the Issuer and the Trustee may be or become subject to the direct rights of the Borrowers against KBCH. Such rights may include rights of set-off existing prior to notification to the Borrowers of the sale of the Mortgages and their related collateral security which arise in relation to transactions made between certain Borrowers and KBCH, (for example, the lodgement of monies by certain Borrowers in deposit accounts with KBCH) and the rights of Borrowers to redeem their mortgages by repaying the relevant Mortgages directly to KBCH. These rights may result in the Issuer receiving a lesser amount than anticipated from the Mortgages and their related collateral security.

Further, there is a risk that the service of a notice of sale to a Borrower would not terminate his rights of set-off as Section 40 of the Consumer Credit Act, 1995 provides that where a creditor's or owner's rights under an agreement are assigned to a third person, the consumer is entitled to plead against the third person any defence which was available to him against the original creditor, including set-off. KBCH will, however, undertake in the Mortgage Sale Agreement to indemnify the Issuer in respect of any amounts that are set-off against any sums to which the Issuer is entitled under the Mortgage Sale Agreement, and to hold any monies repaid to KBCH in respect of the relevant Mortgages to the order of the Issuer.

Further, for so long as neither the Issuer nor the Trustee has obtained legal title, it must join KBCH as a party to any legal proceedings which it may wish to take against any Borrower to enforce its rights under the relevant Mortgage and its related collateral security. In this respect, KBCH will, pursuant to the Mortgage Sale Agreement, undertake for the benefit of the Issuer and the Trustee that it will lend its name to, and take such steps as may reasonably be required by the Issuer or the Trustee in relation to, any legal proceedings in respect of the Mortgages and their related collateral security. The transfer to the Issuer of the legal title to the Loans will be completed and notices of assignment will be given at the discretion of the Trustee. Pending completion of such transfer, the right of the Issuer and the Trustee to exercise powers of the legal owners of the Loans will be secured by irrevocable powers of attorney granted by KBCH in favour of the Issuer to the Trustee.

Collectability of Mortgages

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

In addition, the ability of the Borrower or, as the case may be, the Issuer or the Trustee to dispose of a Property at a price sufficient to repay the amounts outstanding under the relevant Mortgage will depend upon a number of factors including the availability of buyers for the Property.

The Trustee shall not be liable for the value, sufficiency or enforceability of the security for the Notes.

Risks of Losses Associated with Declining Property Values

The security for the Notes consists of, inter alia, the Issuer's interest in the Mortgages. This security may be affected by, among other things, a decline in property values. No assurance can be given that values of the Properties have remained or will remain at the level at which they were on the dates of origination of the related Mortgages. The residential property market in Ireland is currently experiencing an overall decline in property values which may continue. Such a decline could in certain circumstances result in the value of the security created by the Mortgages being significantly reduced. To that extent, Noteholders will bear the risk of loss resulting from default by Borrowers and will have to look primarily to the value of the Properties for recovery of the outstanding principal and unpaid interest of any delinquent Mortgages.

Geographic Concentration of Mortgaged Properties

Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than will other regions and, consequently, will experience higher rates of loss and delinquency on Mortgages generally. There are concentrations of Properties within certain regional areas which may present

risk considerations in addition to those generally present for similar mortgage loan asset backed securities without such concentrations. See “The Mortgage Pool” below.

Similarly, there are indirect exposure risks arising from the quality of employment and the earning power of individuals in sectors of the economy that are experiencing a slow-down in growth or a decline.

Risks Associated with Rising Mortgages Rates

The Mortgage Pool will include Mortgages subject to a variable rate of interest set by KBCH (the “**Standard Variable Rate**”) or set by reference to the ECB Rate (the “**Tracker Rates**”) from time to time. The Standard Variable Rate and Tracker Rates are subject to fluctuation and consequently the Issuer could be subject to a higher risk of default in payment by a Borrower under such Mortgages as a result of an increase in the Standard Variable Rate or Tracker Rates.

To the extent that the Borrowers are not able to make payments under such Mortgages, the Issuer may have insufficient funds to make payments due on the Notes.

Lending Criteria

The Lending Criteria will have applied at the time of origination in respect of the Mortgages comprising the Completion Mortgage Pool and will also apply in respect of any Substitute Mortgages and Further Advances. The criteria consider, among other things, a Borrower's credit history, employment history and status, repayment ability and debt service-to-income ratio, as well as the value of the relevant property. There can be no assurance that the Lending Criteria will not be varied or that Mortgages originated under different criteria may not become part of the Mortgage Pool. See “The Mortgage Pool” below.

Solely Issuer Obligations and Enforcement Action

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 KBCH, KBCI, the Arranger, the Trustee, the Swap Counterparty (as defined under “Credit and Liquidity Structure” below) or any other party. The Issuer will rely solely on payments in respect of amounts due under the Mortgages, the Reserve Ledger, the Swap Agreement and Authorised Investments to enable it to make payments in respect of the Notes.

Upon enforcement of the security for the Notes, the Trustee will have recourse only to the Mortgages and any other assets (other than the Excluded Assets) of the Issuer then in existence, including the Reserve Ledger and the Authorised Investments. Other than as provided in the Transaction Documents, the Issuer and the Trustee will have no recourse to KBCH or any other entity.

If, upon default by Borrowers and after the exercise by the Mortgage Manager of all available remedies in respect of the Mortgages, the Issuer does not receive the full amount due from those Borrowers, then Noteholders may receive by way of principal repayment an amount less than the face value of their Notes and the Issuer may be unable to pay in full interest due on the Notes.

Obligations of the Issuer are not Guaranteed by the Irish Government under a Scheme to Cover Certain Liabilities of Covered Institutions

Pursuant to the terms of a scheme (the “**Scheme**”) prepared by the Irish government under the Credit Institutions (Financial Support) Act 2008 (the “**CIFS Act**”), the Irish government will provide a guarantee (the “**Guarantee**”), for the period from 30 September 2008 to 29 September 2010 inclusive, in respect of the “**covered liabilities**” (as defined in the Scheme) of credit institutions that join the Scheme (“**covered institutions**”). “Covered liabilities” include all retail, corporate and interbank deposits (to the extent not covered by existing deposit protection schemes), senior unsecured debt, asset covered securities and dated subordinated debt of a relevant covered institution.

As the Issuer is not a covered institution, neither the CIFS Act, the Scheme, or any financial support thereunder will apply to the Issuer's obligations under the Notes.

Neither KBCI nor KBCH have joined the Scheme and accordingly neither KBCI nor KBCH are covered institutions for the purpose of the Scheme.

Enforcement in respect of the Mortgages

Even assuming that the Properties provide adequate security for the Mortgages, delays could be encountered in connection with enforcement and recovery of the Mortgages, resulting in 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 (KBCH), the beneficial owner (the Issuer) or the Trustee or its appointee (if the Trustee has taken enforcement action against the Issuer)) will need to obtain possession of such Property. There are two means of obtaining possession under Irish law: (i) by taking physical possession (seldom done in practice) and (ii) by applying for, obtaining and enforcing a court order for possession. New legislation currently before the houses of the Oireachtas in Ireland, the Land and Conveyancing Law Reform Bill 2006 (the “**2006 Bill**”) would, if it were to be enacted in its present form, require a mortgagee (the lender) to either obtain a court order for possession or obtain the written consent of the mortgagor (in the case of each Mortgage the Borrower) to the taking of possession.

Proceedings for the repossession of a property are generally initiated when the relevant mortgagor is four months in arrears on mortgage payments.

In considering an application for a possession order, an Irish court has a very wide discretion (which would be broadened further if the 2006 Bill were to be enacted in its present form) and may adopt a sympathetic attitude towards a borrower at risk of eviction. For example, an Irish court has certain powers to adjourn possession proceedings, to stay any possession order and to postpone the date for delivery of possession. In general, an Irish court would be likely to exercise such powers in favour of a Borrower where it appears to the court that such Borrower is likely to be able, within a reasonable period, to pay any sums due under his Mortgage or to remedy any default consisting of a breach of any other obligation arising under or by virtue of such Mortgage.

Where an order for possession is granted by a court, a sheriff will arrange for such orders to be effected. This can result in a delay of a number of months between the granting of the order and its execution. Once possession of a property has been obtained, the mortgagee has a duty to the mortgagor to take reasonable care to obtain a proper price for such property. Any failure to do so will put such mortgagee at risk of an action for breach of duty by the mortgagor, although it is for the mortgagor to prove breach of duty. There is also a risk that a mortgagor may take court action to force the mortgagee to sell the relevant property within a reasonable time. If the 2006 Bill were to be enacted in its present form, a mortgagee in possession would be obliged by law to sell the relevant property, at the best price reasonably obtainable, within a reasonable time, or if it would be inappropriate to sell such property, to lease it within a reasonable time.

If a mortgagee takes possession of a property it will, as mortgagee in possession, have an obligation to account to the mortgagor for the income obtained from such property, be liable for any damage to such property, have a limited liability to repair such property, and, in certain circumstances, may be obliged to make improvements or may incur certain financial liabilities in respect of such property.

Limited Recourse and Non-Petition

The terms on which the Security for the Notes will be held will provide that, upon enforcement, payments will rank in the order of priority set out in Condition 2 (“Priority of Payments (Principal and Revenue) Post Enforcement”) of the Notes. In the event that the Security for the Notes is enforced, no amounts will be paid to the holders of the B Notes until all amounts owing to the holders of the Senior Notes have been paid in full.

The obligations of the Issuer in respect of the Notes and its obligations to the Trustee and the Noteholders are limited to the proceeds of enforcement of the Security. Upon enforcement of the Security and in the circumstances where amounts to be paid by the Issuer in accordance with the provisions under Condition 2 (“Priority of Payments (Principal and Revenue) Post Enforcement”) of the Notes is greater than the amount realised from the Security, the Issuer will not be obliged to pay any amounts representing such shortfall and any claims in respect of such shortfall shall be extinguished.

Neither the Trustee nor the Noteholders shall be entitled to institute against the Issuer any bankruptcy, reorganisation, arrangement, examination, insolvency or liquidation proceedings or other proceedings under any applicable bankruptcy or similar law in connection with any obligation relating to the Notes or the other Transaction Documents, save for lodging a claim in the liquidation of the Issuer which is initiated by any other party.

Yield and Prepayment Considerations

The yield to maturity of the Notes of each class will depend on, inter alia, the amount and timing of payment of principal (including prepayments, sale proceeds arising on enforcement of a Mortgage, and repurchases by KBCH due to, inter alia, breaches of the warranties under the Mortgage Sale Agreement) on the Mortgages, the exercise of optional redemption rights under the Notes and the price paid by the holders of the Notes. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments on the Mortgages.

Prepayments may arise in connection with refinancings, sales of properties by Borrowers voluntarily or as a result of enforcement proceedings under the relevant Mortgages, as well as the receipt of proceeds from buildings insurance and life assurance policies. In addition, repurchases of Mortgages required to be made under the Mortgage Sale Agreement will have the same effect as a prepayment of such Mortgages.

The rate of prepayment of Mortgages 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. Therefore, no assurance can be given as to the level of prepayments that the Mortgage Pool will experience. See "Weighted Average Lives of the Notes".

Hedging of Interest Rate Risk

Loans are subject to variable and fixed interest rates while the rate of interest payable in respect of the Notes is based on a floating rate of interest. As such, the Issuer's ability to pay interest on the Notes may be affected if Note EURIBOR increases beyond a certain rate. In order to mitigate this risk, the Issuer will enter into the Swap Agreement as described under "Credit and Liquidity Structure – Swap Agreement below".

Termination Payments on the Swap Agreement

The Swap Agreement will provide that, upon the occurrence of certain events, the Swap Agreement may terminate. If a Swap Agreement terminates, the Issuer may be obliged to make a termination payment to the Swap Counterparty. The amount of the termination payment will be based on the cost of entering into a replacement swap agreement. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment under a Swap Agreement. Nor can any assurance be given that the Issuer will be able to enter into a replacement swap agreement, or if one is entered into, as to the credit rating of the replacement swap counterparty, or that the then current ratings of the Notes would not be downgraded or withdrawn as a result of entering into such replacement swap agreement.

Except where the Swap Counterparty has caused a Swap Agreement to terminate by its own default, any termination payment due by the Issuer following termination of such Swap Agreement (including any extra costs incurred (for example, from entering into "spot" currency or interest rate swaps)) will rank *pari passu* with certain amounts payable under the Class A Notes as described under "Priority of Payments – Revenue " above.

Therefore, if the Issuer is obliged to make a termination payment to the Swap Counterparty or to any successor swap counterparty or pay any other additional amount as a result of the termination of a Swap Agreement this could reduce the Issuer's ability to service payments on the Notes.

Withholding Tax under the Notes

In the event that withholding taxes are imposed in respect of payments to Noteholders of amounts due pursuant to the Notes, neither the Issuer nor any Paying Agent nor any other person is obliged to gross up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of the imposition of withholding taxes. The imposition of such withholding taxes would entitle (but not oblige) the Issuer to redeem the Notes at their Principal Amount Outstanding plus accrued interest.

Limited Secondary Market for Mortgages

The ability of the Issuer to redeem the Notes in the circumstances outlined below, and also following the occurrence of a Event of Default in relation to the Notes while any of the Mortgages are still outstanding, will be dependent primarily upon its ability to sell or refinance the Mortgages 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 Mortgages or otherwise, the Issuer will not be able to

exercise its rights of optional early redemption of the Notes.

Liquidity in the secondary market may adversely affect the market value of the Notes

As at the date of this Prospectus, the secondary market for mortgage-backed securities is experiencing disruptions resulting from reduced investor demand for such securities. This has had a materially adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities experiencing very limited liquidity. Structured investment vehicles, hedge funds, issuers of collateralised debt obligations and other similar entities that are currently experiencing funding difficulties have been forced to sell mortgage-backed securities into the secondary market. The price of credit protection on mortgage-backed securities through credit derivatives has risen materially. Limited liquidity in the secondary market may continue to have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors. Consequently, whilst these market conditions continue to persist, an investor in the Notes may not be able to sell or acquire credit protection on its Notes readily and market values of Notes are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to the Notes.

It is not known for how long the market conditions will continue or whether they will worsen.

While it is possible that the current liquidity crisis may soon alleviate for certain sectors of the global credit markets, there can be no assurance that the market for securities similar to the Notes will recover at the same time or to the same degree as such other recovering global credit market sectors or at all.

Optional Redemption of the Notes

The Issuer is entitled to redeem the Notes at their then principal amount outstanding at its option (as to which see Condition 5) on any Interest Payment Date in respect of which the holders of the Notes have consented to such redemption.

The Issuer is also entitled to redeem the Notes at their then principal amount outstanding 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 and on any Interest Payment Date falling on or after the Interest Payment Date in December 2015.

Limited Secondary Market for the Notes

There is not, at present, an active and liquid secondary market for the Notes, and there can be no assurance that a secondary market for the Notes will develop. Even if a secondary market does develop, it may not continue for the life of the Notes or it may leave Noteholders with illiquidity of investment. Illiquidity means that a Noteholder may not be able to find a buyer to buy its Notes readily or at prices that will enable the Noteholder to realise a desired yield. Illiquidity can have an adverse effect on the market value of the Notes.

KBCH as Noteholder

On the Issue Date, KBCH will purchase 100 per cent. of the Notes to be issued by the Issuer. For so long as these Notes are held by KBCH, it will be entitled to all of the rights to which the holders of such Notes are entitled (including, without limitation, voting rights). By reason of KBCH's appointment as, inter alia, Subordinated Loan Provider, KBCH's interests, with respect to the holding of such Notes, will be different from that of other Noteholders. So long as KBCH continues to hold the Notes, in the exercise of the rights to which KBCH is entitled under the Notes, it will be in its interests to minimise any adverse impact or potential adverse impact on itself and KBCH in its other capacities.

Conflict between Classes of Noteholders

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Noteholders as a whole as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise) but requiring the Trustee in any particular case to have regard only to the interests of:

- (i) the A Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the A Noteholders and the interests of the B Noteholders, (each as defined in the Master Definitions Schedule);

- (ii) the B Noteholders if all of the A Notes have been redeemed in full.

Preferred Creditors under Irish Law

Under Irish law, upon an insolvency of an Irish company such as the Issuer, when applying the proceeds of assets subject to fixed security which may have been realised in the course of a liquidation or receivership, the claims of a limited category of preferential creditors will take priority over the claims of creditors holding the relevant fixed security. These preferred claims include the remuneration, costs and expenses properly incurred by any examiner of the company (which may include any borrowings made by an examiner to fund the company's requirements for the duration of his appointment) which have been approved by the Irish courts. See "Examinership" below.

The holder of a fixed security over the book debts of an Irish tax resident company (which would include the Issuer) may be required by the Irish Revenue Commissioners, by notice in writing from the Irish Revenue Commissioners, to pay to them sums equivalent to those which the holder received in payment of debts due to it by the company. Where the holder of the security has given notice to the Irish Revenue Commissioners of the creation of the security within 21 days of its creation, the holder's liability is limited to the amount of certain outstanding Irish tax liabilities of the company (including liabilities in respect of value added tax) arising after the issuance of the Irish Revenue Commissioners' notice to the holder of fixed security.

The Irish Revenue Commissioners may also attach any debt due to an Irish tax resident company by another person in order to discharge any liabilities of the company in respect of outstanding tax whether the liabilities are due on its own account or as an agent or trustee. The scope of this right of the Irish Revenue Commissioners has not yet been considered by the Irish courts and it may override the rights of holders of security (whether fixed or floating) over the debt in question.

In relation to the disposal of assets of any Irish tax resident company which are subject to security, a person entitled to the benefit of the security may be liable for tax in relation to any capital gains made by the company on a disposal of those assets on exercise of the security.

In relation to the disposal of assets of an Irish tax resident individual which are subject to security, such as the disposal of a property on which the borrower has secured a Mortgage, a person entitled to the benefit of the security may be liable for tax in relation to any capital gains made by the individual on a disposal of those assets on exercise of the security. Capital gains tax will arise on the gain at a rate of 20 per cent. Tax is calculated by reference to the excess of the net disposal proceeds over the allowable acquisition costs (including enhancement expenditure) and is calculated without reference to the amounts outstanding on a Mortgage. There is an exemption from Irish capital gains tax on gains arising on the disposal by an individual of his principal private residence, which broadly covers gains arising on the disposal of the dwelling house which has been occupied by the individual as his only or main residence since he acquired the property.

Examinership

Examinership is a court procedure available under the Irish Companies (Amendment) Act 1990, as amended (the "1990 Act") to facilitate the survival of Irish companies in financial difficulties.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to set aside contracts and arrangements entered into by the company after this appointment and, in certain circumstances, can avoid a negative pledge given by the company prior to this appointment. Furthermore, the examiner may sell assets, the subject of a fixed charge. However, if such power is exercised the examiner must account to the holders of the fixed charge for the amount realised and discharge the amount due to the holders of the fixed charge out of the proceeds of the sale.

During the period of protection, the examiner will compile proposals for a compromise or scheme or arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the Irish High Court when at least one class of creditors has voted in favour of the proposals and the Irish High Court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement.

In considering proposals by the examiner, it is likely that secured and unsecured creditors would form separate classes of creditors. In the case of the Issuer, if the Trustee represented the majority in number and

value of claims within the secured creditor class (which would be likely given the restrictions agreed to by the Issuer in the Conditions), the Trustee would be in a position to reject any proposal not in favour of the Noteholders. The Trustee would also be entitled to argue at the Irish High Court hearing at which the proposed scheme of arrangement is considered that the proposals are unfair and inequitable in relation to the Noteholders, especially if such proposals included a writing down to the value of amounts due by the Issuer to the Noteholders or resulted in Noteholders receiving less than they would have if the Issuer was wound up. The primary risks to the holders of Notes if an examiner were appointed to the Issuer are as follows:

- (a) the potential for a scheme of arrangement being approved involving the writing down of the debt due by the Issuer to the Noteholders as secured by the Trust Deed;
- (b) the potential for the examiner to seek to set aside any negative pledge in the Notes prohibiting the creation of security or the incurring of borrowings by the Issuer to enable the examiner to borrow to fund the Issuer during the protection period; and
- (c) in the event that a scheme of arrangement is not approved and the Issuer subsequently goes into liquidation, the examiner's remuneration and expenses (including certain borrowings incurred by the examiner on behalf of the Issuer and approved by the Irish High Court) will take priority over the amounts secured by the charges held for the benefit of Noteholders under the Deed of Charge.

Consumer Credit Act

The making of housing loans in Ireland is regulated by the Consumer Credit Act, 1995 (as amended) of Ireland (the "CCA"), which imposes a range of obligations and restrictions on mortgage lenders and mortgage intermediaries.

A mortgage lender is an entity the business of which consists of or includes the making of housing loans. A housing loan is a loan that is secured by a mortgage on a house and which is, inter alia, made to a consumer for the purchase of the house to which the mortgage relates, or otherwise made to a person for the purchase or improvement of that person's principal residence. It is not anticipated that the Issuer will be a mortgage lender for the purposes of the CCA.

A mortgage intermediary is a person (other than a mortgage lender or credit institution) who, in return for commission or some other form of consideration arranges, or offers to arrange, for a mortgage lender to provide a consumer with a housing loan, or introduces a consumer to an intermediary who arranges, or offers to arrange, for a mortgage lender to provide the consumer with such a loan. A mortgage intermediary requires an authorisation from the Financial Regulator in order to conduct its business. In the event that an unauthorised mortgage intermediary operates in Ireland, it is subject to penalties and sanctions that are discussed below. It is not anticipated that the Issuer will be a mortgage intermediary for the purposes of the CCA.

Relevant obligations imposed by the CCA include rules regulating advertising for housing loans; a requirement to furnish the borrower with a valuation report concerning the property; a requirement that specified warnings regarding the potential loss of the person's home be included in all key documentation relating to a housing loan and that key, prescribed information be displayed on the front page of a housing loan; and obligations to provide prescribed documents and information to a borrower. Restrictions include prohibitions on the imposition of a redemption fee in the case of many types of housing loan; compelling a borrower to pay the lender's legal costs of investigating title; and the linking of certain products.

