Graphite Mortgages PLC
Provide Graphite 2005-1

Northern Rock
MBS
UK

CLOSING DATE
16 February 2005

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RATINGS

Class	Rating	Amount	% of Total	Legal Final Maturity	Optional Maturity
Senior CDS	Private	1,797,750,000	89.89%	10 Dec 2046	10 Dec 2009
Class A+	**Aaa**	250,000	0.01%	10 Dec 2046	10 Dec 2009
Class A	**Aaa**	50,000,000	2.50%	10 Dec 2046	10 Dec 2009
Class B	**Aa1**	50,000,000	2.50%	10 Dec 2046	10 Dec 2009
Class C	**A2**	44,000,000	2.20%	10 Dec 2046	10 Dec 2009
Class D1	NR	26,800,000	1.34%	10 Dec 2046	10 Dec 2009
Class D2	NR	11,200,000	0.56%	10 Dec 2046	10 Dec 2009
Threshold	NR	20,000,000	1.00%	10 Dec 2046	10 Dec 2009
Total		2,000,000,000	100%		

Class A+ Note, Class A Note, Class B Note, Class C Note, Class D1 and Class D2 note form together the "Series 2005-1 Notes".

The ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

OPINION

Strengths of the Transaction

- Generally good quality of the initial reference pool with a weighted average current LTV of 73% and seasoning of 22.2 months. This is of particular value with the rapid house price growth seen over recent years. However, this benefit could be reduced by replenishment;
- Diversity benefit of having loans spread over several years of origination. The performance of a pool originated over a number of years can be expected to be less volatile than a pool with originations concentrated in a short time frame. This benefit could be reduced by replenishment;
- The strong market position of Northern Rock PLC (**A1**, **Prime-1**) ("Northern Rock" or "Protection Buyer") as a mortgage originator, and consequent quality of borrowers attracted to this brand;
- Northern Rock's experience in the securitisation market;
- Sound legal structure, similar to other Provide structures;
- Tight definition of realised loss, which includes principal and costs only, while costs are capped at 7% of the property value;
- The **Aaa** rating of KfW as the Note collateral provider;
- The protection against losses through subordination and the threshold amount.

Weaknesses and Mitigants

- Replenishment period of maximum 5 years which a) may decrease the average pool quality due to the addition of weaker quality loans and b) increases the overall loss potential of the transaction. Both risks are mitigated by (i) the structural feature that after each replenishment the total reference pool has to comply with Moody's Portfolio Variation Test and (ii) certain replenishment criteria that have to be met. Further, certain arrears trigger and a realised loss trigger stop replenishment;
- Further potential risks from replenishment include: 1) replenished mortgage loans have to meet the lending criteria at the time of origination, and thus may differ from the lending criteria at and immediately after close of this transaction (this could be a benefit as well as a risk); 2) replenishment could allow the benefit of house price increases between mortgage loan origination and close of this transaction to escape the transaction. The latter is mitigated by the fact that after each addition the total reference pool has to comply with Moody's Portfolio Variation Test, which takes house price development into account. As a result, less house price growth or even decline limits replenishment;
- Although the reference pool generally has a good quality, it contains a significant portion of buy-to-let properties and self certified loans. This fact has been included in the required credit enhancement and is part of Moody's Portfolio Variation Test, too.
- High concentration of the reference pool in certain regions of UK, especially South East (incl. Greater London) (52.6% of total pool balance). This fact has been included in the required credit enhancement as well as in Moody's Portfolio Variation Test;
- Servicer Discretion: The Servicer (Northern Rock) has discretion over the timing of the enforcement process. Delayed enforcement could reduce the effectiveness of transaction triggers. The experience and professionalism of Northern Rock as servicer offers some protection against this risk.

STRUCTURE SUMMARY

Issuer:	Graphite Mortgages PLC, a public limited company based in Ireland.
Structure Type:	Synthetic, partially funded, revolving and afterwards sequentially amortising
Protection Buyer:	Northern Rock PLC ("Northern Rock" or the "Bank") (**A1**/**P-1**)
Originator:	Northern Rock PLC
Servicer:	Northern Rock PLC
Interest Payments:	Quarterly in arrears, on the 10th day of March, June, September and December each year, starting in June 2005
Principal Payments:	Quarterly
Notes Collateral:	Certificates of Indebtedness issued by Kreditanstalt für Wiederaufbau ("KfW", **Aaa**/**P-1**)
Paying / Calculation Agent:	Bank of New York (**Aa2/P-1**)
Security Trustee	Bank of New York
Verification Trustee:	Bank of New York
Arranger/Lead Manager:	Merrill Lynch International

REFERENCE PORTFOLIO SUMMARY (BASED ON POOL SELECTION OF 21 DECEMBER 2004 FOR THE INITIAL POOL)

