

Paragon Personal and Auto Finance (No. 2) PLC

(incorporated with limited liability in England and Wales with registered number 3696151)

£146,900,000

Class A Asset Backed Floating Rate Notes due 2022

Issue price: 100%

£70,900,000

Class B Asset Backed Floating Rate Notes due 2033

Issue price: 100%

£26,900,000

Class C Asset Backed Floating Rate Notes due 2033

Issue price: 100%

The £146,900,000 Class A Asset Backed Floating Rate Notes due 2022 (the “**Class A Notes**”) of Paragon Personal and Auto Finance (No. 2) PLC (the “**Issuer**”) will be issued by the Issuer together with the £70,900,000 Class B Asset Backed Floating Rate Notes due 2033 of the Issuer (the “**Class B Notes**”) and the £26,900,000 Class C Asset Backed Floating Rate Notes due 2033 of the Issuer (the “**Class C Notes**”) (the Class A Notes, the Class B Notes and the Class C Notes together being the “**Notes**” and the Class B Notes and the Class C Notes together being the “**Subordinated Notes**”).

Interest on the Notes will be payable in pounds sterling quarterly in arrear on 15th January, 15th April, 15th July and 15th October in each year subject to adjustment in the manner described in this offering circular (the “**Offering Circular**”) (each date as so adjusted being an “**Interest Payment Date**”), the first interest payment being made on the Interest Payment Date falling in April 2002. Interest on the Subordinated Notes will be paid on an Interest Payment Date only if and to the extent that there are sufficient funds available to the Issuer on such Interest Payment Date (as determined on the preceding Determination Date (as defined in “**Summary – Section 2 – Determination Date**”)) to pay interest on such Notes as more particularly described in this Offering Circular. To the extent that such funds are not sufficient to pay the full amount of interest on the Class B Notes and/or the Class C Notes, payment of the relevant shortfall will be deferred until the earliest Interest Payment Date thereafter on which funds are available to the Issuer (again, as determined on the preceding Determination Date) to pay such shortfall, on which Interest Payment Date payment of such shortfall will be made to the extent of such available funds. In the event of any such deferral, additional interest will accrue on the relevant Subordinated Notes equal to the interest which would accrue on the relevant deferred interest during the period of any such deferral if interest were to accrue thereon at the rate of interest accruing on the relevant Subordinated Notes from time to time.

The interest rates applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate (“**LIBOR**”) for three-month sterling deposits (other than in respect of the first Interest Period – see “**Description of the Class A Notes, the Global Class A Notes and the Security**”, “**Description of the Class B Notes, the Global Class B Notes and the Security**” and “**Description of the Class C Notes, the Global Class C Notes and the Security**”) plus a margin which will differ for each class of Notes. The margins applicable to each class of Notes, and the Interest Periods for which such margins apply, will be as set out below:

- (i) Class A Notes: 0.38% per annum up to and including the Interest Period ending in January 2008 and thereafter 0.76% per annum;
- (ii) Class B Notes: 1.20% per annum up to and including the Interest Period ending in January 2008 and thereafter 2.40% per annum; and
- (iii) Class C Notes: 2.75% per annum up to and including the Interest Period ending in January 2008 and thereafter 5.50% per annum.

The first Interest Period is expected to commence on (and include) 12th December, 2001 (such date or such later date as may be agreed between the Issuer and the Managers as the closing date for the issue of the Notes being the “**Closing Date**”) and end on (but exclude) the Interest Payment Date falling in April 2002. Interest payments on the Notes will be made subject to applicable withholding tax (if any) without the Issuer being obliged to pay additional amounts therefor.

The Notes will be subject to mandatory redemption in part from time to time on any Interest Payment Date, as more particularly described below (see “**Summary – Section 4 – Mandatory Redemption in Part**”). In certain other circumstances and at certain times, the Notes may be redeemed at the option of the Issuer at their principal amount outstanding together with accrued interest on any Interest Payment Date, as more particularly described below.

The Subordinated Notes will be secured by the same security that will secure the Class A Notes but in the event of the security being enforced, the Class A Notes will rank in priority to the Subordinated Notes and the Class B Notes will rank in priority to the Class C Notes. The right to payment of interest on the Subordinated Notes will be subordinated and may be limited as described below (see “**Summary – Section 6 – Interest**”). As a result, no assurance is given as to the amount (if any) of interest on the Subordinated Notes which may actually be payable and/or paid on any Interest Payment Date.

The Class A Notes are expected, on issue, to be assigned an AAA rating by Fitch Ratings Ltd. (“**Fitch**”), an Aaa rating by Moody’s Investors Service Limited (“**Moody’s**”) and an AAA rating by Standard & Poor’s Rating Service, a Division of the McGraw-Hill Companies, Inc. (“**Standard & Poor’s**”), and together with Fitch and Moody’s, the “**Rating Agencies**”). The Class B Notes are expected, on issue, to be assigned an A rating by Fitch, an A2 rating by Moody’s and an A rating by Standard & Poor’s and the Class C Notes are expected, on issue, to be assigned a BBB rating by Fitch, a Baa2 rating by Moody’s and a BBB rating by Standard & Poor’s. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Application has been made to the Financial Services Authority in its capacity as UK Listing Authority (the “**UK Listing Authority**”) for the Notes to be admitted to the official list maintained by the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for the Notes to be admitted to trading by the London Stock Exchange. Copies of this Offering Circular, which comprises approved listing particulars with regard to the Issuer and the Notes in accordance with the listing rules made under Part VI of the Financial Services and Markets Act 2000, have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 83 of that Act.

The Notes of each class will be initially represented by a Temporary Global Note (as defined in “**Summary – Section 6 – Global Notes**”), without coupons or talons, which will be deposited with a common depositary (the “**Common Depositary**”) for Euroclear Bank S.A./N.V., as operator of the Euroclear system (“**Euroclear**”), and Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”) on the Closing Date. The Temporary Global Note relating to each class of Notes will be exchangeable 40 days after the Closing Date (provided that certification of non-U.S. beneficial ownership has been received) for interests in a permanent global note relating to the same class which will also be deposited with the Common Depositary. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

Particular attention is drawn to the section of this Offering Circular entitled “**Special Considerations**” on pages 39 to 48.

Class A Notes Manager, Class B Notes Manager and Class C Notes Manager
JPMorgan

6th December, 2001

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

No person has been authorised to give any information or to make any representation other than as contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Trustee (as defined in “Summary – Section 1 – The Trustee”) or any of the Managers (as defined in “Subscription and Sale”). Neither the delivery of this Offering Circular nor any sale or allotment made in connection with the offering of the Notes shall under any circumstances constitute a representation or create any implication that there has been no change in the information contained herein since the date hereof or that the information contained in this Offering Circular is correct as at any time subsequent to its date.

The Notes will be obligations of the Issuer, secured by the security described in this Offering Circular. The Notes will not be obligations or the responsibility of, or be guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations or the responsibility of, or be guaranteed by, PFPLC, PPF, PCF, Universal, PGC (each as defined in “Summary”), the Trustee, any of the Managers, any member of the Paragon Group (as defined in “Summary – Section 1 – Administrator”) (other than the Issuer) or any other person other than the Issuer. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by PFPLC, PPF, PCF, Universal, PGC, the Trustee, any of the Managers, any member of the Paragon Group (other than the Issuer) or by any other person other than the Issuer.

Neither the Trustee nor any of the Managers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. Each potential purchaser of Notes should determine the relevance of the information contained in this Offering Circular and the purchase of Notes should be based upon such investigation as each purchaser deems necessary. Neither the Trustee nor any of the Managers undertakes to review the financial condition or affairs of the Issuer nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Trustee or any of the Managers.

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Notes should consult independent professional advisers.

This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Issuer, the Trustee or the Managers or any of them to subscribe for or to purchase any of the Notes.

Save for having obtained approval of this Offering Circular by the UK Listing Authority pursuant to listing rules made under Part VI of the Financial Services and Markets Act 2000 and for having delivered copies thereof to the Registrar of Companies as described in the eighth paragraph on the first page hereof, no action has been or will be taken by the Issuer, the Trustee or any of the Managers that would permit a public offer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any offering circular, prospectus, form of application, advertisement or other offering material may be issued or distributed or published in any country or jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. The Managers have represented that all offers and sales by them have been and will be made on such terms. Persons into whose possession this Offering Circular comes are required by the Issuer, the Trustee and the Managers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offers and sales of Notes and distribution of this Offering Circular, see “Subscription and Sale”. For a description of the certification requirements as to non-U.S. beneficial ownership, see “Description of the Class A Notes, the Global Class A Notes and the Security”, “Description of the Class B Notes, the Global Class B Notes and the Security” and “Description of the Class C Notes, the Global Class C Notes and the Security”.

The Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) or with any securities regulatory authority of any state or other jurisdiction of the United States of America. The Notes are in bearer form and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered at any time directly or indirectly in the United States of America or to U.S. Persons.

References in this document to “£”, “pounds”, “sterling” or “pounds sterling” are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland (subject to matters referred to in “Special Considerations – Other Matters – European Monetary Union”).

In connection with the issue of the Notes, J.P. Morgan Securities Ltd. may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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SUMMARY

The information on the first page, pages 2 and 3 and pages 5 to 38 relating to the Notes and the Portfolio Assets (as defined in “Summary – Section 2 – Portfolio Assets”) is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular.

Please refer to the Glossary to this Offering Circular to find on which page a capitalised term is defined.

Section 1 – Principal Parties

Issuer	Paragon Personal and Auto Finance (No. 2) PLC, a public company incorporated under the laws of England with registered number 3696151 and a wholly owned subsidiary of The Paragon Group of Companies PLC (“PGC”). The ordinary shares of PGC have been admitted to the Official List.
Administrator	<p>Paragon Finance PLC (“PFPLC” or, in its capacity as administrator, the “Administrator”), a public limited company incorporated under the laws of England with registered number 1917566 and a wholly owned subsidiary of PGC.</p> <p>PFPLC is engaged in the business of administering mortgage loans, unsecured consumer loans, secured consumer loans, car finance contracts and other receivables and investments for members of the “Paragon Group” (comprising PGC and its subsidiaries). PFPLC’s registered office is at St. Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE.</p>
Sellers of Portfolio Unsecured Loans	<p>On the Closing Date, the Issuer is expected to acquire Unsecured Loans from (i) Paragon Personal Finance Limited (“PPF”), a company incorporated under the laws of England with registered number 3303798 and a wholly owned subsidiary of PGC, and/or (ii) from Universal Credit Limited (“Universal”), a company incorporated under the laws of England with registered number 1981317 and a wholly owned subsidiary of PGC, in each case, using part of the proceeds of the issue of the Notes, as more particularly described in “Portfolio Assets – Acquisition of Portfolio Assets”.</p> <p>PPF is engaged in the business of, <i>inter alia</i>, originating unsecured and secured loans to individuals in the United Kingdom. PPF’s registered office is at St. Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE.</p> <p>Universal was acquired by PGC on 13th March, 1998 and until 5th October, 1998 was engaged in the business of originating unsecured loans to individuals in the United Kingdom. Universal currently does not trade. Its registered office is at St. Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE.</p> <p>After the Closing Date the Issuer may, subject to certain conditions, from time to time on any business day on or before the Final Addition Date, purchase further Unsecured Loans (“Further Unsecured Loans”) from PFPLC and/or Universal and/or PPF and/or any other member of the Paragon Group, as more particularly described in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”.</p> <p>Universal, PFPLC, PPF and any other member of the Paragon Group from which the Issuer purchases Further Unsecured Loans, in their respective capacities as sellers of Unsecured Loans to the Issuer, are referred to in this Offering Circular as “Unsecured Loan Sellers”.</p> <p>Any unsecured loan to an individual in the United Kingdom in which, at any time, an Unsecured Loan Seller has a beneficial interest or has had such an interest, is referred to in this Offering Circular as an “Unsecured Loan”.</p>

Sellers of Portfolio Secured Loans

On the Closing Date, the Issuer is expected to acquire Secured Loans (as defined below) from PPF using part of the proceeds of the issue of the Notes, as more particularly described in “Portfolio Assets – Acquisition of Portfolio Assets”.

After the Closing Date the Issuer may, subject to certain conditions, from time to time on any business day on or before the Final Addition Date, purchase further Secured Loans (“**Further Secured Loans**”) from PPF and/or any other member of the Paragon Group, as more particularly described in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”.

PPF and any other member of the Paragon Group from which the Issuer purchases Further Secured Loans, in their respective capacities as sellers of Secured Loans to the Issuer, are referred to in this Offering Circular as “**Secured Loan Sellers**”.

Any loan to an individual in the United Kingdom which is secured over residential property in England, Wales or Scotland and in which, at any time, a Secured Loan Seller has a beneficial interest or has had such an interest, is referred to in this Offering Circular as a “**Secured Loan**”. References in this Offering Circular to a Secured Loan or to a Portfolio Secured Loan shall, so far as the context permits, include reference to the Mortgage (as defined in “– Section 7 – Initial Portfolio Assets” below) relative thereto and references in this Offering Circular to a Mortgage shall, so far as the context permits, include reference to the Secured Loan relative thereto.

Sellers of Portfolio Car Finance Contracts

On the Closing Date, the Issuer is expected to acquire Car Finance Contracts (as defined below), together with the legal and beneficial ownership of the relevant Motor Vehicles, from Paragon Car Finance Limited (“**PCF**”), a company incorporated under the laws of England with registered number 3203928 and a wholly owned subsidiary of PGC, using part of the proceeds of the issue of the Notes, as more particularly described in “Portfolio Assets – Acquisition of Portfolio Assets”.

PCF is engaged in the business of, *inter alia*, originating and acquiring motor vehicle hire purchase agreements, motor vehicle contract purchase agreements, motor vehicle leasing agreements and motor vehicle conditional sale agreements entered into with individuals and corporations in the United Kingdom. PCF’s registered office is at St. Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE.

After the Closing Date the Issuer may, subject to certain conditions, from time to time on any business day on or before the Final Addition Date, purchase further Car Finance Contracts (“**Further Car Finance Contracts**”) together with the legal and beneficial ownership of the relevant Motor Vehicles from PCF and/or any other member of the Paragon Group, as more particularly described in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”.

PCF and any other member of the Paragon Group from which the Issuer purchases Further Car Finance Contracts, in their respective capacities as sellers of Car Finance Contracts to the Issuer, are referred to in this Offering Circular as “**Car Finance Contract Sellers**”.

The Unsecured Loan Sellers, the Secured Loan Sellers and the Car Finance Contract Sellers are each referred to in this Offering Circular as a “**Seller**” and are together referred to as the “**Sellers**”.

The benefit of any motor vehicle hire purchase agreement, motor vehicle leasing agreement, motor vehicle contract purchase agreement or motor vehicle conditional sale agreement in which, at any time, a

Car Finance Contract Seller has a beneficial interest or has had such an interest, is referred to in this Offering Circular as a “**Car Finance Contract**”.

Any motor vehicle that is at any time the subject of a Car Finance Contract is referred to in this Offering Circular as a “**Motor Vehicle**”.

Sellers other than Universal, PPF, PFPLC and PCF

In addition to Universal, PPF, PFPLC and PCF, other members of the Paragon Group may sell Unsecured Loans and/or Secured Loans and/or Car Finance Contracts to the Issuer provided that such other members of the Paragon Group may only make such sales if the Rating Agencies have first confirmed in writing that such sales will not adversely affect the then current ratings of the Notes. Prior to the sale to the Issuer of any such assets by any such other member of the Paragon Group the relevant member of the Paragon Group will undertake to be bound by the terms and conditions of the documents to which Universal, PPF, PFPLC and/or PCF (as relevant) are a party in a manner which is acceptable to the Trustee.

The Trustee

Citicorp Trustee Company Limited (the “**Trustee**”) will act as trustee for the Noteholders and will hold the benefit of security created by the Issuer on trust for, *inter alios*, the Noteholders (as defined in “– Section 6 – Interest” below).

Section 2 – Priority of Payments

Portfolio Assets

The assets forming part of the security for the Notes (the “**Portfolio Assets**”) will comprise: the benefit of unsecured loans granted to individuals in the United Kingdom acquired (and not subsequently sold) by the Issuer consisting of Personal Loans and Retail Credit Loans (each as defined in “– Section 7 – Portfolio Unsecured Loans” below and not being Portfolio Car Finance Contracts (as defined in “– Section 7 – Portfolio Car Finance Contracts below)) (“**Portfolio Unsecured Loans**”); the benefit of loans secured by second or subsequent-ranking charges over residential property in England, Wales and Scotland granted to individuals in the United Kingdom and acquired (and not subsequently sold) by the Issuer together with all security relating thereto including the estate and interest of the Issuer in the properties securing such loans (“**Portfolio Secured Loans**”); the benefit of motor vehicle hire purchase agreements, motor vehicle leasing agreements, motor vehicle contract purchase agreements and motor vehicle conditional sale agreements acquired (and not subsequently sold) by the Issuer (“**Portfolio Car Finance Contracts**”); and legal and beneficial ownership of the Motor Vehicles (as defined in “– Section 1 – Sellers of Portfolio Car Finance Contracts” above) that are the subject of Portfolio Car Finance Contracts (“**Portfolio Motor Vehicles**” – but subject to certain limitations on the title in such Portfolio Motor Vehicles – see “Special Considerations – Matters relating to the Portfolio Assets”), all as more particularly described in “Portfolio Assets”.

Issuer Funds

“**Issuer Funds**” means, in respect of a Calculation Date (as defined below), an amount determined by the Administrator pursuant to the Administration Agreement (as defined in “– Section 7 – Portfolio Asset Administration” below) on the relevant Calculation Date to be equal to the aggregate of:

- (a) the amount standing to the credit of the Transaction Account (as defined in “– Section 6 – Security for the Notes” below) as at the close of business on the relevant Calculation Date (comprising (i) all moneys received by the Issuer from Obligors or recovered under or in respect of the Portfolio Assets (including all principal and interest, and their equivalent, in

relation to Portfolio Unsecured Loans, Portfolio Secured Loans and Portfolio Car Finance Contracts and any amount received on the sale of a Portfolio Motor Vehicle or on the early settlement of such Portfolio Car Finance Contracts (as more particularly described in “Portfolio Asset Administration”)) and all other net income and other moneys of the Issuer including any amounts drawn by the Issuer under the Subordinated Loan Agreement, less (ii) certain amounts which under the Deed of Charge will be permitted to be paid on any business day such as payments of amounts which properly belong to third parties (including, for example, overpayments by Obligors and amounts held on trust) and of sums due to third parties under obligations incurred in the course of the Issuer’s business (unless, in any case, the intended recipient agrees otherwise)); and

- (b) any payment due to be received by the Issuer from the Hedge Counterparty or any Permitted Hedge Provider under the Hedge Agreement or otherwise in the period from (but excluding) the relevant Calculation Date to (and including) the Interest Payment Date next following the relevant Calculation Date (the “**Adjustment Period**”); and
- (c) all proceeds of disposal or on maturity of any Authorised Investments made or acquired on or before the relevant Calculation Date and due to mature on or before the next following Interest Payment Date (whether or not reinvested during the Adjustment Period) and any income to be earned thereon (including interest to be earned on the Transaction Account), in each case, due to be received by the Issuer during the Adjustment Period; and
- (d) (A) all borrowings to be made by the Issuer under the Subordinated Loan Agreement during the Adjustment Period for the purpose of ensuring that the Performance Conditions are satisfied (as defined in “– Section 3 – Performance Conditions” below) on such Calculation Date; and (B) all borrowings to be made by the Issuer under the Subordinated Loan Agreement during the Adjustment Period (other than on the Interest Payment Date in question) for the purpose of establishing or increasing the Shortfall Fund; and
- (e) all amounts standing to the credit of the Collection Accounts (as defined in “– Section 5 – Receipt of Moneys” below) in respect of the Portfolio Assets as at the close of business on the relevant Calculation Date that are to be transferred to the Transaction Account during the Adjustment Period;

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- (f) but only prior to the earlier of (i) the date on which the Issuer has received an adjudication from the United Kingdom Stamp Office that no stamp duty is payable on the transfer to the Issuer on the Closing Date of the benefit of the Initial Portfolio Unsecured Loans (as defined in “– Section 7 – Portfolio Unsecured Loans” below) that are Scottish Unsecured Loans and the Initial Portfolio Car Finance Contracts (as defined in “– Section 7 – Portfolio Car Finance Contracts” below) that are Scottish Car Finance Contracts and (ii) the date on which the Issuer pays all such stamp duty (if any) which is so payable, an amount (which may be zero) specified by the Rating Agencies on or before the Closing Date (the “**Stamp Duty Amount**”),

but so that no amount shall be added or deducted more than once in the same calculation.

Calculation Date

“**Calculation Date**” means (a) any Determination Date or (b) any other date on which the Administrator, at the request of the Issuer, calculates the Issuer Funds, the Required Principal Funds, the Actual Principal Funds and the Allocated Purchase Funds.

Determination Date

“**Determination Date**” means the last business day of the month preceding that in which an Interest Payment Date falls and “**Relevant Determination Date**” means, in respect of an Interest Payment Date, the last business day of the month preceding that in which such Interest Payment Date falls.

Pre-enforcement Priority of Payments

Until enforcement of the security for the Notes, the following payments and provisions are required to be made on each Interest Payment Date, up to an amount equal to the Issuer Funds determined in respect of the Relevant Determination Date, in the following order of priority (the “**Pre-enforcement Priority of Payments**”) (in each case only if and to the extent that payments and provisions of a higher priority have been made in full but subject to, with limited exceptions, the making of the payments referred to in item (a)(ii) of the definition of Issuer Funds above (which may be made on any business day)):

- (i) payment of any amounts due from the Issuer to the Trustee;
- (ii) payment of all fees, costs and expenses payable to the Administrator under the Administration Agreement and/or a substitute administrator and all insurance commissions (if any) payable to the Administrator or a Seller under the Administration Agreement;
- (iii) payment of, *pro rata* according to the respective amounts thereof, (a) interest due or overdue on the Class A Notes together with (if applicable) interest thereon and (b) any amounts payable to the Hedge Counterparty under the Hedge Agreement or to any Permitted Hedge Provider under any other hedging arrangements entered into by the Issuer, other than any such amounts due to the Hedge Counterparty or any Permitted Hedge Provider in respect of the termination of a hedging agreement entered into pursuant to the Hedge Agreement or otherwise where the Hedge Counterparty or Permitted Hedge Provider is the Defaulting Party (as defined in the Hedge Agreement or (as the case may be) any other hedging arrangement), each a “**Hedge Termination Amount**”;
- (iv) payment of or provision for sums due to third parties (other than PFPLC, PPF, PCF, Universal, the Trustee, any other Seller, the Administrator, the Hedge Counterparty, any Permitted Hedge Provider and any Subordinated Lender) under obligations incurred by the Issuer in the course of the Issuer’s business (including, without limitation, sums due to the Paying Agents and the Reference Agent under the Agency Agreement and the Issuer’s liability (if any) to value added tax (“**VAT**”) and the balance, if any, of the VAT liability of the Paragon VAT Group (as described in “The Paragon VAT Group”) following a demand being made by H. M. Customs & Excise on the Issuer where the VAT liability is not satisfied in full in accordance with the Administration Agreement and the VAT Declaration of Trust (see “The Paragon VAT Group”), to stamp duty (other than the Stamp Duty Amount, in respect of which a deduction has been made for the purposes of the calculation of Issuer Funds on the Determination Date

preceding such relevant Interest Payment Date) and to mainstream corporation tax in respect of profits attributable to the relevant Interest Period);

- (v) provided that as at the Relevant Determination Date no Class B Note Interest Deferral Event (as defined below) subsists, payment of interest due or overdue on the Class B Notes together with (if applicable) interest thereon;
- (vi) provided that as at the Relevant Determination Date no Class C Note Interest Deferral Event (as defined below) subsists, payment of interest due or overdue on the Class C Notes together with (if applicable) interest thereon;
- (vii) provided that as at the Relevant Determination Date no First Loss Fund Replenishment Deferral Event (as defined below) subsists, provision for an amount equal to the Required Amount (as defined in “– Section 5 – First Loss Fund” below);
- (viii) provision for an amount equal to the Required Principal Funds (as defined in “– Section 3 – Required Principal Funds” below) to be allocated between (a) Available Redemption Funds to be applied on such Interest Payment Date and (b) a provision for Allocated Purchase Funds;
- (ix) if as at the Relevant Determination Date a Class B Note Interest Deferral Event subsists, payment of interest due and overdue on the Class B Notes together with (if applicable) interest thereon;
- (x) if as at the Relevant Determination Date a First Loss Fund Replenishment Deferral Event subsists, provision for an amount equal to the Required Amount;
- (xi) if as at the Relevant Determination Date a Class C Note Interest Deferral Event subsists, payment of interest due or overdue on the Class C Notes together with (if applicable) interest thereon;
- (xii) payment of any Hedge Termination Amounts due to the Hedge Counterparty or to any Permitted Hedge Provider pursuant to the Hedge Agreement or otherwise;
- (xiii) provision for any amounts then due or overdue to PFPLC under the Fee Letter;
- (xiv) provision for, at the option of the Issuer, a reserve to fund any purchases in the Interest Period commencing on the Interest Payment Date in question of hedging arrangements whether under the Hedge Agreement or otherwise in accordance with the requirements of the Rating Agencies;
- (xv) provision for (a) interest and (b) repayment of principal in respect of amounts drawn under the Subordinated Loan Agreement to fund the Stamp Duty Amount (if any) and the First Loss Fund (as described in “The Issuer – Subordinated Loan Facility”), in either case, due and payable under the Subordinated Loan Agreement;
- (xvi) provision for further repayment of the remaining outstanding amount of any advances made under the Subordinated Loan Agreement subject to a maximum provision of the amount available for application having made in full all provisions and payments referred to at (i) to (xv) (inclusive) above;
- (xvii) provision for payment to the Administrator or PFPLC of such fees as the Issuer and the Administrator or PFPLC, as the case may be, may agree (including without limitation in the Services

Letter) in respect of facilities or services provided to the Issuer by the Administrator or PFPLC, as the case may be, other than fees provided for above; and

(xviii) provision for the amount of any distributions to be made by the Issuer,

all as set out in a deed of charge and assignment to be entered into between, *inter alios*, the Issuer, the Trustee, PFPLC, Universal, PCF, PPF, the Administrator and the Hedge Counterparty on or about the Closing Date (the “**Deed of Charge**”).

If and to the extent that the provisions specified in items (xiii), (xiv), (xv), (xvi), (xvii) and (xviii) are made on such Interest Payment Date, the relevant amounts shall be paid to the persons entitled thereto on or (with the prior consent of PFPLC) after the business day after such Interest Payment Date to the extent that the funds standing to the credit of the Transaction Account are then sufficient for such purpose. If the funds standing to the credit of the Transaction Account are then insufficient to make any such payment, such payment will not be made and the related provision will be cancelled.

Save for the provisions referred to in items (vii) and (x) above, the Issuer will not be required to accumulate surplus assets to meet any future payments on the Notes.

Priority Events

The Pre-enforcement Priority of Payments above will be adjusted, from time to time, upon the occurrence of any one or more of the events described below.

Class B Note Interest Deferral Event

A “**Class B Note Interest Deferral Event**” will subsist on a Relevant Determination Date if, at the Relevant Determination Date:

- (i) there is any Class A Note outstanding on such Determination Date; and
- (ii) (a) the Required Principal Funds calculated in respect of such Determination Date;
less
(b) the greater of:
 - (I) zero; and
 - (II) the Issuer Funds as at the Relevant Determination Date minus all amounts which are required to meet the liabilities under items (i) to (v) (inclusive) and under item (vii) in the Pre-enforcement Priority of Payments on the following Interest Payment Date assuming for this purpose that no Class B Note Interest Deferral Event subsists as at the Relevant Determination Date,

is greater than the Principal Amount Outstanding of the Class B Notes and the Class C Notes,

in which case interest on the Class B Notes shall be deferred and will rank at item (ix) of the Pre-enforcement Priority of Payments.