A breach of certain provisions of the CCA relating to the format and content of housing loans may render the housing loan and any related security unenforceable by the lender unless it can be demonstrated to a court's satisfaction that such breach was not deliberate and did not prejudice the consumer borrower and that it would be just and equitable in the circumstances to dispense with the relevant CCA requirements. A court in such circumstances may decide, subject to any conditions it thinks fit, that the relevant housing loan and related security shall be enforceable.

A breach of any of these obligations or restrictions is a criminal offence by the mortgage lender or intermediary. The financial penalties may range from a maximum fine of €3,000 for most offences, to a maximum fine of €100,000 for the unlawful linking of certain services. A person (including a company) that is convicted of an offence under the CCA will normally be ordered to pay the costs of the prosecution. In respect of a regulated financial service provider, the Financial Regulator may, instead of a prosecution, impose a monetary penalty for breach of any of these obligations and restrictions; that penalty may be appealed to the Financial Services Appeals Tribunal. The maximum financial penalty is €5,000,000 in the case of a body corporate.

Unfair Terms in Consumer Contracts Regulations

The European Communities (Unfair Terms in Consumer Contracts) Regulations 1995 and 2000 (together, the “**UTCC Regulations**”) apply in relation to the Mortgages. A Borrower may challenge a term in an agreement on the basis that it is “unfair” within the meaning of the UTCC Regulations and therefore not binding on the Borrower. In addition, the Director of Consumer Affairs or a consumer organisation (as defined in the UTCC Regulations) may seek an injunction preventing the use of specific terms that are unfair.

This will not generally affect “core terms” which set out the main subject matter of the contract, such as the Borrower's obligation to repay principal, but may affect terms deemed to be ancillary terms, which may include terms the application of which are in the Mortgage Manager's discretion (such as a term permitting the Mortgage Manager to vary the interest rate).

If a term of a Mortgage permitting the lender to vary the interest rate is found to be unfair, the relevant Borrower will not be liable to pay the increased rate or, to the extent that such Borrower has paid it, will be able, as against KBCH, or any assignee such as the Issuer, to claim repayment of the extra interest amounts paid or to set-off the amount of the claim against the amount owing by such Borrower under such Mortgage. Any such non-recovery, claim or set-off may adversely affect the realisable value of the Mortgages in the Mortgage Pool and accordingly the ability of the Issuer to meet its obligations in respect of the Notes.

No assurance can be given that changes in the UTCC Regulations, if enacted, will not have an adverse effect on the Mortgages, KBCH, the Mortgage Manager or the Issuer and their respective businesses and operations. This may adversely affect the ability of the Issuer to dispose of the Mortgage Pool, or any part thereof, in a timely manner and/or the realisable value of the Mortgage Pool, or any part thereof, and accordingly affect the ability of the Issuer to meet its obligations under the Notes when due.

European Directive on Unfair Commercial Practices

On 11 May 2005, the European Council and European Parliament signed a directive on unfair commercial practices. This directive affects all consumer contracts and thus will have some impact in relation to the residential mortgage market.

Under this directive, a commercial practice is to be regarded as unfair if it is (a) contrary to the requirements of professional diligence; and (b) materially distorts or is likely to materially distort the economic behaviour of the average consumer whom the practice reaches or to whom it is addressed or the average member of a group where a practice is directed at a particular group of consumers.

The intention is that this general definition will not affect obligations imposed by other European directives, but will provide a minimum standard for all dealings with persons who are acting outside their business, trade or profession.

In addition to this general obligation, there are provisions aimed at aggressive and misleading practices and a list of practices which will in all cases be considered unfair. The directive is stated to be without prejudice to contract law and the rules of the validity, formation or effect of a contract.

The directive is a maximum harmonisation measure which means that Member States will be prevented from retaining consumer protection measures which go beyond it within its scope. However, in relation to financial services, Member States are permitted to retain protections which go beyond these requirements. Therefore, in the context of financial services, this directive will potentially place additional obligations on mortgage lenders in those areas in which there currently are no specific rules applying.

The Irish Consumer Protection Act 2007 (the **CPA**) came into force on 1 May 2007 which implements the Unfair Commercial Practices Directive in Ireland. Under the CPA there are four principal heads of offences; (i) Unfair Commercial Practices, (ii) Misleading Commercial Practices, (iii) Aggressive Commercial Practices and (iv) Prohibited Commercial Practices.

In respect of most offences (other than, for example, pyramid selling schemes), the CPA contains a defence of “due diligence”. This defence is available where the accused proves (i), the commission of the offence was due to a mistake or the reliance on information supplied to the accused or to the act or default of another person, an accident of some other cause beyond the accused's control and (ii), that the accused exercised due diligence and took all reasonable precautions to avoid the commission of the offence. Where due diligence means the standard of special skill and care which a trader may reasonably be expected to exercise towards consumers, commensurate with honest market practice and/or the general principle of good faith in trader's field of activity.

The Unfair Commercial Practices Directive is stated to be without prejudice to contract law and the rules of the validity, formation or effect of a contract. There is, as of yet, no reported case law on the CPA.

TRS Scheme

Tax relief at source for mortgage interest was introduced in Ireland in the tax year 2002 (the “TRS Scheme”). The Irish Revenue Commissioners published regulations indicating how the TRS Scheme will operate (the “Regulations”) and KBCH has been operating the TRS Scheme based on the Regulations since then.

Under the TRS Scheme, mortgage borrowers are permitted to pay interest net of the relevant tax relief to the relevant mortgage lender and the relevant mortgage lender, once it constitutes a qualifying lender, claims a refund of the tax relief directly from an account of the Irish Revenue Commissioners. On the Issue Date, KBCH will be the lender with respect to the Mortgage Pool and KBCH will be a qualifying lender for the purposes of the TRS Scheme.

The operation of the TRS Scheme does not have any negative impact on KBCH's cash flows as KBCH makes claims for a payment of the tax relief granted from the Irish Revenue Commissioners funding account on a direct debiting monthly (estimated) basis.

If the Deed of Charge were enforced, resulting in a transfer of legal title to the Mortgage Pool to the Issuer or the Trustee, KBCH would no longer be the lender with respect to the Mortgage Pool. However, the Regulations provide that provided KBCH acts as servicer in relation to the Mortgage Pool, it will be regarded as the qualifying lender for the purpose of the TRS Scheme or it can nominate the securitisation vehicle (the Issuer), or its agent (the Trustee or another nominee) as a qualifying lender for the purpose of the TRS Scheme. KBCH will covenant in the Mortgage Management and Agency Agreement, that if it is replaced as servicer or if the Security under the Deed of Charge is enforced, it will irrevocably appoint such person as may be selected or approved by the Issuer and the Trustee as a qualified lender for the purposes of the TRS Scheme. The Mortgage Management and Agency Agreement will include a power of attorney enabling the Trustee to make this nomination on behalf of KBCH as its attorney.

In addition, under the terms of the Mortgage Management and Agency Agreement, the parties, including the Trustee, have agreed that, if requested by the Issuer, they will do all things and make any changes to any relevant documents to deal with, or alleviate the burden of, any TRS Scheme in Ireland, provided that such changes are not materially prejudicial to the interests of the Noteholders or KBCH. The Trustee will act in accordance with any such request if it is advised by an investment bank of recognised standing that the matters contemplated by such request are not materially prejudicial to the interest of Noteholders. If such advice cannot be obtained, the Trustee will act in accordance with any such request if approved by an Extraordinary Resolution (as described in Condition 11) of all classes of Noteholders.

Reliance on Third Parties

The Issuer is party to contracts with a number of entities who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Mortgage Manager has agreed to provide the Issuer with certain mortgage and cash administration services with respect to the Mortgage Pool, the Swap Counterparty has agreed to enter into hedges with the Issuer against certain interest rate fluctuations, the Agent Bank has agreed to provide certain banking functions on behalf of the Issuer and the Paying Agents have agreed to provide paying agent services with respect to the Notes. In the event that any of these or any of the other parties appointed by the Issuer under the terms of the Transaction Documents were to fail to perform their obligations under the respective agreements to which they are a party, Noteholders may be adversely affected.

Risk inherent in the Mortgage Manager's business

The Mortgage Manager's business depends on the ability of the Mortgage Manager to process a large number of transactions efficiently and accurately. Losses can result from inadequate or failed internal control processes, and systems, human error, fraud or from external events that interrupt normal business operations. In the event that the Mortgage Manager fails to perform or observe all or any of its material obligations under the Mortgage Management and Agency Agreement, to the extent which, taken in the aggregate with all other such failures, is materially prejudicial in the context of the transaction contemplated by the Transaction Documents, the Issuer may be required to appoint a replacement Mortgage Manager. Depending on market circumstances, it may be difficult to appoint a replacement Mortgage Manager in such circumstances and the fees charged by any replacement Mortgage Manager will be payable in priority to all other parties, with the exception of the Trustee.

Change of Law

The structure of the issue of the Notes and the ratings which are to be assigned to them are based on Irish and English law and administrative practices in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to Irish and English law or administrative practices after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Notes.

Transparency Directive

Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (the "Transparency Directive") entered into force on 20 January 2005. It requires Member States to take measures necessary to comply with the Transparency Directive by 20 January 2007. If, as a result of the Transparency Directive or any legislation implementing the Transparency Directive, the Issuer could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information, the Issuer may seek an alternative admission to listing, trading and/or quotation for the Notes on a different section of the Irish Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as it may (with the approval of the Managers and the Trustee) decide.

EU Savings Directive

On 3 June, 2003 the Council of the European Union adopted a directive regarding the taxation of interest income. Each EU Member State must implement the directive by enacting legislation that requires paying agents (within the meaning of the directive) established within its territory to provide to the relevant competent authority details of interest payments made to any individual and certain intermediate entities resident in another EU Member State or a territory being a dependent or associated territory of a Member State (a "Reportable Territory"). The competent authority of the EU Member State of the paying agent (within the meaning of the directive) is then required to communicate this information to the competent authority of the Reportable Territory of which the beneficial owner of the interest is a resident.

Austria, Belgium and Luxembourg may opt instead to withhold tax from interest payments within the meaning of the directive.

Member States must apply the respective provisions with effect from 1 July, 2005. Ireland has implemented the directive into national law. Any Irish paying agent making an interest payment on behalf of the Issuer to an individual, and certain residual entities defined in the Taxes Consolidation Act, 1997 (as amended), resident in another Reportable Territory will have to provide details of the payment to the Irish Revenue Commissioners who in turn will provide such information to the competent authorities of the Reportable Territory of residence of the individual or residual entity concerned.

Considerations relating to Buy to Let Mortgages

In the Provisional Mortgage Pool approximately 19.7 per cent. of the Mortgages are Buy to Let Mortgages, where the relevant Properties (in respect of the mortgages forming part of the collateral Security for such Buy to Let Mortgages) are not owner-occupied. The Borrower's ability to service payment obligations in respect of a Loan secured on such a property is likely to depend on the Borrower's ability to lease the Properties on appropriate terms. This dependency on leasing income increases the likelihood, during difficult market conditions, that the rate of delinquencies and losses on Loans secured by such non-owner occupied properties will be higher than for Loans secured on the primary residence of a Borrower.

Upon enforcement of a Loan in respect of a property which is the subject of an existing tenancy, the Mortgage Manager may not be able to obtain vacant possession of that property, in which case the Mortgage Manager will only be able to sell the property as an investment property with one or more sitting tenants. This may affect (i) the amount that the Mortgage Manager could realise upon enforcement of the mortgage and a sale of the relevant property and (ii) the speed at which such a sale can be achieved. However, the Mortgage Manager will have the ability to appoint a receiver of rent to collect any rents payable in respect of such property and apply them in payment of any interest and arrears accruing under that Loan.

Basel II

The Basel Committee on Banking Supervision has issued proposals for reform of the 1988 Capital Accord and has proposed a framework which places enhanced emphasis on market discipline and sensitivity to risk. The third consultative paper on the New Basel Capital Accord was issued on 29 April 2003, with the consultation period ending on 31 July 2003. The Basel Committee announced on 11 May 2004 that it had achieved consensus on the remaining issues and published the text of the new framework on 26 June 2004 under the title "Basel II: International Convergence of Capital Measurement and Capital Standards: Revised Framework (the **"Basel II Framework"**)". The Basel II Framework will serve as the basis for national and supernational rule-making and approval process to continue and for banking organisations to complete their preparations for implementation of the Basel II Framework. Within the European Union and EEA, the Basel II Framework will be implemented through the Capital Requirements Directive and the Consolidated Banking Directive, which makes some modifications to the framework. It is currently intended that the various approaches under the Basel II Framework and the Capital Requirements Directive will be implemented in stages; some were implemented from year-end 2006, the most advanced were implemented from 1 January 2008. However, the Basel II Framework is not self-implementing and, accordingly, implementation dates in participating countries are dependant on the relevant national implementing process in those countries. In Ireland, Basel II and the EU Capital Requirements Directive have been implemented through the European Communities (Capital Adequacy of Credit Institutions) Regulations SI 2006/661. The new framework could affect the risk-based capital treatment of the Notes in respect of certain investors who are subject to capital adequacy requirements that follow the Basel II Framework. Consequently, prospective investors in the Notes should consult their own advisers as to the consequences to and effect on them of the potential application of the Basel II Framework. The Issuer cannot predict the precise effects of potential changes which might result upon the implementation of the Basel II Framework.

CREDIT AND LIQUIDITY STRUCTURE

The Class A Notes are expected, on issue, to be rated Aaa by Moody's. The Class B Notes are expected, on issue, to be rated A1 by Moody's. 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 the Rating Agency. The structure of the credit arrangements may be summarised as follows:

Initial Available Revenue Funds: Prior to any determination by the Mortgage Manager as to whether it will need to draw on the Reserve Ledger (as to which see further below) for the purposes of making payments under the Revenue Priority of Payments on any Interest Payment Date, the Mortgage Manager will first determine on each Determination Date whether it will have sufficient funds (the “**Initial Available Revenue Funds**”) to make all of the payments provided for under items (i) to (vii) inclusive of the Revenue Priority of Payments on the immediately succeeding Interest Payment Date. Prior to the Interest Payment Date on which the Notes are to be redeemed in full, Initial Available Revenue Funds as at each Determination Date will be comprised of the aggregate of the following:

- (a) all payments (other than amounts representing principal and all other unpaid amounts accrued and/or falling due prior to the Issue Date) from time to time received by the Issuer into the Transaction Account during the relevant Collection Period in respect of Mortgages from Borrowers in respect of the Mortgage loans (excluding all payments by Borrowers in respect of amounts properly belonging to third parties, including but not limited to monies owing to any party in respect of reimbursement for direct debit recalls and overpayments by Borrowers, all payments in respect of insurance premiums or payments in respect of the TRS scheme and any other amounts which have not been received by the Issuer as cleared funds);
- (b) all other payments (other than amounts representing principal and all other unpaid amounts accrued and/or falling due prior to the Issue Date and the payments described in (a) above) standing to the credit of the Transaction Account at the end of the relevant Collection Period;
- (c) interest received on amounts (other than amounts described in (b) above) in the Transaction Account since the immediately preceding Interest Payment Date or expected to be received from (and including) such Determination Date up to (but excluding) the immediately succeeding Interest Payment Date;
- (d) all payments to be received by the Issuer pursuant to the Swap Agreement on the immediately succeeding Interest Payment Date; and
- (e) amounts in respect of interest received or expected to be received on Authorised Investments made by or on behalf of, the Issuer prior to the immediately succeeding Interest Payment Date.

On the Interest Payment Date on which the Notes are to be redeemed in full, the Initial Available Revenue Funds will also include certain amounts standing to the credit of the Reserve Ledger (as defined below).

Available Revenue Funds: “**Available Revenue Funds**” will comprise (i) the aggregate of the Initial Available Revenue Funds; (ii) any amounts drawn from the Reserve Ledger required to cover any shortfall between the Initial Available Revenue Funds and the aggregate of items (i) to (vii) of the Revenue Priority of Payments to be made on the immediately succeeding Interest Payment Date; (iii) to the extent there are no funds or insufficient funds available to be drawn under the Reserve Ledger and, if applicable, the proceeds of any drawings from the Liquidity Ledger or any Liquidity Facility, required to cover any shortfall between Available Revenue Funds and the aggregate of items (i), (ii), (iii), (iv) and (vi) of the Revenue Priority of Payments, any amounts of Available Redemption Funds to be applied on the immediately succeeding Interest Payment Date as referred to in item (i) of the Principal Priority of Payments; less any Excluded Items (save for item (iii) of the definition of Excluded Items) paid or payable on or prior to the immediately succeeding Interest Payment Date. As to the application of Available Revenue Funds, see “Summary Information - Priority of Payments - Revenue” above.

Reserve Ledger: A segregated ledger designated the “Reserve Ledger” (the “**Reserve Ledger**”) will be established within the Transaction Account. The following amounts will be credited to the Reserve Ledger: on the Issue Date, €118,400,000 represented by amounts drawn under Tranche B of the Subordinated Loan (as defined below) (the “**Initial Reserve Fund Required Amount**”) and (ii) on any Interest Payment Date following the Issue Date, amounts paid pursuant to item (viii) of the Revenue Priority of Payments, up to the Reserve Ledger Required Amount (as defined below).

Any monies remaining in the Transaction Account on an Interest Payment Date following the application of the Revenue Priority of Payments may also at the discretion of the Mortgage Manager be placed in the Reserve Ledger. The Issuer will, to the extent that it has funds available for such purpose, be obliged to maintain the Reserve Ledger at the level of the Reserve Ledger Required Amount in accordance with the Revenue Priority of Payments.

The Reserve Ledger will be available to meet items (i) to (vii) (inclusive) of the Revenue Priority of Payments.

The “**Reserve Ledger Required Amount**” means:

- (i) at any time, the Initial Reserve Fund Required Amount;
- (ii) if on the Determination Date immediately preceding any Interest Payment Date falling on or after December 2010:-
 - (a) the balances on each of the Principal Deficiency Ledgers is zero;
 - (b) the balance on the Reserve Ledger is not less than the Reserve Ledger Required Amount on the preceding Interest Payment Date;
 - (c) no amount has been drawn under the Liquidity Facility;
 - (d) the product of (i) the sum of all Principal Losses (as defined below) incurred on the Mortgages comprised in the Mortgage Pool on the last Business Day of the month prior to the month in which such Determination Date falls divided by (ii) the Principal Balance as at the Closing Date of the Mortgages comprised in the Mortgage Pool, will be less than or equal to 1 per cent.;
 - (e) the aggregate outstanding Balance of Mortgages in the Mortgage Pool in respect of which the aggregate amount in arrears is more than the monthly payment then due, expressed as a percentage of the aggregate outstanding Balance of Mortgages in the Mortgage Pool, in each case on the last Business Day of the month prior to the month in which such Determination Date falls, is less than or equal to 6 per cent.; and
 - (f) the aggregate outstanding Balance of Mortgages in the Mortgage Pool in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, expressed as a percentage of the aggregate outstanding Balance of Mortgages in the Mortgage Pool, in each case on the last Business Day of the month prior to the month in which such Determination Date falls, is less than or equal to 3 per cent,

then the Reserve Ledger Required Amount will be reduced to an amount equal, on such Interest Payment Date, to the greater of 5 per cent. of the then aggregate Principal Amount Outstanding of the Notes and 1.75 per cent. of the outstanding Balance of the Mortgages as at the Completion Date; and

- (iii) on any date the amount identified in accordance with (i) to (ii) above (as appropriate) or such lower amount as has been notified in advance to the Rating Agency and as would not result in a downgrade of the rating of the Notes.

“**Principal Loss**” in respect of a Mortgage means the amount by which the total amount received from or on behalf of the Borrower in respect of such Mortgage on completion of Enforcement Procedures (as defined in the Master Definitions Schedule) in respect of such Mortgage (after discharging all amounts outstanding in respect of such Mortgage other than the Balance) falls short of the Balance of such Mortgage.

On the Determination Date immediately preceding the Interest Payment Date on which the redemption in full of the Notes takes place, all amounts standing to the credit of the Reserve Ledger at the opening of business on such Determination Date shall be applied to repay the Subordinated Loan; and

Principal Deficiency Ledgers

The Class A Principal Deficiency Ledger and the Class B Principal Deficiency Ledger (together, the “**Principal Deficiency Ledgers**”) will be opened and maintained by or on behalf of the Issuer in order to (i) record any net losses or write-offs on the Mortgages, and (ii) record amounts (if any) of Available Redemption

Funds applied in payment of items (i) to (vi) of the Revenue Priority of Payments (each a **“Principal Deficiency”**). Any Principal Deficiency shall be debited to the Class B Principal Deficiency Ledger so long as the debit balance on the Class B Principal Deficiency Ledger is less than or equal to the Principal Amount Outstanding on the Class B Notes and thereafter any Principal Deficiency shall be debited to the Class A Principal Deficiency Ledger. Such debit items shall be recredited in the case of the Class A Principal Deficiency Ledger at item (v) of the Revenue Priority of Payments and in the case of the Class B Principal Deficiency Ledger at item (vii) of the Revenue Priority of Payments.

Available Redemption Funds

Prior to enforcement of the Security pursuant to the Deed of Charge, the Mortgage Manager will calculate on behalf of the Issuer on each Determination Date the Available Redemption Funds.