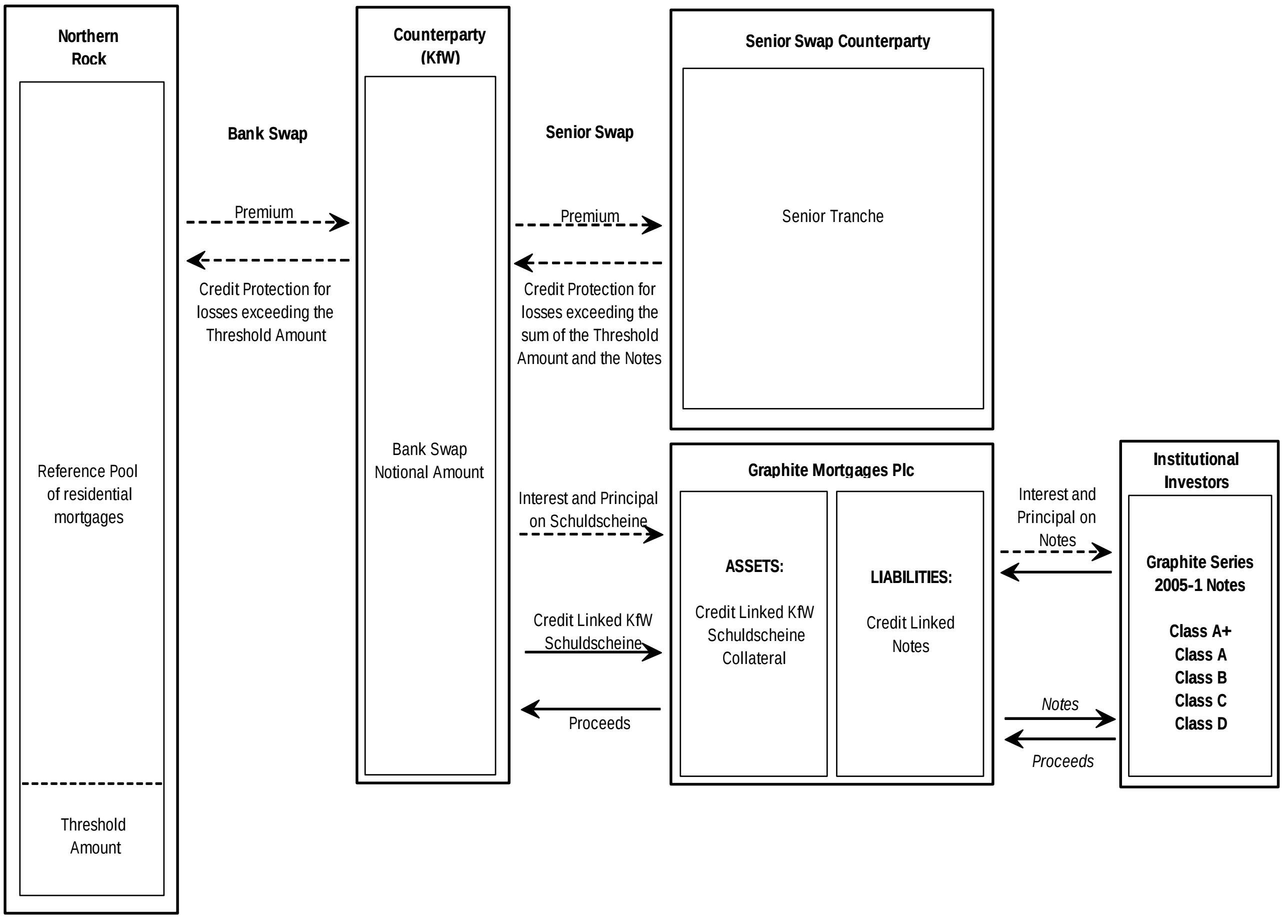
Reference Claims:	First ranking mortgage loans to individuals
Number of Reference Claims	17,265
Number of Properties	17,265
Average Loan size:	GBP 115,841
Type of Property:	Owner occupied or non-owner occupied residential properties in England, Wales, Scotland or Northern Ireland
Geographic Diversity by loan balance:	South East (incl. Greater London) 52.6%, South West 8.0%, North West 7.5%, York 6.6%, North 5.9%, West Midlands 5.9%, Wales 2.5%, East Midlands 4.3%, Scotland 5.0% and East Anglia 1.5%
Weighted Average Loan-to-Value:	73.3%
Seasoning:	22.2 months
Delinquency Status:	No loan is in arrears for more than one payment
Historical Loss Experience:	Performance of Granite Mortgages Master Trust

CREDIT SUPPORT

Class	Subordination
Class A+	10.10%
Class A	7.60%
Class B	5.10%
Class C	2.90%
Class D1	1.54%
Class D2	1.00%

OVERVIEW

Figure 1
Structure Diagram



Aimed to achieve capital relief, Northern Rock transfers the risk associated with the Reference Pool.