Class C Note Interest Deferral Event

A “**Class C Note Interest Deferral Event**” will subsist on a Relevant Determination Date if, at the Relevant Determination Date:

- (i) there is any Class A Note and/or Class B Note outstanding on such Determination Date; and
- (ii) (a) the Required Principal Funds calculated in respect of such Determination Date;
less
(b) the greater of:
 - (I) zero; and

- (II) the Issuer Funds as at the Relevant Determination Date minus all amounts which are required to meet the liabilities under items (i) to (vii) (inclusive) (or, if a First Loss Fund Replenishment Deferral Event subsists on such Relevant Determination Date, items (i) to (vi) (inclusive)) in the Pre-enforcement Priority of Payments on the following Interest Payment Date assuming for this purpose that no Class B Note Interest Deferral Event and no Class C Note Interest Deferral Event subsists as at the Relevant Determination Date,

is greater than the Principal Amount Outstanding of the Class C Notes,

in which case interest on the Class C Notes shall be deferred and will rank at item (xi) of the Pre-enforcement Priority of Payments.

*First Loss Fund Replenishment
Deferral Event*

A “**First Loss Fund Replenishment Deferral Event**” will subsist on a Relevant Determination Date if, on such Relevant Determination Date, no Class A Notes remain outstanding, in which case the amount equal to the Required Amount specified in “First Loss Fund” below shall not be provided for at item (vii) of the Pre-enforcement Priority of Payments but shall be provided for at item (x) of the Pre-enforcement Priority of Payments.

Section 3 – Allocation of Funds for Purchase of Further Portfolio Assets

Over Collateralisation Required Amount (“OCRA”)

“**Over Collateralisation Required Amount**” means, on any Calculation Date, an amount equal to the sum of:

- (a) an amount determined by the Rating Agencies on or before the Closing Date to be necessary in order to achieve the initial ratings of the Notes, and
- (b) the amount equal to the aggregate of all amounts (if any) which have fallen within paragraph (b) of the definition of Available Redemption Funds (as defined in “– Section 4 – Available Redemption Funds” below) at any time prior to such Calculation Date.

Performing Assets

“**Performing Assets**” means all Portfolio Assets that are equal to or less than twelve months in arrears excluding those Portfolio Assets identified by the Issuer on or before the Closing Date as non-performing Portfolio Assets which are comprised in the Provisional Pool (as defined in “– Section 7 – Initial Portfolio Assets” below). A Portfolio Asset for this purpose will not be equal to or less than twelve months in arrears at any time if at such time amounts totalling in aggregate more than twelve times the then current monthly payment due from the Obligor under such Portfolio Asset have not been paid when due and/or have been capitalised within the twelve months immediately preceding such time.

Current Principal Balance

“**Current Principal Balance**” means, on any day:

- (a) in relation to (x) a Portfolio Unsecured Loan that is a Personal Loan (other than one originated by PPF prior to 1st September, 1999) or (y) a Portfolio Secured Loan, the aggregate outstanding amount of principal thereunder other than, for the avoidance of doubt, any arrears of interest which have been capitalised; and
- (b) in relation to (x) a Portfolio Car Finance Contract or (y) a Portfolio Unsecured Loan that is a Retail Credit Loan or (z) a Portfolio Unsecured Loan that is a Personal Loan originated by PPF prior to 1st September, 1999, the aggregate amount of those parts of each monthly payment due from the relevant

Obligor that is attributable to principal in accordance with the Administration Agreement throughout the remaining term of such Portfolio Asset other than, for the avoidance of doubt, any arrears of interest which have been capitalised (including amounts then due and payable but not paid) (and in the case of a Portfolio Car Finance Contract which comprises a conditional sale agreement, a lease agreement or a motor vehicle contract purchase agreement plus the assumed residual value of the relevant Portfolio Motor Vehicle) on that date,

each as shown in the Debtor Ledger (as defined below) for the relevant Portfolio Asset, less, in respect of each Portfolio Asset, an amount equal to the amount thereof (if any) that has been written off in accordance with the Administration Agreement (see “Portfolio Asset Administration – Debtor Ledger/Current Balance/Current Principal Balance”).

If so agreed in any Unsecured Loan Sale Contract, any Secured Loan Sale Contract or any Car Finance Sale Contract, arrears of interest (subject to certain conditions, as described in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”), other amounts which have become due but remain unpaid and interest accrued (but unpaid) as at the date of the relevant Unsecured Loan Sale Contract, Secured Loan Sale Contract or, as the case may be, Car Finance Sale Contract will not be purchased by the Issuer and any payments received in respect of the relevant Portfolio Assets will be applied first to those arrears, other amounts and accrued interest, and will be accounted for to the relevant Seller.

Debtor Ledger

“**Debtor Ledger**” means the ledger account established and maintained by or on behalf of the Administrator, pursuant to and in accordance with the Administration Agreement, in respect of each Portfolio Asset, as described in “Portfolio Asset Administration – Debtor Ledger/Current Balance/Current Principal Balance”.

Required Principal Funds

In respect of any Calculation Date, the “**Required Principal Funds**” is equal to the greater of:

- (a) zero; and
- (b) the sum of:
 - (i) the Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes; and
 - (ii) OCRA;
 - less
 - (iii) the Current Principal Balance of all Performing Assets as at the relevant Calculation Date.

Actual Principal Funds

On any Calculation Date, the “**Actual Principal Funds**” is equal to the lower of:

- (a) the Required Principal Funds in respect of such Calculation Date; and
- (b) the greater of:
 - (i) zero; and
 - (ii) the Issuer Funds as at such Calculation Date minus all amounts which are required to make the payments and provisions specified in items (i) to (vii) (inclusive) of the Pre-enforcement Priority of Payments on the next following Interest Payment Date assuming for this purpose in relation to any Calculation Date that is not a

Determination Date that no Class B Note Interest Deferral Event, no Class C Note Interest Deferral Event and no First Loss Fund Replenishment Deferral Event subsists.

Allocated Purchase Funds

“**Allocated Purchase Funds**” means, on any Calculation Date, an amount (allocated out of Actual Principal Funds) equal to the lower of:

- (a) the Actual Principal Funds calculated in respect of such Calculation Date; and
- (b) the amount which the Issuer has notified to the Administrator pursuant to the Administration Agreement that it then intends to apply in purchasing Further Unsecured Loans, Further Secured Loans and/or Further Car Finance Contracts (and any related Motor Vehicles) and/or in making any further advances in respect of Portfolio Secured Loans at any time during the period from (and including) the relevant Calculation Date to (and including) the Final Addition Date (as defined below),

provided that:

- (i) the Allocated Purchase Funds shall be deemed to be zero in respect of any Calculation Date falling after the business day immediately preceding the Determination Date falling in December 2005 (the “**Final Addition Date**”); and
- (ii) the Allocated Purchase Funds in respect of any Calculation Date shall be deemed to be zero if the Performance Conditions (as defined below) are not satisfied on such Calculation Date.

Performance Conditions

The “**Performance Conditions**” are satisfied on any Calculation Date on which:

- (a) the Actual Principal Funds are equal to the Required Principal Funds (each as calculated on such Calculation Date); and
- (b) if such a Calculation Date is also a Determination Date, no Class B Note Interest Deferral Event or Class C Note Interest Deferral Event subsists.

Section 4 – Redemption of the Notes

Available Redemption Funds

“**Available Redemption Funds**” means, in respect of any Determination Date, an amount equal to the aggregate of:

- (a) an amount equal to (X) the Actual Principal Funds in respect of such Determination Date minus (Y) the Allocated Purchase Funds in respect of such Determination Date, and
- (b) an amount equal to the aggregate amount (if any) of the provisions that would have been made as specified in paragraphs (xiii) and (xv) to (xviii) (inclusive) of the Pre-enforcement Priority of Payments above on the Interest Payment Date next following the Relevant Determination Date, but which the Issuer gives notice to the Administrator pursuant to the Administration Agreement on the Relevant Determination Date should not be made but the amount of which should instead be added to the Available Redemption Funds on the Relevant Determination Date,

provided that the Available Redemption Funds shall never exceed the Principal Amount Outstanding of the Notes.

Mandatory Redemption in Part

Prior to enforcement, the Notes will be subject to mandatory redemption in part on each Interest Payment Date in an aggregate principal amount calculated by reference to the Available Redemption

Funds as determined on the Determination Date immediately preceding such Interest Payment Date. The Issuer will cause the Administrator to determine the Available Redemption Funds and the amount of principal payable on each Note on each Determination Date.

On each Interest Payment Date on which any Amortisation Condition (as defined below) is not satisfied, all Available Redemption Funds will be sequentially applied in redemption of the Class A Notes, the Class B Notes and then the Class C Notes.

Amortisation Conditions

On each Interest Payment Date on which any Class A Note is outstanding and each of the following conditions (each an “**Amortisation Condition**”) is satisfied, the Available Redemption Funds will be applied in redemption of the Notes so as to cause the Ratio (as defined and subject as provided below) to be as near as possible to 220,050,000:244,700,000:

- (i) the ratio of the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes to the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes (the “**Ratio**”) equals or exceeds 220,050,000:244,700,000;
- (ii) the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes is greater than or equal to £16,517,250 (the “**Minimum Amount**”);
- (iii) the Interest Payment Date is on or after the Interest Payment Date falling in January 2007; and
- (iv) the Performance Conditions are satisfied on the Determination Date immediately preceding such Interest Payment Date.

While any Class A Notes are outstanding, any amounts to be applied in redemption of the Class B Notes and the Class C Notes on any Interest Payment Date will be applied *pro rata* according to their respective Principal Amount Outstanding immediately prior to such Interest Payment Date.

If application of any part of the Available Redemption Funds on any Interest Payment Date on which each of the Amortisation Conditions are satisfied in redemption in part of the Class B Notes and the Class C Notes in accordance with the above would result in the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes being less than the Minimum Amount, that part of those Available Redemption Funds (or, if lower, the amount required to redeem all Class A Notes in full) will be applied in redemption of the Class A Notes.

Once the Class A Notes have been redeemed in full, all Available Redemption Funds will be applied in redemption of the Class B Notes.

Once the Class B Notes have been redeemed in full, all Available Redemption Funds will be applied in redemption of the Class C Notes.

Optional Redemption of Class A Notes

All (but not some only) of the Class A Notes will be subject to redemption, at the option of the Issuer, at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class A Notes or the Issuer or the Hedge Counterparty or any Permitted Hedge Provider is obliged to make any withholding or deduction from payments under the Hedge Agreement or other hedging arrangements or in the event

of certain other United Kingdom taxation changes (although the Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction).

Furthermore, the Issuer will also be entitled, but not obliged, to redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after January 2005 (the “**Coupon Call Date**”).

All (but not some only) of the Class A Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes then outstanding is less than £48,940,000.

Furthermore, any optional redemption of all (but not some only) of the Class A Notes may only be made if each of the Rating Agencies has first confirmed that the then current rating of both the Class B Notes and Class C Notes would not be adversely affected by such redemption.

Optional Redemption of Class B Notes

Provided that there are no Class A Notes then outstanding or all the Class A Notes are to be redeemed in full at the same time, all (but not some only) of the Class B Notes will be subject to redemption, at the option of the Issuer, at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class B Notes or the Issuer or the Hedge Counterparty or any Permitted Hedge Provider is obliged to make any withholding or deduction from payments under the Hedge Agreement or other hedging arrangements or in the event of certain other United Kingdom taxation changes (although the Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction).

Provided that there are no Class A Notes then outstanding or all the Class A Notes are to be redeemed in full at the same time, all (but not some only) of the Class B Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling on or after the Coupon Call Date or, if earlier, falling on or after the date on which all the Class A Notes are redeemed in full.

Furthermore, any optional redemption of all (but not some only) Class B Notes may only be made if each of the Rating Agencies has first confirmed that the then current rating of the Class C Notes would not be adversely affected by such redemption.

Optional Redemption of Class C Notes

Provided that there are no Class A Notes or Class B Notes then outstanding or all the Class A Notes (if any) and the Class B Notes are to be redeemed in full at the same time, all (but not some only) of the Class C Notes will be subject to redemption, at the option of the Issuer, at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class C Notes or the Issuer or the Hedge Counterparty or any Permitted Hedge Provider is obliged to make any withholding or deduction from payments under the Hedge Agreement or other hedging arrangements or in the event of certain other United Kingdom taxation changes (although the Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction).

Provided that there are no Class A Notes or Class B Notes then outstanding or all the Class A Notes (if any) and the Class B Notes are to be redeemed in full at the same time, all (but not some only) of the Class C Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling on or after the Coupon Call Date or, if earlier, falling on or after the date on which all the Class A Notes and Class B Notes are redeemed in full.

Final Redemption

To the extent not otherwise redeemed: (i) the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in January 2022; (ii) the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in January 2033; and (iii) the Class C Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in January 2033.

Purchase of Notes

The Issuer may not purchase Class A Notes, Class B Notes or Class C Notes at any time.

Principal Amount Outstanding and Pool Factor

The Principal Amount Outstanding of a Note on a particular date, irrespective of class, will be its initial principal amount of £10,000 less the aggregate amount of principal repayments that have been made or fallen due (whether or not paid) on that Note prior to such date. The Pool Factor for each Note during an Interest Period will be determined by dividing the Principal Amount Outstanding of such Note on the first day of that Interest Period (after deducting any principal repayment due on that day) by 10,000 and expressing the quotient to the sixth decimal place.

The Issuer will cause the Administrator to determine the Principal Amount Outstanding and the Pool Factor for each Note of a particular class for each Interest Period and such determination will be published on the Reuters Screen by not later than the ninth business day after the Determination Date immediately preceding such Interest Period or as soon as practicable thereafter.

Section 5 – Credit Structure

Receipt of Moneys

All direct debit payments made by Obligors will be paid either (i) directly to the Transaction Account or (ii) if such payments cannot be made directly to the Transaction Account without a change of instructions from the relevant Obligor, directly into a collection account of Universal, PCF or PPF and/or the Seller from whom the Issuer acquired the relevant Portfolio Asset. Accordingly, direct debit payments will be made directly to either the Transaction Account or any one of:

- (a) Universal's collection accounts with Lloyds TSB plc at 1 Butler Place, Victoria Street, London, National Westminster Bank Plc at 4 High Street, Solihull, West Midlands and Girobank plc at Bridle Road, Bootle, Merseyside;
- (b) PPF's collection accounts with National Westminster Bank Plc at 4 High Street, Solihull, West Midlands or Barclays Bank PLC at 54 Lombard Street, London;
- (c) PCF's collection account with National Westminster Bank Plc at 4 High Street, Solihull, West Midlands;
- (d) if PFPLC sells any Portfolio Assets to the Issuer, PFPLC's collection account with National Westminster Bank Plc at 4 High Street, Solihull, West Midlands or either of PFPLC's collection accounts with HSBC Bank plc at Poultry & Princes Street, London; or

(e) any other collection account established by any other member of the Paragon Group which is a Seller,

((a) to (e) inclusive, the “**Collection Accounts**” and each a “**Collection Account**”).

Each of Lloyds TSB plc, National Westminster Bank Plc, Girobank plc, Barclays Bank PLC and HSBC Bank plc carries on deposit taking business within the United Kingdom.

Those moneys that are credited directly to a Collection Account will be transferred on the business day after being credited to such Collection Account, or as soon as practicable thereafter, to the Transaction Account.

Certain Obligors are or will be permitted to make payments in respect of Portfolio Assets using alternative arrangements to direct debits, provided that those arrangements are intended to ensure timely payment.

Under each Collection Account Declaration of Trust (as defined in “Portfolio Asset Administration – Payments from Obligors”) the relevant Seller will declare that all direct debit payments, cheque payments and moneys received or recovered and paid into its Collection Accounts in respect of Portfolio Unsecured Loans, Portfolio Secured Loans or, as the case may be, Portfolio Car Finance Contracts, are held on trust for the Issuer until they are applied in the manner described above.

First Loss Fund

On the Closing Date the Issuer will draw down under the Subordinated Loan Agreement an amount equal to the Required Amount (as defined below) on the Closing Date for the purposes of establishing a fund (the “**First Loss Fund**”).

On each Interest Payment Date, to the extent that the Issuer Funds are then sufficient, the First Loss Fund will be re-established in an amount up to but not exceeding the Required Amount at item (vii) (or, if a First Loss Fund Replenishment Deferral Event has occurred, at item (x)) in “– Section 2 – Pre-enforcement Priority of Payments” above. The First Loss Fund may also be replenished up to but not exceeding an amount equal to the Required Amount out of sums borrowed for such purpose under the Subordinated Loan Agreement.

The “**Required Amount**” on any Interest Payment Date is equal to:

- (a) prior to the first Interest Payment Date upon which all of the First Loss Conditions (as defined below) are satisfied, an amount equal to £7,125,000, being approximately 2.91% of the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes as at the Closing Date, or
- (b) on and following the first Interest Payment Date upon which all of the First Loss Conditions are satisfied, an amount equal to £3,562,500, being approximately 1.46% of the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes as at the Closing Date, or
- (c) such other amount which may from time to time be agreed between the Issuer and the Rating Agencies.

First Loss Conditions

The First Loss Fund Conditions (each a “**First Loss Condition**”) are satisfied on an Interest Payment Date if:

- (a) the Interest Payment Date is on or after the Interest Payment Date falling in January 2007;
- (b) there are no Class A Notes outstanding on the Determination Date immediately preceding such Interest Payment Date; and

- (c) the Performance Conditions are satisfied on the Determination Date immediately preceding such Interest Payment Date.

Shortfall Fund

The Issuer may at any time with the prior consent of PFPLC draw down under the Subordinated Loan Agreement sums for the purpose of establishing a shortfall fund (the “**Shortfall Fund**”). If at any time the Administrator on behalf of the Issuer wishes to set (or does not wish to change) the rate of interest applicable to the Portfolio Secured Loans (or any of them), or to purchase any Further Secured Loans with, in any case, the result that the weighted average of the interest rates applicable to the Portfolio Secured Loans that are Performing Assets taking account of all hedging arrangements entered into by the Issuer in relation to the Portfolio Secured Loans and all income expected to be received by the Issuer from any Authorised Investments would be less than 5% (or such other percentage as may be agreed from time to time by the Rating Agencies) above LIBOR applicable to the Notes at the time it will be entitled to do so only if and to the extent that there is a credit balance in the Shortfall Fund (if any) (net of all provisions previously made during the then current Interest Period) at least equal to the shortfall which would arise at that time and it makes a provision in such Shortfall Fund equal to such shortfall.

Hedging Arrangements

On or before the Closing Date, the Issuer will enter into hedging arrangements which will include an ISDA Master Agreement (together with any confirmations for specific transactions, the “**Hedge Agreement**”) with JPMorgan Chase Bank, acting through its London branch, as Hedge Counterparty (such person (and/or any replacement) acting in such capacity from time to time, the “**Hedge Counterparty**” or the “**Hedge Provider**”) in accordance with the requirements of the Rating Agencies in order to achieve the initial ratings of the Notes to hedge any Initial Portfolio Unsecured Loans, any Initial Portfolio Secured Loans and any Initial Portfolio Car Finance Contracts which are Performing Assets.

Each of these hedging arrangements may be provided by any bank or financial institution provided that on the date on which it makes such arrangements available to the Issuer, such bank or financial institution has a rating for its long-term or short-term debt obligations sufficient to maintain the then ratings of the Notes unless such arrangements are guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge (any such bank or financial institution being a “**Permitted Hedge Provider**”).

The Issuer’s ongoing hedging arrangements are more particularly described in “The Issuer – Hedging Arrangements”.

Reinvestment of Income

Cash in the Transaction Account must be invested in sterling denominated securities, bank accounts or other obligations of or rights against entities whose long-term debt is rated AAA by Fitch, Aaa by Moody’s and AAA by Standard & Poor’s or whose short-term debt is rated at least F-1 by Fitch, P-1 by Moody’s and at least A-1 by Standard & Poor’s or, if at the relevant time there are no such entities, any entity previously approved in writing by the Trustee in such other sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current rating of the Class A Notes or, if there are no Class A Notes then outstanding, the Class B Notes or, if there are no Class B Notes then outstanding, the Class C Notes. Any such investments (“**Authorised Investments**”) made by the Issuer must also satisfy certain further criteria described in “Portfolio Asset Administration – Reinvestment of Income”.

Until such time as the Notes are redeemed in full, an amount equal to the First Loss Fund must be invested in accordance with the criteria applicable to cash held in the Transaction Account specified above, save that the relevant short-term debt rating by Standard & Poor's of the entity in which the investment or investments is or are made must, in such case, be A-1+.

Any moneys invested in entities rated A-1 by Standard & Poor's (whether as Authorised Investments or standing as a balance on the Transaction Account) may not be invested for a period of more than 30 days and such investments may not exceed 20% of the Principal Amount Outstanding of the Notes.

Further, any moneys invested as Authorised Investments in entities rated F-1 by Fitch may not be invested for a period of more than 30 days.

Fee Letter

PFPLC has agreed to arrange the issue of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issue of the Notes and of documents for approval by the Issuer and has liaised with professional advisers and the Managers. PFPLC will pay, on behalf of the Issuer, or reimburse to the Issuer any expenses payable by the Issuer in connection with the issue of the Notes.

The Issuer will agree under a fee letter to be entered into between the Issuer, PFPLC and the Trustee and to be dated on the Closing Date (the "**Fee Letter**") that it will pay PFPLC an arrangement fee of 0.4% of the aggregate principal amount of the Notes and that it will repay PFPLC all expenses paid by PFPLC in connection with the issue of the Notes in instalments on the business day following each Interest Payment Date over a period of four years from the Closing Date. Amounts to be paid under the Fee Letter will bear interest from the Closing Date at a rate of 4% per annum above LIBOR (or such other rate which PFPLC and the Issuer agree to be a fair commercial rate at the time) payable in arrear on the business day following each Interest Payment Date (see "The Issuer – Fee Letter") and will be subordinated as described in "– Section 2 – Pre-enforcement Priority of Payments" above.

Services Letter

PFPLC will agree under a services letter to be entered into between PFPLC and the Issuer and to be dated on the Closing Date (the "**Services Letter**") to undertake certain management and administrative services to the extent that these are not provided pursuant to the Administration Agreement. The Issuer will agree to pay to PFPLC, for the provision of these services, a fee calculated on the basis of an apportionment, according to the average gross value of Portfolio Assets under management during the relevant period together with certain other costs incurred by PFPLC in respect of the services (see "The Issuer – Management and Activities").

Subordinated Loan Agreement

PFPLC will make available to the Issuer under a subordinated loan agreement to be dated on or before the Closing Date (the "**Subordinated Loan Agreement**") a subordinated loan facility under which an amount or amounts will be drawn down by the Issuer on the Closing Date: (i) to establish the First Loss Fund on the Closing Date; (ii) to reimburse the relevant Seller of a Portfolio Asset for any Unamortised Commission on the Closing Date; (iii) to establish a fund equal to the Stamp Duty Amount in respect of the Issuer's potential liability (if any) to stamp duty in respect of the transfer to the Issuer on or after the Closing Date of the benefit of Portfolio Unsecured Loans that are Scottish Unsecured Loans and Portfolio Car Finance Contracts that are Scottish Car Finance Contracts; and (iv) to achieve the initial ratings assigned to the Notes by the Rating Agencies. The

Issuer may from time to time borrow further sums from PFPLC or other lenders (“**Subordinated Lenders**”) on the terms of the Subordinated Loan Agreement. For further details of the Subordinated Loan Agreement see “The Issuer – Subordinated Loan Facility”.

Post-Enforcement Call Option

The Trustee will, on behalf of the Noteholders (but without any personal liability therefor), on the Closing Date, grant to Paragon Options PLC (a public company incorporated under the laws of England with number 2637497 and an indirect subsidiary of PGC (“**POPLC**”)) (pursuant to a post-enforcement call option deed to be entered into on the Closing Date between POPLC and the Trustee (the “**Post-Enforcement Call Option Deed**”)) options to require the transfer to it for a consideration of £0.01 per Class B Note and £0.01 per Class C Note of all (but not some only) of the Class B Notes and all (but not some only) of the Class C Notes (together in each case with accrued interest thereon) in the event that the security granted under or pursuant to the Deed of Charge is enforced and, after payment of all other claims ranking in priority to the Class B Notes and the Class B Coupons or (as the case may be) the Class C Notes and the Class C Coupons under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal, interest and other amounts due in respect of the Class B Notes and all other claims ranking *pari passu* therewith or (as the case may be) are insufficient to pay in full all principal, interest and other amounts due in respect of the Class C Notes and all other claims ranking *pari passu* therewith (see “Description of the Class B Notes, the Global Class B Notes and the Security – Enforcement and Post Enforcement Call Option” and “Description of the Class C Notes, the Global Class C Notes and the Security – Enforcement and Post-Enforcement Call Option”). The Class B Noteholders and the Class C Noteholders will be bound by the terms and conditions of the Trust Deed and the Class B Conditions or (as the case may be) the Class C Conditions in respect of the post-enforcement call options and the Trustee will be irrevocably authorised to enter into the Post-Enforcement Call Option Deed as agent for the Class B Noteholders and the Class C Noteholders.

Section 6 – Summary of the Notes

The Notes

£146,900,000 Class A Asset Backed Floating Rate Notes due 2022,
£70,900,000 Class B Asset Backed Floating Rate Notes due 2033 and
£26,900,000 Class C Asset Backed Floating Rate Notes due 2033.

The Notes will be obligations of the Issuer. The Notes will not be obligations or the responsibility of, or be guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations or the responsibility of, or be guaranteed by PFPLC, PPF, PCF, Universal, PGC, the Trustee, any of the Managers, any member of the Paragon Group (other than the Issuer) or by any other person other than the Issuer.

No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by PFPLC, PPF, PCF, PGC, Universal, the Trustee, any of the Managers, any member of the Paragon Group (other than the Issuer) or by any other person other than the Issuer.

As set out in “– Section 2 – Pre-enforcement Priority of Payments” above and “– Section 4 – Mandatory Redemption in Part” above, payments in respect of the Class B Notes will only be made if and to the

extent that there are sufficient funds after paying or providing for certain liabilities, including certain liabilities in respect of the Class A Notes. The Class B Notes rank after the Class A Notes in point of security.

As set out in “– Section 2 – Pre-enforcement Priority of Payments” above and “– Section 4 – Mandatory Redemption in Part” above, payments in respect of the Class C Notes will only be made if and to the extent that there are sufficient funds after paying or providing for certain liabilities, including certain liabilities in respect of the Class A Notes and the Class B Notes. The Class C Notes rank after the Class A Notes and the Class B Notes in point of security.

Global Notes

Each class of the Notes will be represented initially by a temporary global note in bearer form (each a “**Temporary Global Note**”), without coupons or talons, which will be deposited on the Closing Date with the Common Depositary for Euroclear and Clearstream, Luxembourg. Interests in the Temporary Global Note relating to that particular class will be exchangeable for interests in a permanent global note relating to that class in bearer form (each a “**Permanent Global Note**”), without coupons or talons, 40 days after the Closing Date provided certification of non-U.S. beneficial ownership by the Noteholders of the relevant class has been received. The Permanent Global Notes will also be deposited with the Common Depositary. The Temporary Global Notes and the Permanent Global Notes are referred to together as the “**Global Notes**”. Notes in definitive form will be issuable only in certain limited circumstances as more particularly described in the descriptions of the Notes in this Offering Circular. Unless Notes in definitive form are so issued and for so long as the Global Notes remain in effect, Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg.