“Available Redemption Funds” as at each Determination Date shall be the sum of:

- (i) all payments representing principal and all other unpaid amounts accrued and/or falling due prior to the Issue Date from time to time received by the Issuer into the Transaction Account in respect of Mortgages from Borrowers in respect of the Mortgage loans during the relevant Collection Period;
- (ii) amounts (other than amounts described in item (i) above) in respect of principal received or expected to be received on Authorised Investments made by or on behalf of the Issuer and referable to principal amounts invested as Authorised Investments, prior to the immediately succeeding Interest Payment Date;
- (iii) amounts (if any) to be applied in reducing the Principal Deficiency Ledgers on such Interest Payment Date pursuant to items (v) or (vii) (as applicable) of the Revenue Priority of Payments; and
- (iv) amounts to be released from the Retained Principal Ledger at the discretion of the Issuer on the immediately succeeding Interest Payment Date;

less (a) any Excluded Items (save for item (iii) of the definition of Excluded Items) paid or payable on or prior to the immediately succeeding Interest Payment Date, (b) amounts (if any) used or to be used to fund and/or acquire Further Advances, Redraws and Retention Advances during the relevant Collection Period and prior to or on the immediately succeeding Interest Payment Date (to the extent that such Further Advances, Redraws and Retention Advances cannot be funded from the balance of the Retained Principal Ledger), (c) amounts (if any) to be credited to the Retained Principal Ledger on the immediately succeeding Interest Payment Date; and (d) amounts (if any) which are to be credited to the Liquidity Ledger on the immediately succeeding Interest Payment Date, provided that no Excluded Items deducted in computing Available Revenue Funds shall be double counted as a deduction for the purposes of computing Available Redemption Funds.

The Class A Available Redemption Funds and the Class B Available Redemption Funds will be calculated by the Mortgage Manager on the relevant Determination Date.

For so long as the debit balance of the Class B Principal Deficiency Ledger is less than the Principal Amount Outstanding of the Class B Notes, Available Redemption Funds shall, to the extent that the Issuer has insufficient funds available on a Determination Date to pay items (i) to (vi) (inclusive) of the Revenue Priority of Payments (after applying amounts standing to the credit of the Reserve Ledger), be applied to meet items (i) to (vi) (inclusive) of the Revenue Priority of Payments. Thereafter, Available Redemption Funds shall be applied (a) if applicable, in or towards establishing or replenishing the Liquidity Reserve up to the Liquidity Reserve Required Amount; then (b) in or towards payment of principal due or overdue on the Class A Notes in accordance with the provisions of Condition 5(b) until no Class A Notes remain outstanding; and then (b) provided no Class A Notes remain outstanding, in or towards payment of principal due or overdue on the Class B Notes in accordance with the provisions of Condition 5(b).

Trust Account: Payments in respect of amounts due under the Mortgage loans by Borrowers will be credited to KBCH's central mortgage clearing accounts (the **“Trust Account”**) maintained at Ulster Bank Ireland Limited of College Green, Dublin 2 (the **“Trust Account Bank”**). Such payments will, in the majority of cases, be made by direct debit. Payments by Borrowers under the Mortgage loans are due on the first business day of each month with interest being payable in arrears. KBCH will execute a declaration of trust in favour of the Issuer (the **“Declaration of Trust”**) declaring a trust over the amounts which relate to the Mortgages and which are from time to time standing to the credit of the Trust Account. If the rating of the unsecured, unguaranteed and unsubordinated short-term debt of the Trust Account Bank falls below P-1 by Moody's or if the rating of the unsecured, unguaranteed and unsubordinated long-term debt of the Trust Account Bank falls

below A1 by Moody's, the Issuer shall be obliged within 30 days of such downgrade to use reasonable endeavours to arrange the transfer of the Trust Account into which payments in respect of amounts due under the Mortgage loans are credited to a bank whose unsecured, unguaranteed and unsubordinated short-term debt is rated at least P-1 by Moody's and whose unsecured, unguaranteed and unsubordinated long-term debt is rated at least A1 by Moody's.

Transaction Account: Payments in respect of amounts due under the Mortgage loans (save for any payments in respect of the TRS scheme from the Revenue Commissioners) which are credited to the Trust Account will be transferred to a designated segregated account in the name of the Issuer at the Transaction Account Bank (the "**Transaction Account**") (i) in respect of direct debit collections on the business day on which they are credited to the Trust Account and (ii) in respect of all other monies, on the business day following the business day on which they are credited to the Trust Account. The credit balance of the Transaction Account from time to time may accrue interest in accordance with the terms of the bank at which the account is held at such time (for the purpose of this paragraph only, "business day" shall mean a day (other than a Saturday or Sunday) on which banks are open for business in Dublin). If the rating of the unsecured, unguaranteed and unsubordinated short-term debt of the Transaction Account Bank falls below P-1 by Moody's or if the rating of the unsecured, unguaranteed and unsubordinated long-term debt of the Transaction Account Bank falls below A1 by Moody's, the Issuer shall be obliged within 30 days of such downgrade to use reasonable endeavours to arrange the transfer of the Transaction Account to a bank whose unsecured, unguaranteed and unsubordinated short-term debt is rated at least P-1 by Moody's and whose unsecured, unguaranteed and unsubordinated long-term debt is rated at least A1 by Moody's.

Authorised Investments: Monies from time to time standing to the credit of the Transaction Account may be invested by the Issuer (or by the Mortgage Manager on the Issuer's behalf) in certain authorised investments (the "**Authorised Investments**"), being deposit accounts and eligible securities of which the Rating Agency has received advance notice and which are repayable or mature on or before the Interest Payment Date next following the date on which such Authorised Investment is acquired or such deposit made, pending distribution in accordance with the Deed of Charge and the Mortgage Management and Agency Agreement.

Overall Investment Limits: The Mortgage Manager will ensure (on behalf of the Issuer) that, where the Transaction Account is held by an entity with an unsecured, unguaranteed and unsubordinated short-term and long-term debt ratings of P-1 and A1, respectively, from Moody's, the amount held by the Issuer in the Transaction Account at any time may not exceed 10 per cent. of the Principal Amount Outstanding of the Notes on the immediately preceding Interest Payment Date.

Subordination: The Class A Notes and the Class B Notes will share the same security. Upon enforcement, the Class A Notes will rank in priority to the Class B Notes in point of security.

Subordinated Loan: The Issuer will enter into a subordinated loan agreement (the "**Subordinated Loan Agreement**") with KBCH (in this capacity, the "**Subordinated Loan Provider**") and the Trustee on or prior to the Issue Date whereby the Subordinated Loan Provider will provide the Issuer with a subordinated loan facility (the "**Subordinated Loan**") in two tranches. Tranche A will be used in order to fund the fees, costs and expenses of the Issuer under and in connection with the issue of the Notes in an amount of €900,000. Tranche B will be used to credit the Reserve Ledger on the Issue Date in an amount equal to the Initial Reserve Fund Required Amount. The rate of interest applicable under the Subordinated Loan shall be the rate per annum determined by the Subordinated Loan Provider such that the interest accrued for an Interest Period relating thereto shall be an amount equal to all income and gains earned by the Issuer from or in respect of its financial assets and liabilities less €1000 per annum and all expenses incurred by the Issuer (other than the accrual of such interest under the Subordination Loan), all such amounts being determined in accordance with Irish generally accepted accounting principles. Payments of interest under the Subordinated Loan will be made by the Issuer only in accordance with (and to the extent only that funds are available under) the Revenue Priority of Payments and the Subordinated Loan Agreement. Principal amounts outstanding and unpaid on the Subordinated Loan shall be repaid by the Issuer in accordance with the Subordinated Loan Agreement (and subject to the Deed of Charge) by (a) the utilisation of, *inter alia*, funds released from the Reserve Ledger pursuant to items (ii) and (iii) of the definition of Reserve Ledger Required Amount and (b) amounts (if any) applied to item (xii) of the Revenue Priority of Payments in respect of principal repayment of the Subordinated Loan.

Swap Agreement: On the Closing Date, the Issuer will enter into the Swap Agreement (including a credit support annex (the "**Credit Support Annex**") and the Confirmation thereunder) with the Swap Counterparty to hedge its exposure in respect of the interest payments receivable under the Loans and its interest payment obligations under the Notes.

The terms of the Swap Agreement (including the Confirmation thereunder) will provide that on each Interest Payment Date the Issuer will pay to the Swap Counterparty an amount equal to the excess (if any) of X over Y and the Swap Counterparty will pay to the Issuer an amount equal to the excess (if any) of Y over X, which amount will be calculated by KBCH on the Determination Date immediately preceding such Interest Payment Date and where:

“X”	equals an amount equal to the product of applying the Blended Mortgage Rate to the Notional Amount, multiplied by D/360, where D is the number of days in the Interest Period commencing on the preceding Interest Payment Date;
“Y”	equals an amount equal to the product of applying three month EURIBOR to the Notional Amount multiplied by D/360, where D is the number of days in the Interest Period commencing on the preceding Interest Payment Date;
“Notional Amount”	means, in respect of the Interest Period commencing on the Closing Date, €3,200,000,000 and, thereafter, the aggregate Principal Amount Outstanding of the Notes, as calculated on the relevant Determination Date; and
“Blended Mortgage Rate”	means, for a Determination Period, the aggregate of (i) the actual interest charged by KBCH on the Mortgages for that Determination Period and (ii) the actual interest earned by the Issuer on amounts standing to the credit of the Reserve Ledger within the Transaction Account for that Determination Period expressed as an annualised percentage of the total amount outstanding on the Notes on the first day of such Determination Period less 1.15 per cent.

Payments due under the Swap Agreement will be netted in accordance with the terms thereof.

The Swap Agreement may be terminated in certain circumstances, which include, amongst others, (i) if the Notes are redeemed in full in accordance with Condition 5(e) (*Redemption for Tax Reasons*) prior to their final maturity date; (ii) if there is a failure by either party to pay any amounts due or to comply with or perform certain obligations, under the Swap Agreement; (iii) where certain insolvency-related events affect either the issuer or the Swap Counterparty; (iv) upon the occurrence or changes in law resulting in illegality; and (v) if the payments by the Swap Counterparty are subject to withholding or deduction due to, amongst other things, a change of law.

In the event that the rating of the Swap Counterparty is downgraded below the relevant rating(s) specified (in accordance with the requirements of Moody's) in the Swap Agreement then the Issuer has the right, subject to certain conditions, to terminate the Swap Agreement unless the Swap Counterparty, within the time period specified in the Swap Agreement and at its own cost, takes certain remedial steps which may include:

- (i) providing collateral for its obligations in accordance with (and only if permitted by) the terms of the Swap Agreement; or
- (ii) obtaining a guarantee of, or a co-obligor for its obligations under such Swap Agreement from a third party whose ratings are equal to or higher than the ratings specified in the Swap Agreement; or
- (iii) transferring all of its rights and obligations under the Swap Agreement to a third party provided that such third party's ratings are equal to or higher than the ratings specified in the Swap Agreement.

Where the Swap Counterparty provides collateral in accordance with the terms of the Swap Agreement, such collateral will, upon receipt by the Issuer, be credited to a separate ledger created to record the amount of collateral received under the Swap Agreement (the "**Collateral Ledger**") and transferred (if in euro cash form) to the Transaction Account. Any collateral or interest thereon provided by the Swap Counterparty shall not form part of the Available Revenue Funds other than collateral amounts applied in satisfaction of termination payments due to the Issuer following the designation of an early termination date under the Swap Agreement and shall be paid to the Swap Counterparty directly.

The Swap Counterparty may, subject to the conditions set out in the relevant Swap Agreement, transfer its rights and obligations in respect of the Swap Agreement to another entity, provided that, among other things, such entity satisfies the rating requirements of Moody's.

If the Issuer becomes obliged to withhold tax from any payment due by it under the Swap Agreement, such tax shall be withheld and the Issuer will not be obliged to gross up its payment to the Swap Counterparty. In the event of an imposition of any tax on any payment to the Issuer under the Swap Agreement, the Swap Counterparty will be obliged to gross up for tax so withheld. However, if any such withholding or deduction is required, the Swap Counterparty may terminate the Swap Agreement.

Liquidity

If at any time the short-term and long-term unsecured, unsubordinated and unguaranteed debt obligations of KBCI are rated less than P-1 and A3 respectively by Moody's (an "**KBCI Downgrade**") then:

- (i) unless either there will be no adverse rating effect on the Notes as a result of the KBCI Downgrade or unless the arrangement of a Liquidity Facility (as described below) would in any event not negate such adverse rating effect, the Issuer will, subject to all applicable requirements of the Financial Regulator, use reasonable endeavours to arrange and enter into a facility agreement (a "**Liquidity Facility Agreement**") with a liquidity facility provider (the short-term and long-term unsecured, unsubordinated and unguaranteed debt obligations of which are rated not less than P-1 and A3 respectively by Moody's) (the "**Liquidity Facility Provider**") and the Trustee pursuant to which the Liquidity Facility Provider will agree to make available to the Issuer a committed loan facility in an aggregate maximum available amount of not less than 3.4 per cent. of the then Principal Amount Outstanding of the Notes (the "**Liquidity Facility**") on terms notified in advance to Moody's and consistent in all respects with the Deed of Charge and other Transaction Documents. Under any such Liquidity Facility, the Mortgage Manager shall, on behalf of the Issuer, be able to make drawings on any Interest Payment Date in circumstances where the Issuer has insufficient funds available, after application of all Available Revenue Funds available for such purpose, to pay in full any of the items at (i), (ii), (iii), (iv) and (vi) of the Revenue Priority of Payments on such Interest Payment Date; or
- (ii) the Issuer may establish a "**Liquidity Ledger**" in the Transaction Account on the next following Interest Payment Date following the KBCI Downgrade. The Liquidity Ledger shall be funded up to a maximum aggregate amount of not less than 3.4 per cent. of the then Principal Amount Outstanding of the Notes (the "**Liquidity Reserve Required Amount**") using principal amounts received on the Mortgages pursuant to item (ii) of the Principal Priority of Payments. The Mortgage Manager shall, on behalf of the Issuer, be able to make drawings of amounts standing to the credit of the Liquidity Ledger on any Interest Payment Date in circumstances where the Issuer has insufficient funds available, after application of all Available Revenue Funds available for such purpose, to pay in full any of the items at (i), (ii), (iii), (iv) and where either the B test (as defined below) is satisfied or no Class A Notes remain outstanding, (vi) of the Revenue Priority of Payments on such Interest Payment Date.

The "**B Test**" as calculated on the Determination Date immediately preceding the relevant Interest Payment Date, will be met if the deficiency recorded on the Class B Principal Deficiency Ledger on such Determination Date is less than 50 per cent. of the Principal Amount Outstanding of the Class B Notes on such Determination Date.

A failure to carry out any of the actions described in paragraphs (i) or (ii) above shall not constitute an Event of Default (as defined in the Conditions).

THE ISSUER

Introduction

The Issuer is a special purpose vehicle established for the purpose of issuing asset-backed securities and was incorporated and registered in Ireland (under company registration number 463089) as a private limited company limited by shares under the Irish Companies Acts, 1963 to 2006 on 9 October, 2008. The registered office of the Issuer is at Sandwith Street, Dublin 2. The telephone number of the Issuer is +35316146240.

The authorised share capital of the Issuer comprises €1,000 divided into 1,000 shares of €1 each. The issued share capital of the Issuer comprises 1000 ordinary shares of €1 which are fully paid up and held by Capita Trust Nominees No.1 Limited (the “**Share Trustee**”) under the terms of a discretionary trust established under Irish law pursuant to a Declaration of Trust made by the Share Trustee.

The principal objects of the Issuer are set out in Clause 3 of its Memorandum of Association and amongst other things are to purchase, take transfers of, invest in and acquire by any means loans or other obligations involving the extension of credit and any security therefor and to raise or borrow money and to grant security over its assets for such purposes.

Neither KBCH nor any associated body of KBCH owns directly or indirectly any of the share capital of the Share Trustee or the Issuer.

The Issuer has not engaged, since its incorporation, and will not engage in any material activities other than those incidental to its incorporation under the Irish Companies Acts, 1963 to 2006, the authorisation and issue of the Notes, the matters referred to or contemplated in this document and the authorisation, execution, delivery and performance of the other documents referred to in this document to which it is a party and matters which are incidental or ancillary to the foregoing.

Directors

The directors of the Issuer, all of whom are non-executive, and their respective business addresses and principal activities are:

<i>Name</i>	<i>Address</i>	<i>Principal Activities</i>
Orlagh Doherty	1 Adelaide Court, Adelaide Road, Dublin 2	Company Director
Ralph Mac Darby	1 Adelaide Court, Adelaide Road, Dublin 2	Notary Public
Ian Black	Sandwith Street, Dublin 2	Banker

The Secretary of the Issuer is Ian Black.

The Issuer has no employees.

Activities

On the Issue Date, the Issuer will acquire from KBCH a portfolio of residential mortgages originated by KBCH. All Mortgages acquired by the Issuer on such date will be financed by the proceeds of the issue of the Notes. The activities of the Issuer will be restricted by the Conditions, the Trust Deed, the Deed of Charge and the other Transaction Documents and will be limited to the issue of the Notes, the ownership of the Mortgages and other assets referred to in this document and of any Further Advances or Substitute Mortgages, the exercise of related rights and powers, and other activities referred to in this document or reasonably incidental thereto. These activities will include the collection of payments of principal and interest from Borrowers in respect of Mortgages and the operation of arrears procedures.

Substantially all of the above activities will be carried on by the Mortgage Manager on an agency basis on behalf of the Issuer under the Mortgage Management and Agency Agreement. Additionally, the Mortgage Manager will provide cash management and certain reporting services to the Issuer and the Trustee pursuant to the Mortgage Management and Agency Agreement. The Issuer (with the consent of the Trustee) or the Trustee may revoke the agency of the Mortgage Manager upon the occurrence of certain events of default or insolvency or similar events in relation to the Mortgage Manager or, in certain circumstances, following an Event of Default

(as defined in Condition 9 of the Notes) in relation to the Notes. Following such an event as aforesaid, the Issuer may (with the consent of the Trustee) or the Trustee may, subject to certain conditions, appoint any substitute Mortgage Manager.

USE OF PROCEEDS

The gross proceeds of the issue of the Notes are expected to amount to €3,200,000,000 and will be applied in the purchase of the Mortgages in the Completion Mortgage Pool on the Issue Date. The expenses of the issue of the Notes will be met, on the Issue Date, by the Issuer from the drawing under Tranche A of the Subordinated Loan.

It is estimated the total expenses related to admitting the Notes to trading on the regulated market of ISE will be approximately €5,000.

KBC MORTGAGE BANK TRADING AS KBC HOMELOANS

History and Development

KBC Mortgage Bank trading as KBC Homeloans (formerly IIB Homeloans Limited) was established in 1989 and was originally part of a joint venture between KBCI (formerly IIB Bank plc) and Irish Life plc. Following the merger of Irish Life plc and Irish Permanent plc in 1998, KBC Bank NV acquired 100 per cent. of KBCI and the group subsidiaries of that company.

Group Structure

KBCH is a wholly-owned subsidiary of KBC Bank Ireland plc which, in turn, is a 100 per cent. subsidiary of KBC Bank NV.

KBCH's registered office is Sandwith Street, Dublin 2, from which its residential mortgage lending, administration and marketing units operate.

Activities of KBCH

KBCH's business is the origination and administration of residential mortgage loans in Ireland as a centralised lender.

Its mortgage portfolio has grown steadily over the past five years and is currently approximately €13.6 billion with a customer base of about 67,000. New business levels in 2007 were approximately €3.4 million representing around 9.6 per cent. of new business in the Irish residential mortgage market. Broker introduced business is the principal distribution channel for the business.

Recent Developments

On 16 October 2008 KBCH re-registered as an unlimited company under the Irish Companies Acts, 1963 to 2006. On 24 October 2008 KBCH was granted a banking licence by the Central Bank and Financial Services Authority of Ireland under section 9 of the Central Bank Act, 1971 and changed its name from IIB Homeloans to KBC Mortgage Bank.

THE SWAP COUNTERPARTY AND TRANSACTION ACCOUNT BANK

KBC Bank Ireland plc (formerly IIB Bank plc) was founded in 1973 and is a wholly owned subsidiary of KBC Bank NV which, in turn is part of the KBC Group NV ("**KBC**"). KBC occupies leading positions in Belgium and Central and Eastern Europe with assets in excess of € 355 billion and serves some 12 million customers. KBCI is an Irish licensed bank and provides a wide range of retail and wholesale financial products primarily to the Irish market. As at 31 December 2007, it had assets of approximately € 24 billion.

KBCI is supervised and regulated by the Financial Regulator. KBCI's unsecured, unguaranteed and unsubordinated long term debt obligations are rated A+ by S&P and A1 by Moody's. KBCI's unsecured, unguaranteed and unsubordinated short term debt obligations are rated A-1 by S&P and P-1 by Moody's.

Recent Developments

On 24 October 2008 KBCI changed its name from IIB Bank plc to KBC Bank Ireland plc.

On 27 October 2008 KBC announced that it had reached agreement with the Belgian government to increase the core capital of KBC by means of a €3.5 billion issue of securities to the Belgian State, and that this transaction is expected to be settled by the end of 2008.

THE MORTGAGE POOL

Introduction

Each of the Mortgages in the Completion Mortgage Pool was advanced by KBCH. The Provisional Mortgage Pool was drawn up as at 3 November 2008 and was made up of mortgages owned by KBCH. The Completion Mortgage Pool will be selected from the Provisional Mortgage Pool after excluding Mortgages, *inter alia*, which are repaid between that date and the Issue Date or which do not comply with the warranties set out in the Mortgage Sale Agreement. The aggregate balances of Mortgages in the Completion Mortgage Pool will not exceed €3,200,000,000.

Sale of Mortgages

KBCH will sell its beneficial interest in each Mortgage in the Completion Mortgage Pool to the Issuer for (a) an initial consideration payable on the Issue Date equal to the Balance (as defined below) on the Issue Date.

The **"Balance"** on the Issue Date for each Mortgage means the aggregate of the amounts secured or intended to be secured under the Mortgage comprising (i) the original principal amount advanced to the Borrower (including any fees and expenses added to the principal amount) plus (ii) any advance of further monies to the Borrower thereof on the security of the relevant Mortgage and any amount added to the principal balance of Mortgage on the terms of the relevant mortgage deed after the date of completion of such Mortgage which remains outstanding as at the Issue Date (including fees and expenses, accrued interest and any amounts in arrears) and less (iii) any repayments or prepayments of such principal as at the Issue Date plus (iv) all interest accrued but not yet due and arrears of interest and any fees and expenses which are due and payable which in each case has not been added to the principal amount.