The purpose of this transaction is to transfer the credit risk linked to the reference pool of claims backed by UK residential mortgages from Northern Rock and to achieve capital relief associated with the reference claims using the KfW sponsored Provide-Programme.

Therefore Northern Rock enters into a Bank Swap under which KfW will pay any losses incurred on the reference portfolio. KfW in turn hedges its exposure through a credit default swap (Senior CDS) and the issuance of KfW certificates of indebtedness (*Schuldscheine*), Class A+ – D2) credit-linked to the remaining portion of the reference portfolio.

Graphite Mortgages PLC funds the purchase of these credit-linked KfW *Schuldscheine* with the issuance of various classes of Credit-Linked Notes ("Series 2005-1 Notes" or "Provide Graphite 2005-1") to capital market investors. The investment in KfW *Schuldscheine* serves as security of the notes and is subject to reduction when realised losses arise under the reference portfolio.

On the closing date and, as the transaction is replenishable on each replenishment date, each reference loan is also part of a pool of certain residential mortgage loans which are from time to time assigned to Northern Rock Covered Bond LLP under the covered bond programme of Northern Rock.

This is Northern Rock's first transaction under KfW's Provide Programme as well as its first public synthetic transaction. The set up of Graphite Mortgages PLC allows for further issuance in the future backed by further discrete reference pools. Northern Rock has entered into several further mortgage securitisations including the Granite Master Trust Programme.

As long as replenishment occurs (subject to all replenishment criteria being met), the Series 2005-1 Bank Swap is non-amortising until December 2009 ("Replenishment Period"). However, Northern Rock is not obliged to replenish during the Replenishment Period and may choose to amortise the transaction before December 2009. After the Replenishment Period, the Credit-Linked Notes will amortise sequentially starting with the Class A+ Notes, which will amortise on a pro-rata basis with the Senior CDS and afterwards the Class A, B, C, D1 and D2 Notes in order of seniority. The notional amount of the notes is subject to reduction by allocating realised losses arising from the reference loans.

STRUCTURAL AND LEGAL ASPECTS

Issuer established in Ireland

The Issuer is a special purpose vehicle incorporated under the laws of Ireland as a public limited company ("plc").

Credit Risk under the Notes' collateral is limited

In addition to the exposure under the reference portfolio, investors in the Notes are also subject to the credit risk under the Notes' collateral – the *Certificates*. The *Certificates* have terms and conditions matching exactly the terms and conditions of the Credit-Linked Notes which they are respectively collateralising. In accordance with the *Certificates* KfW undertakes to make timely payments of interest and ultimate payments of principal which, again, are equal to the interest and principal payments due under the Notes. As KfW is a highly rated entity (**Aaa**), Moody's assigns (P)**Aaa** on the Class A+ and Class A Notes.

Enforcement events

Under Graphite Mortgages PLC, an enforcement event is defined as:

In respect of a Reference Loan, the bank has initiated enforcement proceedings in respect of such Reference Loan, to be issued following

1) the decision of a court to make an order granting to the Bank possession of the related property; or
2) where no such order is obtained (a) the Bank taking possession of the related property or (b) the Bank and the borrower agreeing that the borrower will offer the related property for sale.

An enforcement event must be irrevocable notified by the bank immediately following the occurrence of such enforcement event.

Credit Event

Under Graphite Mortgages PLC, a credit event means with respect to a Reference Loan that

1) the property relating to such Reference Loan has been sold in accordance with the servicing standards and the sale proceeds have been received by the Bank; or
2) a restructuring has occurred such that the maturity of the Reference Loan is extended beyond 31 December 2044; or
3) a denial of enforcement proceedings has occurred; or
4) a debt foregiveness has occured.

A credit event must be irrevocable notified by the Bank immediately following the occurrence of such credit event.

Liquidated Reference Loan

A liquidated Reference Loan is defined as a Reference Loan in respect of which an enforcement event has been notified, a credit event has occurred, notification has been given and which is not a non-qualifying Reference Loan.

Realised losses include only principal and enforcement costs.

A realised loss on a Reference Loan is defined as the outstanding nominal amount of a liquidated Reference Loan after deducting the aggregate of any amount received by the Bank in respect of set-off, sale proceeds from the enforcement of the relevant mortgage over the relevant property net of costs up to a maximum amount of 7% of the sale price of the property, payments received from other collateral, any expected late recoveries and any part of a liquidated reference loan which is not secured by a first priority mortgage.