While any Global Note of a particular class is outstanding, payments on the Notes of that class represented by any such Global Notes will be made against presentation of the relevant Global Note by the Common Depositary to the Principal Paying Agent (as defined in “Description of the Class A Notes, the Global Class A Notes and the Security”) provided certification of non-U.S. beneficial ownership by the Noteholders of that class has been received by Euroclear or Clearstream, Luxembourg. Each of the persons appearing from time to time in the records of Euroclear or of Clearstream, Luxembourg as the holder of a Note of a particular class will be entitled to receive any payment so made in respect of that Note in accordance with the rules and procedures of Euroclear or, as the case may be, Clearstream, Luxembourg. Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes of any class for so long as either of the Global Notes of that class is outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Note of the relevant class for the Permanent Global Note of that class, which date shall be no earlier than the Exchange Date (as defined in the relevant Temporary Global Note) or (ii) the first Interest Payment Date in relation to the Notes, in order to obtain any payment due on the Notes.

Interest

The interest rate applicable to the Notes from time to time will be determined by reference to LIBOR for three-month sterling deposits (except for the first Interest Period, in respect of which the rate shall be determined by reference to a linear interpolation between the rates for four month and five month sterling deposits – see “Description of the Class A Notes, the Global Class A Notes and the Security”, “Description of the Class B Notes, the Global Class B Notes and

the Security” and “Description of the Class C Notes, the Global Class C Notes and the Security”) plus a margin which will differ for each class of Notes. The margins applicable to each class of Notes, and the Interest Periods for which such margins apply, will be as set out below:

Class A Notes: 0.38% per annum up to and including the Interest Period ending in January 2008 and thereafter 0.76% per annum;

Class B Notes: 1.20% per annum up to and including the Interest Period ending in January 2008 and thereafter 2.40% per annum; and

Class C Notes: 2.75% per annum up to and including the Interest Period ending in January 2008 and thereafter 5.50% per annum.

Interest payments on the Subordinated Notes will be subordinated to interest payments on the Class A Notes and interest payments on the Class C Notes will be subordinated to interest payments on the Class A Notes and the Class B Notes (see “– Section 2 – Pre-enforcement Priority of Payments” above). Accordingly, Class B Noteholders and Class C Noteholders (each as defined in “Description of the Class A Notes, the Global Class A Notes and the Security”) will not be entitled to receive any payment of interest on an Interest Payment Date unless and until all amounts of interest due to Class A Noteholders (as also defined in “Description of the Class A Notes, the Global Class A Notes and the Security”) on that Interest Payment Date have been paid in full. Similarly, Class C Noteholders will not be entitled to receive any payment of interest on an Interest Payment Date unless and until all amounts of interest due to Class A Noteholders and Class B Noteholders on that Interest Payment Date have been paid in full. The Class A Noteholders, the Class B Noteholders and the Class C Noteholders are together referred to in this Offering Circular as the “**Noteholders**”.

If, on any Interest Payment Date, funds are insufficient to pay the interest otherwise due on the Class B Notes and/or the Class C Notes on an Interest Payment Date, the deficit will not then be paid but will be deferred and will only be paid on subsequent Interest Payment Dates if and when permitted by subsequent cash flow which is surplus to the Issuer’s liabilities of a higher priority (see “– Section 2 – Pre-enforcement Priority of Payments” above) on the relevant Interest Payment Date. In the event of any such deferral, additional interest will accrue on the Class B Notes or, as the case may be, the Class C Notes equal to the interest which would accrue on the amount of the relevant unpaid interest (at the rate applicable from time to time to the relevant class of Notes) during the time it remains unpaid.

Interest is payable in respect of the Notes (provided certification of non-U.S. beneficial ownership by the Noteholders has been received) in pounds sterling quarterly in arrear on 15th January, 15th April, 15th July and 15th October in each year (subject to adjustment in the manner described in this Offering Circular), the first payment being made on the Interest Payment Date falling in April 2002.

The first Interest Period will commence on (and include) the Closing Date and end on (but exclude) the Interest Payment Date falling in April 2002. Each subsequent Interest Period applicable to the Notes will commence on (and include) an Interest Payment Date and end on (but exclude) the next succeeding Interest Payment Date.

Withholding Tax

Interest payments will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor (see “Description of the Class A Notes, the Global Class A Notes and the Security”, “Description of the Class B Notes, the Global Class B Notes and the Security” and “Description of the Class C Notes, the Global Class C Notes and the Security”).

Security for the Notes

The Notes will be secured by first ranking security interests over:

- (i) all present and future right, title, interest and benefit of the Issuer in and under each Portfolio Asset (including, without limitation, Portfolio Unsecured Loans, Portfolio Secured Loans and Portfolio Car Finance Contracts that are governed by Scots law (the “**Scottish Unsecured Loans**”, “**Scottish Secured Loans**” and “**Scottish Car Finance Contracts**”, respectively), all of which will be held on trust for the Issuer by the relevant Seller) and in and to any contractually binding agreement, understanding or arrangement constituting in whole or in part such Portfolio Asset (an “**Unsecured Loan Agreement**”, “**Secured Loan Agreement**” or “**Car Finance Agreement**”, where appropriate) subject, where applicable, to the subsisting rights of the person or persons to whom such Portfolio Asset was granted and/or, as the case may be, the person or persons (if any) from time to time assuming an obligation to make payments and/or perform other obligations under such Portfolio Asset (each, in relation to a Portfolio Unsecured Loan or, as the case may be, a Portfolio Secured Loan, a “**Borrower**” or, in relation to a Portfolio Car Finance Contract comprising a motor vehicle hire purchase agreement, a motor vehicle contract purchase agreement or a motor vehicle conditional sale agreement, a “**Hirer**” or, in relation to a Portfolio Car Finance Contract comprising a motor vehicle leasing agreement, a “**Lessee**”, any of a Lessee, a Borrower or a Hirer being an “**Obligor**”);
- (ii) all present and future right, title, interest and benefit of the Issuer in and to each Portfolio Motor Vehicle subject to the subsisting rights of the Hirer or Lessee, as the case may be, in respect of such Portfolio Motor Vehicle (the Portfolio Motor Vehicles being subject to a floating charge only, as referred to below);
- (iii) subject to any subsisting rights of redemption, all security for the Secured Loans and all insurances relating to the Portfolio Assets in which in either case the Issuer has an interest;
- (iv) the Issuer’s rights under the Secured Loan Sale Agreement, each Unsecured Loan Sale Contract, each Secured Loan Sale Contract, each Car Finance Sale Contract (as defined in “– Section 7 – Portfolio Unsecured Loans”, “– Section 7 – Portfolio Secured Loans” and “– Section 7 – Portfolio Car Finance Contracts” respectively below), the Repurchase Deed, the Warranty Deed, the Administration Agreement, the Agency Agreement, the Subordinated Loan Agreement, the Services Letter, the Fee Letter, the Hedge Agreement, any other hedging arrangements entered into by the Issuer, the Collection Account Declarations of Trust and the VAT Declaration of Trust (each as defined below) and all other contracts, agreements, deeds and documents to which the Issuer is or becomes a party;
- (v) any investments in which the Issuer, or the Administrator on its behalf, may place its cash resources; and
- (vi) the Issuer’s rights to all moneys standing to the credit of the bank account of the Issuer with National Westminster Bank Plc (which carries on a deposit taking business within the United Kingdom) at its branch at 4 High Street, Solihull, West Midlands (or such other bank as the Issuer, subject to certain restrictions and with the consent of the Trustee, may from time

to time select for such purpose) into and out of which all payments to and by the Issuer will be made (the “**Transaction Account**”) and any other bank accounts in which the Issuer has an interest.

These security interests will be fixed except: (a) in relation to certain investments and moneys standing to the credit of the Issuer’s bank accounts over which the security may be by way of floating charge (thus ranking behind claims of certain creditors preferred by law); and (b) in relation to Portfolio Motor Vehicles, over which the security will be by way of floating charge (thus ranking behind claims of certain creditors preferred by law). In addition, subject as mentioned above, the Notes will be secured by a floating charge over all the assets and undertakings of the Issuer other than those covered by fixed security (but extending to all of the Issuer’s assets situated in or governed by the laws of Scotland, including those covered by the fixed security).

The Class A Notes, the Class B Notes and the Class C Notes will be constituted by the same trust deed dated on or about the Closing Date and made between the Issuer and the Trustee (the “**Trust Deed**”) and will share the same security but in the event of the security being enforced, the Class A Notes will rank in priority to the Subordinated Notes and the Class B Notes will rank in priority to the Class C Notes.

Certain other amounts will also have the benefit of the security interests referred to above, including the amounts owing to the Trustee and any receiver of the security, any amounts payable to the Hedge Counterparty (as defined in “– Section 5 – Hedging Arrangements” above) under the Hedge Agreement, the fees and expenses of, and commissions payable to, and all other amounts owing to, the Administrator and/or any substitute administrator, all amounts owing to each Seller under, *inter alia*, the Secured Loan Sale Agreement, each Unsecured Loan Sale Contract and/or Secured Loan Sale Contract and/or Car Finance Sale Contract under which it is the Seller and the Administration Agreement, all amounts owing to PFPLC under the Fee Letter, the Services Letter and the Administration Agreement, all amounts owing under the Subordinated Loan Agreement, all amounts owing to the Paying Agents and the Reference Agent (each as defined in “Description of the Class A Notes, the Global Class A Notes and the Security”) under the Agency Agreement and all amounts owing to a Permitted Hedge Provider (as defined in “– Section 5 – Hedging Arrangements” above) under any hedging arrangements referred to above other than the Hedge Agreement.

The terms on which such security interests will be held will provide that, upon enforcement:

- (i) all amounts payable to any receiver of the security, the Trustee, the Paying Agents and the Reference Agent, the fees, expenses and commissions payable to the Administrator and/or any substitute administrator, any commissions payable to PFPLC and any Seller as will be provided in the Administration Agreement and all amounts (if any) payable to the Hedge Counterparty and any Permitted Hedge Provider (other than Hedge Termination Amounts) under the Hedge Agreement or otherwise will rank in priority to payment of interest and principal on the Notes;
- (ii) amounts owing to the Class B Noteholders will rank in priority after all payments on the Class A Notes;

- (iii) amounts owing to the Class C Noteholders will rank in priority after all payments on the Class A Notes and the Class B Notes; and
- (iv) Hedge Termination Amounts payable to the Hedge Counterparty and any Permitted Hedge Provider under the Hedge Agreement or otherwise and amounts owing to each Seller under the Secured Loan Sale Agreement, each Unsecured Loan Sale Contract, each Secured Loan Sale Contract and/or under each Car Finance Sale Contract, amounts owing to PFPLC under the Fee Letter and the Services Letter and amounts owing under the Subordinated Loan Agreement will rank in priority after all payments on the Notes.

Relationship between Noteholders

The Trust Deed will contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders as regards all of the powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise) but requiring the Trustee to have regard only to the interests of the Class A Noteholders if, in its opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders and/or the Class C Noteholders. The Trust Deed will also contain provisions limiting the powers of the Class B Noteholders and the Class C Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution (as defined in the terms and conditions of the Class A Notes, the “**Class A Conditions**”) if such action or the effect of such Extraordinary Resolution would, in the Trustee’s opinion, be materially prejudicial to the interests of the Class A Noteholders, unless sanctioned by an Extraordinary Resolution of the Class A Noteholders. The Class B Noteholders and the Class C Noteholders will not be entitled to request or direct the Trustee to accelerate payment by the Issuer of the Class B Notes or, as the case may be, the Class C Notes upon the occurrence of an Event of Default (as defined in the Class A Conditions) unless payment of the Class A Notes is also accelerated or there are no Class A Notes outstanding. Except in certain circumstances, the Trust Deed will contain no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding upon the Class B Noteholders and the Class C Noteholders irrespective of the effect thereof upon their interests.

The Trust Deed will also contain provisions requiring the Trustee to have regard only to the interests of the Class B Noteholders if, in its opinion, there is a conflict between the interests of the Class B Noteholders and the interests of the Class C Noteholders. The Trust Deed will also contain provisions limiting the powers of the Class C Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution if such action or the effect of such Extraordinary Resolution would, in the Trustee’s opinion, be materially prejudicial to the interests of the Class B Noteholders, unless sanctioned by an Extraordinary Resolution of the Class B Noteholders. The Class C Noteholders will not be entitled to request or direct the Trustee to accelerate payment by the Issuer of the Class C Notes upon the occurrence of an Event of Default unless payment of the Class A Notes (if any) and the Class B Notes is also accelerated or there are no Class A Notes or Class B Notes outstanding.

Section 7 – Portfolio Assets and Asset Administration

Portfolio Unsecured Loans

Each of the Portfolio Unsecured Loans will be either a Retail Credit Loan or a Personal Loan.

Provided that none of the Rating Agencies has notified the Issuer that any rating to be prospectively assigned by it to any class of Notes would be adversely affected as a result of such acquisition and certain other conditions are met (as described in “Portfolio Assets – Conditions to Sale of Initial Portfolio Assets”), the Issuer is expected to acquire Unsecured Loans from Universal and/or PPF on the Closing Date, using part of the proceeds of the issue of the Notes and the relevant drawings under the Subordinated Loan Agreement to the extent not applied: (a) in purchasing Secured Loans on the Closing Date; or (b) in purchasing Car Finance Contracts (and the related Motor Vehicles) on the Closing Date; or (c) in being initially credited to the Transaction Account as Initial Allocated Purchase Funds (if any). Any such Unsecured Loans would be acquired pursuant to a contract (each an “**Unsecured Loan Sale Contract**”) concluded as a result of acceptance by the Issuer of a written offer by Universal and/or PPF (each an “**Unsecured Loan Offer to Sell**”) to sell the benefit of Unsecured Loans on standard terms and conditions to be agreed on the Closing Date (the “**Standard Terms and Conditions**”). The Standard Terms and Conditions are described in more detail in “Portfolio Assets – Conditions to Sale of Initial Portfolio Assets” and “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”.

The Unsecured Loans acquired by the Issuer on the Closing Date are referred to as the “**Initial Portfolio Unsecured Loans**”.

The purchase price for an Initial Portfolio Unsecured Loan that is to be sold to the Issuer on the Closing Date will be its Current Balance (as defined below) on its respective Effective Date (as defined below), adjusted for any Purchased Accruals, any Unamortised Commission, any provision for non-payment specified by the relevant Seller and any Excluded Arrears, as described in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”.

No notice of the transfer of the Initial Portfolio Unsecured Loans may be given to Borrowers (or an appropriate legal assignment or assignation thereof executed in favour of the Issuer) unless, *inter alia*, there is a breach of the Administration Agreement that gives rise to the Trustee’s rights to terminate it or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Portfolio Unsecured Loan, PFPLC is in breach of its repurchase obligations (as described in “Portfolio Assets – Repurchase of Portfolio Assets”) under the Repurchase Deed.

No Portfolio Unsecured Loan has or will have a maturity later than January 2021. There are no obligations to make further advances under any Portfolio Unsecured Loan. All of the Portfolio Unsecured Loans are or will be governed by English, Scots or Northern Irish law.

“**Initial Allocated Purchase Funds**” means, in respect of any date falling during the period from (and including) the Closing Date to (but excluding) the first Determination Date (the “**Initial Purchase Period**”) an amount (if any) equal to the aggregate of:

(a) the Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes as at the Closing Date; and

(b) OCRA;

less

(c) the Current Principal Balance of Performing Assets as at the Closing Date; and

- (d) the aggregate of the Purchased Accruals of Performing Assets as at the Closing Date.

It is expected that the Initial Allocated Purchase Funds will not exceed £7,341,000.

“**Current Balance**” on any day means:

- (a) in relation to (x) a Portfolio Unsecured Loan that is a Personal Loan (other than one originated by PPF prior to 1st September, 1999) or (y) a Portfolio Secured Loan, the aggregate outstanding amount of principal and all interest and other amounts due and payable by the Borrower thereunder; and
- (b) in relation to (x) a Portfolio Car Finance Contract or (y) a Portfolio Unsecured Loan that is a Retail Credit Loan or (z) a Portfolio Unsecured Loan that is a Personal Loan originated by PPF prior to 1st September, 1999, the aggregate amount of those parts of each monthly payment due from the relevant Obligor that is attributable to principal in accordance with the Administration Agreement throughout the remaining term of such Portfolio Asset (including amounts then due and payable but not paid) (and in the case of a Portfolio Car Finance Contract which comprises a conditional sale agreement, a lease agreement or a motor vehicle contract purchase agreement plus the assumed residual value of the relevant Portfolio Motor Vehicle) plus the aggregate outstanding amount of interest (or its equivalent) and other amounts due and payable by the Obligor on that date thereunder,

each as shown in the Debtor Ledger for the relevant Portfolio Asset, less, in respect of each Portfolio Asset, an amount equal to the amount thereof (if any) that has been written off in accordance with the Administration Agreement (see “Portfolio Asset Administration – Debtor Ledger/Current Balance/Current Principal Balance”).

“**Effective Date**” means, in relation to a Portfolio Asset, the date specified as such by the relevant Seller before the Issuer acquires such Portfolio Asset being (i) in the case of a Retail Credit Loan, no more than thirty five business days or (ii) in the case of any Portfolio Asset (other than a Retail Credit Loan) sold to the Issuer on the Closing Date, no more than twelve business days or (iii) in the case of any Portfolio Asset (other than a Retail Credit Loan) sold to the Issuer after the Closing Date, no more than three business days, in each case before the Issuer acquires such Portfolio Asset.

“**Personal Loan**” means an Unsecured Loan that is not a Retail Credit Loan.

“**Retail Credit Loan**” means an Unsecured Loan granted to an individual pursuant to a “DCS” (debtor/creditor/supplier) agreement for the purposes of the CCA (as defined in “– Asset Repurchase” below) specifically to enable the acquisition of consumer products such as furniture and electrical goods.

The Portfolio Unsecured Loans are further described in “Portfolio Assets”.

Portfolio Secured Loans

Provided that, none of the Rating Agencies has notified the Issuer that any rating to be prospectively assigned by it to any class of Notes would be adversely affected as a result of such acquisition and certain other conditions are met (as described in “Portfolio Assets – Conditions to Sale of Initial Portfolio Assets”), the Issuer is expected to acquire certain Secured Loans and related Mortgages from PPF pursuant to a secured loan sale contract (a “**Secured Loan**”).

Sale Contract”) to be made pursuant to the terms of an agreement to be entered into by the Issuer, PPF, PFPLC, the Trustee and PSFL (as defined in “– Initial Portfolio Assets” below) on the Closing Date setting out the terms on which Secured Loans will be sold (the “**Secured Loan Sale Agreement**”), using part of the proceeds of the issue of the Notes and the relevant drawings under the Subordinated Loan Agreement to the extent not applied: (a) in purchasing Unsecured Loans on the Closing Date; or (b) in purchasing Car Finance Contracts (and the related Motor Vehicles) on the Closing Date; or (c) in being initially credited to the Transaction Account as Initial Allocated Purchase Funds. Such Secured Loan Sale Contract will be concluded as a result of acceptance by the Issuer of a written offer by PPF (a “**Secured Loan Offer to Sell**”) to sell the benefit of Secured Loans in accordance with the Secured Loan Sale Agreement.

The Secured Loans acquired by the Issuer on the Closing Date (and not subsequently redeemed in full or sold by the Issuer on the Closing Date) are referred to as the “**Initial Portfolio Secured Loans**”.

The purchase price for an Initial Portfolio Secured Loan will be its Current Balance on its respective Effective Date, adjusted for any Purchased Accruals, any Unamortised Commission, any provision for non-payment specified by the relevant Seller and any Excluded Arrears, as described in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”.

No notice of the transfer of the Initial Portfolio Secured Loans may be given to Borrowers nor will the transfer of the Secured Loans or the Mortgages relative thereto to the Issuer be perfected unless, *inter alia*, there is a breach of the Administration Agreement that gives rise to the Trustee’s rights to terminate it or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Portfolio Secured Loan, PFPLC is in breach of its repurchase obligations (as described below) under the Secured Loan Sale Agreement.

No Portfolio Secured Loan has or will have a maturity later than January 2031. There are no obligations to make further advances under any Portfolio Secured Loan. All of the Portfolio Secured Loans are or will be governed by English or Scots law.

The Portfolio Secured Loans are further described in “Portfolio Assets”.

Portfolio Car Finance Contracts

Provided that, none of the Rating Agencies has notified the Issuer that any rating to be prospectively assigned by it to any class of Notes would be adversely affected as a result of such acquisition and certain other conditions are met (as described in “Portfolio Assets – Conditions to Sale of Initial Portfolio Assets”), the Issuer is expected to acquire from PCF certain Car Finance Contracts and Motor Vehicles the subject thereof on the Closing Date using part of the proceeds of the issue of the Notes and the relevant drawings under the Subordinated Loan Agreement to the extent not applied: (a) in purchasing Unsecured Loans on the Closing Date; or (b) in purchasing Secured Loans on the Closing Date; or (c) in being initially credited to the Transaction Account as Initial Allocated Purchase Funds. Such Car Finance Contracts and Motor Vehicles would be acquired pursuant to a car finance sale contract that would be made on the Closing Date between PCF and the Issuer. Such contracts would be concluded as a result of the acceptance by the Issuer of a written offer by PCF (a “**Car Finance Offer to Sell**”) to sell the benefit of Car Finance Contracts and related Motor Vehicles (a “**Car Finance Sale Contract**”) on the Standard Terms and Conditions.

The Issuer has agreed, in relation to each Portfolio Motor Vehicle that is the subject of a hire purchase agreement, motor vehicle contract purchase agreement or motor vehicle conditional sale agreement, that legal and beneficial ownership in such Portfolio Motor Vehicle will pass to the relevant Hirer upon such Hirer exercising his or her option to purchase such Portfolio Motor Vehicle in accordance with, and on the expiry or early settlement of, the relevant Car Finance Agreement and, in the case of a Portfolio Motor Vehicle that is the subject of a conditional sale agreement, in the event that the Hirer has discharged all his or her obligations under the Car Finance Agreement or, at the option of the Issuer, if the relevant Hirer is in breach.

The Car Finance Contracts acquired by the Issuer on the Closing Date are referred to as the “**Initial Portfolio Car Finance Contracts**”.

The purchase price for each Initial Portfolio Car Finance Contract and the related Motor Vehicle will be its Current Balance on its respective Effective Date, adjusted for any Purchased Accruals, any Unamortised Commission, any provision for non-payment specified by the relevant Seller and any Excluded Arrears as described in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”.

No notice of transfer of Portfolio Car Finance Contracts (or of the transfer of legal and beneficial ownership in the related Portfolio Motor Vehicles) may be given to Hirers or Lessees (or an appropriate legal assignment or assignation executed in favour of the Issuer in respect of Portfolio Car Finance Contracts) unless, *inter alia*, there is a breach of the Administration Agreement that gives rise to the Trustee’s rights to terminate it or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Portfolio Car Finance Contract (and the related Portfolio Motor Vehicle), PFPLC is in breach of its repurchase obligations under the Repurchase Deed.

No Portfolio Car Finance Contract will have a maturity later than January 2011. All Portfolio Car Finance Contracts are or will be governed by English or Scots law.

The Portfolio Car Finance Contracts are more particularly described in “Portfolio Assets”.

Further Unsecured Loans

The Issuer may, on any day on or before the Final Addition Date, accept written offers to sell from an Unsecured Loan Seller (each, also an “**Unsecured Loan Offer to Sell**”) in relation to Further Unsecured Loans which are Personal Loans provided that, *inter alia*: (i) none of the Rating Agencies has notified the Issuer that any rating then assigned by it to any class of Notes would be adversely affected as a result of such acceptance and (ii) as a result of such acceptance (and taking into account the effect on the aggregate Current Principal Balances of the Portfolio Assets of such acceptance, and the acceptance of any other offers by any Sellers to sell Unsecured Loans, Secured Loans and/or Car Finance Contracts to the Issuer on the same day and the making of any further advances in respect of any Secured Loans on the same day), the aggregate Current Principal Balances of the Portfolio Unsecured Loans that are Personal Loans and Performing Assets would not exceed 15% of (a) the aggregate Current Principal Balances of the Portfolio Assets which are Performing Assets on such day, plus (b) the excess of the Substitution Amount on such day over the aggregate of (A) the aggregate purchase prices of all Portfolio Assets and (B) the aggregate amount of all further advances, purchased or made by the Issuer on such day.

The Issuer may, on any day on or before the Final Addition Date, accept an Unsecured Loan Offer to Sell in relation to Further Unsecured Loans which are Retail Credit Loans provided that, *inter alia*, none of the Rating Agencies has notified the Issuer that any rating then assigned by it to any class of Notes would be adversely affected as a result of such acceptance.

Acceptance by the Issuer of any such Unsecured Loan Offer to Sell is subject to further conditions, as described in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”.

The purchase price for a Further Unsecured Loan will be calculated in the same way as the purchase price for an Initial Portfolio Unsecured Loan acquired by the Issuer on the Closing Date (as described above).

A Further Unsecured Loan may be purchased on any business day on or before the Final Addition Date but only to the extent that the purchase price of such Further Unsecured Loan when added to the aggregate purchase prices of all other Portfolio Assets to be purchased, and the aggregate amount of all further advances to be made, on the same day does not exceed the Substitution Amount (as defined below) on such day.

The Further Unsecured Loans will be acquired pursuant to an unsecured loan sale contract constituted by an Unsecured Loan Offer to Sell by a relevant Unsecured Loan Seller that is accepted by the payment by the Issuer of the aggregate of the purchase prices of such Further Unsecured Loans (each also an “**Unsecured Loan Sale Contract**”). Each such Unsecured Loan Sale Contract will incorporate the Standard Terms and Conditions.

Any amounts received by an Unsecured Loan Seller in respect of a Further Unsecured Loan after it has been transferred by that Unsecured Loan Seller to the Issuer (or, in the case of Scottish Unsecured Loans, held on trust for the Issuer) will be held on trust for the Issuer, except for Excluded Arrears and Excluded Accruals (each as defined in “Portfolio Assets – Repurchase of Portfolio Assets”), if any.

No notice of the transfer of Further Unsecured Loans may be given to Borrowers (or an appropriate legal assignment or assignation thereof executed in favour of the Issuer) unless, *inter alia*, there is a breach of the Administration Agreement that gives rise to the Trustee’s rights to terminate it or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Further Unsecured Loan, PFPLC is in breach of its repurchase obligations under the Repurchase Deed.

“**Substitution Amount**” means on any date and in relation to the purchase by the Issuer of any Portfolio Asset or Portfolio Assets the purchase price(s) of which are paid or to be paid on such date (the “**Relevant Assets**”) and/or the making by the Issuer of any further advance or further advances made or to be made on such date (the “**Relevant Advances**”):

- (a) if such date falls during the Initial Purchase Period, either:
 - (i) the Initial Allocated Purchase Funds at the Closing Date as reduced by an amount equal to the aggregate of (A) the aggregate purchase prices of all Portfolio Assets (other than the Relevant Assets) and (B) the aggregate amount of all further advances (other than the Relevant

Advances), purchased or made by the Issuer during the period from (but excluding) the Closing Date to (but excluding) such date; or

- (ii) if the Allocated Purchase Funds have been calculated by the Administrator pursuant to the Administration Agreement on any Calculation Date during the Initial Purchase Period, such Allocated Purchase Funds at such Calculation Date as reduced by an amount equal to the aggregate of (A) the aggregate purchase prices of all Portfolio Assets (other than the Relevant Assets) and (B) the aggregate amount of all further advances (other than the Relevant Advances), purchased or made by the Issuer during the period from (and including) such Calculation Date to (but excluding) such date; or
- (b) if such date falls after the end of the Initial Purchase Period, either:
- (i) the Allocated Purchase Funds at the Determination Date immediately preceding such date (or, if such date is a Determination Date, the Allocated Purchase Funds calculated on such date) as reduced by an amount equal to the aggregate of (A) the aggregate purchase prices of all Portfolio Assets (other than the Relevant Assets) and (B) the aggregate amount of all further advances (other than the Relevant Advances), purchased or made by the Issuer during the period from (and including) such Determination Date to (but excluding) such date; or
 - (ii) if the Allocated Purchase Funds have been calculated by the Administrator pursuant to the Administration Agreement on any Calculation Date falling after such Determination Date, such Allocated Purchase Funds at such Calculation Date as reduced by an amount equal to the aggregate of (A) the aggregate purchase prices of all Portfolio Assets (other than the Relevant Assets) and (B) the aggregate amount of all further advances (other than the Relevant Advances), purchased or made by the Issuer during the period from (and including) such Calculation Date to (but excluding) such date,

provided that if and for so long as any borrowing by the Issuer under the Subordinated Loan Agreement which is taken into account for the purposes of calculating Actual Principal Funds as at the relevant Calculation Date pursuant to paragraph (d)(A) of the definition of Issuer Funds has not been both borrowed and deposited in the Transaction Account, the Substitution Amount shall be zero.