Following the sale of the Completion Mortgage Pool to the Issuer on the Issue Date, further Mortgages (**"Substitute Mortgages"**) may from time to time be included in the Mortgage Pool. Substantially the same warranties as given by KBCH in respect of the Mortgages which comprise the Completion Mortgage Pool will be given by KBCH in respect of each Mortgage sold to the Issuer after the Issue Date.

Lending Criteria

The following lending criteria (the **"Lending Criteria"**) will have been applied in respect of the Mortgages comprising the Provisional Mortgage Pool and will apply in respect of all Substitute Mortgages.

On origination of each Mortgage from time to time comprised in the Mortgage Pool, the Lending Criteria would have been applied with certain minor variations to reflect the differing identities of the Borrowers and minor changes to the Lending Criteria.

Security

- (a) Each advance must be secured by a first legal mortgage over a freehold or leasehold residential property (with a minimum term of 70 years of the term remaining on the lease from the granting of the Mortgage) in Ireland (the **"Property"** or the **"Properties"**).
- (b) Only Property of conventional construction and structurally sound dwellings intended for use wholly or partly as a place of residence is acceptable.
- (c) The legal title in the Property being taken as security must be certified by the Borrower's solicitor as being "good marketable title" as determined by the Law Society of Ireland or KBCH must have a certificate of insurance issued by First Title Insurance plc confirming availability of title insurance in respect of the Property under a master policy.
- (d) Each Property offered as security must have been valued by a valuer which is a member of a panel of valuation firms approved by KBCH.
- (e) At the time of completion, the relevant Property must have been either insured under a Block Buildings Policy (as defined under "The Mortgage Pool - Insurance Contracts" below) in the name of KBCH, or KBCH must be jointly insured with the Borrower under, or its interest noted on, a buildings policy in relation to the relevant Property.

Loan Amount

A Mortgage is not subject to any pre-set maximum. However, as at 3 November, 2008 no Mortgage balance within the Provisional Mortgage Pool exceeds €2,000,000.

Loan to value

- (a) The current loan to value ratio (the “**LTV**”) is calculated by dividing the principal balance outstanding of each Borrower by the most recent valuation of the relevant Property.
- (b) The LTV of each Mortgage at the date of the initial advance must be no more than 100 per cent. Where the LTV is greater than 75 per cent., or 80 per cent. in the case of Mortgages originated prior to 31 December, 2005, mortgage indemnity insurance is normally required.

Term

Each Mortgage must have an initial term of between 10 and 40 years from the date of the initial advance.

Borrowers

- (a) Borrowers must be at least 18 years old at the time of the initial advance and their age at final maturity should not normally exceed 65 years or, exceptionally, 70 years where KBCH is satisfied with the Borrower's ability to service the Mortgage beyond normal retirement age (being 65 years);
- (b) The Borrower must be a resident of Ireland;
- (c) The Borrower's credit and employment history will have been assessed with the aid of one or more of the following:
 - (i) search supplied by credit reference agency;
 - (ii) references or salary certificates from current employers;
 - (iii) references or salary certificates from past employers;
 - (iv) accountant's certificate;
 - (v) financial statements;
 - (vi) references from current lenders; and/or
 - (vii) bank account statements.

Income

- (a) Income is determined by reference to the application form and supporting documentation, where appropriate, and may consist of the following:
 - (i) Salary plus up to 100 per cent. of any bonus, overtime and/or commission;
 - (ii) Any income confirmed by an accountant for Self-Employed Borrowers;
 - (iii) 100 per cent. of occupational pension payments;
 - (iv) 50 per cent. of guaranteed investment income;
 - (v) Rental income receivables; and
 - (vi) any other income approved by an authorised officer of KBCH.
- (b) Each Borrower must disclose all material liabilities, which are assessed by KBCH.
- (c) Prior to May 2004, the principal amount advanced in respect of primary residences was based on a multiple of the borrowers income(s). This multiple would not (subject to certain exceptions) exceed 3.75 times the borrowers joint or single incomes. Since May 2004, the principal amount advanced in respect of primary residences is assessed based on the Borrower's repayment capacity, as determined using

KBCH's net income criteria. The proposed mortgage repayments plus other loan and maintenance outgoings are calculated as a percentage of monthly income net of tax. All Borrower applications assessed on this basis are subject to interest rate stress testing by KBCH.

Solicitors

The firm of solicitors acting on behalf of the Borrowers, on the making of each Mortgage, must have at least one practising solicitor who must have adequate professional indemnity insurance and hold a current practising certificate issued by the Law Society of Ireland.

Miscellaneous

The following criteria also apply to each Mortgage:

- (i) the provisions of the Consumer Credit Act 1995 relating to the regulated agreements and other applicable legislation are complied with (to the extent they apply);
- (ii) the Mortgage is on the terms of the relevant standard documentation utilised by KBCH at the time of the granting of the advance; and
- (iii) the granting of the applicable Mortgage is effected in writing.

Further Advances and Redraws

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

- (a) the payment history in respect of a Mortgage must be satisfactory to KBCH, acting as a Prudent Mortgage Lender (as defined below) unless otherwise approved by an authorised officer of KBCH; and
- (b) the Property may, at the request of KBCH, be subject to a new valuation and/or inspection of the Property.

Changes to Lending Criteria

KBCH has the right to vary or waive the Lending Criteria from time to time in the manner of a reasonable prudent mortgage lender lending to borrowers in Ireland, where the mortgage is secured over residential property (a "**Prudent Mortgage Lender**") and KBCH may have waived or varied the Lending Criteria acting as a Prudent Mortgage Lender in respect of Mortgages comprised in the Mortgage Pool.

Characteristics of the Provisional Mortgage Pool

The Mortgages in the Provisional Mortgage Pool have the aggregate characteristics indicated in Tables A to K below.

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

The following tables give information on the Provisional Mortgage Pool at 3 November 2008.

Table A

Key Data on the Provisional Mortgage Pool

Total Pool Balance:	3,225,728,007
Number of Deal Products ¹ :	25,253
Number of Agreements:	18,719
Average Agreement Balance:	172,324
WA CLTV:	66.06%
WA Current Rate:	5.19%
WA Seasoning:	42.10 Months
WA Remaining Term:	274.30 Months
Last Maturity Date:	4 October 2043

Table B

Distribution by Mortgage/Mortgages Loan Size

Distribution by Mortgage/Mortgages Loan Size (€)	Number of Mortgages	% of Mortgages	Principal Balance	% of Principal Balance
25,000.01 - 50,000.00	2,039	10.89	78,426,032	2.43
50,000.01 - 75,000.00	1,862	9.95	116,185,741	3.60
75,000.01 - 125,000.00	3,674	19.63	368,140,529	11.41
125,000.01 - 150,000.00	1,949	10.41	267,958,027	8.31
150,000.01 - 175,000.00	1,716	9.17	278,624,698	8.64
175,000.01 - 200,000.00	1,536	8.21	287,967,967	8.93
200,000.01 - 225,000.00	1,204	6.43	255,678,460	7.93
225,000.01 - 250,000.00	1,109	5.92	263,802,856	8.18
250,000.01 - 275,000.00	825	4.41	215,922,294	6.69
275,000.01 - 300,000.00	716	3.82	205,792,443	6.38
300,000.01 - 325,000.00	491	2.62	153,034,173	4.74
325,000.01 - 350,000.00	397	2.12	134,036,873	4.16
350,000.01 - 375,000.00	247	1.32	89,188,313	2.76
375,000.01 - 400,000.00	180	0.96	69,483,433	2.15
400,000.01 - 425,000.00	138	0.74	56,732,928	1.76
425,000.01 - 450,000.00	112	0.60	48,948,610	1.52
450,000.01 - 475,000.00	94	0.50	43,446,609	1.35
475,000.01 - 500,000.00	71	0.38	34,632,969	1.07
>= 500,000.01	359	1.92	257,725,053	7.99
Total	18,719	100.00	3,225,728,007	100.00

Min: 25,002

Max: 1,920,000

Average: 172,324

¹ Where borrowers wish to have portions of their mortgage on different interest rates, these portions become separate tranches known as Deal Products

Table C**Distribution by Interest Rate Type**

Distribution by Interest Rate Type (€)	Number of Deal Products	% of Deal Products	Principal Balance	% of Principal Balance
Discount SVR	224	0.89	73,095,378	2.27
ECB Cap Tracker	137	0.54	36,788,087	1.14
ECB Tracker	4,568	18.09	777,718,515	24.11
Fixed	8,904	35.26	1,134,336,175	35.17
SVR	11,420	45.22	1,203,789,853	37.32
Total:	25,253	100.00	3,225,728,007	100.00

Table D**Distribution by Current Loan to Value ("LTV")**

Distribution by Current Loan to Value ("LTV") (€)	Number of Agreement	% of Agreements	Principal Balance	% of Principal Balance
1% - 5%	25	0.13	2,302,983	0.07
6% - 10%	210	1.12	10,426,388	0.32
11% - 15%	433	2.31	20,749,532	0.64
16% - 20%	613	3.27	35,996,712	1.12
21% - 25%	722	3.86	53,676,610	1.66
26% - 30%	880	4.70	75,154,291	2.33
31% - 35%	972	5.19	101,883,913	3.16
36% - 40%	1,047	5.59	122,730,227	3.80
41% - 45%	1,151	6.15	149,955,406	4.65
46% - 50%	1,077	5.75	160,839,477	4.99
51% - 55%	1,242	6.63	198,399,926	6.15
56% - 60%	1,269	6.78	226,446,167	7.02
61% - 65%	1,336	7.14	253,308,195	7.85
66% - 70%	1,355	7.24	262,754,666	8.15
71% - 75%	1,360	7.27	285,901,246	8.86
76% - 80%	1,746	9.33	406,218,724	12.59
81% - 85%	1,186	6.34	274,802,563	8.52
86% - 90%	986	5.27	267,069,143	8.28
91% - 95%	952	5.09	270,389,985	8.38
96% - 100%	157	0.84	46,721,854	1.45
Total:	18,719	100.00	3,225,728,007	100.00

Minimum: 2%

Maximum: 100%

Weighted Average: 66%

Table E**Distribution by Geographic Distribution**

Distribution by Geographic Region (€)	Number of Agreements	% of Agreements	Principal Balance	% of Principal Balance
Carlow	256	1.37	34,376,834	1.07
Cavan	273	1.46	45,576,053	1.41
Clare	378	2.02	50,745,891	1.57
Cork	1,656	8.85	275,834,230	8.55
Donegal	365	1.95	44,711,873	1.39
Dublin	5,380	28.74	1,154,734,562	35.80
Galway	1,385	7.40	218,279,388	6.77
Kerry	295	1.58	38,175,851	1.18
Kildare	1,060	5.66	198,121,522	6.14
Kilkenny	299	1.60	47,573,736	1.47
Laois	376	2.01	54,678,245	1.70
Leitrim	173	0.92	22,797,041	0.71
Limerick	639	3.41	85,478,126	2.65
Longford	144	0.77	20,276,497	0.63
Louth	614	3.28	102,626,180	3.18
Mayo	379	2.02	52,627,372	1.63
Meath	870	4.65	155,914,135	4.83
Monaghan	289	1.54	46,826,594	1.45
Offaly	477	2.55	67,862,817	2.10
Roscommon	357	1.91	48,190,633	1.49
Sligo	321	1.71	47,249,865	1.46
Tipperary	715	3.82	88,371,564	2.74
Waterford	408	2.18	58,904,268	1.83
Westmeath	381	2.04	56,513,879	1.75
Wexford	615	3.29	93,447,807	2.90
Wicklow	614	3.28	115,833,045	3.59
Total:	18,719	100.00	3,225,728,007	100.00

Table F**Distribution by Seasoning**

Distribution by Seasoning (€)	Number of Deal Products	% of Deal Products	Principal Balance	% of Principal Balance
<= 6	2,370	9.39	634,066,970	19.66
6.01 – 12.00	1,048	4.15	169,154,942	5.24
12.01 – 18.00	1,588	6.29	269,443,597	8.35
18.01 – 24.00	1,135	4.49	157,580,823	4.89
24.01 – 30.00	1,171	4.64	145,895,571	4.52
30.01 – 36.00	1,066	4.22	113,430,745	3.52
36.01 – 42.00	1,280	5.07	121,405,272	3.76
42.01 – 48.00	986	3.90	84,180,215	2.61
> 49	14,609	57.85	1,530,569,871	47.45
Total:	25,253	100.00	3,225,728,007	100.00

Minimum: 1

Maximum: 111

Weighted Average: 42.10

Table G**Distribution by Loan Purpose**

Distribution by Loan Purpose (€)	Number of Deal Products	% of Deal Products	Principal Balance	% of Principal Balance
Purchase	18,730	74.17	2,485,999,043	77.07
Re-mortgage	6,523	25.83	739,728,964	22.93
Total:	25,253	100.00	3,225,728,007	100.00

Table H**Distribution by Remaining Term to Maturity (months)**

Distribution by Remaining Term to Maturity (months) (€)	Number of Deal Products	% of Deal Products	Principal Balance	% of Principal Balance
<= 36	116	0.46	2,731,178	0.08
37 - 72	500	1.98	23,187,333	0.72
73 - 108	1,397	5.53	73,749,561	2.29
109 - 144	2,249	8.91	149,395,117	4.63
145 - 180	3,663	14.51	345,156,190	10.70
181 - 216	2,834	11.22	278,042,087	8.62
217 - 252	4,459	17.66	528,316,072	16.38
253 - 288	2,669	10.57	367,218,128	11.38
289 - 324	3,172	12.56	492,155,760	15.26
325 - 360	1,507	5.97	329,401,267	10.21
361 >	2,687	10.64	636,375,313	19.73
Total:	25,253	100.00	3,225,728,007	100.00

Minimum: 1

Maximum: 419

Weighted Average: 247.30

Table I**Distribution by Current Rate**

Distribution by Current Rate (€)	Number of Deal Products	% of Deal Products	Principal Balance	% of Principal Balance
<= 3.75%	13	0.05	1,244,048	0.04
3.76% - 4.00%	362	1.43	38,805,839	1.20
4.01% - 4.25%	128	0.51	16,109,768	0.50
4.26% - 4.50%	886	3.51	146,378,740	4.54
4.51% - 4.75%	2,717	10.76	418,246,775	12.97
4.76% - 5.00%	4,368	17.30	627,556,719	19.45
5.01% - 5.25%	2,805	11.11	414,362,163	12.85
5.26% - 5.50%	11,047	43.75	1,138,258,731	35.29
5.51% - 5.75%	1,890	7.48	264,908,250	8.21
5.76% - 6.00%	829	3.28	120,658,717	3.74
6.01% - 6.25%	206	0.82	38,337,513	1.19
6.26% >=	2	0.01	860,743	0.03
Total:	25,253	100.00	3,225,728,007	100.00
Minimum: 3.28%				
Maximum: 6.33%				
Weighted Average: 5.19%				

Table J**Distribution by Repayment Types**

Distribution by Repayment Types (€)	Number of Deal Products	% of Deal Products	Principal Balance	% of Principal Balance
Repayment	17,568	69.57	1,900,038,820	58.90
Endowment	347	1.37	59,059,794	1.83
Other	7,338	29.06	1,266,629,393	39.27
Total:	25,253	100.00	3,225,728,007	100.00

Title to the Mortgage Pool

The Completion Mortgage Pool will consist of Mortgages originated by KBCH and governed by Irish law.

Pursuant to the Mortgage Sale Agreement, KBCH will agree to sell its beneficial interest in the Mortgages and their collateral security to the Issuer. KBCH will undertake to transfer legal title when required under the terms of the Mortgage Sale Agreement as described below and will provide certain further assurances to the Issuer and the Trustee.

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

The Mortgage Manager is required by the Mortgage Management and Agency Agreement to ensure the safe custody of the title deeds relating to the Mortgages and to provide the Trustee with access to them at all reasonable times during business hours.

Save as mentioned below, neither the Issuer nor the Trustee will be entitled to effect any registration to perfect the sale of the Mortgages and their collateral security to the Issuer or the granting of security over them by the Issuer in favour of the Trustee nor, save as mentioned below, will they be entitled to obtain possession of the title deeds to the properties the subject of the Mortgages.

Notices of the sale to the Issuer and the security in favour of the Trustee will not, save as mentioned below, be given to the Borrowers. In addition, notice of the interest of the Issuer and the Trustee will not, save as mentioned below, be given in respect of the Block Buildings Policies, the Mortgage Indemnity Policies, the Title Insurance Policy and the Contingency Policies (each as defined in "Insurance Contracts" below) to the relevant insurance providers.

Under the Mortgage Sale Agreement and the Deed of Charge, the Issuer and the Trustee will each be entitled to effect such registrations and give (or require KBCH to give at the cost of KBCH in such manner as the Issuer or the Trustee may reasonably require) such notices as it considers necessary to protect and perfect its interests in the Mortgages, and to call for a legal assignment or transfer of the Mortgages and the collateral security in favour of the Issuer and a legal sub-mortgage over such Mortgages and collateral security in favour of the Trustee, *inter alia*, where (i) it is obliged to do so by law, by court order or by a mandatory requirement of any regulatory authority, (ii) an Enforcement Notice (as defined in the Deed of Charge) has been served, (iii) the Trustee certifies to the Issuer and KBCH that, in its reasonable opinion it considers that the Charged Property (as defined in the Deed of Charge) or any part thereof is in jeopardy (including the possible insolvency of KBCH (where legal title to any Mortgage is vested in KBCH or any other entity in which legal title to any Mortgage is vested)) and that doing any of the foregoing acts or things would materially reduce such jeopardy, (iv) any action is taken for the winding-up, dissolution, examination or reorganisation of KBCH or any other entity in which legal title to any Mortgage is vested, (v) KBCH has ceased to be Mortgage Manager pursuant to the Mortgage Management and Agency Agreement and the Issuer and Trustee agree that such action should be taken (where legal title to any Mortgage is vested in KBCH), (vi) KBCH calls for such perfection and legal assignment by serving a notice on the Issuer; or (vii) the rating of the long-term unsecured, unsubordinated and unguaranteed debt of KBCI by the Rating Agency falls below Baa3 by Moody's. Following such legal assignment or transfer and sub-mortgage, the Issuer (with the consent of the Trustee) and the Trustee will each be entitled to take all necessary steps to protect and perfect legal title to its interests in the Mortgages and collateral security, including the carrying out of any necessary registrations and notifications. These rights are supported by irrevocable powers of attorney given, *inter alia*, by the Issuer and KBCH in favour of the Trustee and will be similarly supported in respect of Further Advances and Substitute Mortgages.

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

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

In addition, the rights of the Issuer and the Trustee may be or become subject to the direct rights of the Borrowers against KBCH. Such rights may include the rights of set-off existing prior to notification to the Borrowers of the sale of the Mortgages which arise in relation to transactions made between certain Borrowers and KBCH, and the rights of Borrowers to redeem their Mortgages by repaying the relevant loan directly to KBCH. These rights may result in the Issuer receiving less sums than anticipated from the Mortgages. KBCH will, however, undertake in the Mortgage Sale Agreement to account to the Issuer in respect of any amounts in its possession or under its control which are set-off against any sums to which the Issuer is entitled under the Mortgage Sale Agreement and to hold any moneys repaid to KBCH in respect of the relevant Mortgages to the order of the Issuer.

For so long as neither the Issuer nor the Trustee have obtained legal title to the Mortgages, KBCH will undertake in the Mortgage Sale Agreement 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 Mortgages and their related security. In carrying out such steps, KBCH will act in a manner consistent with the requirements of KBCH policy from time to time.

Warranties and Repurchase

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

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

If there is an unremedied breach of any of the representations and warranties set out in the Mortgage Sale Agreement then KBCH will be obliged to repurchase the relevant Mortgage and its collateral security for a consideration in cash equal to all sums due or owing thereunder (including accrued interest and arrears) as at the date of repurchase (after deducting the amount of any interest not then accrued but paid in advance by the relevant mortgagor, which amount will be retained by the Issuer). Performance of such repurchase will be in full satisfaction of the liabilities of KBCH in respect of the relevant breach. Alternatively, as consideration for such repurchase KBCH may elect to transfer or can procure that an affiliate of KBCH will transfer another Mortgage originated by KBCH (such Mortgage being referred to in this section as a “**Substitute Mortgage**”) (as to which see “Substitute Mortgages” below) either whose Adjusted Balance together with cash equals such cash consideration or with an Adjusted Balance equal to or greater than the amount of such cash consideration provided however that the Substitute Mortgage complies with certain conditions set out in the Mortgage Sale Agreement. “**Adjusted Balance**” means, in respect of any Substitute Mortgage, the original principal amount advanced to the Borrower thereunder plus any further advance, in each case, together with any accrued interest thereon less any prepayment, repayment or payment of or in respect of any principal prior to the date on which such Substitute Mortgage is transferred to the Issuer.