Further does the outstanding nominal amount explicitly not include re-draws, further draws, further advances and capitalised expenses, arrears and interest added to the current balance of the Reference Loan since its inclusion into the reference pool. This provides that any accrued interest is excluded from the realised loss definition.

Allocation of Realised Losses in reverse sequentially order

Any realised losses are first allocated to the threshold amount. When the threshold amount is reduced to zero, losses are allocated to the Series 2005-1 Notes. Whenever any credit protection payment is paid by the Bank Swap, it will first be allocated to the various Classes of Notes, in reverse order of seniority, starting with the Class D2 Notes. If Notes are written down, interest to investors is only paid over the outstanding balance. Only when the principal balance of the Class A Notes is reduced to GBP 1, are losses allocated to A+ Notes on a pro-rata basis with the senior credit default swap.

Loss amounts are verified by an accountant after the occurrence of a verification event.

The verification trustee will verify the amount of realised losses when a verification event has occurred, i.e. when the total realised loss amount exceeds 60% of the initial threshold amount. After a verification event has occurred, the verification trustee will (i) verify that the loss amounts and the credit protection payments have been correctly determined, (ii) confirm that the respective loans complied with the eligibility criteria, and (iii) confirm that the Servicer has complied with the Servicing standards. No credit protection amounts will be paid and no rated notes will be written off until the verification agent has completed his investigation. Before the occurrence of a verification event, realised losses will not be verified. However, after the occurrence of a verification event, the verification trustee will conduct a loss verification on a representative sample basis in respect of realised losses already allocated in previous periods. This loss verification on a sample basis may be followed by a loss verification of all realised losses that have been allocated before the occurrence of a verification event.

Late recoveries are allocated to Bank Swap and Provide Graphite 2005-1 Notes

Whenever late recoveries with regard to a liquidated reference loan occur, those will be allocated to the Bank Swap and to the notes, when applicable. In case of late recoveries, the noteholders will receive no additional payment of interest in respect of the increase of the note principal amounts following the allocation of late recoveries. The conditions do also provide for reversal of unjustified loss allocation which has occurred. In case of unjustified loss allocation, the noteholders will receive an additional payment of default interest (4%) in respect of the increase of the note principal amounts following the allocation of unjustified losses.

Repayment of the notes

During the replenishment period until December 2009 and as long as all replenishment criteria have been met, Provide Graphite 2005-1 will not amortise. After the replenishment period, or when any of the replenishment criteria has not been met, or when Northern Rock chooses not to replenish the full amount and to amortise the transaction, the notes will amortise quarterly sequentially starting with the Class A+ Notes, which will amortise on a pro-rata basis with the Senior CDS and afterwards the Class A, B, C, D1 and D2 Notes in order of seniority.

Early redemption triggers

Upon the occurrence of an event of default (the noteholders did not receive a payment under the notes within 30 business days from the relevant due date), each noteholder can declare its notes due by delivery of a written notice to the Issuer with a copy to the Trustee.

Further, the notes are subject to early redemption in full upon occurrence of an automatic termination event:

- Granite Mortgages plc or its assets become subject to bankruptcy, examinership, insolvency, moratorium or similar proceedings, or there is a refusal to institute such proceedings for lack of assets; or
- the Bank Swap is terminated because of the occurrence of (i) serious cause or (ii) insolvency or bankruptcy of Northern Rock; or
- following the delivery of a resignation notice by the Security Trustee and/or the Verification Trustee (implying that a replacement trustee is not appointed).

In addition, the Notes may be subject to early redemption in full:

- if KfW exercises its pre-payment option under the certificates, following the occurrence of a tax event or a regulatory event in respect to KfW; or
- if Northern Rock terminates the Bank Swap:
  1) following a tax event;
  2) following an illegality event;
  3) following a regulatory event in respect of KfW or Northern Rock;
  4) upon a decrease of the Bank Swap to less than 10% of the initial outstanding;
  5) upon optional redemption on the payment date constituting the end of the replenishment period.

In such cases the issuer will redeem all of the Series 2005-1 Notes and redemption will take place on a sequential basis in order of seniority, starting with the A+ notes, which will redeem on a pro-rata basis with the super senior swap. Redemption may be deferred if there are defaulted or overdue reference claims outstanding and whose aggregate outstanding nominal amount exceeds the outstanding threshold amount on the scheduled termination date or the early redemption date.