Further Secured Loans

The Issuer may, on any day on or before the Final Addition Date, accept written offers to sell from a Secured Loan Seller (each also a “**Secured Loan Offer to Sell**”) in relation to Further Secured Loans pursuant to the terms of the Secured Loan Sale Agreement provided that, *inter alia*: (i) none of the Rating Agencies has notified the Issuer that any rating then assigned by it to any class of Notes would be adversely affected as a result of such acceptance and (ii) as a result of such acceptance (and taking into account the effect on the aggregate Current Principal Balances of the Portfolio Assets of such acceptance, and the acceptance of any other offers by any Sellers to sell Unsecured Loans, Secured Loans and/or Car Finance Contracts to the Issuer on the same day and the making of any further advances in respect of any Secured Loans on the same day), the aggregate Current Principal Balances of the Portfolio Secured Loans which are Performing Assets

would not exceed 30% of (a) the aggregate Current Principal Balances of the Portfolio Assets which are Performing Assets on such day plus (b) the excess of the Substitution Amount on such day over the aggregate of (A) the aggregate purchase prices of all Portfolio Assets and (B) the aggregate amount of all further advances, purchased or made by the Issuer on such day. Acceptance by the Issuer of any such Secured Loan Offer to Sell is subject to further conditions, as described in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”.

The purchase price for a Further Secured Loan will be calculated in the same way as the purchase price for an Initial Portfolio Secured Loan (as described above).

A Further Secured Loan may be purchased on any business day on or before the Final Addition Date but only to the extent that the purchase price of such Further Secured Loan when added to the aggregate purchase prices of all other Portfolio Assets to be purchased, and the aggregate amount of all further advances to be made, on the same day does not exceed the Substitution Amount on such day.

The Further Secured Loans will be acquired pursuant to a secured loan sale contract made pursuant to the terms of the Secured Loan Sale Agreement by agreement with a relevant Secured Loan Seller (each such separate agreement for the sale of Secured Loans made pursuant to the Secured Loan Sale Agreement including the agreement reached on the Closing Date being also a “**Secured Loan Sale Contract**”). Each such Secured Loan Sale Contract will be subject to the terms and conditions as described in more detail in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”.

Any amounts received by a Secured Loan Seller in respect of a Further Secured Loan after it has been transferred by that Secured Loan Seller to the Issuer (or, in the case of Scottish Secured Loans, held on trust for the Issuer) will be held on trust for the Issuer, except for Excluded Arrears and Excluded Accruals, if any.

No notice of the transfer of Further Secured Loans may be given to Borrowers nor will the transfer of Further Secured Loans or the Mortgages relative thereto to the Issuer be perfected unless, *inter alia*, there is a breach of the Administration Agreement that gives rise to the Trustee’s rights to terminate it or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Further Secured Loan, PFPLC is in breach of its repurchase obligations under the Secured Loan Sale Agreement.

Further Car Finance Contracts

The Issuer may, on any day on or before the Final Addition Date, accept written offers to sell from a Car Finance Contract Seller (each also a “**Car Finance Offer to Sell**”) in relation to Further Car Finance Contracts and the related Motor Vehicles provided that, *inter alia*: (i) none of the Rating Agencies has notified the Issuer that any rating then assigned by it to any class of Notes would be adversely affected as a result of such acceptance and (ii) as a result of such acceptance (and taking into account the effect on the aggregate Current Principal Balances of the Portfolio Assets of such acceptance, and the acceptance of any other offers by any Sellers to sell Unsecured Loans, Secured Loans and/or Car Finance Contracts to the Issuer on the same day and the making of any further advances in respect of any Secured Loans on the same day), the aggregate Current Principal Balances of the Portfolio Car Finance Contracts which are Performing Assets would not exceed 30% of (a) the aggregate Current Principal

Balances of the Portfolio Assets which are Performing Assets on such day plus (b) the excess of the Substitution Amount on such day over the aggregate of (A) the aggregate purchase prices of all Portfolio Assets and (B) the aggregate amount of all further advances, purchased or made by the Issuer on such day. Acceptance by the Issuer of any such Car Finance Offer to Sell is subject to further conditions, as described in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”.

The purchase price for a Further Car Finance Contract is calculated in the same way as the purchase price for an Initial Portfolio Car Finance Contract (as described above).

A Further Car Finance Contract and the related Motor Vehicle may be purchased on any business day on or before the Final Addition Date but only to the extent that the purchase price of such Further Car Finance Contract when added to the aggregate purchase prices of all other Portfolio Assets to be purchased, and the aggregate amount of all further advances to be made, on the same day does not exceed the Substitution Amount on such day.

The Further Car Finance Contracts and the ownership of the Motor Vehicles the subject thereof would be acquired pursuant to a car finance sale contract constituted by a Car Finance Offer to Sell by a Car Finance Contract Seller that is accepted by the payment by the Issuer of the aggregate of the purchase prices of such Further Car Finance Contracts and related Motor Vehicles (each also a “**Car Finance Sale Contract**”). Each such Car Finance Sale Contract would incorporate the Standard Terms and Conditions.

Any amounts received by a Car Finance Contract Seller in respect of a Further Car Finance Contract after it has been transferred to the Issuer (or, in the case of Scottish Car Finance Contracts, held on trust for the Issuer) will be held on trust for the Issuer, except for Excluded Arrears and Excluded Accruals, if any.

No notice of the transfer of Further Car Finance Contracts (or of the transfer of legal and beneficial ownership in the related Portfolio Motor Vehicles) may be given to Hirers or Lessees (or an appropriate legal assignment or assignation executed in favour of the Issuer in respect of Further Car Finance Contracts) unless, *inter alia*, there is a breach of the Administration Agreement that gives rise to the Trustee’s rights to terminate it or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Further Car Finance Contract and the related Portfolio Motor Vehicle, PFPLC is in breach of its repurchase obligations under the Repurchase Deed.

Initial Portfolio Assets

The Portfolio Assets which are Performing Assets, as at the Closing Date, will have an aggregate of their respective Current Principal Balances of at least £259,000,000. Those Portfolio Assets will comprise Unsecured Loans originated by Universal and/or PPF, Secured Loans originated by PPF and Car Finance Contracts originated by PCF (and the related Motor Vehicles) and purchased by the Issuer on the Closing Date. The Portfolio Secured Loans are or will be secured by second or subsequent ranking charges (the “**English Mortgages**”) over freehold or leasehold residential properties located in England or Wales (the “**English Properties**”) or by standard securities (the “**Scottish Mortgages**” and, together with the English Mortgages, the “**Mortgages**”) over feudal or long leasehold residential properties located in Scotland (the “**Scottish Properties**” and, together with the English Properties, the “**Properties**”). References herein to freehold property or interests therein and to leasehold property or interests

therein shall, in respect of the Scottish Properties, be construed as being references to feudal property or interests therein and long leasehold property or interests therein respectively and references herein to a “mortgagee” shall, in relation to any Scottish Mortgage, be construed as being references to the heritable creditor thereunder.

The Initial Portfolio Assets will comprise both Performing Assets and Portfolio Assets which are not Performing Assets (see “Portfolio Assets – The Provisional Pool”).

The Borrowers in respect of the Portfolio Unsecured Loans and Portfolio Secured Loans are all individuals.

The statistical and other information contained in this Offering Circular is stated as at close of business on 31st August, 2001 (the “**Provisional Pool Date**”) and relates to certain Unsecured Loans originated by Universal and beneficially owned by Finance for People (No. 3) PLC (“**FFP3**”), a company incorporated under the laws of England with registered number 3203932 and a wholly owned subsidiary of PGC, at that time, to certain Unsecured Loans originated by PPF and beneficially owned by it or FFP3 at that time, to certain Secured Loans originated by PPF and which were beneficially owned by Paragon Second Funding Limited (“**PSFL**”), a company incorporated under the laws of England with registered number 2637506 and a wholly owned subsidiary of PGC, at that time and to certain Car Finance Contracts originated by PCF and beneficially owned by it or FFP3 at that time (such Unsecured Loans, Secured Loans and Car Finance Contracts being together referred to in this Offering Circular as the “**Provisional Pool**”). The Unsecured Loans, Secured Loans and Car Finance Contracts (and the related Motor Vehicles) to be purchased by the Issuer on the Closing Date will be selected from the Provisional Pool but may also include other Unsecured Loans, Secured Loans and Car Finance Contracts which meet the criteria specified in “Portfolio Assets”.

Further Advances in respect of the Portfolio Secured Loans

The Secured Loan Agreements do not and will not impose any obligation on any relevant Seller or the Issuer mandatorily to advance any further sums to the Obligors. However, subject to the satisfaction of certain conditions (including the requirement that, as a result of making a discretionary further advance on any day, the aggregate Current Principal Balances of the Portfolio Secured Loans which are Performing Assets must not as a result of the making of such advance exceed 30% of (a) the aggregate Current Principal Balances of the Portfolio Assets which are Performing Assets on such day (taking into account the effect on the aggregate Current Principal Balances of the Portfolio Assets of the making of such further advance, the acceptance of any Offers by any Sellers to sell Unsecured Loans, Secured Loans and/or Car Finance Contracts to the Issuer on the same day and the making of any other further advances on the same day) plus (b) the excess of the Substitution Amount on such day over the aggregate of (A) the aggregate purchase prices of all Portfolio Assets and (B) the aggregate amount of all further advances, purchased or made by the Issuer on such day), the Administrator on behalf of the Issuer may at its discretion make or fund discretionary further advances on the Portfolio Secured Loans provided that, *inter alia*, none of the Rating Agencies has notified the Issuer that any rating assigned by it to any class of Notes would be adversely affected as a result of such further advance (see “Portfolio Asset Administration – Further Advances in respect of the Portfolio Secured Loans”).

Further advances may only be made on any Portfolio Secured Loan if certain other conditions are satisfied including the condition that the relevant Seller’s lending criteria as far as applicable are satisfied at the

relevant time subject to such waivers as might be within the discretion of a reasonably prudent lender, all as will be provided in the Administration Agreement (see “Portfolio Asset Administration – Further Advances in respect of the Portfolio Secured Loans”).

The Issuer may make a further advance on any day if and to the extent that the amount of such further advance when added to the aggregate purchase prices of all Portfolio Assets to be purchased, and the aggregate amount of all other further advances to be made, on the same day does not exceed the Substitution Amount on such day. If the Substitution Amount would be so exceeded on any day, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make discretionary further advances in respect of the Portfolio Secured Loans. The Issuer shall not be entitled to make a discretionary further advance where it is unable to fund such discretionary further advance accordingly.

Conversion of Portfolio Secured Loans

Any Portfolio Secured Loans may, subject to certain conditions as will be provided for in the Administration Agreement (see also “Portfolio Asset Administration – Conversion of Portfolio Secured Loans”), be converted into a different type of secured loan (a “**Converted Loan**”). Accordingly, any Converted Loan may differ from the Portfolio Secured Loans described under “Portfolio Assets”.

If any Converted Loan comprises a fixed rate loan, a capped rate loan or a collared rate loan, the Issuer will on or before the date of conversion have entered into one or more interest rate swap, interest rate cap, interest rate floor or other hedging agreements for such Converted Loans together with any related guarantees if to do so is necessary to meet the requirements of the Rating Agencies (see “The Issuer – Hedging Arrangements”).

Portfolio Asset Administration

Pursuant to an agreement to be entered into on the Closing Date between PFPLC, the Issuer, the Trustee, Universal, PPF and PCF (the “**Administration Agreement**”), PFPLC will agree to administer the Portfolio Assets on behalf of, *inter alios*, the Issuer and the Trustee, carrying out all administrative functions with the same diligence and skill as would a reasonably prudent lender or financier administering its own unsecured consumer loans, secured consumer loans and car finance products.

Subject to the terms of the relevant Unsecured Loan Agreement, Secured Loan Agreement or Car Finance Agreement, the Administrator will under the Administration Agreement have authority to change the rates of interest (or equivalent revenue charges) applicable to the Portfolio Assets.

If at any time the Administrator on behalf of the Issuer wishes to set (or does not wish to change) the rate of interest applicable to the Portfolio Secured Loans (or any of them) or to purchase any Further Secured Loans with, in any case, the result that the weighted average of the interest rates applicable to the Portfolio Secured Loans which are Performing Assets (taking account of all hedging arrangements entered into by the Issuer in respect of the Portfolio Secured Loans and all income expected to be received by the Issuer from any Authorised Investments in the then current Interest Period) would be less than 5% (or such other percentage as may be agreed from time to time by the Rating Agencies) above LIBOR applicable to the Notes at the time, it will be entitled to do so only if and to the extent that there is a credit balance in the Shortfall Fund (if any) (net of all provisions previously made during the then current Interest Period (as defined in the Class A Conditions)) at least equal to the shortfall which would

arise at that time and it makes a provision in such Shortfall Fund equal to such shortfall. The Trustee may revoke the Administrator's authority to change such rates in certain circumstances.

The weighted average rates used to calculate the payments under any portfolio of Unsecured Loans (which are Performing Assets) being acquired by the Issuer at any time may not on the relevant sale date be less than 5% (in the case of Retail Credit Loans) or 7% (in the case of Personal Loans) (or such other percentages as may be agreed from time to time by the Rating Agencies) above both the rate payable by the Issuer under any swap arrangement (payable in return for the LIBOR applicable to the Notes at that time) and the strike rate (against the LIBOR applicable to the Notes at that time) on any cap arrangement entered into by it in relation to that acquisition, as more particularly described in "The Issuer – Hedging Arrangements".

The weighted average rates used to calculate the payments under any portfolio of Car Finance Contracts (which are Performing Assets) being acquired by the Issuer at any time may not on the relevant sale date be less than 6% (or such other percentage as may be agreed from time to time by the Rating Agencies) above both the rate payable by the Issuer under any swap arrangement (payable in return for the LIBOR applicable to the Notes at that time) and the strike rate (against the LIBOR applicable to the Notes at that time) on any cap arrangement entered into by it in relation to that acquisition, as more particularly described in "The Issuer – Hedging Arrangements".

The Administrator will receive, in priority to payments of interest on the Notes, an annual fee of not more than 0.85% (inclusive of VAT) of the aggregate of the Current Principal Balances of all Portfolio Assets, payable quarterly in arrear on each Interest Payment Date, calculated by reference to those Current Principal Balances as at the Determination Date immediately preceding such Interest Payment Date (or, in relation to the first Interest Payment Date, those Current Principal Balances on the Closing Date). Any substitute administrator appointed (other than as administrator of last resort) would receive a fee consistent with that commonly charged at that time for the provision of administration services for unsecured consumer loans, secured consumer loans and car finance products.

Under the Administration Agreement, the Administrator will, on behalf of the Issuer and the Trustee, follow its own standard procedures for enforcement of payments due under unsecured consumer loans, secured consumer loans and car finance products to recover sums due to the Issuer or, to the extent that such procedures are not applicable, having regard to the nature of the default in question, take such action as would a reasonably prudent lender or financier in respect of such default.

Asset Repurchase

Under (in the case of Portfolio Secured Loans) the Secured Loan Sale Agreement or (in the case of Portfolio Unsecured Loans and Portfolio Car Finance Contracts) a repurchase deed to be dated on or about the Closing Date between PFPLC, the Issuer, the Trustee, Universal, PPF and PCF (the "**Repurchase Deed**"), PFPLC will agree to repurchase, or procure the purchase by a third party of, certain Portfolio Assets in certain circumstances. These circumstances include:

- (i) in the case of Portfolio Unsecured Loans and Portfolio Car Finance Contracts:

- (a) any warranty given by PFPLC in respect of a Portfolio Unsecured Loan or a Portfolio Car Finance Contract under the Warranty Deed proves to have been untrue or incorrect in any material respect as of the date as of which it was given; and
- (b) in relation to a Portfolio Unsecured Loan acquired by the Issuer from Universal on the Closing Date which was originated by Universal and which has not subsequently been sold or redeemed in full (an “**Universal Portfolio Unsecured Loan**”) only, the declaration by a court of competent jurisdiction that any principal amount outstanding of such Universal Portfolio Unsecured Loan is irrecoverable by reason of breaches of the Consumer Credit Act 1974 (the “**CCA**”), or a decision by the Administrator not to bring enforcement proceedings in such court solely on the basis that the Administrator believes that such a declaration would be made in such proceedings, or the failure by the Administrator promptly to certify, at the Trustee’s request, that enforcement proceedings were not taken solely on that basis (a “**CCA Event**”); and
- (ii) in the case of Portfolio Secured Loans, any warranty given by PFPLC in respect of a Portfolio Secured Loan under the Secured Loan Sale Agreement proves to have been untrue or incorrect in any material respect as of the date as of which it was given,

and where such matters are capable of remedy, PFPLC’s obligation to repurchase or procure the repurchase of such Portfolio Asset will only arise if the matter is not remedied within 30 days of notice from the Issuer.

The “**Repurchase Price**” for each Portfolio Asset will be its Current Balance on the date of repurchase (including amounts that may be irrecoverable under an Unsecured Loan to be repurchased because of any CCA Event) adjusted for Unamortised Commission, where applicable, interest that has accrued but is not then payable, Excluded Accruals that have not been received by the relevant Seller and Excluded Arrears that have not been received and/or retained by that Seller.

For further details, see “Portfolio Assets – Repurchase of Portfolio Assets”.

SPECIAL CONSIDERATIONS

The following is a summary of certain aspects of the issue of the Notes about which prospective Noteholders should be aware but it is not intended to be exhaustive and prospective Noteholders should read the detailed information set out elsewhere in this Offering Circular.

The Notes solely obligations of the Issuer

The Notes will be solely the obligations of the Issuer. The Notes will not be obligations or the responsibility of, or be guaranteed by, PFPLC, PPF, Universal, the Trustee, any of the Managers, PCF or PGC, any member of the Paragon Group (other than the Issuer) or any other person other than the Issuer. Furthermore, none of PFPLC, PPF, Universal, the Trustee, the Managers, PCF, PGC nor any other member of the Paragon Group, nor any other person (other than the Issuer) will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amounts due under the Notes.

The Issuer's ability to meet its obligations under the Notes

The ability of the Issuer to meet its obligations to repay principal of, and pay interest on, the Notes and its operating and administration expenses will be dependent, *inter alia*, on funds being received or recovered in respect of Portfolio Assets, the extent and availability of the First Loss Fund and the Shortfall Fund (if any), any and all hedging arrangements whether entered into under the Hedge Agreement or otherwise, any Authorised Investments (including the Transaction Account), the Subordinated Loan Agreement, and the proceeds of any insurances in which the Issuer has an interest.

Sources of payments to Noteholders

Realisation of Portfolio Assets

The ability of the Issuer to redeem all the Notes in full, including after the occurrence of an Event of Default in relation to the Notes, while any amounts payable under the Portfolio Assets are still outstanding, may depend upon whether the Portfolio Assets can be realised to obtain an amount sufficient to redeem the Notes. There can be no assurance that the Portfolio Assets will realise such an amount. Neither the Issuer, the Trustee nor any receiver of the security may be able to enforce or sell the Portfolio Assets on appropriate terms should either of them be required to do so.

Insufficient Issuer Funds and the effect of Interest Deferred Events

If as a result of, *inter alia*, default by Obligors and the exercise by the Issuer and/or the Administrator of all available remedies under any Unsecured Loan Agreement or Secured Loan Agreement or Car Finance Agreement and the enforcement of any related security (in the case of a Secured Loan) and the sale of any related Motor Vehicle (in the case of a Car Finance Contract), in circumstances where the Issuer does not receive the full amounts due from those Obligors or if receipts from Obligors are applied, for example, in meeting obligations of the Issuer incurred in the course of the Issuer's business or in refunding reclaimed direct debit payments (as set out below), the funds available to the Issuer on any Interest Payment Date may not be sufficient, after making the payments to be made in priority thereto (see "Summary – Section 2 – Pre-enforcement Priority of Payments"), to pay, in full or at all, interest due on the Class C Notes and/or the Class B Notes and/or the Class A Notes; or the Class B Notes and/or the Class C Notes may be redeemed at less than their initial principal amount and, to the extent that any shortfall in the funds available to the Issuer exceeds the aggregate initial principal amount of the Class B Notes and the Class C Notes, Class A Noteholders may receive by way of principal repayment less than the initial principal amount of their Class A Notes.

Furthermore, if on any Determination Date (whether because of a reduction in the aggregate Current Principal Balances of the Performing Assets or otherwise):

- (a) a Class C Note Interest Deferral Event subsists, then interest on the Class C Notes shall be deferred and rank at item (xi) of the Pre-enforcement Priority of Payments; or
- (b) a Class B Note Interest Deferral Event subsists, then, in addition to the consequence described at (a) above, interest on the Class B Notes shall be deferred and rank at item (ix) of the Pre-enforcement Priority of Payments,

with the consequence, in either case, that the Actual Principal Funds on such Determination Date will be greater than it would otherwise have been had such interest been payable thus also potentially resulting on the next succeeding Interest Payment Date in a greater redemption of the Class A Notes (or, if there are no Class A Notes then outstanding, the Class B Notes or, if there are no Class B Notes then outstanding, the Class C Notes) than there would otherwise have been had such interest been payable.

The Issuer may receive an amount under a direct debit which subsequently has to be repaid to the bank making the payment. Such an amount may be repaid by applying funds standing to the credit of the Transaction Account at the time the repayment is required to be made.

Sources of payments upon enforcement of the security for the Notes

Upon enforcement of the security for the Notes, the Trustee will have recourse only to the Portfolio Assets and any other assets of the Issuer then in existence (as described in the paragraph entitled “The Issuer’s ability to meet its obligations under the Notes” above). The Issuer and the Trustee will have no recourse to any of PFPLC, PPF, PCF, Universal or PGC other than, in the case of PFPLC’s liability, as provided in the Secured Loan Sale Agreement (in the case of the Secured Loans) and in the Warranty Deed and the Repurchase Deed (in the case of the Unsecured Loans and the Car Finance Contracts) in respect of breaches of warranty and, in the case of Universal Portfolio Unsecured Loans, any occurrence of a CCA Event (as more particularly described in “Portfolio Assets”).

Conflict of Interest Between Noteholders

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders and/or the Class C Noteholders and other persons entitled to the benefit of the Security (as defined in “Description of the Class A Notes, the Global Class A Notes and the Security”) and subject thereto to have regard only to the interests of the Class B Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class B Noteholders and the interests of the Class C Noteholders and other persons entitled to the benefit of the Security and subject further thereto to have regard only to the interests of the Class C Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class C Noteholders and the interests of any of the other persons entitled to the benefit of the Security.

Matters relating to the Portfolio Assets

Provisional Pool

The Provisional Pool (which includes Assets that are not Performing Assets) includes Unsecured Loans which are Personal Loans having Current Balances in aggregate of £208,059,559.79 and Car Finance Contracts having Current Balances in aggregate of £1,128,934.04, in each case as at the Provisional Pool Date, in respect of which payments from Borrowers, Hirers or Lessees, as the case may be, were in arrears, as at such date, by an amount in excess of three current monthly payments. The Provisional Pool does not contain any Secured Loans or Unsecured Loans which are Retail Credit Loans which were, on the Provisional Pool Date, in arrears by an amount in excess of three current monthly payments.

Interest rates in respect of the Portfolio Assets

The hedging arrangements described in the sections entitled “Summary – Section 5 – Hedging Arrangements”, “Issuer – Hedging Arrangements” and “Portfolio Asset Administration – Portfolio Asset Interest Rates” provide only limited protection for the Noteholders against a shortfall as between, on the one hand, the income of the Issuer and, on the other hand, the Issuer’s floating rate interest payment obligations under the Notes.

Warranties

PFPLC will warrant to the Issuer and the Trustee in the Secured Loan Sale Agreement (in relation to Portfolio Secured Loans) and in the Warranty Deed (in relation to Portfolio Unsecured Loans and Portfolio Car Finance Contracts) in respect of certain matters relating to the Portfolio Assets (see “Portfolio Assets – Warranties”). The warranties will be given in relation to each Portfolio Asset as at its respective Cut-Off Date (as defined in “Portfolio Assets – Warranties”). These warranties are limited in their scope and nature to, *inter alia*, the beneficial ownership of the Portfolio Assets and the validity of Mortgages securing Portfolio Secured Loans before they were sold to the Issuer and are subject to certain limitations, as more particularly described in “Portfolio Assets”. Except as described in that section below, neither the Issuer, the Trustee nor any of the Managers has undertaken or will undertake any investigations, searches or other actions in relation to the Portfolio Assets and each will rely instead on the warranties given in the Secured Loan Sale Agreement (in relation to Portfolio Secured Loans) and in the Warranty Deed (in relation to Portfolio Unsecured Loans and Portfolio Car Finance Contracts). The

Issuer's and the Trustee's sole remedy against PFPLC in respect of breach of warranty or, in the case of any Universal Portfolio Unsecured Loan, the occurrence of a CCA Event, shall be to require PFPLC to remedy the breach (to the extent the same is remediable) within 30 days of receipt of a notice to that effect or to repurchase the relevant Portfolio Asset pursuant to the Secured Loan Sale Agreement or (as the case may be) the Repurchase Deed provided that this shall not limit any other remedies available to the Issuer and/or the Trustee if PFPLC fails to repurchase a Portfolio Asset when obliged to do so (see "Portfolio Assets – Repurchase of Portfolio Assets").

Administration of the Portfolio Assets

In the event of the termination of the appointment of the Administrator by reason of default by the Administrator or its insolvency, the Trustee will be entitled (but not obliged) to appoint a substitute administrator. There is no guarantee that an administrator could be found who would be willing to administer the Portfolio Assets and the Issuer's business on the terms of the Administration Agreement and the Deed of Charge (even though there is provision for the fees payable to a substitute administrator to be consistent with those commonly charged at that time for the provision of unsecured personal loans, secured personal loans and car finance administration services). The Trustee has no obligation to act as administrator. The ability of a substitute administrator fully to perform such services would depend on the information and records then available to it and it is possible that there could be an interruption in the administration during the course of the transition. Such person would not become bound by PFPLC's obligations under the Secured Loan Sale Agreement, the Warranty Deed or the Repurchase Deed. The fees and expenses of a substitute administrator performing services in this way would be payable under paragraph (ii) of "Summary – Section 2 – Pre-enforcement Priority of Payments".

In "Portfolio Asset Administration", the arrangements for collecting moneys relating to the Portfolio Assets are described, including the arrangements for the respective Collection Accounts of the Sellers to which payments in respect of the Portfolio Assets may be credited. That section also describes the arrangements for transferring amounts from the relevant Collection Account to the Transaction Account on the business day immediately following the date on which they were credited to the Collection Account, or as soon as practicable thereafter. While standing to the credit of the relevant Collection Account, any money received in respect of Portfolio Assets may be commingled with other moneys of the Sellers and/or other beneficiaries of trusts declared in respect of those accounts. Therefore, those moneys may cease to be easily traceable. As a result, the Issuer may receive less than was due to it in respect of Portfolio Assets on any particular date and may be required to refund moneys paid to it in error out of the Collection Accounts. In addition, there may be some interruption in the transfer of funds to the Issuer if any Seller (or a liquidator or administrator in respect of any of them) attempted to freeze the operation of any of the Collection Accounts pending completion of any rights of tracing and there is a risk of payment to the relevant Seller of moneys to which the Issuer is beneficially entitled.