The representations and warranties of KBCH and KBCI referred to above include statements to the following effect:

- (i) each Mortgage constitutes a valid and subsisting first ranking charge by way of legal mortgage over residential leasehold or freehold property situated in Ireland (subject only to any registration which may be pending at the Land Registry or Registry of Deeds or to stamping at the Revenue Commissioners);
- (ii) each Loan and its related Mortgage constitutes a valid and binding obligation of the Borrower enforceable in accordance with its terms and is non-cancellable and secures the repayment of all advances, interest costs and expenses payable by the Borrower;
- (iii) each Mortgage complied with the Lending Criteria applicable at the time of application by the Borrower for the grant of such Mortgage in all material respects save for any waivers as would be granted by a Prudent Mortgage Lender;

- (iv) prior to the making of an advance to a Borrower, all investigations, searches and other actions that would normally have been undertaken by a Prudent Mortgage Lender in Ireland when advancing money in an amount equal to the relevant advance to an individual on the security of residential property in Ireland were taken by KBCH or on its behalf in respect of each Property the subject of a Mortgage or the title to the Property is covered under the terms of the Title Insurance Policy;
- (v) at the time of the origination of each Mortgage, each Property was insured either (i) under a Block Buildings Policy, or (ii) a buildings insurance policy in the joint names of the Borrower and KBCH or with the interest of KBCH (as mortgagee) endorsed or otherwise noted thereon, or (iii) (in the case of leasehold property) under a landlord's buildings insurance policy with, where possible, the interests of KBCH and the Borrower endorsed thereon, or (iv) under one of the Contingency Policies (as defined below), in all cases against risks usually covered when advancing money on the security of residential property of the same nature to an amount not less than the full reinstatement value thereof as determined by an KBCH valuer;
- (vi) the Mortgage Indemnity Policy, the Title Insurance Policy and the Contingency Policy (each as defined below under *Insurance Contracts*) are in full force and effect and all premiums thereon have been paid;
- (vii) in relation to each Mortgage the property is either registerable in the Registry of Deeds and the Borrower's solicitor has undertaken to furnish a certificate of title to the effect that the Borrower has good marketable title in due course or, if the property is registerable in the Land Registry, it has been registered or the Borrower's solicitor has undertaken to have it registered, in accordance with his undertaking, given prior to the drawdown of the relevant advance and to furnish in either case a certificate of title to the effect that the Borrower has good marketable title in due course;
- (viii) other than in respect of certain specified Mortgages comprised in the Provisional Mortgage Pool (as to which see Table H above), no arrears multiple greater than 3 is applicable to any Mortgage as at 3 November 2008;
- (xi) each advance and its related Mortgage has been made substantially on the terms of the Standard Documentation (so far as applicable), which has not been varied in any material respect save for any waivers as would be granted by a Prudent Mortgage Lender; and
- (x) none of the Borrowers have made or will make deposits with KBCH in its capacity as a credit institution.

Management of the Mortgage Pool

The Mortgage Manager is required to manage the Mortgage Pool as the agent of the Issuer under and in accordance with the terms of the Mortgage Management and Agency Agreement. The duties of the Mortgage Manager include:

- setting the interest rates on the Standard Variable Mortgages, Discounted Standard Variable Mortgages, Tracker Rate Mortgages, Discounted Tracker Rate Mortgages and Capped Tracker Rate Mortgages from time to time and in accordance with the requirements of the Financial Regulator relating to the setting of interest rates of securitised mortgage loans;
- collecting payments on the Mortgages and discharging Mortgages and related security upon redemption;
- monitoring and, where appropriate, pursuing arrears and enforcing the security;
- taking all reasonable steps to ensure safe custody of all title deeds and documents in respect of the Mortgages and their related security which are in its possession;
- making claims under the Insurance Contracts;
- managing the Issuer's interests in the life policies and other collateral security related to the Mortgages;
- managing the operation of the Transaction Account;
- making the required entries in the Principal Deficiency Ledgers;
- managing the Issuer's obligations under the Swap Agreement as necessary;

- dealing with conversion of Mortgages and the funding and acquisition of Further Advances, Retention Advances and Redraws and the purchase of Substitute Mortgages (see further “Conversion of Mortgages”, “Further Advances, Redraws and Retention Advances” and “Substitute Mortgages” respectively below);
- monitoring the ongoing performance of the Mortgage Pool and providing a quarterly report detailing the allocation of payments received on, and the performance of, the Mortgage Pool in respect of each Collection Period to the Issuer, the Trustee and the Rating Agency;
- managing the operation of the Subordinated Loan and maintaining the Reserve Ledger at the Reserve Ledger Required Amount;
- making the required ledger entries; and
- operating the Revenue Priority of Payments and the Principal Priority of Payments and making arrangements for the payment by the Issuer of interest and principal in respect of the Notes, subject to the terms thereof and to the availability of funds.

KBCI will under the Mortgage Management Agreement agree to procure that the Mortgage Manager complies with its obligations thereunder.

The Mortgage Manager will be entitled to delegate its functions under the Mortgage Management and Agency Agreement subject to certain conditions. The Mortgage Manager remains liable to the Issuer for the performance of those functions notwithstanding such delegation.

The Mortgage Manager is entitled to charge a fee for its services under the Mortgage Management and Agency Agreement payable on each Interest Payment Date. Such fee is payable in accordance with the Revenue Priority of Payments and the Deed of Charge.

The appointment of KBCH as Mortgage Manager may be terminated by the Issuer (with the consent of the Trustee) or the Trustee on the happening of certain events of default or insolvency on the part of KBCH or if the security for the Notes comprised in the Deed of Charge is enforced and the Trustee is of the opinion that the continuation of the appointment of KBCH as the Mortgage Manager is materially prejudicial to the interests of the Noteholders. Following any such termination, the Issuer may (with the consent of the Trustee) or the Trustee may, subject to certain conditions, appoint a substitute mortgage manager. The Mortgage Manager will provide reasonable cooperation in order to facilitate the handover of its responsibilities. For a period of three months following such termination, the Issuer, the Trustee (or its agents) and any substitute mortgage manager will be entitled to such non-exclusive licences and intellectual property that the Mortgage Manager is legally empowered to grant and access to the premises and equipment of the Mortgage Manager, as required to service the Mortgages, subject to certain reasonable limitations.

The registered office of the Mortgage Manager is located at Sandwith Street, Dublin 2.

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

Enforcement Procedures

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

to the Trustee.

Further Advances, Redraws and Retention Advances

The Issuer may make funds available to KBCH to be advanced to Borrowers as Further Advances, Redraws or Retention Advances at any time. Such Further Advances, Redraws or Retention Advances shall be secured on the relevant property against which the original advance is secured. The funding and acquisition of a Further Advance, Redraw or Retention Advance by the Issuer will be subject to the Issuer having available funds for such purposes and subject to the satisfaction of certain conditions.

The funding and/or acquisition of a Further Advance, Redraw or Retention Advance by the Issuer will be subject, *inter alia*, to the following conditions:

- (a) the relevant Further Advance, Redraw or Retention Advance has been made to a Borrower in compliance with the Lending Criteria;
- (b) no Enforcement Notice has been served in respect of the Notes;
- (c) KBCH giving substantially all of the same warranties, *mutatis mutandis*, as it gave in its capacity as the seller of the Mortgages comprised in the Completion Mortgage Pool to the Issuer and the Trustee in respect of each such Further Advance, Redraw or Retention Advance;
- (d) the LTV of the Mortgage Pool (calculated by reference to the most recent property valuation in respect of each Property comprised in the Mortgage Pool) on the Determination Date immediately preceding the date on which the relevant Further Advance, Redraw or Retention Advance is to be advanced does not exceed the weighted average LTV of the Completion Mortgage Pool as at the Issue Date by more than one percentage point or such higher percentage, as the Rating Agency may notify in writing to the Trustee so that the funding and acquisition of the relevant Further Advance, Redraw or Retention Advance will not cause the rating of the Notes to be downgraded;
- (e) on the Determination Date immediately preceding the date on which the relevant Further Advance, Redraw or Retention Advance is to be advanced, the aggregate Principal Balance of those Mortgages which are 90 days or more in arrears does not exceed 3.0 per cent. of the aggregate Principal Balance of all of the Mortgages held by the Issuer or such higher percentage as the Rating Agency may notify in writing to the Trustee so that the advance of the relevant Further Advance, Redraw or Retention Advance will not cause the rating of the Notes to be downgraded;
- (f) on the Determination Date immediately preceding the date on which the relevant Further Advance, Redraw or Retention Advance is to be advanced, the balance in the Reserve Ledger is not less than the Reserve Ledger Required Amount;
- (g) the stated maturity date of each Further Advance, Redraw or Retention Advance is not later than the Interest Payment Date falling in December 2043.
- (h) neither the Mortgage Manager nor the Issuer has received written notification that the granting of the relevant Further Advance, Redraw or Retention Advance will adversely affect the then current ratings of the Notes assigned by the Rating Agency (but for the avoidance of doubt neither the Mortgage Manager nor the Issuer shall be obliged to make any enquiry of the Rating Agency);
- (i) the aggregate amount of the Further Advances, Redraws or Retention Advances funded and acquired by the Issuer will not immediately following the proposed grant of such Further Advance, Redraw or Retention Advances exceed €800,000,000; and
- (j) interest in respect of the Class A Notes and the Class B Notes together with all amounts due or overdue and ranking above the payment of such interest amounts pursuant to the Revenue Priority of Payments had been fully paid as at the Interest Payment Date immediately preceding the date upon which such Further Advance, Redraw or Retention Advance is to be acquired.

The Issuer may utilise amounts standing to the credit of the Retained Principal Ledger to fund Further Advances, Redraws or Retention Advances. In addition, the Issuer may utilise other principal amounts to fund Further Advances, Redraws or Retention Advances.

To the extent that the Issuer is unable to fund or acquire any Further Advance, Redraw or Retention

Advance, KBCH will be entitled to advance such Further Advance, Redraw or Retention Advance to the Borrower provided that KBCH's security for such advance will rank after, and be subordinated to, the Issuer's and the Trustee's interest in the relevant Mortgage. In the circumstances where KBCH has made a Further Advance, Redraw or Retention Advance to a Borrower the Issuer may acquire such Further Advance, Redraw or Retention Advance and the collateral security thereon from KBCH at such date as the Issuer has available funds for such purposes, subject to the satisfaction of the above conditions in respect of Further Advances, Redraws or Retention Advances. Where the Issuer is unable to fund or acquire a Further Advance, Redraw or Retention Advance, KBCH will be entitled to repurchase the relevant Mortgage from the Issuer for a consideration of either:

- (i) an amount in cash equal to all sums due or owing under such Mortgage and any related collateral (including accrued interest and arrears) as at the date of repurchase; or
- (ii) the transfer of another Mortgage originated by KBCH if the balance of such Mortgage is less than the amount calculated in (i) above, such cash to be provided by KBCH as is required to cover any such shortfall, provided that such Mortgage complies with the Lending Criteria.

Each Mortgage is secured under an All Sums Deed and the security for any Further Advance or Redraw funded by the Issuer shall have been transferred and assigned to the Issuer. Where a Mortgage is secured under an All Sums Deed and KBCH has made a Further Advance, Redraw or Retention Advance (which has not been funded or acquired by the Issuer) and KBCH has not repurchased the relevant Mortgage from the Issuer, such Further Advance, Redraw or Retention Advance shall be made on the security of the relevant All Sums Deed. The Issuer will declare a separate trust in favour of the Issuer and KBCH in respect of all amounts payable under the All Sums Deeds. The Issuer's share of such trust property in respect of the All Sums Deeds will be an amount equal to the outstanding principal balance of the relevant Mortgage loan plus any accrued interest thereon and other amounts due in respect thereof. KBCH's share of such trust property in respect of the All Sums Deeds will be an amount equal to the outstanding balance of any Further Advance, Redraw or Retention Advance made to the relevant Borrower plus any accrued interest thereon and other amounts due in respect thereof. KBCH's share of such trust property in respect of the All Sums Deeds is subordinate to the Issuer's share of such trust property in respect of the All Sums Deeds. Should the Borrower default under a Further Advance, Redraw or Retention Advance, KBCH will have the right to require the Issuer to join in any enforcement of the security, subject to their respective priorities.

For the purposes of the above an **"All Sums Deed"** is a mortgage or charge which secures all present and future sums that may be advanced by KBCH to the relevant Borrower.

Substitute Mortgages

"Substitute Mortgages" are Mortgages purchased by the Issuer pursuant to (i) and/or (ii) below:

- (i) in the event that KBCH repurchases a Mortgage from the Issuer in the circumstances described under "Further Advances, Redraws and Retention Advances" above and as consideration for such repurchase, KBCH elects to transfer another Mortgage originated by KBCH complying with the Lending Criteria, as more fully described in "Further Advances" above; and/or
- (ii) in the event that an unremedied breach of any of the representations and warranties set out in the Mortgage Sale Agreement in respect of a Mortgage occurs and KBCH is obliged to repurchase the relevant Mortgage and its collateral security and as consideration for such repurchase KBCH elects to transfer another mortgage originated by KBCH, in accordance with the Mortgage Sale Agreement and as more fully described under "Warranties and Repurchase" above.

Conversion of Mortgages

The Mortgage Manager on behalf of the Issuer may agree to a request by a Borrower to convert his Mortgage (or, in the case of a default by a Borrower, may itself elect to convert such Borrower's Mortgage) (subject to satisfaction of the following conditions) into a Mortgage with a different type of interest rate term or repayment term or into any other type of mortgage product contained in the Completion Mortgage Pool and/ or any other type of Mortgage offered by KBCH and previously notified in advance in writing to the Rating Agency (a **"Converted Mortgage"**). A Converted Mortgage may comprise (following the conversion):

- (a) an Endowment/Pension Mortgage, a Repayment Mortgage, and a mortgage (other than an Endowment/Pension Mortgage) under the terms of which the principal amount is not repayable before maturity or a combination of one or more such types of Mortgage;

- (b) a Fixed Rate Mortgage;
- (c) a Standard Variable Mortgage;
- (d) a Tracker Rate Mortgage;
- (e) a Capped Tracker Rate Mortgage;
- (f) any other type of Mortgage offered by KBCH previously notified in advance in writing to the Rating Agency.

The relevant conditions are, *inter alia*, that:

- (i) no Enforcement Notice has been given by the Trustee which remains in effect at the date of the relevant conversion;
- (ii) the effect of the conversion would not be to extend the final maturity date of such Mortgage to beyond the Interest Payment Date falling in December 2043;
- (iii) the conversion of the applicable Mortgage is effected in accordance with the Mortgage Manager's procedures and the relevant part of the Lending Criteria and upon the terms of the standard documentation of KBCH; and
- (iv) the Post Conversion Margin on the Converted Mortgages is not less than the Weighted Average Margin of the Completion Mortgage Pool minus 0.30 per cent.;

where:

"Post Conversion Margin" means:

- (a) in respect of a Converted Mortgage on which the relevant Borrower is charged a variable rate of interest, the difference between such variable rate of interest and 3 month EURIBOR set on the last business day of the month preceding the month of the relevant conversion; or
- (b) in respect of a Converted Mortgage on which the relevant Borrower is charged a fixed rate of interest, the difference between such fixed rate of interest and the Market Swap Rate as at the last business day of the month preceding the month of the relevant conversion.

"Weighted Average Margin" means the difference as at the Closing Date between the weighted average yield on the Completion Mortgage Pool and 3 month EURIBOR.

"Market Swap Rate" means the fixed rate on a Euro interest rate swap applicable for the relevant fixed period.

If the Issuer is unable to agree to a conversion request pursuant to the above, KBCH may at its discretion repurchase the relevant Mortgage from the Issuer for a consideration of either (i) an amount in cash equal to all sums due or owing under the relevant Mortgage and related collateral (including accrued interest and arrears) as at the date of repurchase; or (ii) the transfer of another Mortgage originated by KBCH with a balance equal to or greater than the amount calculated in (i) above or, if the balance of such Mortgage is less than the amount calculated in (i) above, such cash to be provided by KBCH as is required to cover any such shortfall, provided that such Mortgage complies with the Lending Criteria.

Insurance Contracts

The Issuer and the Trustee will have the benefit of a block buildings insurance master policies (the **"Block Building Policies"**), certain contingency policies of insurance effected by KBCH with various insurance companies (the **"Contingency Policies"**) and the title insurance policy taken out by KBCH with First Title Insurance plc to provide cover in respect of certain Mortgage loans where the Borrower is refinancing a loan from another mortgage lender (the **"Title Insurance Policy"**) to the extent of their respective interests in the Mortgages in the Mortgage Pool. The block mortgage indemnity policies provide an indemnity for certain

amounts advanced under a Mortgage exceeding the percentage of the value or purchase price of the relevant Property prescribed by the Lending Criteria in respect of such Mortgage (the **"Mortgage Indemnity Policies"**). The Issuer and the Trustee will also have the benefit of the charges over any life policies securing Mortgages comprised in the Mortgage Pool and any other insurance policies relating to the Mortgages. Certain warranties will be given by KBCH in relation to the various policies in the Mortgage Sale Agreement as described under "Warranties and Repurchase" above.

ESTIMATED WEIGHTED AVERAGE LIVES OF THE NOTES

“Weighted average lives of the notes” 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 reduction of principal of such security (assuming no losses). The weighted average life of the Notes will be influenced by, amongst other things, the rate at which the principal of the Mortgages is paid, which may be in the form of scheduled amortisation, prepayments or liquidations.

Prepayments on mortgage loans that resemble the Mortgages can be measured relative to a constant prepayment standard or model. The model used in this Prospectus for the Mortgages represents an assumed constant per annum rate of prepayment (“**CPR**”) each month relative to the then outstanding principal balance of a pool of mortgage loans for the life of such mortgage loans. 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 Mortgage Pool.

The weighted average life tables below (the “**WAL Tables**”) are prepared on the basis of certain assumptions regarding the weighted average characteristics of the Mortgage loans and the performance thereof. The WAL Tables assume, among other things, that:

- (a) as of 3 November, 2008, the purchased Mortgages have been aggregated into 11 hypothetical pools (each a “**Relevant Mortgage**” and, together, the “**Relevant Mortgages**”), with each pool having the following characteristics:

Relevant Mortgage Reference Number	Principal Balance (€)	Remaining Term To Maturity (months)	Loan Rate (%)	Interest Only Period %
1	59,059,794	191	5.22%	191
2	188,675,875	146	4.71%	0
3	381,700,111	142	5.51%	0
4	236,190,650	217	4.71%	0
5	383,596,697	218	5.48%	0
6	342,388,710	276	4.72%	0
7	448,915,968	276	5.47%	0
8	243,798,104	331	4.75%	0
9	305,026,786	332	5.44%	0
10	215,578,301	401	4.83%	0
11	420,797,012	408	5.46%	0

- (b) the Mortgage Pool is subject to a constant annual rate of prepayment as set out under CPR;
- (c) the Issue Date is 11 November 2008;
- (d) there is no conversion of any Mortgage loan;
- (e) no Mortgage loans are repurchased by the Originator;
- (f) the Mortgage loans are fully performing at all times;
- (g) the underlying interest rates in respect of the Mortgage loans remain constant;

- (h) the credit rating of the Notes is maintained;
- (i) Mortgage loan maturities remain fixed;
- (j) the aggregate Principal Balance of the Mortgage loans is at all times equal to the Principal Amount Outstanding of the Notes; and
- (k) all Mortgage loans other than endowment mortgages follow an annuity payment profile.

The estimated weighted average lives of the Notes, at various assumed rates of prepayment of the Mortgage loans, if the Notes are redeemed on the date on which the Principal Amount Outstanding of the Notes is less than 10 per cent. of the Principal Amount Outstanding of the Notes on the Closing Date, are as follows:

Class A Notes				Class B Notes		
CPR (%)	Average Life (years)	First Principal Payment	Expected Maturity	Average Life (years)	First Principal Payment	Expected Maturity
0%	13.15	10/03/2009	10/03/2035	26.33	10/03/2035	10/03/2035
4%	9.01	10/03/2009	10/09/2029	20.83	10/09/2029	10/09/2029
8%	6.58	10/03/2009	10/06/2025	16.58	10/06/2025	10/06/2025
12%	5.06	10/03/2009	10/03/2022	13.33	10/03/2022	10/03/2022
16%	4.05	10/03/2009	10/09/2019	10.83	10/09/2019	10/09/2019

The estimated weighted average lives of the Notes at various assumed rates of prepayment of the Mortgage loans, if the Notes are redeemed on the earlier of (i) the Interest Payment Date falling in December 2015 and (ii) on the date on which the Principal Amount Outstanding of the Notes is less than 10 per cent. of the Principal Amount Outstanding of the Notes on the Closing Date, are as follows:

Class A Notes				Class B Notes		
CPR (5)	Average Life (years)	First Principal Payment	Expected Maturity	Average Life (years)	First Principal Payment	Expected Maturity
0%	6.29	10/03/2009	10/12/2015	7.08	10/12/2015	10/12/2015
4%	5.48	10/03/2009	10/12/2015	7.08	10/12/2015	10/12/2015
8%	4.78	10/03/2009	10/12/2015	7.08	10/12/2015	10/12/2015
12%	4.17	10/03/2009	10/12/2015	7.08	10/12/2015	10/12/2015
16%	3.64	10/03/2009	10/12/2015	7.08	10/12/2015	10/12/2015

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

The actual characteristics and performance of the Mortgages will differ from the assumptions used in constructing the table set out above, which is hypothetical in nature and is provided only to give a general sense of how the cash flows might behave. Any difference between the assumptions made and the actual

characteristics and performance of the Mortgages will cause the weighted average life of the Notes to differ (which difference could be material) from the corresponding information in the table.

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

DESCRIPTION OF THE NOTES

The following is a summary of the provisions to be contained in the Trust Deed constituting the Notes and in the Global Notes which will apply to, and in some cases modify the conditions of the Notes as they apply while the Notes are represented by Global Notes.

Temporary Global Notes and Permanent Global Notes

The Notes of each class are initially represented by (i) in the case of the Class A Notes, a temporary global note in the principal amount of €3,040,000,000 (the “**Temporary Global Class A Note**”) and (ii) in the case of the Class B Notes, a temporary global note in the principal amount of €160,000,000 (the “**Temporary Global Class B Note**”) and, together with the Temporary Global Class A Note, the “**Temporary Global Notes**”), in each case without Coupons attached. Each Temporary Global Note will be deposited on behalf of the subscribers for each class of Notes with a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank S.A/N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) on the Issue Date. Upon deposit of each such Temporary Global Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Notes represented by such Temporary Global Note with the principal amount of the relevant class of Notes for which it has subscribed and paid. Interests in the Temporary Global Class A Note will be exchangeable 40 days after the later of the Issue Date and the commencement of the offering of the Notes (the “**Exchange Date**”), provided certification of non-US beneficial ownership by the Class A Noteholders has been received, for interests in a permanent global note (the “**Permanent Global Class A Note**”), without Coupons attached. Interests in the Temporary Global Class B Note will be exchangeable after the Exchange Date provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received, for interests in a permanent global note without Coupons attached (the “**Permanent Global Class B Note**”) and, together with the Permanent Global Class A Note, the “**Permanent Global Notes**”). The expression “**Global Notes**” means the Temporary Global Notes and the Permanent Global Notes and the expression “Global Note” means any of them. On the exchange of a Temporary Global Note for a Permanent Global Note, the relevant Permanent Global Note will remain deposited with the Common Safekeeper.