Replenishment Criteria include the compliance of the reference pool with Moody's Portfolio Variation Test and certain trigger events based on performance

In order to add mortgage loans to the reference pool during the replenishment period until December 2009, *inter alia*, the following replenishment criteria have to be met:

1) each mortgage loan added complies with the eligibility criteria on such date;
2) the replenishment does not cause the result of the Moody's Portfolio Variation Test value to exceed the Moody's Portfolio Variation Test value as at the closing date plus 0.3%;
3) no trustee verification event has occurred, meaning that the total realised loss amount does not exceed 60% of the initial threshold amount;
4) the aggregate outstanding nominal amount of all reference loans in arrears for more than 90 calendar days is less than 2% of the aggregate principal balance of all reference loans;
5) the aggregate outstanding nominal amount of all reference loans in arrears up to 90 calendar days is less than 4% of the aggregate principal balance of all reference loans.

REFERENCE PORTFOLIO

For Graphite Mortgages PLC, the eligibility criteria of Northern Rock's Covered Bond Programme plus further eligibility criteria are relevant.

In order to be eligible for loss allocation, each Reference Loan has to comply with the eligibility criteria of Northern Rock's Covered Bond Programme, with further eligibility criteria special to Graphite Mortgages PLC and with the conditions to loss allocation. Those include, *inter alia*:

- The reference loan was assigned to Northern Rock Covered Bond LLP under the covered bond programme of Northern Rock on the date of inclusion in the reference pool;
- The first payment due of the reference loan has been made in full by the borrower;
- The reference loan has a current balance of less than GBP 1,000,000;
- Each reference loan is secured by a mortgage on a residential property;
- The Reference Loan has not been in arrears by more then the equivalent of one scheduled monthly payment on the date of inclusion in the reference pool;
- Since inclusion into the reference pool, such loans has not been subject to a product switch, a further advance, a further draw or a re-draw.

As of the cut off date for Series 2005-1, the average Loan-to-Value for the Reference Pool is 73.3%. The portfolio is concentrated in the following regions: South East (including London) 52.6%, South West 8.0% and North West 7.5%. In order to reflect any over-concentration, Moody's has sized the credit enhancement accordingly. In South East (including London), a higher than average loan balance can be observed (GBP 205,296 versus GBP 115,841 for the total pool), indicating the above average property values in that region.

The portfolio has a weighted-average seasoning of 22.2 months, the average time to maturity is 19.8 years. With regard to loan characteristics, 47.8% of the initial Reference Pool are self certified loans, whereby 14% of all loans are self certified with a LTV above 80% and 13.9% of all loans are self certified with a LTV between 70% and 80%. 14.2% of all self certified loans with a LTV above 70% are granted to employed borrowers. 74% of the initial Reference Portfolio pays a fixed interest rate, resetting on average after 16 months and 41% are interest only loans. 84% of the Reference Pool balance is classified as flexible loan, whereby the total flexible loan balance that can be drawn is app. GBP 66,000,000. Further, within the initial Reference Pool, 6.8% of all loans are secured by buy-to-let properties. 71% of all borrowers are employed.

From a credit perspective, Moody's sees the following portfolio characteristics favourably:

- Borrower and property diversity of the pool;
- All properties that secure the Reference Loans are residential properties;
- All mortgages are fist ranking mortgages;
- Weighted average seasoning of 22.2 months;
- The high portion of loans that bear a fixed interest rate which however resets on average after 1.3 years;
- Relatively low weighted average LTV ratio of 73.3%;

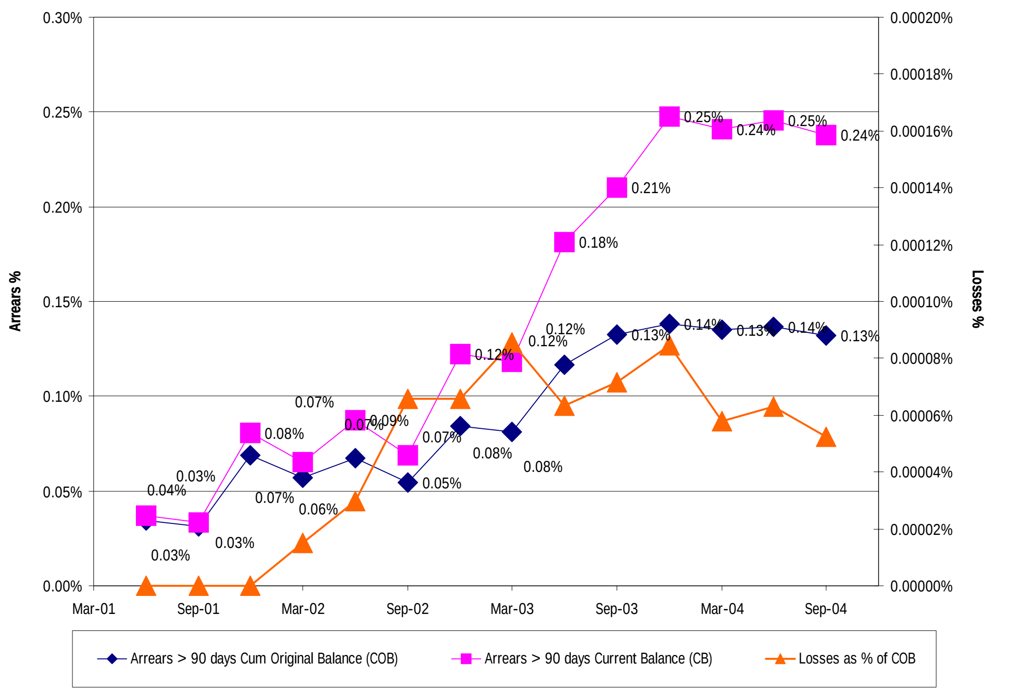
Less favourable pool characteristics comprise:

- The high portion of self certified loans 47.8%, especially those with a high LTV ratio;
- The inclusion of buy-to-let properties 6.8%;
- The high portion of interest only loans 42%;
- The over-concentration of the Reference Portfolio in South East (including London) and North.

Historical performance data of the Granite Master Trust by Northern Rock

Figure 2

Performance Data Granite Master Trust



Low losses recorded up to date in the Granite Master Trust of Northern Rock

Within the Granite Master Trust of Northern Rock, as at November 2004, 247 loans have been taken into possession since March 2001, of these, 156 properties have been sold, resulting in an average loss (before recoveries made under the MIG policies) of GBP133 per loan.

ORIGINATION AND SERVICING

Northern Rock is the 9th largest residential mortgage lender in UK.

Northern Rock is the 7th largest residential mortgage lender in UK with a share of UK net mortgage lending of 8.4% (as at 30th June 2004). Northern Rock currently derives its mortgage lending business from the following sources:

- intermediaries that range from mortgage clubs to small independent mortgage advisors;
- its branch network throughout the United Kingdom;
- its website; and
- Northern Rock Direct, a centralized telephone-based lending operation.

In each case, the Bank performs all the evaluations of the borrower and determines whether a mortgage loan will be offered. To obtain a mortgage loan, each prospective borrower completes an application form which includes information about the applicant's income, current employment details, bank account information, if any, current mortgage information, if any, and certain other personal information. The Bank completes a credit reference agency search in all cases against each applicant at their current address and, if necessary, former addresses, which gives details of public information including any county court judgements and details of any bankruptcy. Each mortgage loan was originated according to the Bank's lending criteria applicable at the time the mortgage loan was offered. New mortgage loans may only be included in the mortgage portfolio if they are originated in accordance with the lending criteria applicable at the time the mortgage loan is offered.

Servicing provided by Northern Rock

The administration, collection and enforcement of each Reference Loan, including the foreclosure on any related mortgages and other Collateral, will be carried out by Northern Rock. In administering the Reference Loans and the Reference Pool, in collecting and enforcing the Reference Loans and/or foreclosing on the mortgages and other Collateral, Northern Rock is obliged at all times to act as a prudent mortgage lender taking into account the interests of the transaction parties. In any case where a Borrower fails to make one payment and is, therefore, deemed to be in arrears, Northern Rock is obliged by the Servicing Standards of Graphite Mortgages PLC to issue a letter advising the Borrower that their home is at risk and that continued failure to make payments and/or agree a schedule to bring arrears of interest and capital up to date could result in legal action, the logical consequence of which could lead to the repossession of their property. Northern Rock will only agree to payment rescheduling or debt restructuring of a Reference Loan (whether the relevant Borrower is in arrears or not), if the Reference Loan, under the altered repayment schedule or as restructured, is due to be repaid in full before the legal maturity date at the latest.

MOODY'S ANALYSIS

To determine the ratings on the Notes, Moody's has used the following methodology, which is applied to most European residential mortgage backed securities markets.

The Loss Distribution

Determination of the log normal loss distribution

The first step in the analysis is to determine a loss distribution of the pool of mortgages to be securitised. Because of the large number of loans and supporting historical data, Moody's uses a continuous distribution to approximate the loss distribution: the lognormal distribution.

To determine the shape of the curve, two parameters are needed: the expected loss and the volatility around this expected loss number. Moody's uses three parameters to determine the log-normal loss distribution:

a) The expected loss of the portfolio,
b) The **Adjusted MILAN Aaa CE** and
c) The average life of the portfolio.

Expected Loss determined by benchmarking

In order to determine the expected loss number, Moody's has made a comparison of the initial Reference Pool and other securitised mortgage pool and their performance of other transactions by Northern Rock and other originators. Hereby, the realised loss definition of Graphite Mortgages PLC has been taken into account.