Transfer of ownership of, and security over, Portfolio Assets

The transfer to the Issuer by a Seller of the benefit of the Portfolio Assets governed by English law (excluding, for the avoidance of doubt, Motor Vehicles) or, in the case of Unsecured Loans, the laws of Northern Ireland, will take effect in equity only. The benefit of any Portfolio Assets governed by, or otherwise subject to, Scots law (excluding, for the avoidance of doubt, Motor Vehicles) will be held in trust by the relevant Seller absolutely for the Issuer under declarations of trust or, as the case may be, supplemental declarations of trust in the forms set out as an appendix to the Standard Terms and Conditions (in the case of Scottish Unsecured Loans and Scottish Car Finance Contracts) or in the form set out in the Secured Loan Sale Agreement (in the case of Scottish Secured Loans) (the "**Scottish Declarations of Trust**") which result in the beneficial ownership of such assets being vested in the Issuer. References to the transfer of the benefit of such Portfolio Assets in the following paragraphs will be construed accordingly.

It is acknowledged by Hirers and Lessees that the relevant Seller remains (subject to the purchase rights and obligations of Hirers) the legal and beneficial owner of Motor Vehicles the subject of Car Finance Agreements notwithstanding the fact that the Hirer or the Lessee has possession. The terms of each Car Finance Sale Contract include an agreement that this legal and beneficial ownership should pass to the Issuer upon payment by it of the agreed purchase price (as described in "Summary – Section 7 – Portfolio Car Finance Contracts") for the relevant Car Finance Contract and Motor Vehicle. The Issuer has been advised that as a matter of English and Scots law this provision of the Car Finance Sale Contracts should be effective to pass the relevant Seller's title to the relevant Motor Vehicles to the Issuer.

The Trustee will be granted a fixed charge over, among other things, the Issuer's beneficial interest in the Portfolio Assets (other than the Portfolio Motor Vehicles). The Trustee will be granted a floating charge over the Portfolio Motor Vehicles. A floating charge is a charge that is recognised by common law and statute but has certain disadvantages relative to a fixed charge. One disadvantage is that in an insolvent winding up of the Issuer a holder of a floating charge would rank behind certain creditors who are preferred by statute, whereas a holder of a fixed charge would rank ahead of these creditors. Another disadvantage is that an asset subject to a floating charge may, unlike a fixed charge, be transferred to a third party free of the security. This will facilitate the transfer of title to Portfolio Motor Vehicles (for example to Hirers or Lessees or in a default situation to third parties) by the Issuer, but will then result in Portfolio Motor Vehicles ceasing to be subject to the security in favour of the Trustee.

In the case of Portfolio Unsecured Loans and Portfolio Car Finance Contracts the giving of notice to the relevant Obligor of the transfer (coupled with an appropriate legal assignment or assignation) by the relevant Seller is required to perfect legal title of the Issuer to such Portfolio Assets. However, the Trustee, the relevant Seller and the Issuer will agree that notice will only be given to the relevant Obligor in certain circumstances (see "Portfolio Assets – Notice to Obligors, Perfection of Legal Title and Security").

The sales to the Issuer of Secured Loans and their related Mortgages will not be perfected unless, *inter alia*, there is a breach of the Administration Agreement that gives rise to the Trustee's rights to terminate it or the Trustee certifies that, in its opinion, the security for the Notes is in jeopardy or PFPLC is in breach of its repurchase obligations under the Secured Loan Sale Agreement. In the meantime, neither the Issuer nor the Trustee will acquire legal title to any of the Secured Loans secured by English Mortgages over English Properties which are registered or required to be registered at H.M. Land Registry or by Scottish Mortgages and they will not be applying to H.M. Land Registry, the Central Land Charges Registry or the Registers of Scotland to perfect (or, as the case may be, protect) their interests in the Portfolio Secured Loans and the related Mortgages. For further information, see "Portfolio Assets – Notice to Obligors, Perfection of Legal Title and Security". They will also not be giving notice to any Obligor in respect of any transfer of a Portfolio Secured Loan or its related security.

The holding of an equitable interest in the Portfolio Assets (other than Portfolio Motor Vehicles) where notice is not given to the relevant Obligors has several legal consequences, including (in England and Wales) the following:

- (a) Unless and until an Obligor has notice of the transfer to the Issuer of the relevant Portfolio Asset, such Obligor is not bound to make payment to anyone other than the person to whom he or she made such payments before the transfer took place (being the relevant Seller) and can obtain a valid discharge from such person. However, each Seller will agree to hold all collections received by it in respect of Portfolio Assets on trust for the Issuer. Furthermore, in respect of Portfolio Assets transferred to the Issuer by PFPLC, whilst PFPLC remains the Administrator under the Administration Agreement, PFPLC will also be the agent of the Issuer for the purposes of collection of all moneys due under such Portfolio Assets and will be accountable to the Issuer accordingly for amounts paid to it in respect of such Portfolio Assets.
- (b) Unless and until an Obligor has notice of the sale, equitable rights of set-off (such as those referred to in this section in relation to the CCA) may accrue in favour of such Obligor against his or her obligation to make payments under the relevant Portfolio Asset to the relevant Seller. These rights may result in the Issuer receiving less money than anticipated from the Portfolio Assets. Pursuant to the Warranty Deed, PFPLC will warrant in respect of each Portfolio Asset as at its respective Cut-Off Date, that no right of set-off (or analogous claim) has been created or has arisen or exists or has been asserted between the relevant Seller and the relevant Obligor which would entitle such Obligor to reduce the amount payable in respect of such Portfolio Asset. However, rights of set-off (or analogous claims) arising under Section 56 or Section 75 of the CCA (which would not apply to all Portfolio Assets – see below) are expressly excluded from that warranty.
- (c) For so long as the Issuer holds only an equitable interest in the Portfolio Assets, the Issuer's interest therein may become subject to the interests of third parties (whether legal or equitable) created after the creation of the Issuer's equitable interest and before its legal interest is perfected or, as the case may be, protected by the giving of notice to the relevant Obligor and, in the case of an English Mortgage, the making of registrations at H.M. Land Registry or the Central Land Charges Registry. The Issuer's equitable interest may also be defeated by a subsequent purchaser or transferee for value of the legal ownership of the relevant Portfolio Asset who has not received notice of the Issuer's prior interest. In addition, the holding of an

equitable interest does not enable the Issuer to prevent the relevant Seller from modifying the terms of any Unsecured Loan Agreement, Secured Loan Agreement or Car Finance Agreement. However, pursuant to the Secured Loan Sale Agreement and the Standard Terms and Conditions (as defined in “Portfolio Assets – Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts”), the Sellers undertake not to amend any Unsecured Loan Agreement, Secured Loan Agreement or Car Finance Agreement.

- (d) For so long as the Issuer holds only an equitable interest, it must join the relevant Seller as a party to any legal proceedings which it may take against any Obligor. In this regard, each Seller will undertake for the benefit of the Issuer in the Secured Loan Sale Agreement and the Standard Terms and Conditions that it will lend its name to, and take such other steps as may be reasonably required by the Issuer or the Trustee in relation to, any legal proceedings in respect of the Portfolio Assets.

In respect of any Scottish Unsecured Loans, Scottish Secured Loans or Scottish Car Finance Contracts, the holding of a beneficial interest in a Portfolio Asset pursuant to a Scottish Declaration of Trust where notice is not given to the relevant Obligor has similar consequences to those noted in sub-paragraphs (a) to (d) above. However, additional procedural steps would be required to be taken by the relevant Seller in order to vest full legal title to the Scottish Unsecured Loans, Scottish Secured Loans or Scottish Car Finance Contracts in the Issuer and thereby put it in the same position as it would have been in as regards Portfolio Assets governed by English law where notice had been given to the relevant Obligor and (in the case of Portfolio Secured Loans) registrations made in respect of related English Mortgages.

In respect of any Portfolio Unsecured Loans governed by the laws of Northern Ireland, the holding of an equitable interest in a Portfolio Unsecured Loan where notice has not been given to the relevant Obligor will have similar consequences to those noted in sub-paragraphs (a) to (d) above. The methods of enforcing judgments available to unsecured creditors in Northern Ireland are similar to those in England and Wales. However, to enforce a judgment obtained against a debtor resident in Northern Ireland, a creditor must make an application for enforcement through the Enforcement of Judgments Office in Northern Ireland (the “**Enforcement of Judgments Office**”). Such applications are dealt with in date order and afforded priority accordingly and the Enforcement of Judgments Office has an exclusive discretion to use whatever procedure it feels is appropriate to recover a judgment debt.

With respect to the Portfolio Unsecured Loans, the Issuer has only acquired the benefit of the loans themselves. These consist of unsecured monetary obligations of the Borrowers under the relevant Unsecured Loan Agreement. No security has been given by any Borrower for any such monetary obligation and no Seller has any interest (and therefore is unable to transfer the benefit of any interest) in any property acquired by a Borrower with the proceeds of any Portfolio Unsecured Loan.

As regards Portfolio Car Finance Contracts, these again are unsecured monetary obligations on the part of the Hirers or Lessees. However, the Issuer owns the Portfolio Motor Vehicles in question, subject as described above and subject in the case of Portfolio Car Finance Contracts to the Hirers’/Lessees’ rights of possession and use and, in the case of hire purchase agreements and motor vehicle contract purchase agreements to the Hirers’ rights to purchase the relevant Portfolio Motor Vehicle on expiry of the relevant term or earlier settlement of the Car Finance Agreement. Such ownership rights will not, however, be specifically assigned or charged by the Issuer to the Trustee but they will fall within the floating charge created by the Issuer in favour of the Trustee. Such ownership rights may carry certain risks and liabilities, such as potential liability to the Hirer or Lessee and/or third parties if the car is defective. The Issuer will have the benefit of certain product liability insurance in respect of such liabilities which will be assigned to the Trustee by way of security under the Deed of Charge.

Creditor Insurance, Guaranteed Asset Protection and Payment Protection Issues

Some Obligors under Portfolio Unsecured Loans, Portfolio Secured Loans or Portfolio Car Finance Contracts have taken out creditor insurance to cover their payment obligations in the event of death, total disability or unemployment (“**Creditor Insurance**”). No Seller has any interest in any Creditor Insurance obtained by Obligors, even though the premium for such insurance may have been paid with part of the amount borrowed under a Portfolio Unsecured Loan, a Portfolio Secured Loan or otherwise financed under a Portfolio Car Finance Contract. In addition, some Hirers from PCF have taken out Guaranteed Asset Protection (“**GAP**”) against an outstanding liability following a write-off of the related Motor Vehicle and any subsequent insurance settlement. PCF does not have an interest in any such GAP obtained by Hirers, even though the premium for such GAP may have been financed under the Portfolio Finance Contract. Any insurer’s obligation to pay moneys under such Creditor Insurance or GAP will be owed to the Obligor. However, the relevant Creditor Insurance policies or GAP provide for all insurance proceeds

to be paid directly to the relevant Seller's Collection Account. Any insurance proceeds in respect of a Portfolio Asset paid into the relevant Seller's Collection Account would be held on trust for the Issuer, pending transfer of such proceeds to the Transaction Account (see "Portfolio Assets – Insurance").

Legal proceedings in relation to Portfolio Assets

As noted above, each Seller will undertake to lend its name to, and take such other steps as may be reasonably required by the Issuer or the Trustee in relation to, any legal proceedings in respect of the Portfolio Assets. It should be noted however that it may be difficult to trace and repossess any particular Portfolio Motor Vehicle, which is likely to be in the physical possession of the relevant Hirer or Lessee (as the case may be). There is a general legal rule that a person who is not the legal and beneficial owner of an asset is not able effectively to transfer legal and beneficial ownership of that asset to a third party. This rule would prevent Hirers and Lessees from transferring legal and beneficial ownership in Portfolio Motor Vehicles to third parties. However, there are certain exceptions to this rule, including where a person in possession of a physical asset with the permission of its owner purports to transfer legal and beneficial ownership of it to a third party who accepts that ownership in good faith and for value. English law (but not that of Scotland, except in very limited circumstances) will then hold that the third party has acquired good title to the asset. There is, therefore, a risk that the Issuer's title to the Motor Vehicles may be defeated by such a transfer by a Hirer or Lessee. Further, any proceeds arising on the disposal of a Portfolio Motor Vehicle may be less than the total amount outstanding under the relevant Portfolio Car Finance Contract. It should be noted that a Portfolio Motor Vehicle may be subject to an existing lien or similar right (for example, in respect of repairs carried out by a garage for which payment has not yet been made or unpaid rent for premises on which the relevant Portfolio Motor Vehicle is kept). Also any action to recover outstanding amounts under a Portfolio Car Finance Contract may not be pursued if to do so would be uneconomic. Each Car Finance Agreement requires the Hirer or Lessee (as the case may be) to take out vehicle accident insurance. However, there can be no certainty that such insurance has in fact been taken out or maintained or that any proceeds from such insurance (if taken out and maintained) will be available to the Issuer or the Trustee.

Timeshare Act 1992

The Timeshare Act 1992 (the "TA") provides that a Borrower may cancel a Portfolio Unsecured Loan used to finance the purchase of leisure accommodation rights where: (a) the agreement is to any extent governed by the law of the United Kingdom or of a part of the United Kingdom; or (b) one or both of the parties to the agreement was in the United Kingdom when it was entered into (a "Timeshare Loan"). The Borrower's right to cancel a Timeshare Loan under the TA is limited to a period of 14 days from the date the agreement was entered into unless there has been a failure to comply with certain provisions of the TA or regulations made under it, in which case the cancellation period will, depending upon the actions of the Borrower, be extended indefinitely. The Provisional Pool includes Timeshare Loans having Current Balances in aggregate (as at the Provisional Pool Date) of £55,444,022.70.

Consumer Credit Act 1974

Each Portfolio Unsecured Loan, Portfolio Secured Loan or Portfolio Car Finance Contract with an individual Borrower, Hirer or Lessee for an amount of £25,000 or less (or, in relation to each Portfolio Unsecured Loan, Portfolio Secured Loan or Portfolio Car Finance Contract originated prior to 1st May, 1998, £15,000 or less) is regulated by the CCA. The Provisional Pool includes Unsecured Loans, Secured Loans and Car Finance Contracts that are regulated by the CCA having Current Balances in aggregate (as at the Provisional Pool Date) of £474,542,347.31.

In common with the loans of many other lenders in the consumer finance market, some of the Portfolio Assets do not and may continue not to comply in all respects with the requirements of the CCA or related or subordinate legislation. If a significant number of Obligors were to take the relevant legislative points this could, depending on the attitude of the courts, lead to a significant disruption, and shortfall, in the income of the Issuer. This risk is believed by the Issuer to be in part mitigated by the apparent rarity with which such points have historically been taken by consumer borrowers and the likelihood that most of the relevant Portfolio Assets which are non-compliant are non-compliant in ways which courts tend to regard as insufficient for them to decide not to enforce the relevant loan. The Issuer also has the benefit of the repurchase obligations of PFPLC under the Repurchase Deed on the occurrence of a CCA Event in relation to any Universal Portfolio Unsecured Loan (as referred to in "Portfolio Assets – Repurchase of Portfolio Assets").

If an Unsecured Loan Agreement, Secured Loan Agreement or Car Finance Agreement which is regulated by the CCA has not been executed in accordance with the provisions of the CCA, the CCA provides that such an agreement will be unenforceable without a court order being obtained and in certain circumstances will be completely unenforceable. Examples of improper execution in accordance with the CCA include a failure to comply with the provisions of the Consumer Credit (Agreements) Regulations 1983 which govern the form and content of agreements regulated by the CCA.

Mortgages or standard securities on land securing an agreement regulated by the CCA may only be enforced on an order of the court. A court order is not necessary, however, where the relevant Borrower consents to enforcement at the time enforcement is sought. The CCA provides no sanction for enforcement of a mortgage or standard security without the requisite court order, but the court retains the power to grant an injunction or (in Scotland) interdict restraining such action.

In certain circumstances (principally, except for Timeshare Loans, where antecedent negotiations have taken place in the presence of the Borrower and the relevant agreement is signed off the trade premises of the creditor or its agent for such negotiations), the CCA renders an agreement which is subject to it cancellable and regulations require certain related formalities to be observed. Certain deviations from these requirements can result in the agreement being completely unenforceable; the court has no jurisdiction to validate them. These rights to cancel do not apply to agreements secured on land. Other formalities are required to be observed if such agreements are to be enforceable without a court order.

An Obligor under an Unsecured Loan Agreement, a Secured Loan Agreement or Car Finance Agreement governed by the CCA is entitled at any time, by giving notice in writing, to pay all amounts payable by him/her under his or her Portfolio Unsecured Loan, Portfolio Secured Loan or Portfolio Car Finance Contract in full, less, where appropriate, a rebate at least equal to that calculated in accordance with the Consumer Credit (Rebate on Early Settlement) Regulations 1983.

If certain default or enforcement proceedings are taken or notice of early termination is served on an Obligor under an Unsecured Loan Agreement or Secured Loan Agreement or Car Finance Agreement governed by the CCA, the court may, on application by such Obligor or where any action is brought to enforce any security or recover possession of land to which a CCA-regulated agreement applies and, in each case if it appears to the court just to do so, to make a time order to permit such Obligor to make payments under the relevant Portfolio Unsecured Loan, Portfolio Secured Loan or Portfolio Car Finance Contract by such instalments, payable at such times, or to remedy any breach at such times as the court thinks reasonable, having regard to the means of such Obligor.

The court will also have regard to the prejudice caused to any person by the relevant contravention of the CCA and the degree of culpability of the relevant lender, creditor or owner for it. The court has powers to amend any agreement or security which is regulated by the CCA or impose conditions on the performance of, or suspend the operation of, an enforcement order made by it in relation to any such agreement.

Many of the Unsecured Loan Agreements (including those governing Retail Credit Loans and Timeshare Loans), the Secured Loan Agreements and all Car Finance Agreements (save for car leasing agreements where Creditor Insurance is not funded by PCF) constitute “DCS” (debtor/creditor/supplier) agreements for the purposes of the CCA. A DCS agreement is one where, *inter alia*, under pre-existing arrangements between creditor and supplier, the creditor provides finance for the purchase by the debtor of goods or services from the supplier. Certain Unsecured Loan Agreements, Secured Loan Agreements and Car Finance Agreements are DCS agreements only by virtue of the relevant Seller, as lender, advancing funds for the payment of the premiums under Creditor Insurance policies or GAP, the supplier in such case being the insurer. Certain Car Finance Agreements are DCS agreements by virtue of the relevant Seller, as owner of a Motor Vehicle, supplying that Motor Vehicle to the Hirer. In relation to a DCS agreement the relevant Seller may be liable, by virtue of section 56 of the CCA, for any misrepresentations, acts, omissions or statements made by the supplier to the Borrower, Hirer or Lessee during negotiations prior to execution of the relevant Unsecured Loan Agreement, Secured Loan Agreement or Car Finance Agreement. In addition, pursuant to section 75 of the CCA and in respect of any DCS agreements where the relevant Seller and supplier are different persons, the relevant Seller (as well as the supplier) may be liable to the Borrower, Hirer or Lessee for misrepresentation, breach of an express or implied warranty or breach of contract. Examples of possible liability of this sort which may attach to the relevant Seller include cases where goods or services to be supplied are not supplied at all or are supplied but, in the case of services, not supplied within a reasonable time or are supplied but not with reasonable care and skill. The requirement to supply services within a reasonable time and with reasonable care and skill can, in certain circumstances, be implied into a contract for the supply of services under the Supply of Goods and Services Act 1982. Other

examples of possible liability include the application of the Supply of Goods (Implied Terms) Act 1973 to hire purchase agreements, the application of the Sale of Goods Act 1979 to conditional sale agreements and the application of the Supply of Goods and Services Act 1982 to leasing agreements, whereby an Obligor could make a claim for breach of contract against the relevant Seller if a Portfolio Motor Vehicle the subject of a Portfolio Car Finance Contract is not of satisfactory quality or reasonably fit for its intended purpose.

Where sections 56 and 75 of the CCA are applicable, Obligors will have the right to claim directly against the relevant Seller and/or set off an amount in respect of that claim against their obligation to make payments under any loan or other financing agreement (including Portfolio Unsecured Loans and/or Portfolio Secured Loans and/or Portfolio Car Finance Contracts) made to them by the relevant Seller. These rights will continue to subsist notwithstanding the sale of the Portfolio Unsecured Loans and/or Portfolio Secured Loans and/or Portfolio Car Finance Contracts to the Issuer and may give rise to a number of consequences including the following:

- (a) an Obligor, in certain circumstances, may make a direct claim against the relevant Seller or exercise a right of set-off against a loan or car finance agreement which is not a Portfolio Unsecured Loan, a Portfolio Secured Loan or Portfolio Car Finance Contract as a result of liabilities arising under an Unsecured Loan Agreement, a Secured Loan Agreement or Car Finance Agreement with that Obligor which is subject to section 56 or section 75 of the CCA; and
- (b) an Obligor, in certain circumstances, may exercise a right of set-off against a Portfolio Unsecured Loan, a Portfolio Secured Loan or Portfolio Car Finance Contract as a result of liabilities arising under a different Unsecured Loan Agreement, Secured Loan Agreement or Car Finance Agreement with that Obligor which is subject to section 56 or section 75 of the CCA; and
- (c) an Obligor may exercise a right of set-off in respect of his or her obligations under an Unsecured Loan Agreement or Secured Loan Agreement (if the relevant Portfolio Unsecured Loan or Portfolio Secured Loan is not a Scottish Unsecured Loan or Scottish Secured Loan) or a Car Finance Agreement (if the relevant Portfolio Car Finance Contract is not a Scottish Car Finance Contract) as a result of liabilities arising in relation to a loan agreement or other financing agreement with that Obligor which is subject to section 56 or section 75 of the CCA and which does not relate to a Portfolio Unsecured Loan, Portfolio Secured Loan or Portfolio Car Finance Contract but which is made by the relevant Seller to the same Obligor,

provided that any of the above rights of set-off will only be exercisable if, in the case of a set-off described in sub-paragraph (a) or (c), it arose prior to the date (if any) on which notice is given to the Obligor of the assignment to the Issuer of the benefit of the relevant Portfolio Unsecured Loan, Portfolio Secured Loan or Portfolio Car Finance Contract or, in the case of a set-off described in sub-paragraph (b), it arose before the date (if any) on which notice is given to the Obligor of the assignment to the Issuer of one but not the other of the relevant Portfolio Unsecured Loans, Portfolio Secured Loans or Portfolio Car Finance Contracts in favour of that Obligor.

Any Portfolio Unsecured Loans, Portfolio Secured Loans or Portfolio Car Finance Contracts which are Scottish Unsecured Loans or Scottish Secured Loans or Scottish Car Finance Contracts will be held on trust by the relevant Seller for the Issuer, rather than being equitably assigned. Therefore, the type of set-off claim described in sub-paragraph (a) or (c) above will probably not be available to the relevant Obligor if it derives from a DCS agreement entered into after the relevant Scottish Unsecured Loan, Scottish Secured Loan or Scottish Car Finance Contract is held on trust.

In the case of a claim brought by a Borrower, Hirer or Lessee under section 75 of the CCA the relevant Seller has, subject to any agreement to the contrary, a statutory right under section 75 of the CCA to be indemnified by the supplier for any loss suffered, including any costs reasonably incurred in defending an action by an Obligor. In addition, under the Civil Liability (Contribution) Act 1978 the relevant Seller has, subject to any agreement to the contrary, a statutory right to a contribution from the supplier.

Although the Supply of Goods and Services Act 1982 and the Civil Liability (Contribution) Act 1978 do not apply in Scotland, the position of the relevant Seller under Scots law is broadly similar to that stated in the preceding paragraph relating to the law of England and Wales and Northern Ireland.

Early settlement or termination of Portfolio Assets

It is possible that an Obligor may settle early (or terminate) the Unsecured Loan Agreement, Secured Loan Agreement or Car Finance Agreement to which it is a party. This may happen at any time, either by *ad hoc* agreement, pursuant to the terms of the relevant contract or in accordance with the provisions of the CCA (if the relevant contract is CCA-regulated). The commercial effect of any such early settlement or termination will differ according to whether or not the relevant Unsecured Loan Agreement, Secured Loan Agreement or Car Finance Agreement is regulated by the CCA.

Where the relevant agreement is CCA-regulated, the Obligor may complete the agreement by payment of all outstanding amounts due thereunder in advance of their scheduled payment dates less any statutory rebate of charges to which the Obligor may be entitled. In relation to Car Finance Agreements, which confer or impose on the Obligor an option or obligation to purchase the relevant Motor Vehicle, early settlement and payment in this way will entitle the Obligor to acquire title to such Motor Vehicle.

As an alternative to early settlement of a CCA-regulated contract of hire-purchase or conditional sale, such as the Car Finance Agreements which are hire purchase or conditional sale agreements, the Hirer has a right to terminate without completing all payments which would otherwise have been due if the contract had run its course. In such circumstances, the Issuer is entitled to recover:

- (a) all arrears of payments and damages for any other breach of the relevant Car Finance Agreement by the Hirer prior to termination;
- (b) any sum payable by the Hirer arising from a failure of the Hirer's duty to take reasonable care of the related Motor Vehicle;
- (c) the amount (if any) by which one half of the total amount due under the relevant Car Finance Agreement exceeds the aggregate of sums already paid by the Hirer and amounts due from the Hirer under the Car Finance Agreement immediately before termination (unless a court determines that a lower sum should be paid); and
- (d) the net proceeds of the sale of the Motor Vehicle.

The court may make an order for payment of a lesser sum if satisfied that the Issuer's/creditor's loss is less than the amount determined in the manner set out above.

Each of the above would affect the amount payable to the Issuer under the relevant Car Finance Agreement.

An Obligor under an Unsecured Loan Agreement, Secured Loan Agreement or Car Finance Agreement which is not CCA-regulated may also settle early in a similar way to that described above, except that the Obligor will not be entitled to a statutory rebate of credit, hire-purchase or hire charges (but they may be entitled to a contractual rebate in certain circumstances). Some such rebate is likely to be granted by the Issuer or the Administrator on its behalf. On termination of a Car Finance Agreement which is a hire-purchase arrangement and which is not CCA-regulated, the Hirer will be obliged to pay all amounts which would otherwise have been due had the contract run its course. A discount for early receipt of these amounts is likely to be allowed by the Issuer or the Administrator on its behalf, together with an amount equal to the net proceeds of the sale of the related Motor Vehicle.

Other Matters

Stamp duty

Various documents which may be executed in connection with an Unsecured Loan Offer to Sell, a Car Finance Offer to Sell or an Unsecured Loan Sale Contract or Car Finance Sale Contract will, subject to certain exceptions, be executed outside the United Kingdom and will remain outside the United Kingdom unless required to be brought into the United Kingdom for the purposes of enforcement proceedings or for certain other limited purposes. The Issuer has undertaken to pay any stamp duty, stamp duty reserve tax and any other documentary or similar taxes, duties or levies which may arise in connection with the execution, performance or enforcement of any Unsecured Loan Sale Contract or Car Finance Sale Contract.