Transfers

Title to the Global Notes will pass by delivery. Each Permanent Global Note will only be exchangeable for definitive Notes in the limited circumstances described below. Each of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note will be entitled to receive any payment so made in respect of that Note in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate. For so long as any Notes are represented by a Global Note, such Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

For so long as the Notes of any class are represented by a Global Note, the Issuer and the Trustee shall (to the fullest extent permitted by applicable laws) deem and treat each person 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 as the holder of such principal amount of Notes, other than for the purposes of payment of principal and interest on such Global Notes, the right to which shall be vested against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to the terms of the Trust Deed. The expressions “**Class A Noteholders**” and “**Class B Noteholders**”, shall be construed accordingly, but without prejudice to the entitlement of the bearer of the relevant Global Note to be paid principal and interest thereon in accordance with its terms.

Payments

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

Notice

For so long as all of the Notes are represented by a Global Note held on behalf of a Euroclear or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg for communication to the relative Noteholders rather than by publication as required by Condition 14; provided that, so long as the Notes are listed on the Irish Stock Exchange, notice must also be sent to the Company Announcements Office of the Irish Stock Exchange 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 or Clearstream, Luxembourg.

Issue of Notes in Definitive Form

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

Terms and Conditions of the Notes

The following are the Terms and Conditions (the “Conditions”) of the Notes in the form in which they will appear in the Trust Deed.

General

€3,040,000,000 Class A Mortgage Backed Floating Rate Notes due 2050 (the “**Class A Notes**”) and €160,000,000 Class B Mortgage Backed Floating Rate Notes due 2050 (the “**Class B Notes**” and together with the Class A Notes, the “**Notes**”) of Phoenix Funding 3 Limited (the “**Issuer**”) are the subject of a trust deed (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified including the Master Definitions Schedule (as defined under Condition 2(c)) incorporated therein) to be entered into on 11 November, 2008, or on such later date as may be agreed between the Issuer and the Trustee (as defined below) (the “**Issue Date**”) and made between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression includes any further or other trustee of the Trust Deed) as trustee for, *inter alia*, the holders for the time being of the Notes (the “**Noteholders**”) and the holders for the time being of the interest coupons relating thereto (the “**Coupons**”) (the “**Couponholders**”).

The security for the Notes is created pursuant to, and on the terms set out in, a deed of charge and assignment (the “**Deed of Charge**”, which expression includes such deed of charge and assignment as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time modified) to be dated the Issue Date and made between, *inter alia*, the Issuer, KBC Homeloans (“**KBCH**”) and the Trustee.

By a paying agency agreement (the “**Agency Agreement**”, which expression includes such paying agency agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) to be dated the Issue Date and made between, *inter alia*, the Issuer, the Trustee, Citibank, N.A. as agent bank (the “**Agent Bank**” which expression includes any other agent bank appointed in respect of the Notes) and as principal paying agent (the “**Principal Paying Agent**”, and together with any further or other paying agents for the time being appointed in respect of the Notes, the “**Paying Agents**”) provision is made for the payment of principal and interest in respect of the Notes. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the Deed of Charge.

Copies of the Trust Deed, the Agency Agreement, the Deed of Charge and the other Transaction Documents (as defined below) are available for inspection at the registered office for the time being of the Trustee, being at the date hereof at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at

the specified offices of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and are deemed to have notice of all the provisions of the Agency Agreement.

The issue of the Notes was authorised by resolution of the Board of Directors of the Issuer passed on 8 November 2008.

Capitalised terms used in these Conditions and not otherwise defined herein shall have the meaning given to them in the master definitions schedule to be entered into between, *inter alia*, the Issuer, the Trustee and the Mortgage Manager (as defined below) (the “**Master Definitions Schedule**”).

1. Form, Denomination and Title

- (a) The Notes, which are serially numbered, are issued in bearer form in the denomination of €50,000 each with interest coupons (“**Coupons**”) attached. Title to the Notes and Coupons shall pass by delivery.
- (b) The holder of any Note and the holder of any Coupon shall (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Note or Coupon, as the case may be, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon.
- (c) The holder of each Coupon (whether or not the Coupon is attached to the relevant Note) in his capacity as such shall be subject to all the provisions contained in the relevant Note. The Notes and Coupons are obligations solely of the Issuer and are not obligations of, or guaranteed by, any other parties to the Transaction Documents (as defined below).

2. Status, Security and Priority

Status

- (a) The Notes and the Coupons constitute direct, secured and unconditional obligations of the Issuer and the Notes within each class rank *pari passu* without preference or priority amongst themselves.
- (b) The Class A Notes and the Class B Notes, each of which have been issued by the Issuer on the Issue Date, are subject to the Trust Deed and are secured by the same security. The Class A Notes rank in priority to the Class B Notes in respect of payment of interest, principal and security but rank *pari passu*, without preference or priority amongst themselves.
- (c) The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to (i) (for so long as there are any Class A Notes outstanding) the interests of the holders of the Class A Notes if, in the Trustee's opinion, there is a conflict between the interests of (A) the holders of the Class A Notes and (B) the holders of the Class B Notes and/or any other Secured Creditors or (ii) (if there are no Class A Notes outstanding) the interests of the holders of Class B Notes if, in the Trustee's opinion, there is a conflict between the interests of Class B Noteholders and/or any other Secured Creditors.

Security

- (d) As security for the payment of all moneys payable in respect of the Notes and otherwise under the Trust Deed (including the remuneration, expenses and any other claims of the Trustee and any Receiver appointed under the Deed of Charge) and in respect of certain amounts payable to KBCH or its successor acting as Mortgage Manager in respect of amounts payable to it under the Mortgage Management and Agency Agreement referred to below, and to certain other beneficiaries from time to time (together the “**Secured Creditors**”), the Issuer will enter into the Deed of Charge creating, *inter alia*, the following security (the “**Security**”) in favour of the Trustee for itself and on trust for the other persons expressed to be secured parties thereunder:
 - (i) a first fixed charge over the Issuer's right, title, interest and benefit in the Mortgages and other collateral security comprised in the Mortgage Pool (which, until notice is served on the Borrowers (as defined in the Master Definitions Schedule) and, in respect of Mortgages of property comprising registered land, until registration is effected will take effect in equity);

- (ii) an assignment by way of first fixed security of the Issuer's right, title, interest and benefit in certain block buildings policies, contingency policies, title insurance policies and mortgage indemnity policies to the extent that they relate to the Mortgages and any other insurance policies relating to the Mortgages (the **"Insurance Contracts"**) and any life policies relating to the Mortgages;
- (iii) an assignment by way of first fixed security of the Issuer's right, title, interest and benefit in the Mortgage Management and Agency Agreement to be entered into between KBCH (in such capacity, the **"Mortgage Manager"**), KBC Bank Ireland plc (**"KBCI"**), the Issuer and the Trustee (the **"Mortgage Management and Agency Agreement"**), the mortgage sale agreement to be entered into between KBCH, KBCI, the Issuer and the Trustee (the **"Mortgage Sale Agreement"**), the swap agreement to be entered into between KBCI (in its capacity as the **"Swap Counterparty"**), KBCH and the Issuer (the **"Swap Agreement"**); the declaration of trust to be entered into and made by KBCH in favour of the Issuer and the Trustee in relation to the Trust Account (the **"Declaration of Trust"**), the subordinated loan agreement to be entered into and made between the Issuer and KBCH (in its capacity as the **"Subordinated Loan Provider"**) (the **"Subordinated Loan Agreement"**) in respect of a subordinated loan (the **"Subordinated Loan"**), the bank agreement to be entered into between the Issuer, the Trustee, KBCI and Ulster Bank Ireland Limited (the **"Trust Account Bank"**) (the **"Bank Agreement"**), the liquidity facility agreement (if any) entered into by the Issuer and any liquidity facility provider (the **"Liquidity Facility Provider"**) (the **"Liquidity Facility Agreement"**), the Agency Agreement and such other documents as are expressed to be subject to the charges under the Deed of Charge (all such documents together with the Trust Deed, the **"Transaction Documents"**);
- (iv) a first fixed charge over the Issuer's right, title, interest and benefit in the Trust Account and the Transaction Account and all amounts standing to the credit thereto, and any other bank account of the Issuer from time to time; and
- (v) a first floating charge over the whole of the undertaking, property, assets and rights of the Issuer not subject to the security described in (i) to (iv) above.

Priority of Payments Prior to Enforcement

Revenue

Prior to enforcement of the Security, on each Interest Payment Date, the Issuer is required to apply the amounts available for distribution on such date (**"Available Revenue Funds"**) being the amounts calculated on the immediately preceding Determination Date (as defined in Condition 5(b)) in accordance with the Mortgage Management and Agency Agreement as the aggregate of (i) all payments (other than amounts representing principal and all other unpaid amounts accrued and/or falling due prior to the Issue Date) from time to time received by the Issuer into the Transaction Account during the relevant Collection Period in respect of Mortgages from Borrowers in respect of the Mortgage loans (but which will exclude all payments by Borrowers in respect of amounts properly belonging to third parties (including but not limited to monies owing to any party in respect of reimbursement for direct debit recalls and overpayments by Borrowers, all payments in respect of insurance premiums or payments in respect of the TRS scheme and any other amounts which have not been received by the Issuer as cleared funds)); (ii) all other payments (other than amounts representing principal and all other unpaid amounts accrued and/or falling due prior to the Issue Date and the payments described in item (i) above) standing to the credit of the Transaction Account at the end of the relevant Collection Period (as defined below); (iii) interest received on amounts (other than amounts described in item (ii) above) in the Transaction Account since the immediately preceding Interest Payment Date or expected to be received from (and including) such Determination Date up to (but excluding) the immediately succeeding Interest Payment Date; (iv) all payments to be received by the Issuer pursuant to the Swap Agreement on the immediately succeeding Interest Payment Date; (v) amounts in respect of interest received or expected to be received on Authorised Investments made by, or on behalf of, the Issuer prior to the immediately succeeding Interest Payment Date; (vi) the proceeds of any drawing from the Reserve Ledger (as defined below) required to cover any shortfall between the Initial Available Revenue Funds (as defined below) and the aggregate of items (i) to (vii) of the Revenue Priority of Payments (as defined below) to be made on the immediately succeeding Interest Payment Date; (vii) if applicable, the proceeds of any drawing from the Liquidity Ledger (as defined below) required to cover any shortfall between Available Revenue Funds and the aggregate of items (i), (ii), (iii), (iv) and (vi) of the Revenue Priority of Payments on the immediately succeeding Interest Payment Date; (viii) if applicable, the proceeds of any drawing under any Liquidity Facility required to cover any shortfall between

Available Revenue Funds and the aggregate of items (i), (ii), (iii), (iv) and (vi) of the Revenue Priority of Payments on the immediately succeeding Interest Payment Date; and (ix) to the extent that there are no funds or insufficient funds available to be drawn under the Reserve Ledger, or if applicable, the Liquidity Ledger or the Liquidity Facility, any amounts of Available Redemption Funds (as defined below) to be applied on the immediately succeeding Interest Payment Date as referred to in item (i) of the Principal Priority of Payments (as defined below) less any Excluded Items (as defined below) (save for item (iii) of the definition of Excluded Items) paid or payable on or prior to the immediately succeeding Interest Payment Date, (save as the payee may otherwise agree) in making the following payments or provisions in the following order of priority (the “**Revenue Priority of Payments**”) (and so that no payment or provision shall be made until all payments or provisions having a higher priority shall have been paid or provided for in full):

- (i) the remuneration payable to the Trustee and any appointee of the Trustee and any costs, charges, liabilities and expenses (plus value added tax, if any) incurred by it and any appointee of the Trustee under the provisions of, or in connection with, the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest on such amounts as provided in the Trust Deed, the Deed of Charge and/or any of the other Transaction Documents;
- (ii) to pay *pro rata*: (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable by the Issuer in respect of legal or compliance matters to persons who are not party to any of the Transaction Documents and incurred with or without breach by the Issuer pursuant to the Trust Deed, the Deed of Charge and/or any other Transaction Document and not provided for payment elsewhere and to provide for any such amounts expected to become due and payable by the Issuer after that Interest Payment Date and prior to the next Interest Payment Date; (b) to provide for the Issuer's liability or possible liability for corporation tax and/or advance corporation tax; (c) an amount equal to any premium payable by or on behalf of the Issuer in respect of insurance contracts; (d) any fees and other amounts due and payable to Capita; and (e) any fees due and payable to the directors of the Issuer;
- (iii) to pay *pro rata*: (a) amounts due and/or which will become due and payable (plus value added tax, if any) to the Paying Agents and Agent Bank under the Agency Agreement; and (b) the fees, costs and expenses (inclusive of value added tax) of any replacement or successor Mortgage Manager to KBCH appointed under the terms of the Mortgage Management and Agency Agreement;
- (iv) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of (a) all amounts of interest accrued but unpaid in respect of the Class A Notes, (b) to pay all amounts due and payable to the Swap Counterparty under the Swap Agreement (other than amounts due in respect of any Swap Termination Amounts (as defined below)) and (c) in or towards satisfaction of any amounts of principal, interest, fees and any other amounts due and payable to any Liquidity Facility Provider under any Liquidity Facility;
- (v) in or towards satisfaction of sums to be credited to the Class A Principal Deficiency Ledger (as defined below) until the debit balance, if any, on the Class A Principal Deficiency Ledger is reduced to zero;
- (vi) in or towards satisfaction of all amounts of interest accrued but unpaid in respect of the Class B Notes;
- (vii) in or towards satisfaction of sums to be credited to the Class B Principal Deficiency Ledger (as defined below) until the debit balance, if any, on the Class B Principal Deficiency Ledger is reduced to zero;
- (viii) to the Reserve Ledger (if required), until the credit balance of the Reserve Ledger (as defined below) has reached the Reserve Ledger Required Amount (as defined below);
- (ix) in or towards payment of the mortgage management fee to KBCH (inclusive of value added tax, if any) payable to KBCH, together with costs and expenses incurred by KBCH as Mortgage Manager under the Mortgage Management and Agency Agreement which are due and/or which will become due and payable prior to the next Interest Payment Date to the extent that such amounts do not exceed 0.15 per cent. of the aggregate principal balance of the Mortgages on the immediately preceding Determination Date divided by twelve, together with all reasonable costs and expenses incurred by KBCH as Mortgage Manager during such Collection Period, subject to and in accordance with the provisions of the Mortgage Management and Agency Agreement and the Deed of Charge

and then in making the following payments, provided that no amounts standing to the credit of the Reserve Ledger are to be applied such that the balance of the Reserve Ledger becomes less than the Reserve Ledger Required Amount and, after application of amounts in accordance with the Available Redemption Funds, no

deficiency is recorded on the Principal Deficiency Ledgers on such Interest Payment Date:

- (x) to pay, any other amounts payable by the Issuer to the Mortgage Manager under the Mortgage Management and Agency Agreement which are not paid under (ix) above;
- (xi) to pay any other amounts payable by the Issuer under the Swap Agreement which are not paid under (iv) above;
- (xii) to pay amounts payable in respect of the Subordinated Loan Agreement; and
- (xiii) to pay the surplus (if any) to the Issuer which may be applied in paying dividends to the shareholders of the Issuer.

For the purposes of the foregoing:

“Collection Period” means the period from the Issue Date to (but excluding) the Determination Date prior to the first Interest Payment Date, and thereafter, each successive period from (and including) a Determination Date to (but excluding) the next following Determination Date;

“Initial Available Revenue Funds” means, as at each Determination Date the aggregate of the following:

- (a) all payments (other than amounts representing principal and all other unpaid amounts accrued and/or falling due prior to the Issue Date) from time to time received by the Issuer into the Transaction Account during the relevant Collection Period in respect of Mortgages from Borrowers in respect of the Mortgage loans (excluding all payments by Borrowers in respect of amounts properly belonging to third parties, including but not limited to monies owing to any party in respect of reimbursement for direct debit recalls and overpayments by Borrowers, all payments in respect of insurance premiums or payments in respect of the TRS scheme and any other amounts which have not been received by the Issuer as cleared funds);
- (b) all other payments (other than amounts representing principal and all other unpaid amounts accrued and/or falling due prior to the Issue Date and the payments described in (a) above) standing to the credit of the Transaction Account at the end of the relevant Collection Period;
- (c) interest received on amounts (other than amounts described in (b) above) in the Transaction Account since the immediately preceding Interest Payment Date or expected to be received from (and including) such Determination Date up to (but excluding) the immediately succeeding Interest Payment Date;
- (d) all payments to be received by the Issuer pursuant to the Swap Agreement on the immediately succeeding Interest Payment Date; and
- (e) amounts in respect of interest received or expected to be received on Authorised Investments made by or on behalf of, the Issuer prior to the immediately succeeding Interest Payment Date.

“Principal Deficiency Ledgers” means the Class A Principal Deficiency Ledger and the Class B Principal Deficiency Ledger.

“Reserve Ledger” means a segregated ledger established within the Transaction Account and designated the **“Reserve Ledger”**.

The **“Reserve Ledger Required Amount”** means:

- (i) at any time the Initial Reserve Fund Required Amount;
- (ii) if on the Determination Date immediately preceding any Interest Payment Date falling on or after December 2010:-
 - (a) the balances on each of the Principal Deficiency Ledgers is zero;
 - (b) the balance on the Reserve Ledger is not less than the Reserve Ledger Required Amount on the preceding Interest Payment Date;

- (c) no amount has been drawn under the Liquidity Facility;
- (d) the product of (i) the sum of all Principal Losses incurred on the Mortgages comprised in the Mortgage Pool on the last Business Day of the month prior to the month in which such Determination Date falls divided by (ii) the Principal Balance as at the Closing Date of the Mortgages comprised in the Mortgage Pool, will be less than or equal to 1 per cent.;
- (e) the aggregate outstanding Balance of Mortgages in the Mortgage Pool in respect of which the aggregate amount in arrears is more than the monthly payment then due, expressed as a percentage of the aggregate outstanding Balance of Mortgages in the Mortgage Pool, in each case on the last Business Day of the month prior to the month in which such Determination Date falls, is less than or equal to 6 per cent.; and
- (f) the aggregate outstanding Balance of Mortgages in the Mortgage Pool in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, expressed as a percentage of the aggregate outstanding Balance of Mortgages in the Mortgage Pool, in each case on the last Business Day of the month prior to the month in which such Determination Date falls, is less than or equal to 3 per cent,

then the Reserve Ledger Required Amount will be reduced to an amount equal, on such Interest Payment Date, to the greater of 5 per cent. of the then aggregate Principal Amount Outstanding of the Notes and 1.75 per cent. of the outstanding Balance of the Mortgages as at the Completion Date; and

- (iii) on any date the amount identified in accordance with (i) to (ii) above (as appropriate) or such lower amount as has been notified in advance to the Rating Agency and as would not result in a downgrade of the rating of the Notes.

“Principal Loss” in respect of a Mortgage means the amount by which the total amount received from or on behalf of the Borrower in respect of such Mortgage on completion of Enforcement Procedures in respect of such Mortgage (after discharging all amounts outstanding in respect of such Mortgage other than the Balance) falls short of the Balance of such Mortgage.

On the Determination Date immediately preceding the Interest Payment Date on which the redemption in full of the Notes takes place, all amounts standing to the credit of the Reserve Ledger at the opening of business on such Determination Date shall be applied to repay the Subordinated Loan.;

“Swap Termination Amounts” means any payment due to be made by the Issuer under the Swap Agreement upon termination of the Swap Agreement where the sole Defaulting Party or Affected Party (each as defined in the Swap Agreement) in respect of such termination under the Swap Agreement was the Swap Counterparty.

The following items are included in those items (**“Excluded Items”**) which may be paid or provided for prior to the allocation of sums under the Revenue Priority of Payments and/or the Principal Priority of Payments:

- (i) certain moneys which properly belong to third parties (including, but not limited to monies owing to any party in respect of reimbursement for direct debit recalls and overpayments by Borrowers, certain amounts payable to the third parties such as insurance providers or by the Revenue Commissioners in Ireland under the TRS scheme for the deduction of tax relief at source);
- (ii) amounts payable to KBCH under the Mortgage Sale Agreement in respect of further consideration or reconciliations of any amount in respect of the purchase on the Issue Date of the relevant Mortgages acquired;
- (iii) amounts to be applied by the Issuer in funding and/or acquiring Further Advances, Redraws or Retention Advances during an Interest Period subject to the conditions as to the granting of Further Advances, Redraws or Retention Advances contained in the Mortgage Management and Agency Agreement;
- (iv) any amounts received by the Issuer from the Swap Counterparty, in respect of collateral transferred to the Issuer in accordance with the terms of the Swap Agreement (other than collateral amounts applied in satisfaction of termination payments due to the Issuer following the designation of an early termination date under the Swap Agreement), and any interest earned on all such transferred collateral;

and

- (v) amounts to be applied by the Issuer in the amortisation of the Subordinated Loan in accordance with the Subordinated Loan Agreement, provided that such payments of principal are made from amounts released from the Reserve Ledger pursuant to sub-clauses (ii) and (iii) of the definition of Reserve Ledger Required Amount.