The Aaa CE enhancement number is determined using a loan-by-loan analysis ("UK MILAN")

The expected loss is derived from historical loss data, and a general view of collateral quality. The **Adjusted MILAN Aaa CE** is calculated by MILAN UK. MILAN (Moody's Individual Loan Analysis) works similarly to a scoring model. Each loan is compared and scored against the UK benchmark loan. Hereby, the UK benchmark loan is defined as a loan granted to an employed borrower (with full income verification) which is secured by the property (single family house or flat) the borrower lives in (owner occupied). Further, interest on the loan is variable and as principal payable monthly (amortising loan). Based on certain assumptions (mostly LTV), the **Aaa** credit enhancement necessary for this benchmark loan can be determined. As it is a synthetic transaction with a tight realised loss definition, for Provide Graphite

2005-1, interest rates have not been taken into account here and foreclosure costs were capped at 7% when determining this number. The comparison of specific loan, property and borrower characteristics of each loan with those of the benchmark loan leads to adjustments and results in the **Aaa CE** for each individual loan. After having scored each loan, the given portfolio is compared with the UK benchmark RMBS portfolio. This comparison again leads to certain adjustments to the credit enhancement for the benchmark portfolio and ultimately results in the **MILAN Aaa CE** for the total portfolio. All steps are analysed and discussed by rating committee. As further quantitative and qualitative adjustments to **MILAN Aaa CE** might be determined by a rating committee (resulting in "**Adjusted MILAN Aaa CE**").

The standard deviation of the distribution is found by setting the probability of a loss greater than the expected loss compliant with the idealised expected loss target of the **Adjusted MILAN Aaa CE** number.

Tranching and Rating of the Notes

Cash flow model is used to assess the impact of structural features

Having obtained the loss distribution of the pool under consideration, a cash flow model is used to assess the impact of structural features of the transaction, such as the priorities of interest and principal, the revolving feature of Provide Graphite 2005-1, including value given by triggers that stop replenishment, the loss allocation mechanism.

The sum of the loss experience per note class weighted by the probability of such loss scenario will then determine the expected loss on each tranche and hence the rating, consistent with Moody's target losses for each rating category.

The expected loss is calculated for each class of Notes

The ratings of the Class A+ and the Class A Notes is therefore based on an analysis of:

- The characteristics of the mortgage pool backing the Notes;
- Protection provided by subordination against losses in the mortgage pool;
- The roles and creditworthiness of various transaction counterparties; and
- The legal and structural integrity of the Issue.

The ratings of the other Classes of Notes are based on the above factors, and also on an assessment of the extent of their subordinate position within the structure.

The likelihood of each Class suffering such loss given the credit enhancement described above and the impact on the expected yield to investors are consistent with the assigned ratings.

MOODY'S PORTFOLIO VARIATION TEST

As the Reference Pool of Graphite Mortgages PLC is subject to replenishment, Moody's Portfolio Variation Test ("MPV-Test") is designed to avoid that the Reference Pool quality deteriorates substantially due to addition reference loans.

The MPV-Test works similar to the MILAN UK and is therefore similar to a scoring model, too. Based on the LTV of any particular loan, Moody's assigns a default frequency and severity upon default for that loan. The product of both numbers is a stressed "expected loss" of that loan assuming that it is an UK benchmark loan. Those results are further adjusted for loan, property and borrower characteristics for which the loan deviates from the UK benchmark loan and which Moody's considers to be more or less risky than those of the benchmark loan. While doing this scoring for each single loan in the mortgage trust and further adjusting the results for features where the total trust deviates from the UK benchmark residential mortgage portfolio, the result is a stressed "expected loss" for the reference pool at that point in time.

When running the MPV-Test analysis at a pool analysis date, the result can be seen as a relative indicator of the trust credit quality at that point in time. As the reference pool composition may change during two pool analysis dates, on each point in time where new loans are added into the mortgage trust, the Issuer is obliged to run the MPV-Test. After addition of the new loans into the trust, the MPV-Test result has to be lower or equal to the MPV-Test result as at the closing date plus 0.3%, therefore indicating that the pool credit quality has not worsened since then. Loans that increase, *ceteris paribus*, the MPV-Test value and therefore restrict loan additions are for example loans with a high LTV, loans that did not benefit from most recent house price increases, loans originated with limited income certification and that have a high LTV, interest only loans etc. On the other hand, loans that decrease the MPV-Test value are for example loans with a high seasoning, loans that have been current for more than 12 months before added to the trust, loans with a fixed interest rate which resets later than 2 years after addition etc.

RATING SENSITIVITIES AND MONITORING

The transaction's ratings have limited dependency on KfW's and Northern Rock's ratings.

From Moody's point of view, this transaction has a limited rating sensitivity to the rating of KfW (**Aaa**) as provider of the CLN collateral, and to Northern Rock (**A1/ P-1**) acting as Servicer.

The rating of the notes is most sensitive to the level of default, respectively losses incurred in the reference portfolio.