European Monetary Union

It is possible that prior to the maturity of the Notes the United Kingdom may become a participating Member State in Economic and Monetary Union and the euro may become the lawful currency of the United Kingdom. In that event: (i) all amounts payable in respect of the Notes and/or the Portfolio Assets may become payable in euros; (ii) applicable provisions of law may allow the Issuer to redenominate the Notes into euros and take additional measures in respect of the Notes and/or the Portfolio Assets to be

redenominated into euros and/or additional measures to be taken in respect of the Portfolio Assets by one or both of the parties thereto; and (iii) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Notes and/or the Portfolio Assets or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect the ability of Obligors to make payments in respect of the Portfolio Assets as well as adversely affect investors. It cannot be said with certainty what effect, if any, the adoption of the euro by the United Kingdom would have on investors in the Notes of any class.

Proposed EU Withholding Tax Directive

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments. The proposals are not yet final, and they may be subject to further amendment and clarification. See “United Kingdom Taxation” below.

Withholding tax under the Notes

In the event that withholding taxes are imposed by or in any jurisdiction in respect of payments to Noteholders of any amounts due under the Notes, the Issuer will not be obliged to gross up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of the imposition of such withholding taxes. The Issuer will, in such event, have the option (but not the obligation) of redeeming all outstanding Notes in full. See “Description of the Class A Notes, the Global Class A Notes and the Security”, “Description of the Class B Notes, the Global Class B Notes and the Security” and “Description of the Class C Notes, the Global Class C Notes and the Security”.

Insolvency Act 2000

It should be noted that significant changes to the insolvency regime in England, Wales and Scotland have recently been enacted in the Insolvency Act 2000. Under this Act certain “small” companies (which are defined by reference to certain financial and other tests) proposing to put in place a company voluntary arrangement procedure may be able to obtain protection from their creditors by way of a moratorium for a period of 28 days with the possibility for an extension of a further two months. These provisions have not yet been brought into force. The Secretary of State for Trade and Industry may by regulation modify the eligibility requirements for a moratorium and can make different provisions for different cases. It is also possible that the Secretary of State may make regulations excluding special purpose companies such as the Issuer from being eligible for a moratorium. No assurance can be given that the moratorium provisions of the Insolvency Act 2000 described above will not be detrimental to the interests of Noteholders.

Change of Law

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

USE OF PROCEEDS

The gross proceeds from the issue of the Class A Notes will be £146,900,000, those from the issue of the Class B Notes will be £70,900,000 and those from the issue of the Class C Notes will be £26,900,000. All expenses of the Issuer will be paid on behalf of or reimbursed to the Issuer by PFPLC as described in “The Issuer – Fee Letter”. As a result, the net proceeds from the issue of the Notes will be approximately £244,700,000. Such net proceeds will be applied in acquiring Unsecured Loans, Secured Loans, Car Finance Contracts and the related Motor Vehicles on the Closing Date or (as described in the next sentence) on or prior to the Final Addition Date. It is expected that less than £7,341,000 of the gross proceeds of the Notes will not be applied in acquiring Unsecured Loans, Secured Loans, Car Finance Contracts and the related Motor Vehicles on the Closing Date but may be applied, *inter alia*, in the acquisition of Unsecured Loans, Secured Loans, Car Finance Contracts and the related Motor Vehicles on or prior to the Final Addition Date.

RATINGS

The Class A Notes are expected on issue to be assigned an AAA rating by Fitch, an Aaa rating by Moody’s and an AAA rating by Standard & Poor’s. The Class B Notes are expected, on issue, to be assigned an A rating by Fitch, an A2 rating by Moody’s and an A rating by Standard & Poor’s and the Class C Notes are expected, on issue, to be assigned a BBB rating by Fitch, a Baa2 rating by Moody’s and a BBB rating by Standard & Poor’s. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

THE ISSUER

Introduction

The Issuer was incorporated in England, with registered number 3696151, as a public limited company under the Companies Act 1985 on 15th January, 1999 under the name Finance for People (No. 11) PLC. It changed its name to Paragon Personal and Auto Finance (No. 2) PLC on 23rd August, 2001. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The Issuer is a wholly owned subsidiary of PGC, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The ordinary share capital of PGC is listed on the Official List.

The Issuer has no subsidiaries.

The principal objects of the Issuer are set out in Clause 4 of its Memorandum of Association and are, *inter alia*, to borrow or raise money, to secure the repayment of such money upon its assets, to lend money and to invest in, deal in, acquire and dispose of consumer loans and other similar investments.

The Issuer has not engaged, since its incorporation, in any material activities other than: (i) those incidental to its registration as a public company under the Companies Act 1985; (ii) obtaining a certificate from the Registrar of Companies pursuant to section 117 of the Companies Act 1985; (iii) the authorisation of the issue of the Notes and the matters contemplated in this Offering Circular; (iv) obtaining a standard licence under the Consumer Credit Act 1974; (v) registering under the Data Protection Acts 1984 and 1998; (vi) applying to join and joining the Paragon VAT Group; and (vii) the authorisation and execution of the other documents referred to in this Offering Circular to which it is a party and any other activities incidental to any of the foregoing.

Directors and Secretary

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

Name	Business address	Other principal activities
John Gemmell	St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE	Secretary of PGC and Director and Secretary of PFPLC, PPF, PCF and Universal
Nicholas Keen	St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE	Finance Director of PGC and Director of PFPLC, PPF, PCF and Universal
Adem Mehmet	28 King Street, London EC2V 8EH	Director of PFPLC, PPF, PCF and Universal
Richard Shelton	St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE	Director and Solicitor of PFPLC and Director of PPF, PCF and Universal
Anthony Raikes	78 Cannon Street, London EC4P 5LN	Chairman of SPV Management Limited

Nicholas Keen is Chairman of the Issuer. John Gemmell is Secretary of the Issuer.

The Issuer has no employees.

Management and Activities

Pursuant to the Administration Agreement and a letter agreement from the Issuer to PFPLC to be dated on the Closing Date (the "**Services Letter**"), PFPLC will, unless and until certain events occur, undertake the day-to-day management and administration of the business of the Issuer. The Issuer will agree to pay to PFPLC, for the provision of the services provided pursuant to the Services Letter, a fee payable quarterly in arrear calculated on the basis of an apportionment, according to the average gross value of Portfolio Assets under management during the relevant period, of the direct costs incurred by PFPLC in respect of those services together with the central service and utility costs borne by PFPLC and together with such further amount as may from time to time be agreed between PFPLC and the Issuer.

Amounts owing to PFPLC under the Services Letter will be subordinated in the manner described in “Summary – Section 2 – Pre-enforcement Priority of Payments”. The fee payable by the Issuer under the Administration Agreement is referred to in “Portfolio Asset Administration”.

The Issuer will covenant to observe certain restrictions on its activities which are detailed in “Description of the Class A Notes, the Global Class A Notes and the Security – Covenants of the Issuer”, “Description of the Class B Notes, the Global Class B Notes and the Security – Covenants of the Issuer” and “Description of the Class C Notes, the Global Class C Notes and the Security – Covenants of the Issuer”.

Fee Letter

PFPLC has agreed to arrange the issue of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issue of the Notes and of documents for approval by the Issuer and has liaised with professional advisers and the Managers. PFPLC will pay, on behalf of the Issuer, or reimburse to the Issuer, any expenses payable by the Issuer in connection with the issue of the Notes. The Issuer will also agree under the Fee Letter that it will pay PFPLC an arrangement fee of 0.4% of the sum of the aggregate principal amount of the Notes and will repay PFPLC all expenses paid by PFPLC in connection with the Notes. Such amounts will be payable in instalments on the business day following each Interest Payment Date over a period of four years from the Closing Date.

Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR (or such other rate which PFPLC and the Issuer agree to be a fair commercial rate at the time) payable in arrear on the business day following each Interest Payment Date. Amounts owing to PFPLC under the Fee Letter will be subordinated in the manner described in “Summary – Section 2 – Pre-enforcement Priority of Payments”.

Subordinated Loan Facility

By the Subordinated Loan Agreement (which will be made between PFPLC, the Issuer and the Trustee and dated on or before the Closing Date) PFPLC will agree to make available to the Issuer a loan facility, under which an amount or amounts will be drawn down by the Issuer on the Closing Date: (i) to establish the First Loss Fund on the Closing Date; (ii) to reimburse the relevant Seller of a Portfolio Asset on the Closing Date for any commissions (“**Unamortised Commissions**”) that such Seller has paid but which have not been amortised under the relevant Unsecured Loan, Secured Loan or Car Finance Contract; (iii) to establish a fund equal to the Stamp Duty Amount in respect of the Issuer’s potential liability (if any) to stamp duty in respect of the transfer to the Issuer on or after the Closing Date of the benefit of Portfolio Unsecured Loans that are Scottish Unsecured Loans and Portfolio Car Finance Contracts that are Scottish Car Finance Contracts; and (iv) to achieve the initial ratings assigned to the Notes by the Rating Agencies. Under the terms of the Subordinated Loan Agreement, PFPLC will also agree to make advances available to the Issuer at any time after the Closing Date if and to the extent that the Issuer accepts an Offer to Sell and is required to reimburse the Seller of the relevant Portfolio Asset for any Unamortised Commission at that time.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of PFPLC: (i) in order to fund (if necessary) purchases of interest rate swaps, caps or other hedging arrangements (and any related guarantee) as described in “The Issuer – Hedging Arrangements”; (ii) for the purpose of establishing or increasing the Shortfall Fund or replenishing the First Loss Fund; (iii) to ensure that on any Calculation Date the Performance Conditions are satisfied; and (iv) to fund payments of stamp duty (if any) arising on the transfer to the Issuer of the benefit of any Portfolio Assets (other than payments of stamp duty (if any) which are able to be funded from the fund referred to in item (iii) of the preceding paragraph). In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement if and to the extent that the relevant Substitution Amount is not such as to enable it to make any discretionary further advances in respect of Portfolio Secured Loans. The Issuer shall not be entitled to make a discretionary further advance where it is unable to fund such discretionary further advance accordingly.

The Issuer may from time to time borrow further sums from PFPLC or other Subordinated Lenders on the terms of the Subordinated Loan Agreement.

Amounts owing to PFPLC and any Subordinated Lenders under the Subordinated Loan Agreement will be subordinated in the manner described in “Summary – Section 2 – Pre-enforcement Priority of Payments”.

Interest under the Subordinated Loan Agreement is payable by the Issuer on or after the business day falling next after each Interest Payment Date commencing with the Interest Payment Date falling in April 2002. Interest will accrue at the rate of 4% per annum above LIBOR (or such other rate which PFPLC and the Issuer agree to be a fair commercial rate at the relevant time). Payments of interest under the Subordinated Loan Agreement may only be made by the Issuer, if after applying Issuer Funds in making a number of other payments or provisions, the Issuer still has sufficient funds for the purpose as more particularly described in “Summary – Section 2 – Pre-enforcement Priority of Payments”.

Principal will be repayable on the earlier of the business day following (i) the Interest Payment Date falling in January 2033 and (ii) the first day on which there are no Notes outstanding except that, to the extent that sufficient funds are available to the Issuer to do so (see “Summary – Section 2 – Pre-enforcement Priority of Payments”) on the business day following (a) any Interest Payment Date falling on or after the day on which the Issuer receives an adjudication from the United Kingdom Stamp Office that no stamp duty is payable on the transfer to the Issuer on the Closing Date of the benefit of the Initial Portfolio Car Finance Contracts which are Scottish Car Finance Contracts or the benefit of the Initial Portfolio Unsecured Loans which are Scottish Unsecured Loans, an amount equal to the Stamp Duty Amount may be repaid; (b) any Interest Payment Date falling on or after the first Interest Payment Date on which all of the First Loss Conditions are satisfied, an amount equal to £3,562,500, being approximately 1.46% of the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes at the Closing Date or such other amount which may from time to time be agreed between the Issuer and the Rating Agencies may be repaid; and (c) any Interest Payment Date sums borrowed under the Subordinated Loan Agreement (other than those referred to in (a) and (b) above) will be repaid, provided always that the maximum amount repayable pursuant to sub-paragraphs (a) and (b) above shall be (x) the Stamp Duty Amount and (y) £3,562,500 (or such other amount which is agreed from time to time between the Issuer and the Rating Agencies), respectively.

Hedging Arrangements

The purpose of all hedging arrangements to which the Issuer is or will become a party is to hedge the mismatch between its floating rate interest payment obligations under the Notes and its mainly fixed rate income under Portfolio Unsecured Loans and Portfolio Car Finance Contracts and under any fixed rate, capped rate or collared rate Portfolio Secured Loans. On or about the Closing Date the Issuer will enter into hedging arrangements under the Hedge Agreement each in accordance with the requirements of the Rating Agencies in order to achieve the initial ratings of the Notes.

It is a continuing requirement of the Rating Agencies in order to maintain the ratings of the Notes that hedging arrangements are maintained in relation to the Portfolio Assets which are Performing Assets. Such hedging arrangements may be amended or added to in accordance with the Administration Agreement on the acquisition of Further Unsecured Loans, Further Secured Loans or Further Car Finance Contracts and in relation to any fixed rate, capped rate or collared rate Converted Loan arising upon conversion of any Portfolio Secured Loan which was not prior to such conversion a fixed rate, capped rate or collared rate Portfolio Secured Loan. Any amendment or addition must always meet the requirements of the Rating Agencies.

Any Further Secured Loan will be acquired on the basis that on acquisition hedging arrangements are entered into in relation thereto, where necessary, so that the weighted average interest rate applicable to all Portfolio Secured Loans which are Performing Assets including such Further Secured Loans, taking account of all hedging arrangements entered into by the Issuer in respect of the Portfolio Secured Loans and all income expected to be received by the Issuer from Authorised Investments, is at least 5% (or such other percentage as may be agreed from time to time by the Rating Agencies) above LIBOR applicable to the Notes at that time unless and to the extent that there is a credit balance in the Shortfall Fund (if any) (net of all provisions previously made during the then current Interest Period) at least equal to the shortfall which would arise at that time and it makes a provision in such Shortfall Fund equal to such shortfall.

On or before the Closing Date, the Issuer will enter into hedging arrangements in accordance with the requirements of the Rating Agencies in order to achieve the initial ratings of the Notes, such that the weighted average of the interest rates used to calculate the payments under Car Finance Contracts to be acquired on the Closing Date and which are Performing Assets will be at least 6% (or such other percentage as may be agreed from time to time by the Rating Agencies) higher than both the rate payable by the Issuer under any swap arrangement (payable in return for the LIBOR applicable to the Notes at that time) and the strike rate (against the LIBOR applicable to the Notes at that time) on any cap arrangement entered into by the Issuer in respect thereof.

Any Further Car Finance Contract will be acquired on the basis that on acquisition hedging arrangements are entered into in relation thereto, where necessary, so that the weighted average of the interest rates used to calculate the payments under such Further Car Finance Contracts is at least 6% (or such other percentage as the Rating Agencies shall agree from time to time) higher than both the rate payable by the Issuer under any swap arrangement (payable in return for the LIBOR applicable to the Notes at that time) and the strike rate (against the LIBOR applicable to the Notes at that time) on any cap arrangement entered into by the Issuer in respect thereof.

On or about the Closing Date, the Issuer will enter into further hedging arrangements in accordance with the requirements of the Rating Agencies in order to achieve the initial ratings of the Notes, such that the weighted average of the interest rates used to calculate the payments made under Unsecured Loans to be acquired on the Closing Date and which are Performing Assets will be at least 5% (in the case of Retail Credit Loans) or 7% (in the case of Personal Loans) (or such other percentages as may be agreed from time to time by the Rating Agencies) higher than both the rate payable by the Issuer under any swap arrangement (payable in return for the LIBOR applicable to the Notes at that time) and the strike rate (against the LIBOR rate applicable to the Notes at that time) on any cap arrangement entered into by the Issuer in respect thereof.

Any Further Unsecured Loan will be acquired on the basis that on acquisition hedging arrangements are entered into in relation thereto, where necessary, so that the weighted average of the interest rates used to calculate the payments under such Further Unsecured Loans is at least 5% (in the case of Retail Credit Loans) or 7% (in the case of Personal Loans) (or such other percentages as the Rating Agencies shall agree from time to time) higher than both the rate payable by the Issuer under any swap arrangement (payable in return for the LIBOR applicable to the Notes at that time) and the strike rate (against the LIBOR applicable to the Notes at that time) on any cap arrangement entered into by the Issuer in respect thereof.

These hedging arrangements may, but need not, include one or more interest rate swaps, caps and/or floors made available to the Issuer by means of one or more swap, cap or floor agreements entered into with the Hedge Provider or a Permitted Hedge Provider as appropriate or may comprise other interest rate hedging arrangements entered into with the Hedge Provider under the Hedge Agreement.

Termination of any such arrangements which are entered into may occur independently of an Event of Default. Such termination may amount to a partial termination of such hedging arrangements and be effected by the Issuer in order to reflect the changing characteristics of the Portfolio Assets and the weighted average rate of return on the Portfolio Unsecured Loans, the Portfolio Secured Loans and the Portfolio Car Finance Contracts. This may give rise to a payment due either to or from the Issuer, which payment obligation (if an obligation of the Issuer) will rank in order of priority as described in “Summary – Section 2 – Pre-enforcement Priority of Payments”.

Each of these hedging arrangements may be provided by any bank or financial institution provided that on the date on which it makes such arrangements available to the Issuer, such bank or financial institution has a rating for its long-term or short-term debt obligations sufficient to maintain the then ratings of the Notes unless such arrangements are guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge. Each such bank or financial institution is a “Permitted Hedge Provider”.

After payment of or provision for items (i) to (xiii) (inclusive) in “Summary – Section 2 – Pre-enforcement Priority of Payments”, the Issuer may make a provision for funds on an Interest Payment Date to enable it to enter into other hedging arrangements (and related guarantees as necessary) in the succeeding Interest Period.

Each of the Hedge Agreement and any other hedging arrangement entered into by the Issuer will contain downgrade protection for the Issuer. In the event that either the long-term unsecured and unguaranteed debt obligations of the Hedge Counterparty or other Permitted Hedge Provider cease to be rated at least AA- by Fitch, at least Aa3 by Moody's and at least AA- by Standard & Poor's or the short-term unsecured and unguaranteed debt obligations of the Hedge Counterparty or other Permitted Hedge Provider cease to be rated at least F-1 by Fitch, P-1 by Moody's and at least A-1 by Standard & Poor's (the ratings referred to above being hereafter referred to as the “**Relevant Required Ratings**”) and as a result the then current rating assigned by Fitch, Moody's or Standard & Poor's to the Notes of any class would, in the opinion of the Issuer, be downgraded or placed under review for possible downgrade then, within 30 days following that event, the relevant Hedge Counterparty or Permitted Hedge Provider will be required to take one of the following steps:

- (a) put in place appropriate mark to market collateral arrangements in accordance with the requirements of the Rating Agencies in order to maintain the then current ratings of the Notes; or
- (b) transfer all of its rights and obligations under the Hedge Agreement or any other hedging arrangement to a replacement Permitted Hedge Provider and which has the Relevant Required Ratings or such other rating as is commensurate with the ratings assigned to the Notes by Fitch, Moody's and Standard & Poor's from time to time; or
- (c) put in place an appropriate guarantee from a guarantor which has the Relevant Required Ratings or such other rating as is commensurate with the ratings assigned to the Notes by Fitch, Moody's and Standard & Poor's from time to time; or
- (d) take any other steps for the purpose of ensuring that the then current ratings of the Notes by each of Fitch, Moody's and Standard and Poor's are not adversely affected by the relevant downgrade.

Failure by the relevant Hedge Counterparty or Permitted Hedge Provider to take the steps set out above within 30 days after the notice of such failure is given to such party will result in the Hedge Counterparty or Permitted Hedge Provider becoming a Defaulting Party (as defined in the Hedge Agreement or (as the case may be) any other hedging arrangement) such that, amounts (if any) due to such Hedge Counterparty or Permitted Hedge Provider in respect of the termination of a Hedge Agreement or hedging arrangement entered into by the Issuer will rank at item (xii) (and not item (iii)) of the Pre-enforcement Priority of Payments.

Determination of Assumed Residual Values

In relation to Portfolio Car Finance Contracts, the assumed residual value of the relevant Portfolio Motor Vehicle will have been determined by the relevant Seller in accordance with a method that each of the Rating Agencies has or will confirm would not, if applied, adversely affect the rating assigned to any class of Notes.

Accountants' Report

The following is the text of a report received from the board of directors of the Issuer from Deloitte & Touche:

“The Directors
Paragon Personal and Auto Finance (No. 2) PLC
St. Catherine’s Court
Herbert Road
Solihull
West Midlands B91 3QE

The Directors,
J.P. Morgan Securities Ltd.
60 Victoria Embankment
London
EC4Y 0JP

6th December, 2001

Dear Sirs

Paragon Personal and Auto Finance (No. 2) PLC (the “Issuer”)

We report on the financial information set out below. This financial information has been prepared for inclusion in the Offering Circular dated 6th December, 2001 (the “**Offering Circular**”), relating to the issue of £146,900,000 Class A Asset Backed Floating Rate Notes due 2022, £70,900,000 Class B Asset Backed Floating Rate Notes due 2033 and £26,900,000 Class C Asset Backed Floating Rate Notes due 2033 (the “**Issue**”).

Basis of preparation

The Issuer was incorporated on 15th January, 1999 under the name of Finance for People (No. 11) PLC. It changed its name to Paragon Personal and Auto Finance (No. 2) PLC on 23rd August, 2001.

The Issuer has issued 50,000 shares for a consideration of £12,501.50. No material contracts or transactions have been entered into save for those in connection with the Issue.

The Issuer has not yet traded and no dividends have been declared or paid.

The financial information set out in this report is based on the unaudited statutory accounts of the Issuer for the period ending 30th September, 2000 and the audited statutory accounts of the Issuer for the period ending 30th September, 2001 to which no adjustments were considered necessary.

We have been auditors of the Issuer since our appointment on 23rd August, 2001.

Responsibility

The financial statements are the responsibility of the Directors of the Issuer who approved their issue.

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

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

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the statutory financial statements for the period to 30th September, 2001, underlying the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

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

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Issuer as at the dates stated.

BALANCE SHEETS**As at 30th September, 2000 and 30th September, 2001****ASSETS EMPLOYED****Current Assets**

Debtors.....

*Notes**2000*
£*2001*
£

2

2.0012,501.502.0012,501.50**FINANCED BY**

Called up share capital.....

3

2.0012,501.502.0012,501.50

NOTES TO THE FINANCIAL INFORMATION

As at 30th September, 2000 and 30th September, 2001

1. ACCOUNTING POLICIES

The financial information set out in this report has been prepared in accordance with applicable accounting standards generally accepted in the United Kingdom.

The accounts and notes have been prepared using the historic cost method of accounting.

2. DEBTORS

	<i>2000</i>	<i>2001</i>
	£	£
Amounts falling due within one year:		
Amounts owed by parent company	2.00	12,501.50
	<u>2.00</u>	<u>12,501.50</u>

3. CALLED UP SHARE CAPITAL

	<i>2000</i>	<i>2001</i>
	£	£
Authorised:		
50,000 ordinary shares of £1 each	50,000	50,000
	<u>50,000</u>	<u>50,000</u>
Allotted:		
49,998 ordinary shares of £1 each (25p paid)	—	12,499.50
2 ordinary shares of £1 each (£1 paid)	2.00	2.00
	<u>2.00</u>	<u>12,501.50</u>

The authorised share capital of the Issuer consists of 50,000 ordinary shares of £1 each. The issued share capital consists of 2 ordinary shares (fully paid-up and allotted on 15th January, 1999), which formed the initial share capital of the Issuer, and 49,998 ordinary shares (£0.25 paid-up and allotted on 11th September, 2001).

4. PROFIT AND LOSS ACCOUNT

The Directors have represented that the Issuer has been dormant throughout the period since incorporation on 15th January, 1999 until 6th December, 2001, and consequently no profit and loss account and no statement of total recognised gains and losses have been prepared. The Directors have received no remuneration and the Issuer has no employees.

5. ULTIMATE PARENT COMPANY

The Issuer's ultimate parent company is The Paragon Group of Companies PLC, a company registered in England and Wales.

Yours faithfully

Deloitte & Touche
Chartered Accountants"

Capitalisation

The capitalisation of the Issuer as at the date of this Offering Circular, adjusted for the issue on the Closing Date of the Notes and the prepayment of the Issuer's existing indebtedness, is as follows:

Share capital

Authorised

50,000 Ordinary Shares of £1 each

Issued

49,998 Ordinary Shares of £1 each (25 pence paid)	£12,499.50
2 Ordinary Shares of £1 (£1 paid)	£2

Total Share Capital	£12,501.50
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Secured Loan Capital⁽¹⁾

£146,900,000 Class A Asset Backed Floating Rate Notes due 2022 (now being issued)	£ 146,900,000
£70,900,000 Class B Asset Backed Floating Rate Notes due 2033 (now being issued)	£ 70,900,000
£26,900,000 Class C Asset Backed Floating Rate Notes due 2033 (now being issued)	£ 26,900,000
Total Loan Capital	£ 244,700,000

Total Capitalisation	£ 244,712,501.50
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1. The loan capital of the Issuer is unguaranteed.
2. In addition an advance under the Subordinated Loan Agreement will be made on the Closing Date in an amount, *inter alia*, to enable the Issuer to achieve the initial ratings to be assigned by the Rating Agencies to the Notes. The amount of this advance is expected to be approximately £90,000,000.
3. The current financial period of the Issuer will end on 30th September, 2002.
4. Save as disclosed in this document, at the date of this document, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

THE PARAGON VAT GROUP

The Issuer will become a member of the Paragon VAT Group (consisting of PFPLC and certain of its related companies, as will be more particularly described in the Administration Agreement). At present, PFPLC as representative member of the Paragon VAT Group is the entity primarily responsible for the VAT affairs of the Paragon VAT Group. However, for such period as the Issuer is a member of the Paragon VAT Group it will be, under current VAT legislation, jointly and severally liable with the other members of the Paragon VAT Group for any amount of VAT due from the Paragon VAT Group to H.M. Customs & Excise. PFPLC has established a VAT fund held in an account at National Westminster Bank Plc (the “**VAT Account**”) to be used to pay amounts owing to H.M. Customs & Excise if the company primarily responsible fails to pay the relevant amount.

JPMorgan Chase Bank, acting through its London branch, (as successor to Morgan Guaranty Trust Company of New York) is the trustee of the fund which currently amounts to approximately £120,000. The Issuer will on the Closing Date become one of the beneficiaries of the trust over the VAT Account, such trust being constituted by a declaration of trust dated 19th March, 1993 as subsequently amended and restated (the “**VAT Declaration of Trust**”).

HEDGE COUNTERPARTY

On the Closing Date, the Hedge Counterparty will be JPMorgan Chase Bank, acting through its London branch, a Delaware corporation whose principal office is located at 270 Park Avenue, New York, New York 10017, USA and which is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities.

JPMorgan Chase Bank resulted from the merger on 10th November, 2001 of The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York. As of 30th September 2001, on a *pro forma* basis reflecting the merger of the two banks, JPMorgan Chase Bank had total assets of approximately \$600 billion and total stockholders' equity of approximately \$36 billion.

As at the business day immediately preceding the date of this Offering Circular, the ratings published on Bloomberg for JPMorgan Chase Bank's long-term unsecured and unguaranteed debt obligations were AA by Fitch, Aa2 by Moody's and AA by Standard & Poor's and for its short-term unsecured and unguaranteed debt obligations were F-1+ by Fitch, P-1 by Moody's and A-1+ by Standard & Poor's.