Principal

Prior to the enforcement of the Security under the Deed of Charge, amounts standing to the credit of the Transaction Account and which will be recorded in the Principal Ledger (as defined below) in accordance with the provisions of the Deed of Charge and the Mortgage Management and Agency Agreement will comprise, as at each Determination Date, the sum of:

- (i) all payments representing principal and all other unpaid amounts accrued and/or falling due prior to the Issue Date from time to time received by the Issuer into the Transaction Account in respect of Mortgages from Borrowers in respect of the Mortgage loans during the relevant Collection Period;
- (ii) amounts (other than amounts described in item (i) above) in respect of principal received or expected to be received on Authorised Investments made by or on behalf of the Issuer and referable to principal amounts invested as Authorised Investments, prior to the immediately succeeding Interest Payment Date; and
- (iii) amounts (if any) to be applied in reducing the Principal Deficiency Ledgers on such Interest Payment Date pursuant to items (v) or (vii) (as applicable) of the Revenue Priority of Payments; and
- (iv) amounts to be released from the Retained Principal Ledger (as defined below) at the discretion of the Issuer on the immediately succeeding Interest Payment Date;

less (a) any Excluded Items (save for item (iii) of the definition of Excluded Items) paid or payable on or prior to the immediately succeeding Interest Payment Date, (b) amounts (if any) used or to be used to fund and/or acquire Further Advances, Redraws and Retention Advances during the relevant Collection Period and prior to or on the immediately succeeding Interest Payment Date (to the extent that such Further Advances, Redraws and Retention Advances cannot be funded from the balance of the Retained Principal Ledger), (c) amounts (if any) to be credited to the Retained Principal Ledger on the immediately succeeding Interest Payment Date and (d) amounts (if any) which are to be credited to the Liquidity Ledger (as defined below) on the immediately succeeding Interest Payment Date (such amounts being hereafter referred to as **“Available Redemption Funds”** and from which the Class A Available Redemption Funds and the Class B Available Redemption Funds will be calculated by the Mortgage Manager on the relevant Determination Date), provided that no Excluded Items deducted in computing Available Revenue Funds shall be double counted as a deduction for the purposes of computing Available Redemption Funds. Such Available Redemption Funds will be applied by the Issuer on the immediately succeeding Interest Payment Date as follows (in each case only if and to the extent that payments having a higher order of priority have been made in full, the Principal Ledger being debited to the extent of each payment);

- (i) *first*, to the extent that the Issuer has insufficient funds available on a Determination Date to pay items (i) to (vi) (inclusive) of the Revenue Priority of Payments, in or towards the payments, transfers, provisions and credits referred to at items (i) to (v) inclusive of the Revenue Priority of Payments and, for so long as the B Test is satisfied, at item (vi) of the Revenue Priority of Payments, to the extent that the Available Revenue Funds are less than amounts required to make such payments, transfers, provisions and credits;
- (ii) *second*, if applicable, in establishing or replenishing the Liquidity Reserve up to the Liquidity Reserve Required Amount (as defined below);
- (iii) *third*, in or towards payment of principal due or overdue on the Class A Notes in accordance with the provisions of Condition 5(b) until no Class A Notes remain outstanding; and
- (iv) *fourth*, provided no Class A Notes remain outstanding, in or towards payment of principal due or overdue on the Class B Notes in accordance with the provisions of Condition 5(b),

(together the **“Principal Priority of Payments”**).

In these Conditions:

“KBCI Downgrade” means at any time the short-term unsecured, unguaranteed and unsubordinated debt obligations of KBCI are rated less than P-1 or the long-term unsecured, unguaranteed and unsubordinated debt obligations of KBCI are rated less than A3 by Moody's.

“Liquidity Ledger” means in the event of an KBCH Downgrade, a ledger in the Transaction Account to the liquidity reserve (the **“Liquidity Reserve”**) and credited with amounts up to a maximum aggregate amount of not less than 3.4% of the then Principal Amount Outstanding of the Notes (the **“Liquidity Reserve Required Amount”**).

“Principal Ledger” means a ledger in the Transaction Account to record Available Redemption Funds.

“Retained Principal Ledger” means a ledger in the Transaction Account and credited with amounts up to a maximum aggregate of €25,000,000.

Priority of Payments Post-Enforcement

On and after enforcement of the Security, the Trustee is required, subject to being indemnified and/or secured to its satisfaction, to apply moneys available for distribution in or towards the satisfaction of the following amounts in the following order or priority (and so that no payment or provision shall be made until all payments or provisions ranking above shall have been paid or provided for in full):

- (i) *first*, pro rata and pari passu in or towards satisfaction of the remuneration then payable to any Receiver appointed by the Trustee and any costs, charges, liabilities and expenses (including any value added tax) then incurred by such Receiver and in or towards satisfaction of the remuneration then payable to the Trustee or any appointee of the Trustee and any costs, charges, liabilities and expenses (including any value added tax) incurred by the Trustee or any appointee of the Trustee under the Deed of Charge, the Trust Deed and/or any of the other Transaction Documents or any of them together with interest as provided in the Trust Deed;
- (ii) *secondly*, amounts, including audit fees and company secretarial expenses and other fees (plus value added tax, if any), which are payable by the Issuer (i) in respect of the Issuer's liability or possible liability for corporation tax and/or advance corporation tax, (ii) in respect of any fees and other amounts payable to Capita and (iii) in respect of any fees due and payable to the directors of the Issuer;
- (iii) *thirdly*, to pay *pro rata*: (a) amounts due to the Paying Agents and Agent Bank under the Agency Agreement; and (b) the mortgage management fee (inclusive of value added tax, if applicable) payable together with costs and expenses incurred by the Mortgage Manager under the Mortgage Management and Agency Agreement;
- (iv) *fourthly*, to pay *pro rata*: (a) amounts payable to the Swap Counterparty under the Swap Agreement (other than amounts due in respect of any Swap Termination Amounts, (b) in or towards satisfaction (*pari passu* according to the amounts then payable) of all arrears of interest remaining unpaid in respect of the Class A Notes and (c) in and towards satisfaction of any amounts due and payable to any Liquidity Facility Provider;
- (v) *fifthly*, in or towards satisfaction (*pari passu* and *pro rata* according to the amounts then payable) of all principal due in respect of the Class A Notes and all other amounts payable under or in respect of the Class A Notes;
- (vi) *sixthly*, in or towards satisfaction (*pari passu* and *pro rata* according to the amounts then payable) of all arrears of interest remaining unpaid in respect of Class B Notes;
- (vii) *seventhly*, in or towards satisfaction (*pari passu* and *pro rata* according to the amounts then payable) of all principal due in respect of the Class B Notes and all other amounts payable under or in respect of the Class B Notes;
- (viii) *eighthly*, to pay any other amounts due under the Swap Agreement which are not provided for in paragraph (v) above;
- (ix) *ninthly*, in or towards satisfaction of any amounts payable to KBCH pursuant to the Subordinated Loan Agreement; and

- (x) *tenthly*, to pay the surplus, if any, to the Issuer which may be applied in paying dividends to the shareholders of the Issuer.

In such distribution, the manner of making payments to the Noteholders shall remain as specified prior to the Notes being declared due and payable. The rights of the Noteholders in respect of the payments prescribed above are limited to the extent that the Issuer receives amounts in respect of and in accordance with the Transaction Documents.

The Security will become enforceable upon the occurrence of an Event of Default (as defined in Condition 9(a)) and the giving of an Enforcement Notice in accordance with Condition 9(a), provided that, if the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes or Coupons, the Trustee will not be entitled to dispose of the assets comprised in the Security or any part thereof unless either it receives the consent of the Noteholders of each Class acting by Extraordinary Resolution or a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders and the Couponholders and all amounts ranking senior to the Notes and Coupons or the Trustee is of the opinion, which shall be binding on the Noteholders, the Couponholders and the other Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Noteholders and the Couponholders.

3. Covenants

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

(a) *Negative Pledge*

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

(b) *Restrictions on Activities*

- (i) engage in any activity which is not incidental to any of the activities which the Transaction Documents provide or envisage that the Issuer will engage in; or
- (ii) have or form any subsidiaries (as defined in the Irish Companies Act, 1963 (as amended)), or subsidiary undertakings (as defined in the Irish European Communities (Companies: Group Accounts) Regulations, 1992) of any nature or employees or premises;

(c) *Disposal of Assets*

transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;

(d) *Dividends or Distributions*

pay any dividend or make any other distribution to its shareholders or issue any further shares other than pursuant to the Revenue Priority of Payments, the Principal Priority of Payments and the Deed of Charge;

(e) *Borrowings*

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

(f) *Merger*

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

(g) *Bank accounts*

have an interest in any bank account other than the Transaction Account, the Trust Account and any Authorised Investments unless such account or interest therein is charged to the Trustee on terms acceptable to it;

(h) *Centre of Main Interest*

take any action that would result in its “centre of main interest” (as that term is described in Article 3(1) of Council Regulation (EC) No. 1346/2000 on Insolvency Proceedings) moving from Ireland;

(i) *Tax Residence*

cease to be solely resident in Ireland for Irish tax purposes, or have any branch, business establishment or other fixed establishment outside Ireland; or

(j) *Other*

permit the validity or effectiveness of any of the Transaction Documents, the Mortgages, any collateral security relating to the Mortgages or the Insurance Contracts relating to the Mortgages owned by the Issuer or the priority of the security interests created thereby to be amended, terminated or discharged, or consent to any variation of, or exercise of any powers of consent or waiver pursuant to the terms of the Trust Deed, these Conditions or any of the Transaction Documents, or permit any party to any of the Transaction Documents or Insurance Contracts or any other person whose obligations form part of the Security to be released from such obligations, or dispose of any Mortgage, collateral security relating to such Mortgage or Insurance Contract save as envisaged in the Transaction Documents.

(k) *Separateness Covenants*

In addition, the Issuer will covenant to comply with the following separateness covenants:

- (i) to maintain books, records and accounts separate from any other person or entity;
- (ii) not to commingle assets with those of any other entity;
- (iii) to pay its own liabilities out of its own funds;
- (iv) to hold itself out as a separate entity;
- (v) to conduct its own business in its own name and to always carry on its business in such a manner that it is readily identifiable and separate from the business of any other entity or person;
- (vi) to observe all corporate formalities and other formalities required by its constitutive documents;
- (vii) not to guarantee or become obligated for the debts of any other entity or hold out its credit as being available to satisfy the obligations of others;
- (viii) to use separate stationery, invoices and cheques;
- (ix) not to pledge its assets for the benefit of any other entity or make any loans or advances to any entity save under the Deed of Charge or pursuant to the Transaction Documents;
- (x) to correct any known misunderstanding regarding its separate identity; and
- (xi) not to acquire obligations or securities for its shareholders.

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 appropriate (in its absolute discretion) in the interests of the Noteholders.

4. Interest

(a) *Period of Accrual*

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

Whenever it is necessary to compute an amount of interest in respect of any Note for any period (including any Interest Period (as defined below)), such interest shall be calculated on the basis of actual days elapsed and a 360 day year.

(b) *Interest Payment Dates and Interest Periods*

Interest on the Notes is payable quarterly in arrears on the 10th day of March, June, September and December in each year (unless such day is not a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System (“TARGET”) is open for business, in which case interest will be payable on the next such day) (each such day a “**business day**”), (each an “**Interest Payment Date**”), the first Interest Payment Date being 10 March 2009. The period from (and including) an Interest Payment Date (or the Issue Date in respect of the first Interest Payment Date) to (but excluding) the next following (or first) Interest Payment Date is called an “**Interest Period**” in these Conditions.

(c) *Rate of Interest*

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

- (i) on two business days prior to each Interest Payment Date or, in the case of the first Interest Period, two business days prior to the Issue Date (each an “**Interest Determination Date**”) the Agent Bank will determine the offered quotation to leading banks in the Euro-zone interbank market for three month deposits in euro (or, in the case of the first Interest Period, such rate shall be obtained by linear interpolation of the rate for 4 month and 5 month deposits in euro) by reference to the display quoted on Reuters Screen Page EURIBOR 01 (or (aa) such other page as may replace Reuters Screen Page EURIBOR 01 on that service for the purpose of displaying such information or (bb) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace the Reuters Screen Page) as at or about 11:00 a.m. (Brussels time) on that date (the “**Screen Rate**”). 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 (h) below) to provide the Agent Bank with its offered quotation as at or about 11:00 a.m. (Brussels time) on that date to leading banks in the Euro-zone interbank market for three month deposits in euro. The Rate of Interest for such Interest Period shall, subject as provided below, be the Relevant Margin (as defined below) above the Screen Rate or, as the case may be, above the arithmetic mean (rounded if necessary to the nearest 0.0001 per cent., 0.00005 per cent. being rounded upwards) of the quotations of three out of five quoting Reference Banks (excluding, if all five are not the same, the Reference Bank with the highest and the Reference Bank with the lowest such quotations but, if more than one of either or both, only one of the Reference Banks with the highest and/or, as the case may be, only one of the Reference Banks with the lowest such quotations);
- (ii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only four of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of two out of the four quoting Reference Banks (excluding two on the basis set out in (i) above);
- (iii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only two or three of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of the quotations of all the quoting Reference

Banks (without any exclusion as referred to in (i) above);

- (iv) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only one or none of the Reference Banks provides such a quotation, then the Rate of Interest for the relevant Interest Period shall be the Reserve Interest Rate. The **“Reserve Interest Rate”** shall be the rate per annum which the Agent Bank determines to be either, (aa) the Relevant Margin above the arithmetic mean (rounded if necessary to the nearest 0.0001 per cent., 0.00005 per cent. being rounded upwards) of the euro lending rates which leading banks in the Euro-zone (selected by the Agent Bank in its absolute discretion) are quoting, as at or about 11:00 a.m. (Brussels time) on the relevant Interest Determination Date, for the relevant Interest Period to the Reference Banks or those of them (being at least two in number) to which such quotations are in the sole opinion of the Agent Bank being so made or (bb) if the Agent Bank certifies that it cannot determine such arithmetic mean, the Relevant Margin above the lowest of the euro lending rates which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting on the relevant Interest Determination Date, to the leading banks in the Euro-zone 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 (b) above is quoting to leading banks as aforesaid, then the Reserve Interest Rate shall be the Rate of Interest in effect for the Interest Period in which the relevant Interest Determination Date falls.

For the purpose of these Conditions:

“Euro-zone” means the region comprised of the member states of the European Union that have at the relevant time adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;

“Relevant Margin” shall be:

- (a) for the Class A Notes 0.70 per cent. per annum for each Interest Period ending on or before the Interest Payment Date falling in December 2015 and 1.40 per cent. per annum for each Interest Period thereafter; and
- (b) for the Class B Notes 1.25 per cent. per annum for each Interest Period ending on or before the Interest Payment Date falling in December 2015 and 2.25 per cent. per annum for each Interest Period thereafter.

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

The Agent Bank shall, on each Interest Determination Date, determine and notify the Issuer, the Mortgage Manager, the Trustee and the Paying Agents of (i) the Rate of Interest applicable to the Interest Period beginning on and including such Interest Determination Date in respect of the Notes of each class and (ii) the euro amount (the **“Interest Amount”**) payable in respect of such Interest Period in respect of the Principal Amount Outstanding of each Note of each class. The Interest Amount shall be determined by applying the relevant Rate of Interest to such Principal Amount Outstanding, multiplying the sum by the actual number of days in the Interest Period concerned divided by 360 and rounding the resulting figure to the nearest cent.

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

As soon as practicable after receiving notification thereof, the Issuer will cause the Rate of Interest and the Interest Amount applicable to each class of Notes for each Interest Period and the Interest Payment Date falling at the end of such Interest Period to be notified to the Trustee, the Paying Agents and each stock exchange (if any) on which the Notes are then listed and will cause notice thereof to be given to the relevant class of Noteholders in accordance with Condition 14. The Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the Interest Period.

(f) Determination or Calculation by Trustee

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

above, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

(g) Notifications to be Final

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

(h) Reference Banks and Agent Bank

The Issuer shall ensure that, so long as any of the Notes remains outstanding, there shall at all times be five Reference Banks and an Agent Bank. The initial Reference Banks shall be the principal London office of each of BNP Paribas, Deutsche Bank AG, Banco Santander, Citibank, N.A. and Dresdner Bank AG. The initial Agent Bank shall be Citibank N.A.. In the event of the principal London office of any such bank being unable or unwilling to continue to act as a Reference Bank or in the event of Citibank, N.A. being unwilling to act as the Agent Bank, the Issuer shall appoint such other bank as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved by the Trustee has been appointed.

5. Redemption, Purchase and Cancellation

(a) Final Redemption

Unless previously redeemed or cancelled as provided in this Condition, the Issuer shall redeem the Notes at their Principal Amount Outstanding on the Interest Payment Date falling in December 2050;.

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

(b) Mandatory Redemption in Part

On each Interest Payment Date, other than the Interest Payment Date on which the Notes are to be redeemed under Condition 5(a), (d) or (e), the Issuer shall apply an amount equal to the Class A Available Redemption Funds on each Interest Payment Date in redeeming the Class A Notes and an amount equal to the Class B Available Redemption Funds on each Interest Payment Date in redeeming the Class B Notes.

In connection with such redemption, on each day which is 5 business days before an Interest Payment Date (a “**Determination Date**”) the Mortgage Manager will, pursuant to the Mortgage Management and Agency Agreement, determine the Available Redemption Funds, the Class A Available Redemption Funds and the Class B Available Redemption Funds.

For so long as there are any Class A Notes outstanding, the Available Redemption Funds shall be applied solely towards redemption of the Class A Notes, in accordance with the Principal Priority of Payments (the “**Class A Available Redemption Funds**”).

Immediately after all the Class A Notes have been redeemed in full (including on the Interest Payment Date on which such redemption in full occurs) the Available Redemption Funds or, if applicable, the then remaining Available Redemption Funds shall be applied towards redemption of the Class B Notes, in accordance with the Principal Priority of Payments below until the Class B Notes are redeemed in full (the “**Class B Available Redemption Funds**”).

For the purposes of this Conditions 5:

(c) Note Principal Payments, Principal Amount Outstanding and Pool Factor

The principal amount expected to be redeemable in respect of each Note of each class (the “**Note Principal Payment**”) on any Interest Payment Date under paragraph (b) above shall be the Class A Available Redemption Funds or the Class B Available Redemption Funds for all the Notes of such class on such date

divided by the number of Notes of that class outstanding on the relevant Interest Payment Date (rounded down to the nearest cent); provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding (as defined below) of the relevant Note.

The Agent Bank on behalf of the Issuer shall give notice no later than the close of business on the business day next following each Determination Date of the Note Principal Payment to the Noteholders on the next following Interest Payment Date in accordance with Condition 14.

On or by no later than one business day after each Determination Date, the Issuer shall determine (or cause the Mortgage Manager to determine) (i) the amount of any Note Principal Payment due in respect of each Note of each class on the Interest Payment Date next following such Determination Date, (ii) the principal amount outstanding of each Note of each class on the Interest Payment Date next following such Determination Date (after deducting any Note Principal Payment due to be made on that Interest Payment Date) (the **"Principal Amount Outstanding"**) and (iii) the fraction expressed as a decimal to the sixth point (the **"Pool Factor"**), of which the numerator is the Principal Amount Outstanding of a Note (as referred to in (ii) above) and the denominator is 50,000. Each determination by or on behalf of the Issuer of any Note Principal Payment, the Principal Amount Outstanding of a Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

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

If the Issuer does not at any time for any reason determine (or cause the Mortgage Manager to determine) with respect to each class of Notes a Note Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Note Principal Payment, Principal Amount Outstanding and Pool Factor may be determined by the Trustee in accordance with this Condition 5(c) and each such determination or calculation shall be deemed to have been made by the Issuer. Any such determination shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Mortgage Manager, the Noteholders and the Couponholders and (in which absence as aforesaid) no liability to the Mortgage Manager, the Noteholders or Couponholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions, hereunder.

(d) Optional Redemption

On any Interest Payment Date falling on or after the Interest Payment Date in December 2015 and upon giving not more than 60 nor less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 14, the Issuer may redeem all (but not some only of) the Notes at their Principal Amount Outstanding and accrued interest provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Notes and all amounts ranking senior to the Notes as aforesaid.

On any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is less than ten per cent. of the initial aggregate Principal Amount Outstanding of the Notes, and upon giving not more than 60 and not less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 14, the Issuer may redeem all the Notes (but not some only) at their Principal Amount Outstanding and accrued interest provided that prior to giving any such notice, the Issuer shall have provided the Trustee with a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem relevant Notes and all amounts ranking senior to the Notes as aforesaid.

On any Interest Payment Date upon giving not more than 60 and not less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 14 and in respect of which the Noteholders of each Class by way of Extraordinary Resolution have consented to such redemption, the Issuer may redeem all the Notes (but not some only) at their Principal Amount Outstanding and accrued interest provided that prior to giving any such notice, the Issuer shall have provided the Trustee with a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to

redeem relevant Notes and all amounts ranking senior to the Notes as aforesaid.

(e) Optional Redemption for Tax Reasons

If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest on the Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by Ireland or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages during an Interest Period ceases to be receivable (whether by reason of any Borrower being obliged to deduct or withhold any amount in respect of tax therefrom or otherwise, and whether or not actually received) by the Issuer during such Interest Period or (iii) on the next Interest Payment Date the Issuer or the Swap Counterparty would, by virtue of a change in the law (or the application or interpretation thereof) be required to deduct or withhold from any payment under the Swap Agreement or not be entitled to relief for Irish tax purposes for any material amount which it is obliged to pay under the Documents, 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 all (but not some only) of the Notes on any Interest Payment Date at their Principal Amount Outstanding and accrued interest 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 the Notes and all amounts ranking senior to the Notes as aforesaid and (b) a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in Ireland (approved in writing by the Trustee) opining on the relevant event. Any certificate and legal opinion given by or on behalf of the Issuer may be relied on by the Trustee and, if so relied on, shall be conclusive and binding on the Noteholders and Couponholders.

(f) Notice of Redemption

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

(g) Purchase

The Issuer shall not purchase any Notes.