Moody's will monitor the transaction on an ongoing basis to ensure that its transaction continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk. For all questions linked to the monitoring of the operation, please contact monitor.london@moodys.com.

RELATED RESEARCH

Moody's provides further insight into its approach, its analysis on the transaction parties and comparable transactions.

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

- Credit Considerations of Synthetic Mortgage-Backed Securitisations in Europe, November 2002.

APPENDIX 1 SELECTED CHARACTERISTICS OF THE INITIAL REFERENCE POOL

Chart 1
LTV Distribution

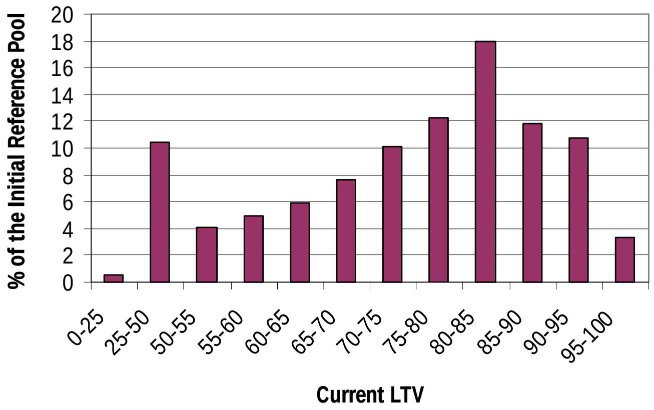


Chart 2
Regional Distribution

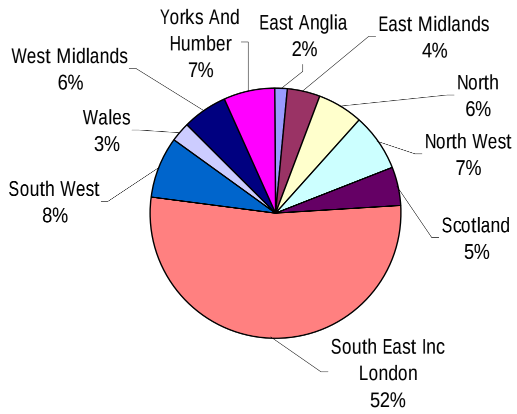


Chart 3
Owner Occupancy

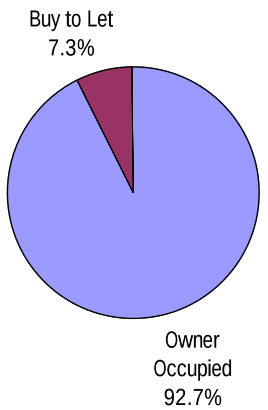


Chart 4
Seasoning

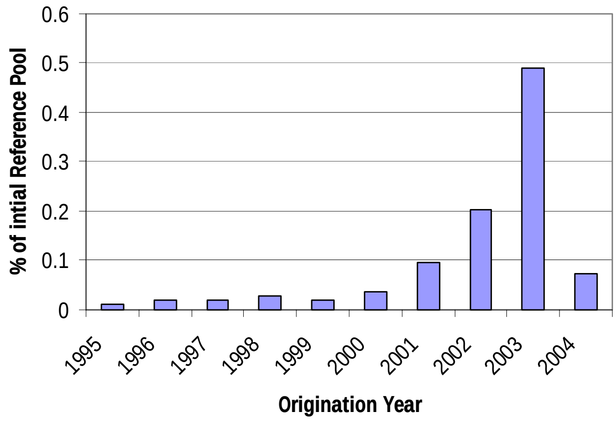


Chart 5
Repayment Type

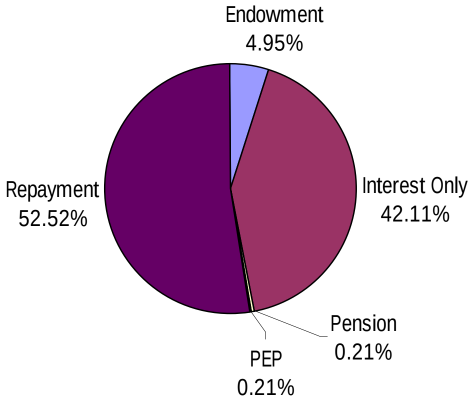
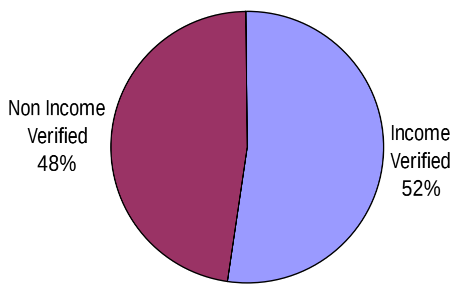


Chart 6
Income Verification



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