PORTFOLIO ASSETS

A. PORTFOLIO ASSETS

Origination of the Portfolio Assets

All of the Secured Loans and Unsecured Loans that are expected to form part of the initial security for the Notes have been or will have been originated by PPF or Universal and any Further Unsecured Loans and Further Secured Loans have or will have been originated by a Seller who at the time of the sale of such Further Unsecured Loans or Further Secured Loans to the Issuer will be a member of the Paragon Group. All Portfolio Unsecured Loans are currently or will be immediately prior to their acquisition by the Issuer, legally owned by the relevant Seller or another member of the Paragon Group and beneficially owned by the relevant Seller, FFP3 or another member of the Paragon Group. All Portfolio Secured Loans are currently, or will immediately prior to their acquisition by the Issuer be, legally owned by the relevant Seller or another member of the Paragon Group and beneficially owned by the relevant Seller, PSFL or another member of the Paragon Group. Each Seller of Unsecured Loans and Secured Loans is or will be a wholly owned subsidiary of PGC. The ordinary share capital of PGC is listed on the Official List. The principal activities of PPF and Universal and each other Seller of Unsecured Loans and/or Secured Loans are (or will be), *inter alia*, to originate, and acquire from third parties, secured and/or unsecured consumer loans.

PPF currently and Universal used to distribute personal loans through more than one distribution channel. PPF currently distributes loans through the United Kingdom finance broker market and via direct channels including arrangements with affinity partners and timeshare developers. Under an affinity programme, PPF's unsecured loan products are marketed in conjunction with an introducer (to date, PPF has worked with approximately 20 such partners) which already has an extensive customer data base for its business. Prior to its acquisition by PGC, Universal distributed loans through affinity channels, timeshare developers, credit brokers and other intermediaries.

All of the Car Finance Contracts that are expected to form part of the initial security for the Notes have been or will have been originated by PCF and any Further Car Finance Contracts have or will have been originated by a Seller who at the time of the sale of such Further Car Finance Contracts to the Issuer will be a member of the Paragon Group. All Portfolio Car Finance Contracts are currently, or will immediately prior to their acquisition by the Issuer be, legally owned by the relevant Seller or another member of the Paragon Group and beneficially owned by the relevant Seller, FFP3 or another member of the Paragon Group. Each Seller of Car Finance Contracts is or will be a wholly owned subsidiary of PGC. The principal activities of PCF and each other Seller of Car Finance Contracts are (or will be) to originate, and acquire from third parties, car finance contracts.

PCF currently distributes car finance contracts through a car dealer network and also via direct channels.

For a description of the acquisition of Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts, see "Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts" below.

Acquisition of Portfolio Assets

Unsecured Loans and Secured Loans

On the Closing Date, the Issuer is expected to acquire a pool of unsecured consumer loans from PPF and Universal, pursuant to Unsecured Loan Sale Contracts.

From time to time on or before the Final Addition Date the Issuer may acquire Further Unsecured Loans from Universal, PPF or other members of the Paragon Group pursuant to additional Unsecured Loan Sale Contracts.

On the Closing Date, the Issuer is expected to acquire a pool of secured consumer loans, pursuant to a Secured Loan Sale Contract, entered into in accordance with the terms of the Secured Loan Sale Agreement, with PPF. For a description of these Secured Loans, see "Information on the Portfolio Assets" below. From time to time on or before the Final Addition Date the Issuer may acquire Further Secured Loans from PPF or other members of the Paragon Group pursuant to additional Secured Loan Sale Contracts.

Under any Unsecured Loan Sale Contracts and Secured Loan Sale Contracts which the Issuer may enter into in relation to Unsecured Loans, Secured Loans, Further Unsecured Loans or Further Secured Loans, the Issuer would acquire the relevant Seller's right, title, interest and benefit in and to each Unsecured Loan or, as the case may be, Secured Loan the subject thereof and the corresponding Unsecured Loan Agreement or, as the case may be, Secured Loan Agreement, which include, without limitation:

- (a) all sums of principal (or principal equivalent), interest (or equivalent revenue charges) and any other sum payable by the Borrower under the corresponding Unsecured Loan Agreement or Secured Loan Agreement and the right to demand, sue for, recover, receive and give receipts for any such amounts payable thereunder; and
- (b) the benefit of and the right to sue on all covenants, obligations and undertakings on the part of the relevant Obligor in respect of such Unsecured Loan or Secured Loan and any Mortgage related thereto and the right to exercise all rights, powers and discretions of each Seller thereunder.

Pursuant to these Unsecured Loan Sale Contracts and Secured Loan Sale Contracts, the Issuer also will acquire:

- (a) all causes and rights of action of the relevant Seller against any person arising in connection with each Unsecured Loan or, as the case may be, Secured Loan the subject thereof (including without limitation in connection with any report, valuation, opinion, certificate, consent or other statement of fact or opinion given in connection with any Secured Loan) or affecting any decision to make the relevant Unsecured Loan or Secured Loan;
- (b) all causes and rights of action of the relevant Seller against any person arising in connection with particular claims or rights exercised by each Borrower under the CCA in connection with each Unsecured Loan or, as the case may be, Secured Loan the subject thereof;
- (c) in the case of each Secured Loan, all the estate and interest of the relevant Seller in the property on which the Secured Loan is secured; and
- (d) the benefit of all guarantees, indemnities, insurance and security interests given to or held by the relevant Seller in connection with the discharge of the relevant Obligor's obligations under each Unsecured Loan or, as the case may be, Secured Loan the subject thereof.

In relation to Unsecured Loans and Secured Loans and Further Unsecured Loans and Further Secured Loans which are Scottish Unsecured Loans or Scottish Secured Loans and in accordance with the relevant Unsecured Loan Sale Contract or, as the case may be, Secured Loan Sale Contract, the relevant Seller will execute a declaration of trust or supplemental declaration of trust in favour of the Issuer, pursuant to which the relevant Seller will hold all of its right, title, interest and benefit in and to each such Unsecured Loan or, as the case may be, Secured Loan and any Mortgage related thereto and the corresponding Unsecured Loan Agreement or Secured Loan Agreement and all other rights and causes of action therein and all amounts received by it in respect of such Unsecured Loan or Secured Loan in trust absolutely for the Issuer.

The Scottish Mortgages securing the Scottish Secured Loans comprise standard securities, being the only means of creating a fixed charge or security over heritable property (*i.e.* land and buildings) in Scotland. A statutory set of "**Standard Conditions**" is automatically imported into all standard securities, although the majority of these Standard Conditions may be varied by agreement between the parties. Most lenders in the residential mortgage market vary and extend the Standard Conditions by a "**Deed of Variation**", the terms of which are in turn imported into each standard security. PPF has executed a Deed of Variation of Standard Conditions with a view to conforming as far as possible its Scottish Mortgages and English Mortgages from an operational viewpoint (subject to such limitations as are inherent to the differences between Scots and English law).

The main provisions of the Standard Conditions which cannot be varied by agreement relate to enforcement. Generally, where a breach by a borrower entitles the lender to require repayment an appropriate statutory notice must first be served. First, the lender may serve a "calling up notice", in which event the borrower has two months to comply and in default the lender may enforce its rights under the standard security by sale or the other remedies provided by statute (court application only being necessary where the borrower fails to vacate the property). Alternatively, in the case of remediable breaches, the lender may serve a "notice of default", in which event the borrower has only one month in which to comply, but also has the right to object to the notice by court application within fourteen days of the date

of service. In addition, the lender may in certain circumstances make direct application to the court without the requirement of a preliminary notice. The appropriate steps for enforcement will therefore depend on the circumstances of each case.

As the law of Scotland stands at present, on court application being made by the lender for the relevant enforcement remedies (once a default by the borrower has been established by one of the methods detailed in the preceding paragraph) the court is bound, except in very limited circumstances, to grant the enforcement remedies sought. This position will be altered, however, once the Mortgage Rights (Scotland) Act (for the purposes of this paragraph, the "Act") which has been passed by the Scottish Parliament and received Royal Assent on 25th July, 2001 is brought into force. The principal effect of this Act will be to confer on the court a discretion, on the application of the borrower (or the borrower's spouse or partner) within certain time limits, to suspend the exercise of the lender's enforcement remedies for such period and to such extent as the court considers reasonable in the circumstances, having regard amongst other factors to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation. The Act will come into force on such day as the Scottish Ministers may promulgate by Statutory Instrument, the timetable for which has yet to be announced.

Car Finance Contracts

On the Closing Date, the Issuer is expected to acquire a pool of motor vehicle hire purchase agreements, motor vehicle conditional sale agreements, motor vehicle leasing agreements and motor vehicle contract purchase agreements (together, in each case, with the related Motor Vehicles) from PCF. For a description of these agreements, see "Information on the Portfolio Assets" below. From time to time on or before the Final Addition Date the Issuer may acquire Further Car Finance Contracts from PCF or other members of the Paragon Group pursuant to additional Car Finance Sale Contracts.

Any Car Finance Contracts and Further Car Finance Contracts and the Motor Vehicles relative thereto would be acquired by the Issuer pursuant to Car Finance Sale Contracts made between the Issuer and the relevant Seller which would incorporate the Standard Terms and Conditions. Any such Car Finance Sale Contracts to be entered into by the Issuer would be concluded as a result of the acceptance by the Issuer of a written offer issued to it by the relevant Seller to sell the benefit of specified Car Finance Contracts, together with the related Motor Vehicles.

Under any Car Finance Sale Contract which the Issuer may enter into, the Issuer would acquire all of the relevant Seller's right, title, interest and benefit in and to the specified Car Finance Contracts and the corresponding Motor Vehicles, which would include, without limitation:

- (a) all sums of principal (or principal equivalent), interest (or equivalent revenue charges) and any other sum payable by the Hirer or Lessee under the relevant Car Finance Contract and the right to demand, sue for, receive, recover and give receipts for any such amounts payable thereunder and the benefit of and right to sue on all covenants, obligations and undertakings on the part of the relevant Hirer or Lessee thereunder; and
- (b) the right to exercise all rights, powers and discretions of the relevant Seller thereunder.

Pursuant to such a Car Finance Sale Contract, the Issuer would also acquire:

- (a) all causes and rights of action of the relevant Seller against any person arising in connection with each specified Car Finance Contract or affecting any decision to enter into the specified Car Finance Contract;
- (b) all causes and rights of action of the relevant Seller against any person arising in connection with particular claims or rights exercised by the relevant Hirer or Lessee under the CCA in connection with each specified Car Finance Contract;
- (c) the benefit of all guarantees, indemnities, insurance and security interests given to or held by the relevant Seller in connection with the discharge of the relevant Obligor's obligations under each specified Car Finance Contract; and
- (d) all legal and beneficial ownership rights, title and interest of the relevant Seller in and to the related Motor Vehicles, including without limitation the benefit of all manufacturer's or other warranties in relation to the related Motor Vehicle.

In relation to Car Finance Contracts and Further Car Finance Contracts which are Scottish Car Finance Contracts, the relevant Seller will execute a declaration of trust or supplemental declarations of trust in favour of the Issuer, pursuant to which the relevant Seller will hold all of its right, title, interest and benefit in and to each such Scottish Car Finance Contract and all other rights and causes of action therein

and all amounts received by it in respect of such Scottish Car Finance Contract (but not in relation to the related Motor Vehicle, legal title to which will have passed to the Issuer pursuant to the relevant Car Finance Sale Contract) in trust absolutely for the Issuer.

Conditions to Sale of Initial Portfolio Assets

In accordance with the Secured Loan Sale Agreement (in the case of Secured Loans) and in accordance with the Standard Terms and Conditions (in the case of Unsecured Loans and Car Finance Contracts), the sale and purchase of any Secured Loan, Unsecured Loan or Car Finance Contract to be purchased by the Issuer on the Closing Date will be subject to, *inter alia*, the following conditions being satisfied:

- (a) the relevant Seller is not unable to repay its debts within the meaning of Section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986;
- (b) the relevant Seller is not in default in repayment of any financial indebtedness of £250,000 or more in aggregate;
- (c) the Administrator has not notified the Rating Agencies at any time on or after the Closing Date that PGC and/or PFPLC is unable to repay its debts within the meaning of Section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 and PGC or PFPLC is not in default in repayment of any financial indebtedness of £250,000 or more in aggregate;
- (d) PFPLC has warranted that so far as PFPLC is aware, each warranty (see “Warranties” below) was, at the relevant Cut-Off Date, true and accurate in relation to each such Secured Loan, Unsecured Loan or Car Finance Contract as the case may be;
- (e) in the case of any sale of a Secured Loan, the aggregate of the Current Principal Balances at such time of all Portfolio Secured Loans which are Performing Assets would not equal or exceed the aggregate of the most recent valuations of each property upon which the repayment of such Secured Loans is secured;
- (f) payment of the first amount due and payable by the relevant Obligor under each such Secured Loan, Unsecured Loan (other than a Deferred Payment Loan) or Car Finance Contract was made by or on behalf of the relevant Obligor within 60 days of the origination of such Secured Loan, Unsecured Loan or Car Finance Contract;
- (g) as at the relevant Cut-Off Date (as applicable to each Asset), either:
 - (i) no Unsecured Loan, Car Finance Contract (other than an Unsecured Loan or Car Finance Contract (as applicable) previously owned by FFP3) or Secured Loan is more than three months in arrears; or
 - (ii) if any such Unsecured Loan, Car Finance Contract (other than an Unsecured Loan or Car Finance Contract (as applicable) previously owned by FFP3) or Secured Loan is more than three months in arrears, (x) such Unsecured Loan, Car Finance Contract or Secured Loan must be a Performing Asset and (y) the aggregate of the Current Principal Balances of Unsecured Loans, Car Finance Contracts (other than Unsecured Loans or Car Finance Contracts (as applicable) previously owned by FFP3) and Secured Loans which are more than three months in arrears is not more than 4% of the aggregate Current Principal Balances of Unsecured Loans, Car Finance Contracts (other than Unsecured Loans or Car Finance Contracts (as applicable) previously owned by FFP3) and Secured Loans, a Portfolio Asset for the purpose of this sub-paragraph and for the purpose of sub-paragraphs (j), (k), (l) and (m) below will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the Obligor under such Portfolio Asset have not been paid when due and/or have been capitalised within the three months immediately preceding such time;
- (h) in the case of any sale of a Car Finance Contract that is a motor vehicle contract purchase agreement or a motor vehicle leasing agreement, the aggregate of the Current Principal Balances of all Portfolio Car Finance Contracts which are Performing Assets and are motor vehicle contract purchase agreements or motor vehicle leasing agreements does not exceed £3,000,000;

- (i) in the case of any sale of an Unsecured Loan that is a Retail Credit Loan, the aggregate of the Current Principal Balances of all Performing Assets which are both Portfolio Unsecured Loans and Deferred Payment Loans whose Deferred Periods are then current does not exceed an amount equal to 25% of the aggregate Current Principal Balances of all Portfolio Unsecured Loans which are Performing Assets and Retail Credit Loans at such time;
- (j) as at the relevant Cut-Off Date, either:
 - (i) the aggregate of the then Current Principal Balances of Portfolio Unsecured Loans which are both Personal Loans (other than Initial Portfolio Unsecured Loans previously owned by FFP3) and Performing Assets and which are more than three months in arrears does not represent more than 10% (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of the then Current Principal Balances of all of the Portfolio Unsecured Loans which are both Personal Loans (other than Initial Portfolio Unsecured Loans previously owned by FFP3) and Performing Assets; or
 - (ii) the aggregate of payments of interest (or its equivalent) received from Obligors in respect of all Portfolio Unsecured Loans which are both Personal Loans (other than Initial Portfolio Unsecured Loans previously owned by FFP3) and Performing Assets during the period of three months ending on the immediately preceding Determination Date or, in the case of any sale of Unsecured Loans which are both Personal Loans and Performing Assets proposed to take place prior to the first Determination Date, ending on the Closing Date, is not less than 95% (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of interest or its equivalent which fell due for payment by Obligors in respect of all such assets in such period;
- (k) as at the relevant Cut-Off Date, either:
 - (i) the aggregate of the then Current Principal Balances of all Portfolio Secured Loans which are Performing Assets and which are more than three months in arrears does not represent more than 10% (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of the then Current Principal Balances of all of the Portfolio Secured Loans which are Performing Assets; or
 - (ii) the aggregate of payments of interest received from Obligors in respect of all Portfolio Secured Loans which are Performing Assets during the period of three months ending on the immediately preceding Determination Date or, in the case of any sale of Secured Loans which are Performing Assets proposed to take place prior to the first Determination Date, ending on the Closing Date, is not less than 95% (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of interest which fell due for payment by Obligors in respect of all such assets in such period;
- (l) as at the relevant Cut-Off Date, either:
 - (i) the aggregate of the then Current Principal Balances of Portfolio Car Finance Contracts (other than Initial Portfolio Car Finance Contracts previously owned by FFP3) which are Performing Assets and which are more than three months in arrears does not represent more than 4% (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of the then Current Principal Balances of all of the Portfolio Car Finance Contracts (other than Initial Portfolio Car Finance Contracts previously owned by FFP3) which are Performing Assets; or
 - (ii) the aggregate of payments of interest (or its equivalent) received from Obligors in respect of all Portfolio Car Finance Contracts (other than Initial Portfolio Car Finance Contracts previously owned by FFP3) which are Performing Assets during the period of three months ending on the immediately preceding Determination Date or, in the case of any sale of Car Finance Contracts proposed to take place prior to the first Determination Date, ending on the Closing Date, is not less than 96% (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of interest or its equivalent which fell due for payment by Obligors in respect of all such assets in such period; and
- (m) as at the relevant Cut-Off Date, either:
 - (i) the aggregate of the then Current Principal Balances of Portfolio Unsecured Loans which are both Retail Credit Loans and Performing Assets and which are more than three months in arrears does not represent more than 4% (or such other percentage as may be

agreed with the Rating Agencies from time to time) of the aggregate of the then Current Principal Balances of all of the Portfolio Unsecured Loans which are both Retail Credit Loans and Performing Assets; or

- (ii) the aggregate of payments of interest (or its equivalent) received from Obligors in respect of all Portfolio Unsecured Loans which are both Retail Credit Loans and Performing Assets during the period of three months ending on the immediately preceding Determination Date or, in the case of any sale of Unsecured Loans that are Retail Credit Loans proposed to take place prior to the first Determination Date, ending on the Closing Date, is not less than 96% (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of interest or its equivalent which fell due for payment by Obligors in respect of all such assets in such period.

For the purposes of sub-paragraphs (e) and (g) to (m) (inclusive) above, whether the particular condition is satisfied will be determined taking into account the effect on the aggregate Current Principal Balances of the Portfolio Assets of such sale and the acceptance of any other offers by Sellers to sell Unsecured Loans, Secured Loans and/or Car Finance Contracts to the Issuer on the relevant date and (if applicable) the making of any further advances in respect of any Secured Loans on such day.

Information on the Portfolio Assets

Portfolio Unsecured Loans

No Portfolio Unsecured Loan has or will have a maturity later than January 2021. There are no obligations to make further advances under any of the Portfolio Unsecured Loans. All of the Portfolio Unsecured Loans will be governed by English, Scots or Northern Irish law.

Particular Types of Unsecured Loans

Retail Credit

Retail Credit is finance offered for, among other things, furniture, carpeting and electrical goods. To market this product PPF (trading under the name of Paragon Retail Finance) has established strong relationships with independent retailers operating at the higher quality end of the market. Certain of these loans (“**Deferred Payment Loans**”) have a period in the initial stages of the loan (the “**Deferred Period**”) during which the borrower is not required to make any payments. No Portfolio Unsecured Loan that is a Retail Credit Loan has or will have a Deferred Period which exceeds twelve months. It is a condition to the purchase by the Issuer of any Unsecured Loans or Further Unsecured Loan that is a Retail Credit Loan that the aggregate of the Current Principal Balances of all Performing Assets which are both Portfolio Unsecured Loans and Deferred Payment Loans whose Deferred Periods are then current will not as a result of such purchase exceed an amount equal to 25% of the aggregate Current Principal Balances of all Portfolio Unsecured Loans which are Performing Assets and Retail Credit Loans at that time (see “Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts” below).

Timeshare

Timeshare loans are marketed, generally at the point of sale, to United Kingdom customers wishing to acquire a timeshare week or weeks. Prior to its acquisition by PGC, Universal had established links with developers of timeshare properties in the United Kingdom and the Mediterranean (predominantly Spain and Portugal) and PPF has continued and expanded these links. The strategy has been to focus on developing strong relationships with developers selected because of the quality of their operations.

Affinity/Direct

Under an Affinity programme, PPF’s unsecured loan products are marketed in conjunction with an introducer who already has an extensive customer database for its business. Prior to its acquisition, Universal offered unsecured loan products through an Affinity programme.

Unsecured Personal Loans

PPF offers a single unsecured personal loan product. This is an unsecured loan which is not made for any specified purpose and is aimed at the homeowner market. Prior to its acquisition by PGC, Universal offered this product.

Flexiloan

Historically, Universal offered a product called “Flexiloan” aimed at the tenant market but this product was discontinued in February 1997.

Portfolio Secured Loans

No Portfolio Secured Loan has or will have a maturity later than January 2031. There are no obligations to make further advances under any of the Portfolio Secured Loans. The Issuer, however, may grant discretionary further advances subject to certain conditions as described in “Portfolio Asset Administration – Further Advances in respect of the Portfolio Secured Loans”. All of the Portfolio Secured Loans will be governed by either English or Scots law.

PPF currently offers a single Secured Loan product. This is a loan secured against owner occupied residential property which can be borrowed for any purpose on either a fixed or a floating interest rate basis.

Car Finance Contracts

No Portfolio Car Finance Contract has or will have a maturity later than January 2011. There are no obligations on PCF to enter into further Car Finance Contracts with any Hirer or Lessee under any of the Portfolio Car Finance Contracts. All of the Portfolio Car Finance Contracts will be governed by either English or Scots law.

The Portfolio Car Finance Contracts will be of four types: motor vehicle hire purchase agreements; motor vehicle conditional sale agreements; motor vehicle leasing agreements; and motor vehicle contract purchase agreements:

- (a) motor vehicle conditional sale agreements are a form of sale agreement where the purchase price is payable in instalments and the final payment is payable mandatorily (rather than at the option of the hirer) at the end of a contract term, in order to take ownership of the vehicle;
- (b) motor vehicle contract purchase agreements are a form of hire purchase agreement where the final payment is a balloon payment (instead of a nominal amount) payable at the option of the hirer at the end of the contract term, in order to take ownership of the vehicle;
- (c) motor vehicle hire purchase agreements are a form of sale agreement where the purchase price is payable in instalments and the final payment is a nominal amount payable at the option of the hirer at the end of the contract term in order to take ownership of the vehicle; and
- (d) motor vehicle leasing agreements are bailments or (in Scotland) hire agreements where the lessee takes possession, but not ownership, of the vehicle for an agreed contract term subject to paying the agreed instalments, and where at the end of the contract term the vehicle is returned by the person to whom they were bailed or hired.

It is a condition to the purchase by the Issuer of any Car Finance Contract that is a motor vehicle contract purchase agreement or a motor vehicle leasing agreement that the aggregate Current Principal Balances of the Portfolio Car Finance Contracts that are Performing Assets and motor vehicle contract purchase agreements and/or motor vehicle leasing agreements will not as a result of such purchase exceed £3,000,000.

Car Finance Contracts are currently marketed by PCF to individuals, partnerships and corporate bodies in the United Kingdom, subject to their ability to satisfy the relevant credit assessment criteria outlined below.

Warranties

Portfolio Unsecured Loans

Under a Warranty Deed (the “**Warranty Deed**”) to be made on or about the Closing Date initially between PFPLC, the Issuer and the Trustee, PFPLC will give certain representations and warranties in favour of the Issuer and the Trustee in relation to the Portfolio Unsecured Loans to be sold to the Issuer by Universal and/or PPF on the Closing Date and any Further Unsecured Loans to be sold to the Issuer by any Seller after the Closing Date. Each such warranty will be given as at the Cut-Off Date in respect of each relevant Unsecured Loan. The warranties to be given by PFPLC to the Issuer and the Trustee under the Warranty Deed as at the relevant Cut-Off Dates include, *inter alia*, warranties as to the following:

- (i) that the terms of each Unsecured Loan Agreement as to payment of principal and/or interest are valid and binding obligations of the relevant Borrowers subject, in the case of Universal Portfolio Unsecured Loans, to certain statutory and regulatory provisions;
- (ii) that no right of set-off has arisen under any Portfolio Unsecured Loan (except for any set-off exercisable by virtue of claims arising under Section 56 or 75 of the CCA or by operation of law);

- (iii) that the relevant Seller held the appropriate licences and registrations at all material times;
- (iv) as to any information provided in respect of the Portfolio Unsecured Loans as part of the relevant Offer to Sell;
- (v) as to the records maintained by each relevant Seller;
- (vi) as to the unfettered beneficial entitlement and rights to assign of each relevant Seller in respect of each Portfolio Unsecured Loan; and
- (vii) that no Borrower is a company.

Subject to certain conditions, PFPLC will be required pursuant to the Warranty Deed to perform its purchase obligations under the Repurchase Deed (see “Repurchase of Portfolio Assets” below) in the event of, *inter alia*, any of the warranties given by PFPLC to the Issuer therein being untrue or incorrect when given in any material respect or the occurrence of a CCA Event in relation to a Universal Portfolio Unsecured Loan.

“**Cut-Off Date**” means:

- (i) in respect of a Portfolio Unsecured Loan that is a Retail Credit Loan, a date no more than thirty seven business days before the date on which the Issuer acquires such Retail Credit Loan;
- (ii) in respect of a Portfolio Unsecured Loan that is a Personal Loan, a Portfolio Secured Loan or, as the case may be, a Portfolio Car Finance Contract, that is acquired by the Issuer on the Closing Date, a date no more than fourteen business days before the Closing Date; and
- (iii) in respect of a Portfolio Unsecured Loan that is a Personal Loan, a Portfolio Secured Loan or, as the case may be, a Portfolio Car Finance Contract, that is acquired by the Issuer after the Closing Date, a date no more than five business days before the date on which the Issuer acquires such Portfolio Asset.

Portfolio Secured Loans

Under the Secured Loan Sale Agreement to be made on or about the Closing Date initially between PPF, PSFL, PFPLC, the Issuer and the Trustee, PFPLC will give certain representations and warranties in favour of the Issuer and the Trustee in relation to the Portfolio Secured Loans to be sold to the Issuer by PPF on the Closing Date and any Further Secured Loans to be sold to the Issuer by any Seller after the Closing Date. Each such warranty will be given as at the Cut-Off Date in respect of each relevant Secured Loan. The warranties to be given by PFPLC to the Issuer and the Trustee under the Secured Loan Sale Agreement as at the relevant Cut-Off Dates include, *inter alia*, warranties as to the following:

- (i) that the Secured Loan and Mortgage are valid and binding obligations of the relevant Borrower;
- (ii) that each Secured Loan (including any further advance) is secured by a Mortgage;
- (iii) that, subject to the completion of any registration or recording of the Mortgage which may be pending at H.M. Land Registry or the Registers of Scotland, each Mortgage constitutes a valid and subsisting legal mortgage (in the case of an English Mortgage) or standard security (in the case of a Scottish Mortgage) over the relevant property;
- (iv) that all necessary steps with a view to perfecting the title of the mortgagee to the Mortgage are being or have been taken without undue delay and with all due diligence on the part of the mortgagee;
- (v) that, subject to the foregoing, the relevant Seller was, is or will be at the date of the relevant sale, the absolute beneficial owner of each Mortgage free and clear of security interests;
- (vi) that, prior to making the original advance or any further advance, the lending criteria of the originator were satisfied so far as applicable;
- (vii) that, before the Secured Loan was advanced, the mortgagee carried out such written searches and investigations of the title to the relevant property which a reasonably prudent provider of secured consumer finance would carry out, which searches and investigations disclosed nothing which would cause a reasonably prudent provider of secured consumer finance to decline to proceed with the Secured Loan on the proposed terms;

- (viii) that, before the Secured Loan was advanced, the relevant property was valued by a valuer acting for the mortgagee or on an indexation basis which might be used by a reasonably prudent provider of secured consumer finance, which valuation disclosed nothing which would cause a reasonably prudent provider of secured consumer finance to decline to proceed with the Secured Loan on the proposed terms;
- (ix) that no lien or right of set-off or counterclaim is exercisable against the relevant Seller by any Obligor which would entitle such Obligor to reduce the amount of any payment otherwise due under his Secured Loan;
- (x) that where any agreement for a Secured Loan is in whole or in part a regulated agreement or a consumer credit agreement (as defined in Section 8 of the CCA) or, to the extent that any Secured Loan is in whole or in part a regulated agreement or consumer credit agreement, the relevant Seller has not done anything which would cause the Secured Loan to be invalid or irrecoverable;
- (xi) as to the records maintained by each relevant Seller;
- (xii) that each Secured Loan Agreement is in a form which would be acceptable to a reasonably prudent mortgage lender; and
- (xiii) that no Borrower is a company.