(h) Cancellation

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

6. Payments

- (a) Payments of principal in respect of the Notes will be made against presentation of the Notes at the specified office of any Paying Agent. Payments of interest in respect of the Notes will (subject as provided in paragraphs (c) and (d) below) be made only against presentation and surrender of the Coupons at the specified office of any Paying Agent. Payments will be made in euro at the specified office of any Paying Agent by euro cheque drawn on, or, at the option of the holder, by transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with a bank in Europe.
- (b) Payments of principal and interest in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.
- (c) Upon the date which any Note becomes due and payable in full, unmatured Coupons appertaining thereto (whether or not attached to such Note) shall become void and no payment or, as the case may be, exchange shall be made in respect thereof. If the due date for redemption of any Note is not an Interest Payment Date, accrued interest will be paid only against presentation and surrender of such Note. As used herein, unmatured Coupons include any talon insofar as it relates entirely to unmatured Coupons.
- (d) If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with Condition 4(a) will be paid

against presentation of such Note at the specified office of any Paying Agent.

- (e) The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent and to appoint additional or other Paying Agents. The Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents or their specified offices to be given in accordance with Condition 14.
- (f) On or after the Interest Payment Date for the final Coupon forming part of any Coupon sheet, the talon (if any) forming part of such Coupon sheet may be surrendered at any specified office of the Paying Agent in exchange for a further Coupon sheet (including a further talon but excluding any Coupons which shall have become void).
- (g) If any Coupon or Note is presented for payment on a day which is not a business day, no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Coupon or, as the case may be, such Note.
- (h) If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse on the grid endorsed on such Note (in respect of payments of principal) and on the Coupon (in respect of payments of interest) a statement indicating the amount and date of such payment.
- (i) In the event that the aggregate funds, if any, (computed in accordance with the provisions of the Mortgage Management and Agency Agreement) available to the Issuer on any Interest Payment Date for application in or towards the payment of interest which is, but for this Condition, due or overdue on any Class B Note on such Interest Payment Date, are not sufficient to satisfy in full the aggregate amount of interest which is, but for this Condition, otherwise due or overdue on such Class B Note on such Interest Payment Date, then notwithstanding any other provision of these Conditions, there shall be payable on such Interest Payment Date, by way of interest on each relevant Class B Note a *pro rata* share of such aggregate funds calculated by reference to the ratio borne by the then Principal Amount Outstanding of such Class B Note to the then Principal Amount Outstanding of all relevant Class B Notes and the amount of the shortfall will not be regarded as due until the earliest Interest Payment Date thereafter in respect of which funds (computed in accordance with the provisions of the Mortgage Management and Agency Agreement) are available to the Issuer to pay such amounts to the extent of such available funds.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on any Class B Note on any Interest Payment Date in accordance with this Condition falls short of the aggregate amount of interest which would be otherwise payable on such Class B Note on that date pursuant to Condition 4. Such shortfall relating to interest shall accrue interest during each Interest Period during which it remains outstanding at the Rate of Interest for the Class B Notes for such Interest Period and a *pro rata* share of such shortfall calculated by reference to the ratio borne by the then Principal Amount Outstanding of each relevant Class B Note to the then Principal Amount Outstanding of relevant Class B Note and accrued interest thereof *shall* be aggregated with the amount of, and treated for the purpose of this Condition as if it were, interest due on each relevant Class B Note on the next succeeding Interest Payment Date.

To the extent such a shortfall arises, such unpaid amount (including interest accruing on such shortfall) shall be payable in priority to the payment of interest otherwise due on any Class B Notes on the next following Interest Payment Date.

7. Prescription

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

8. Taxation

All payments in respect of the Notes and Coupons will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or the relevant Paying Agent (as applicable) is required by applicable law to make any payment in respect of the Notes, the Swap Agreement and the Mortgages subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer or the relevant Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted.

NEITHER THE PAYING AGENTS NOR THE ISSUER WILL BE OBLIGED TO MAKE ANY ADDITIONAL PAYMENTS TO HOLDERS OF NOTES OR COUPONS IN RESPECT OF SUCH WITHHOLDING OR DEDUCTION.

9. Events of Default

- (a) The Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Class A Notes or, if no Class A Notes are outstanding, the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Class B Notes or, if directed by or pursuant to an Extraordinary Resolution of the Class A Noteholders or, if no Class A Notes are outstanding, the Class B Noteholders shall, (subject, in each case, to being indemnified to its satisfaction) give 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 the principal of or any interest on any Note when and as the same ought to be paid in accordance with these Conditions; or
 - (ii) the Issuer failing duly to perform or observe any other obligation binding upon it under the Notes or the Trust Deed, or the Deed of Charge or any of the Transaction Documents to which it is a party and, in any such case (except where the Trustee certifies that, in its opinion, such failure is incapable of remedy when no notice will be required) such failure is continuing for a period of 30 days following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
 - (iii) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in sub-paragraph (iv) below, ceases or, through an official action of the Board of Directors of the Issuer, threatens to cease to carry on business or is deemed to be unable to pay its debts within the meaning of Section 214 of the Companies Act, 1963 of Ireland (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 Class A Notes or if no Class A Notes are outstanding, the Class B Notes; or
 - (v) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, but not limited to, presentation of a petition for an examiner and such proceedings are not, in the opinion of the Trustee, being disputed in good faith with a reasonable prospect of success, or an examiner, receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress or execution 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 initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws including, but not limited to, presentation of a petition for an examiner or making a conveyance or assignment for the benefit of its creditors generally;

Provided that, in the case of each of the events described in sub-paragraph (ii) of this paragraph (a),

the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders, or if no Class A Notes remain outstanding, to the interests of the Class B 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 their Principal Amount Outstanding together with accrued interest as provided in the Trust Deed.

10. Enforcement of Notes

The Trustee may, at any time and without notice, take such action under or in connection with any of the Transaction Documents as it may think fit to enforce payment of the Notes or any other obligation of the Issuer or 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 or any other steps or action as it may think fit to enforce the security constituted by the Deed of Charge, but it shall not be bound to take any such proceedings, action or steps unless:

- (a) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or the Class B Noteholders or so requested in writing by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the Class A Notes, or by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the Class B Notes provided that no Extraordinary Resolution of any of the Class B Noteholders or any request by any of the Class B Noteholders shall be effective unless there is an Extraordinary Resolution of the Class A Noteholders or a request of the Class A Noteholders to the same effect or none of the Class A Notes remain outstanding; and
- (b) in each case, it shall have been indemnified and/or secured to its satisfaction.

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing. The Trustee cannot, while any of the Class A Notes are outstanding, be required to enforce the Security at the request of the holders of Class B Notes (unless sanctioned as aforesaid by the Class A Noteholders) or any other Secured Creditor under the Deed of Charge. Where there are no Class A Notes outstanding, the Trustee cannot, while any of the Class B Notes are outstanding, be required to enforce the Security at the request of any other Secured Creditor under the Deed of Charge.

The obligations of the Issuer in respect of the Notes and its obligations to the Trustee and the Noteholders are limited to the proceeds of enforcement of the Security. Upon enforcement of the Security and in the circumstances where amounts to be paid by the Issuer in accordance with the provisions under "Priority of Payment Post Enforcement" above is greater than the amount realised from the Security, the Issuer will not be obliged to pay any amounts representing such shortfall and any claims in respect of such shortfall shall be extinguished. Neither the Trustee nor the Noteholders shall be entitled to institute against the Issuer any bankruptcy, reorganisation, arrangement, examination, insolvency or liquidation proceedings or other proceedings under any applicable bankruptcy or similar law in connection with any obligations relating to the Notes, the Coupons or the other Transaction Documents, save for lodging a claim in the liquidation of the Issuer which is initiated by any other party.

11. Meetings of Noteholders, Modification, Waiver and Substitution of Principal Debtor.

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

The quorum at any meeting of Noteholders of any class of Notes for passing an Extraordinary Resolution shall be one or more persons holding or representing in aggregate not less than 50 per cent. in Principal Amount Outstanding of the Notes of the relevant class then outstanding or, at any adjourned meeting, one or more persons being or representing Noteholders as they relate to the Notes of such relevant class whatever the Principal Amount Outstanding of the relevant Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a modification which would have the effect of altering the date of maturity of the relevant Notes or the day for payment of interest or principal thereon, or the amount of principal or the rate of interest payable in respect of the relevant Notes or the currency of payment of the Notes or related Coupons or the

quorum or majority required in relation to this exception or the definition of Basic Terms Modification (a “**Basic Terms Modification**”), the necessary quorum for passing an Extraordinary Resolution shall be one or more persons holding or representing in aggregate not less than 75 per cent., or, at any adjourned such meeting, 25 per cent. of the Principal Amount Outstanding of the Notes of the relevant class then outstanding. An Extraordinary Resolution passed at any meeting of Noteholders of any class shall be binding on all Noteholders of such class whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be not less than 75 per cent. of the votes cast on that resolution.

The Trust Deed contains provisions limiting the powers of the holders of the Class B Notes, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the holders of Class A Notes. Except in the circumstances set out in (b) below, the Trust Deed imposes no such limitations on the powers of the holders of the Class A Notes, the exercise of which will be binding on the holders of Class B Notes, irrespective of the effect on their interests.

Except in the circumstances set out in (b) below, the Trust Deed imposes no limitations on the powers of the holders of Class A Notes, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution.

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

- (f) The Trustee shall be entitled to assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to these Conditions, any of the Transaction Documents or any of the Other Relevant Documents, that such exercise will not be materially prejudicial to the interests of the Noteholders of any Class if advance notice of such exercise has been provided in writing to Moody's.

12. Indemnification and Exoneration of the Trustee

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

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

The Trustee may retire at any time on giving not less than three months' prior written notice to the Issuer. The Class A Noteholders or, if none of the Class A Notes remain outstanding, the Class B Noteholders have the power exercisable by Extraordinary Resolution to remove the Trustee and to appoint a replacement trustee.

13. Replacement of Notes and Coupons

If any Note or Coupon is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent. Replacement of any mutilated, defaced, lost, stolen or destroyed Note or Coupon will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before new ones will be issued.

14. Notice to Noteholders

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

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

Whilst the Notes are listed on the Irish Stock Exchange copies of all notices given in accordance with this Condition shall be sent to the Company Announcements Office of the Irish Stock Exchange.

15. Governing Law

- (a) The Notes, the Coupons, the Trust Deed and the Agency Agreement (the "**English Documents**") and any non-contractual obligations arising out of or in connection with the English Documents are

governed by, and shall be construed in accordance with, English law. Each of the Mortgage Sale Agreement, the Deed of Charge, the Mortgage Management and Agency Agreement, the Declaration of Trust, the Subordinated Loan Agreement, the Bank Agreement and the Swap Agreement (the **“Irish Documents”**) shall be construed in accordance with the laws of Ireland.

- (b) The courts of England have jurisdiction to settle any disputes which may arise out of or in connection with the English Documents and accordingly, any legal proceedings arising out of or in connection with the Notes (**“Proceedings”**) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- (c) The Issuer has agreed that the process by which any Proceedings in England are begun may be served on it by being delivered to General Manager, KBC Bank NV – London Branch, 111 Old Broad Street London, EC2N 1BR or to such other person and at such other address at which process may from time to time be served on the Issuer in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If the appointment of the person mentioned in this Condition ceases to be effective, the Issuer has agreed that it will forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Trustee and to the Noteholders in accordance with Condition 14. Nothing contained herein shall affect the right to serve process in any other manner permitted by law.

16. Rights of Third Parties

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

TAXATION

IRELAND TAXATION

The following is a summary based on the laws and practices currently in force in Ireland regarding the tax position of investors beneficially owning their Notes and should be treated with appropriate caution. Particular rules may apply to certain classes of taxpayers holding Notes. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent), is required to be withheld from payments of Irish source interest. However, an exemption from withholding on interest payments exists under Section 64 of the Taxes Consolidation Act, 1997 (the 1997 Act) for certain interest bearing securities (quoted Eurobonds) issued by a body corporate (such as the Issuer) which are quoted on a recognised stock exchange (which would include the Irish Stock Exchange).

Any interest paid on such quoted Eurobonds can be paid free of withholding tax provided:

- (a) the person by or through whom the payment is made is not in Ireland; or
- (b) the payment is made by or through a person in Ireland, and either:
 - (i) the quoted Eurobond is held in a clearing system recognised by the Irish Revenue Commissioners (Euroclear and Clearstream, Luxembourg are so recognised), or
 - (ii) the person who is the beneficial owner of the quoted Eurobond and who is beneficially entitled to the interest is not resident in Ireland and has made a declaration to a relevant person (such as an Irish paying agent) in the prescribed form.

So long as the Notes are quoted on a recognised stock exchange and are held in Euroclear and/or Clearstream, Luxembourg, interest on the Notes can be paid by the Issuer and any paying agent acting on behalf of the Issuer without any withholding or deduction for or on account of Irish income tax.

If, for any reason, the quoted Eurobond exemption referred to above does not or ceases to apply, the Issuer can still pay interest on the Notes free of withholding tax provided it is a “qualifying company” (within the meaning of Section 110 of the 1997 Act) and provided the interest is paid to a person resident in a “relevant territory” (i.e. a member state of the European Union (other than Ireland) or in a country with which Ireland has a double taxation agreement). For this purpose, residence is determined by reference to the law of the country in which the recipient claims to be resident. This exemption from withholding tax will not apply, however, if the interest is paid to a company in connection with a trade or business carried on by it through a branch or agency located in Ireland.

In certain circumstances, Irish tax will be required to be withheld at the standard rate from interest on any quoted Eurobond, where such interest is collected by a bank in Ireland on behalf of any Noteholder who is Irish resident.

Taxation of Noteholders

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish income tax. Interest paid on the Notes may have an Irish source and therefore be within the charge to Irish income tax and levies. Ireland operates a self assessment system in respect of income tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

However, interest on the Notes will be exempt from Irish income tax if the recipient of the interest is resident in a relevant territory provided either (i) the Notes are quoted Eurobonds and are exempt from withholding tax as set out above (ii) in the event of the Notes not being or ceasing to be quoted Eurobonds exempt from withholding tax, if the Issuer is a qualifying company within the meaning of Section 110 of the 1997 Act, or (iii) if the Issuer has ceased to be a qualifying company, the recipient of the interest is a company.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Interest on the Notes which does not fall within the above exemptions may be within the charge to Irish income tax.

Capital Gains Tax

A holder of Notes who is neither resident nor ordinarily resident in Ireland and does not carry on a trade in Ireland through a branch or agency in respect of which the Notes were used or held, will not be liable to Irish tax on capital gains arising on the disposal of the Notes which are quoted on a stock exchange.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax if either (i) the disponent or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponent is domiciled in Ireland irrespective of his residence or that of the donee/successor) or (ii) if the Notes are regarded as property situate in Ireland. Bearer notes are generally regarded as situated where they are physically located at any particular time, but the Notes may be regarded as situated in Ireland regardless of their physical location as they secure a debt due by an Irish resident debtor and they may be secured over Irish property. Accordingly, if such Notes are comprised in a gift or inheritance, the gift or inheritance may be within the charge to tax regardless of the residence status of the disponent or the donee/successor.

Stamp Duty

No stamp duty or similar tax is imposed in Ireland on the issue (on the basis of an exemption provided for in Section 85(2)(c) to the Stamp Duties Consolidation Act, 1999 provided the money raised on the issue of the Notes is used in the course of the Issuer's business), transfer or redemption of the Notes whether they are represented by Global Notes or Definitive Notes.

EU Savings Directive

The Council of the European Union has adopted a directive regarding the taxation of interest income known as the "European Union Directive on the Taxation of Savings Income (Directive 2003/48/EC)".

Ireland has implemented the directive into national law. Any Irish paying agent making an interest payment on behalf of the Issuer to an individual, and certain residual entities defined in the 1997 Act, resident in another EU Member State and certain associated and dependent territories of a Member State will have to provide details of the payment to the Irish Revenue Commissioners who in turn will provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned.

SUBSCRIPTION AND SALE

Pursuant to a Subscription Agreement dated 10 November 2008 (the “**Subscription Agreement**”) between, amongst others, the Issuer, KBCI, the Arranger and KBCH, KBCH has agreed to subscribe for the Notes at a price equal to the issue price of 100 per cent. of their principal amount. KBCH is entitled to be released and discharged from its obligations under the Subscription Agreement in certain circumstances prior to payment to the Issuer.

Selling Restrictions

1 United Kingdom

The purchaser of the Notes has represented to and agreed with the Issuer that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and

2 Ireland

The purchaser of the Notes has represented to and agreed with the Issuer that:

- (a) to the extent applicable, it will not underwrite the issue of, or placement of, the Notes in or through Ireland otherwise than in conformity with EU Directive 2003/6/EC and the Irish Market Abuse (Directive 2003/6/EC) Regulations 2005;
- (b) it has not done and will not do anything in Ireland in connection with the Notes which would constitute a breach of S.I. No. 60, European Community (Markets in Financial Instruments) Regulations 2007; and
- (c) it has not done and will not do anything in Ireland in connection with the underwriting of, the marketing or the placement of the Notes otherwise than in conformity with EU Directive 2003/71/EC, the Irish Prospectus (Directive 2003/71/EC) Regulations 2005 or the Irish Companies Acts, 1963 to 2006.

3 United States of America

- (a) The Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred, directly or indirectly, within the United States or to, or for the account or benefit of, a U.S. Person (as defined in Regulation S) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The Issuer has not registered and will not register under the Investment Company Act.

The Notes will be offered and sold outside the United States to non-U.S. Persons in offshore transactions in compliance with Rule 903 or 904 of Regulation S.

- (b) In connection with sales outside the United States, the purchaser of the Notes under the Subscription Agreement has agreed that it will not offer, sell or deliver the Notes to, or for the account or benefit of U.S. persons (i) as part of such purchaser's distribution at any time or (ii) otherwise prior to the date that is 40 days after the later of the commencement of the offering and the Issue Date (the “Distribution Compliance Period”) and, accordingly, that neither it, its affiliates nor any person acting on their behalf has engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Notes and it and its affiliates and any person acting on its or their behalf has complied with and will comply with the offering restriction requirements of Regulation S under the Securities Act to the extent applicable.
- (c) The purchaser of the Notes under the Subscription Agreement has also agreed that, at or prior to confirmation of sales of any Notes, it will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration to which it sells any Notes during the

Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of such Notes within the United States or to, or for the account or benefit of, U.S. persons.

4 General

Other than the approval of this Prospectus as a prospectus by the Financial Regulator as competent authority under Directive 2003/71/EC and admission of the Notes to trading on the regulated market of the ISE, no action is being taken to permit a public offering of the Notes, or possession or distribution of the Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, the purchaser of the Notes has undertaken that it will not, directly or indirectly, offer or sell any Notes in any country or jurisdiction where further action for that purpose is required and neither this Prospectus 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 applicable laws and regulations. This Prospectus does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any country or jurisdiction where such an offer or solicitation is not authorised.

GENERAL INFORMATION

1. The issue of the Notes has been authorised by resolution of the Board of Directors of the Issuer passed on 8 November 2008.
2. Transactions will normally be effected for settlement in euro and for delivery on the third working day after the day of the transaction. It is expected that listing of the Notes on the Irish Stock Exchange will be granted on or prior to 10 November 2008, subject only to issue of the Temporary Global 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 Temporary Global Notes are not issued.
3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN Number for the Class A Notes is XS0398593433. The ISIN Number for the Class B Notes is XS0398593789.
4. The Issuer does not intend to provide any post issuance transactional information on either the Notes or the property charged pursuant to the Deed of Charge.
5. The financial year end of the Issuer is 31 December. The Issuer has not commenced operations and no statutory accounts of the Issuer have been required to be produced. No audited accounts of the Issuer have been prepared since its date of incorporation.
6. The Issuer is not 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 nor is the Issuer aware that any such proceedings are pending or threatened.
7. Since 9 October 2008, being the date of incorporation of the Issuer, there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or financial position of the Issuer.
8. The auditors of the Issuer are Ernst & Young, members of the Institute of Chartered Accountants in Ireland.
9. Copies of the following documents in electronic format may be inspected during usual business hours at the registered office of the Issuer:
 - (i) the Memorandum and Articles of Association of the Issuer;
 - (ii) the Subscription Agreement;
 - (iii) drafts (subject to modification) of the following documents:
 - (a) the Agency Agreement;
 - (b) the Trust Deed;
 - (c) the Deed of Charge;
 - (d) the Mortgage Sale Agreement;
 - (e) the Mortgage Management and Agency Agreement;
 - (f) the Declaration of Trust;
 - (g) the Bank Agreement;
 - (h) the Subordinated Loan Agreement;
 - (i) the Swap Agreement;

- (j) the Master Definitions Schedule; and
- (k) a copy of this Prospectus together with any supplement to this Prospectus.

REGISTERED AND HEAD OFFICE OF THE ISSUER

Phoenix Funding 3 Limited

Sandwith Street
Dublin 2
Ireland

MORTGAGE MANAGER

KBC Mortgage Bank

Sandwith Street
Dublin 2
Ireland

TRUSTEE

Citicorp Trustee Company Limited

Citigroup Centre
Canada Square
Canary Wharf
London
E14 5LB
England

LEGAL ADVISERS

*To KBC Mortgage Bank and the Issuer
as to Irish law*

A&L Goodbody

International Financial Services Centre
North Wall Quay
Dublin 1
Ireland

*To the Arranger and the Trustee
as to English law*

Allen & Overy LLP

One Bishops Square
London E1 6AD

PRINCIPAL PAYING AGENT

& AGENT BANK

Citibank, N.A.

Citigroup Centre
Canada Square
Canary Wharf
London
E14 5LB
England

AUDITORS TO THE ISSUER

Registered Auditors

Ernst & Young

Block 1
Harcourt House
Harcourt Street
Dublin 2
Ireland

LISTING AGENT

A&L Listing Limited

North Wall Quay
IFSC, Dublin 1
Ireland