Subject to certain conditions, PFPLC will be required pursuant to the Secured Loan Sale Agreement to perform its purchase obligations under the Secured Loan Sale Agreement (see “Repurchase of Portfolio Assets” below) in the event of, *inter alia*, any of the warranties given by PFPLC to the Issuer therein being untrue or incorrect when given in any material respect.

Portfolio Car Finance Contracts

Under the Warranty Deed, PFPLC will also give certain representations and warranties in favour of the Issuer and the Trustee in relation to the Portfolio Car Finance Contracts and the related Motor Vehicles to be sold to the Issuer by PCF on the Closing Date and any Further Car Finance Contracts and related Motor Vehicles sold to the Issuer by any Seller after the Closing Date. Each such warranty will be given as at the Cut-Off Date in respect of each relevant Car Finance Contract. The warranties to be given by PFPLC to the Issuer and the Trustee under the Warranty Deed as at the relevant Cut-Off Dates include, *inter alia*, warranties as to the following:

- (i) that the Portfolio Car Finance Contracts constitute the valid and binding obligations of the relevant Obligor;
- (ii) that, except for any such rights arising in respect of claims by Obligors under or by virtue of Sections 56 and 75 of the CCA, no lien or right of set-off or analogous right (other than a set-off right arising by operation of law) is exercisable under any Portfolio Car Finance Contract;
- (iii) that no Portfolio Car Finance Contract that is regulated by the CCA is subject to rights of cancellation under the CCA and that the relevant Seller has not done anything that would cause any Portfolio Car Finance Contract to be invalid or revocable;
- (iv) that each Portfolio Car Finance Contract that is regulated by the CCA complies with the CCA and the delegated legislation made thereunder;
- (v) that the terms of each Car Finance Agreement would be acceptable to a reasonably prudent provider of motor vehicle finance;
- (vi) as to the information provided in relation to each Portfolio Car Finance Contract;
- (vii) as to the records maintained by each relevant Seller;
- (viii) as to any warranties given in respect of any related Portfolio Motor Vehicle to a Hirer or Lessee;
- (ix) that the terms of each Portfolio Car Finance Contract require the Hirer or Lessee to insure the Portfolio Motor Vehicle the subject thereof;
- (x) as to the unfettered beneficial ownership and rights to assign of the relevant Seller in respect of each Portfolio Car Finance Contract; and
- (xi) that the Current Principal Balance of any Portfolio Car Finance Contracts in favour of any single company (or group of companies) or partnership will not exceed £250,000 in aggregate and that such steps were taken as the relevant Seller considers reasonably prudent prior to the making of a Car Finance Contract with such an Obligor to verify that such Car Finance Contract would be a binding obligation of such Hirer or Lessee (as the case may be).

Subject to certain conditions, PFPLC will be required pursuant to the Warranty Deed to perform its purchase obligations under the Repurchase Deed (see “Repurchase of Portfolio Assets” below) in the event of, *inter alia*, any of the warranties given therein by PFPLC to the Issuer in respect of Portfolio Car Finance Contracts being untrue or incorrect when given in any material respect.

Repurchase of Portfolio Assets

Under the Secured Loan Sale Agreement (in the case of Portfolio Secured Loans) or the Repurchase Deed (in the case of Portfolio Unsecured Loans and Portfolio Car Finance Contracts), PFPLC will agree to purchase, or procure that another purchaser purchases, a Portfolio Asset if, on any date after the Closing Date:

- (a) in the case of a Universal Portfolio Unsecured Loan, a CCA Event occurs in relation to that Universal Portfolio Unsecured Loan; or
- (b) it becomes apparent that any warranty given by PFPLC under the Secured Loan Sale Agreement (in the case of Portfolio Secured Loans) or under the Warranty Deed (in the case of the Portfolio Car Finance Contracts and the Portfolio Unsecured Loans) in relation to or affecting that Portfolio Asset was untrue or incorrect when given in any material respect,

and such matter is not capable of remedy or is not remedied within 30 days of notice from the Issuer (which notice the Trustee can require the Issuer to give). PFPLC will be required to repurchase the relevant Portfolio Asset (or procure its repurchase) subject to the following paragraph, two business days after the expiry of such 30 day period.

The repurchase price of a Portfolio Asset (the “**Repurchase Price**”) will be the aggregate (avoiding double counting) of:

- (a) the Current Balance on the date it is repurchased (including, without limitation, any amount that is irrecoverable due to a CCA Event); and
- (b) any Unamortised Commission on the date it is repurchased; and
- (c) any accrued interest (or its equivalent) on the Portfolio Asset that is not then due and payable,

less the aggregate (avoiding double counting) of:

- (i) the amount (if any) of interest (or, in relation to Portfolio Car Finance Contracts, its equivalent) accrued on that Portfolio Asset as at the Effective Date of its purchase by the Issuer which was not then payable which the relevant Seller specified at such time as being excluded from the sale (the excluded amount being “**Excluded Accruals**” and the net amount included in the sale being the “**Purchased Accruals**”) to the extent that such Excluded Accruals have not been received and/or retained by the relevant Seller on or before the date on which such Portfolio Asset is repurchased; and
- (ii) that part of the Current Balance of the Portfolio Asset at its Effective Date which was then due but unpaid but which the relevant Seller specified at such time as being excluded from the sale (“**Excluded Arrears**”) to the extent that such Excluded Arrears have not been received and/or retained by the relevant Seller on or before the date on which such Portfolio Asset is repurchased.

PFPLC will pay, or procure the payment of, the Repurchase Prices directly to the Transaction Account.

Any sale of a Portfolio Asset by the Issuer in accordance with the Secured Loan Sale Agreement (in the case of a Portfolio Secured Loan) or the Repurchase Deed (in the case of a Portfolio Unsecured Loan or a Portfolio Car Finance Contract) will be free from all security created by the Deed of Charge and will be performed pursuant to a repurchase memorandum in the form attached to the Secured Loan Sale Agreement or (as the case may be) the Repurchase Deed. The repurchase memorandum will, if it relates to Portfolio Unsecured Loans or Portfolio Car Finance Contracts having Repurchase Prices of £60,000 or more in aggregate, and if PFPLC so requests, be executed and retained by or on behalf of the parties in Jersey.

PFPLC will appoint the Issuer and the Trustee jointly and severally as its attorney to execute any repurchase memorandum, if PFPLC fails to do so when required.

Further Unsecured Loans, Further Secured Loans and Further Car Finance Contracts

In accordance with the Secured Loan Sale Agreement (in the case of Further Secured Loans) and in accordance with the Standard Terms and Conditions (in the case of Further Unsecured Loans and Further Car Finance Contracts), any member of the Paragon Group which is or has become a Seller may, but is not obliged to, from time to time after the Closing Date, make offers to sell Further Unsecured Loans, Further Secured Loans or Further Car Finance Contracts, as the case may be, to the Issuer. The Issuer may, but is not obliged to, accept such offers on any business day on or before the Final Addition Date.

However, any purchase of a Further Unsecured Loan, Further Secured Loan or Further Car Finance Contract will be conditional on, *inter alia*, the conditions described in sub-paragraphs (a) to (m) (inclusive) (but excluding sub-paragraph (g)) of “Portfolio Assets – Conditions to Sale of Initial Portfolio Assets” being satisfied and each of the following conditions also being satisfied:

- (a) in the case of the sale of a Further Unsecured Loan which is a Personal Loan, on the day on which such sale is to take place, the sum of the aggregate Current Principal Balances of the Portfolio Unsecured Loans which are Personal Loans and Performing Assets does not exceed 15% of (a) the aggregate Current Principal Balances of the Portfolio Assets which are Performing Assets on such day, plus (b) the excess of the Substitution Amount on such day over the aggregate of (A) the aggregate purchase prices of all Portfolio Assets and (B) the aggregate amount of all further advances purchased or made by the Issuer on such day;
- (b) in the case of the sale of a Further Secured Loan, on the day on which such sale is to take place, the sum of the aggregate Current Principal Balances of the Portfolio Secured Loans which are Performing Assets does not exceed 30% of (a) the aggregate Current Principal Balances of the Portfolio Assets which are Performing Assets on such day, plus (b) the excess of the Substitution Amount on such day over the aggregate of (A) the aggregate purchase prices of all Portfolio Assets and (B) the aggregate amount of all further advances purchased or made by the Issuer on such day;
- (c) in the case of the sale of a Further Car Finance Contract, on the day on which such sale is to take place, the sum of the aggregate Current Principal Balances of the Portfolio Car Finance Contracts which are Performing Assets does not exceed 30% of (a) the aggregate Current Principal Balances of the Portfolio Assets which are Performing Assets on such day, plus (b) the excess of the Substitution Amount on such day over the aggregate of (A) the aggregate purchase prices of all Portfolio Assets and (B) the aggregate amount of all further advances purchased or made by the Issuer on such day;
- (d) in the case of the sale of a Secured Loan, the product of the weighted average foreclosure frequency (“WAF”) and the weighted average loss severity (“WALS”) for the Portfolio Secured Loans which are Performing Assets (taking into account the effect on the Portfolio Secured Loans of such sale, and the acceptance of any other offers by any Sellers to sell Secured Loans to the Issuer on the same day and the making of any further advances in respect of Secured Loans on the same day), calculated on the same basis as applied to the WAF and WALS which Standard & Poor’s required to be calculated for the Portfolio Secured Loans on the Closing Date (or otherwise as agreed with Standard & Poor’s from time to time) does not exceed the product of the WAF and WALS for the Portfolio Secured Loans as calculated on the Closing Date, by more than 0.25% (or such other percentage as may be agreed with the Rating Agencies from time to time); and
- (e) in the case of the sale of a Further Unsecured Loan, a Further Car Finance Contract or, as the case may be, a Further Secured Loan, (a) the relevant Obligor has not failed to make by the due date payment of any amount due and payable under such Further Unsecured Loan, Further Car Finance Contract or, as the case may be, Further Secured Loan during the period of six months prior to the relevant Cut-Off Date and (b) such Further Unsecured Loan, Further Car Finance Contract or, as the case may be, Further Secured Loan is not more than one month in arrears as at the relevant Cut-Off Date,

and will be further conditional on, *inter alia*:

- (i) none of the Rating Agencies having notified the Issuer that the rating assigned to any class of Notes by the Rating Agencies will be adversely affected as a result of the Issuer accepting any such offer; and

- (ii) compliance with the requirements in respect of hedging arrangements in relation to such purchase described in “The Issuer – Hedging Arrangements” and “Portfolio Asset Administration – Portfolio Asset Interest Rates”.

For the purposes of sub-paragraphs (a), (b) and (c) (inclusive) above, whether the particular condition is satisfied will be determined taking into account the effect on the aggregate Current Principal Balances of the Portfolio Assets of such sale and the acceptance of any other offers by Sellers to sell Unsecured Loans, Secured Loans and/or Car Finance Contracts (as applicable) to the Issuer on the relevant date and (if applicable) the making of any further advances in respect of any Secured Loans on such day.

If the Stamp Duty Amount is greater than zero then, until the Issuer has received an adjudication from the United Kingdom Stamp Office that no stamp duty is payable on the transfer to the Issuer on the Closing Date of the benefit of the Initial Portfolio Car Finance Contracts which are Scottish Car Finance Contracts and the Initial Portfolio Unsecured Loans which are Scottish Unsecured Loans, the Issuer will not purchase any Scottish Unsecured Loan or any Scottish Car Finance Contract if, as a result of such purchase, the aggregate of the purchase prices of all Scottish Unsecured Loans and all Scottish Car Finance Contracts which are then Portfolio Assets and which in either case were acquired by the Issuer on or after the Closing Date would exceed an amount equal to twenty-five times the Stamp Duty Amount.

The purchase price for a Further Unsecured Loan, Further Secured Loan or Further Car Finance Contract (and the relevant Motor Vehicle) (and any Unsecured Loan or Secured Loan or Car Finance Contract (and the relevant Motor Vehicle) acquired on the Closing Date) will be the aggregate of:

- (a) its Current Balance on its Effective Date;
- (b) any Purchased Accruals; and
- (c) any Unamortised Commission,

less the aggregate of:

- (i) any provision in respect of unpaid amounts; and
- (ii) any Excluded Arrears.

The Issuer, or the Administrator on the Issuer’s behalf, may withdraw amounts from the Transaction Account to pay the purchase price for a Further Unsecured Loan, Further Secured Loan or Further Car Finance Contract (and the relevant Motor Vehicle), as the case may be. Such withdrawals may be made on any business day but only to the extent of the Substitution Amount on such date.

Any Further Unsecured Loan or Further Car Finance Contract (and the relevant Motor Vehicle), as the case may be, will be transferred on completion of an offer and acceptance in Jersey by payment of the purchase price. The transfer of any Secured Loan will be completed in England on acceptance of an offer incorporating the terms of the Secured Loan Sale Agreement and payment of the purchase price.

Such offer and acceptance in respect of a Car Finance Contract or an Unsecured Loan or a Secured Loan will constitute an Asset Sale Contract (being a Car Finance Sale Contract, a Secured Loan Sale Contract or, as the case may be, an Unsecured Loan Sale Contract) which, in the case of a Car Finance Sale Contract or an Unsecured Loan Sale Contract, will incorporate the Standard Terms and Conditions by reference or, in the case of a Secured Loan Sale Contract, will be upon and subject to the terms and conditions in the Secured Loan Sale Agreement. Simultaneously with the offer and acceptance in Jersey in relation to a Car Finance Contract or an Unsecured Loan Sale Contract the relevant Seller will deliver certain documentation confirming the calculation of the purchase price to the Issuer. That delivery will take place in the United Kingdom.

If the aggregate of the purchase prices of Further Unsecured Loans or Further Car Finance Contracts (and the relevant Motor Vehicles), as the case may be, that are the subject of an offer is equal to or less than £60,000, the offer and acceptance may take place in the United Kingdom.

Any Scottish Unsecured Loans, Scottish Secured Loans or Scottish Car Finance Contracts will, on conclusion of the relevant sale contract, be held on trust for the Issuer, pursuant to a declaration of trust or, as the case may be, supplemental declaration of trust by the relevant Seller, substantially in the relevant form specified in the Secured Loan Sale Agreement or the Standard Terms and Conditions, as applicable (each a “**Scottish Declaration of Trust**”).

Each relevant Seller is under a duty to account to the Issuer for any amounts received in respect of a Further Unsecured Loan, Further Secured Loan or Further Car Finance Contract, as the case may be (including amounts received between its Effective Date and the date it is acquired by the Issuer), once it has been acquired by the Issuer. Such amounts will be held on trust for the Issuer by the relevant Seller.

Notice to Obligors, Perfection of Legal Title and Security

Although notice to the relevant Obligor of assignment to the Issuer (coupled with an appropriate legal assignment) is required to perfect the Issuer's title in any Portfolio Asset (other than Portfolio Motor Vehicles) and registration at H.M. Land Registry, or, as the case may be, the Registers of Scotland is required to effect the transfer of the Mortgages to the Issuer or to the Trustee and, in the case of English Mortgages which are not required to be registered at H.M. Land Registry, registration is required at the Central Land Charges Registry to protect the priority of such Mortgages, no such notice will be given or application for such registration made unless, *inter alia*:

- (a) the Administrator has failed to make any payment on its due date (subject to a grace period of two business days) under the Administration Agreement, the Administrator defaults in performance of an obligation under the Administration Agreement and the default is materially prejudicial to the Noteholders or the Administrator, PGC or PFPLC is unable to pay its debts within the meaning of that term in the Insolvency Act 1986 or becomes subject to certain insolvency proceedings; or
- (b) the Trustee has given notice that it intends to enforce its security for the Notes; or
- (c) the Trustee certifies to the Issuer and PFPLC that the security for the Notes is in jeopardy; or
- (d) PFPLC is in breach of its repurchase obligations under the Secured Loan Sale Agreement or the Repurchase Deed but in this case notice will only be given to the Obligor under each Portfolio Asset which should have been, but was not, repurchased.

Until the Issuer's title to a Portfolio Asset is perfected, the Obligor may continue making payments to the relevant Seller. Perfecting the Issuer's title would mean that the Obligor would no longer be entitled to obtain a good receipt in respect of the Portfolio Asset from the relevant Seller. Each relevant Seller will undertake that if at any time it receives or there is received to its order any property, interest, right, title or benefit or the proceeds of any of them, it will hold the same on trust for the Issuer.

B. INSURANCE

Creditor Insurance

Some, but not all, of the Borrowers from PPF and Universal and Hirers or Lessees from PCF have the benefit of insurance with London and Edinburgh Insurance Company Limited, Norwich Union Life and Pensions Limited and the National Insurance & Guarantee Corporation Plc trading as NIG under which the relevant insurer is required to make payment in the event of the death, total disability or unemployment of any such Borrower, Hirer or Lessee. PPF, Universal and PCF (as the case may be) do not have an interest in any of these policies. Nevertheless, under each policy the insurer has provided an undertaking to the assured that it will pay the benefit of any claims made by the assured directly to PPF, Universal or PCF (as the case may be).

The proceeds of any claims received by PPF, PCF and Universal are applied by them in reducing (respectively) the relevant Borrower's, Hirer's or Lessee's liability to PPF, PCF and Universal (as the case may be).

Any Seller other than PPF or PCF will put in place the same arrangements in relation to any assets which it originates and sells to the Issuer.

Product Liability Insurance

PCF has the benefit of insurance, placed with Norwich Union Insurance Limited (which carries on an insurance business within the United Kingdom and whose principal office is at Surrey Street, Norwich, Norfolk NR1 3NG), which covers it against claims made by third parties following accidental bodily injury, illness and/or accidental loss of or damage to property for which PCF may be held legally liable. This includes liability arising from defects in anything sold, supplied, repaired, tested, serviced or processed by PCF.

The Issuer is included as an additional assured in respect of this insurance and the insurers will be notified of the assignment of the Issuer's interest in the relevant policy to the Trustee by way of security on the Closing Date. Any claim made under such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

Guaranteed Asset Protection

The Hirers from PCF have the option of purchasing Guaranteed Asset Protection against an outstanding liability following a write-off of the related Motor Vehicle and any subsequent insurance settlement. GAP is provided to the Hirers by National Insurance & Guarantee Corporation Plc trading as NIG. The premium is payable in full at the completion of the Car Finance Agreement and is financed by PCF. The Hirers repay the cost of the insurance as part of the monthly instalment. PCF does not have an interest in this insurance. Nevertheless, under each policy the insurer has provided an undertaking to the assured that it will pay the benefit of any claims made directly to PCF.

Other Miscellaneous Insurances

PPF, PCF, PFPLC and Universal have the benefit of insurance which covers them against loss arising from negligent acts, errors or omissions and dishonesty or fraud by the assured's staff, negligence or breach of duty by its directors and officers and fraudulent interference with computer systems or data.

The Issuer is included as an assured under these policies and the insurers will be notified of the assignment of the Issuer's interest in the policies to the Trustee by way of security on the Closing Date. Any claim made under such insurances will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

C. CREDIT ASSESSMENT

This section aims to give a broad understanding of the various methods used by PPF, Universal and PCF to assess an applicant's creditworthiness. The procedures outlined are not the only assessment methods employed by PPF, Universal and PCF and are subject to change in line with the then current practice of PPF, Universal and PCF. PPF, Universal and PCF may have used and may in the future use one of or a combination of the methods described below in coming to the decision as to whether to enter into an Unsecured Loan Agreement, Secured Loan Agreement or Car Finance Agreement with an applicant. Any Seller other than PPF or PCF or Universal will use similar methods of credit assessment to those used by PPF, PCF and Universal from time to time.

The assessment of the applicant's creditworthiness will be based on an application completed by the applicant or his agent. The application will contain data such as income, current and previous address, employment status and marital status.

The data provided by the applicant may then be compared with information received as a result of a full credit search performed by the relevant Seller. The credit search aids the Seller to assess the applicant's credit history and ability to meet payment obligations. Either Experian or Equifax credit agencies are used for the searches. A credit search may reveal any history of court judgments and administration orders and payment history on current and completed obligations.

The relevant Seller may request references and/or any other information deemed necessary in connection with an application. These may include employer's or bank references, bank statements, credit card details, company accounts, searches of the registers maintained by the Registrars of Companies in England and Wales and in Scotland, the computerised index of winding up petitions, a search of the manual index of High Court petitions for administration orders at the Central Registry of Winding Up Petitions, and searches in the Register of Inhibitions and Adjudications in Scotland. A Seller's own affordability calculation may also be used to assess the applicant's declared income and expenditure.

D. THE PROVISIONAL POOL

The information given in this section relates to the Provisional Pool. It is stated as at the Provisional Pool Date. The Unsecured Loans included in the Provisional Pool had an aggregate Current Balance of £432,901,408.68 as at close of business on the Provisional Pool Date comprising £200,389,205.70 in respect of Unsecured Loans (all of which are Personal Loans) originated by Universal and £232,512,202.98 (£215,317,980.62 in respect of Personal Loans and £17,194,222.36 in respect of Retail Credit Loans) in respect of Unsecured Loans originated by PPF. The Secured Loans included in the Provisional Pool had an aggregate Current Balance of £30,775,944.49 as at close of business on the Provisional Pool Date in respect of Secured Loans originated by PPF. These aggregate Current Balances will have been reduced by repayments and redemptions of such Unsecured Loans and Secured Loans during the period from the Provisional Pool Date to the Closing Date. The Car Finance Contracts in the Provisional Pool had an aggregate Current Balance of £54,462,231.59 as at the Provisional Pool Date. This aggregate Current Balance will have been reduced by payments of principal equivalent, and possibly early termination or settlement, of such Car Finance Contracts during the period from the Provisional Pool Date to the Closing Date.

Assets to be purchased by the Issuer on the Closing Date will be selected from the Provisional Pool having regard to any disposals by the Sellers of such assets, and any repayments and redemptions, between the Provisional Pool Date and the Closing Date. Since the relevant Provisional Pool Date, PPF has disposed of some of the Unsecured Loans which are Personal Loans, most of the Unsecured Loans which are Retail Credit Loans and most of the Secured Loans and PCF has disposed of some of the Car Finance Contracts comprised in the Provisional Pool and such Unsecured Loans, Secured Loans and Car Finance Contracts will, therefore, not be sold to the Issuer on the Closing Date. Assets to be purchased by the Issuer on the Closing Date may also contain other Unsecured Loans and Secured Loans and Car Finance Contracts which, because they were originated since the Provisional Pool Date, are not comprised in the Provisional Pool but in respect of which (i) the warranties in the Warranty Deed or (as the case may be) in the Secured Loan Sale Agreement will be given on the Closing Date if the Issuer acquires them and (ii) certain conditions will be met (as described in “Portfolio Assets – Conditions to Sale of Initial Portfolio Assets”) if the Issuer acquires them. The Initial Portfolio Assets will comprise both Performing Assets and Portfolio Assets which are not Performing Assets.

The following statistical information is given in relation to the provisional pools as at the Provisional Pool Date. All percentages have been taken to two decimal places.

PROVISIONAL POOL KEY FEATURES

	<i>Provisional Pool Assets</i>	<i>Universal Unsecured Loans</i>	<i>PPF Personal Loans</i>	<i>PPF Retail Credit Loans</i>	<i>Secured Loans</i>	<i>Car Finance Contracts</i>
Current Balance £	518,139,584.76	200,389,205.70	215,317,980.62	17,194,222.36	30,775,944.49	54,462,231.59
Number of loans/car finance contracts	80,917	22,950	30,131	14,813	2,125	10,898
Weighted average seasoning (months)	43.23	83.52	21.92	1.00	0.96	16.48
Average Current Balance	6,403.35	8,731.56	7,146.06	1,160.75	14,482.80	4,997.45
Weighted average combined loan to value	87.30%	n/a	n/a	n/a	87.30%	n/a
Weighted average yield	16.23%	19.64%	14.58%	14.85%	11.41%	13.36%
Weighted average yield*	16.19%	—	—	13.61%	—	—

*Inclusive of retailer discount. Assumption made that borrowers with a deferred or option period repay the loan at the end of the deferred or option period.

BREAKDOWN OF PROVISIONAL POOL ASSET DISTRIBUTION BY SEASONING

Year of origination	Universal Unsecured Loans			PPF Personal Loans			PPF Retail Credit Loans		
	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of loans
1986	850,275.67	0.42%	82	—	0.00%	—	—	0.00%	—
1987	2,344,491.38	1.17%	218	—	0.00%	—	—	0.00%	—
1988	3,858,188.49	1.93%	311	—	0.00%	—	—	0.00%	—
1989	5,614,756.49	2.80%	463	—	0.00%	—	—	0.00%	—
1990	10,159,624.01	5.07%	705	—	0.00%	—	—	0.00%	—
1991	10,866,176.87	5.42%	739	—	0.00%	—	—	0.00%	—
1992	9,709,919.49	4.85%	874	—	0.00%	—	—	0.00%	—
1993	14,636,319.79	7.30%	1,576	—	0.00%	—	—	0.00%	—
1994	19,422,730.93	9.69%	2,299	—	0.00%	—	—	0.00%	—
1995	26,615,254.83	13.28%	3,359	—	0.00%	—	—	0.00%	—
1996	42,381,834.71	21.15%	5,451	—	0.00%	—	—	0.00%	—
1997	46,311,612.68	23.11%	5,955	2,088,647.19	0.97%	372	—	0.00%	—
1998	7,618,020.36	3.80%	918	42,334,371.81	19.66%	5,684	—	0.00%	—
1999	—	0.00%	—	49,971,450.64	23.21%	8,042	—	0.00%	—
2000	—	0.00%	—	69,666,507.27	32.36%	9,533	—	0.00%	—
2001	—	0.00%	—	51,257,003.71	23.81%	6,500	17,194,222.36	100.00%	14,813
	200,389,205.70		22,950	215,317,980.62		30,131	17,194,222.36		14,813

Year of origination	Secured Loans			Car Finance Contracts		
	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of finance contracts
1986	—	0.00%	—	—	0.00%	—
1987	—	0.00%	—	—	0.00%	—
1988	—	0.00%	—	—	0.00%	—
1989	—	0.00%	—	—	0.00%	—
1990	—	0.00%	—	—	0.00%	—
1991	—	0.00%	—	—	0.00%	—
1992	—	0.00%	—	—	0.00%	—
1993	—	0.00%	—	—	0.00%	—
1994	—	0.00%	—	—	0.00%	—
1995	—	0.00%	—	—	0.00%	—
1996	—	0.00%	—	—	0.00%	—
1997	—	0.00%	—	130,696.09	0.24%	67
1998	—	0.00%	—	5,478,945.65	10.06%	1,891
1999	—	0.00%	—	16,070,222.23	29.51%	4,229
2000	—	0.00%	—	6,002,148.59	11.02%	891
2001	30,775,944.49	100.00%	2,125	26,780,219.03	49.17%	3,820
	30,775,944.49		2,125	54,462,231.59		10,898

BREAKDOWN OF PROVISIONAL POOL ASSET DISTRIBUTION BY CURRENT BALANCE

Current Balance of individual loan	Universal Unsecured Loans			PPF Personal Loans			PPF Retail Credit Loans		
	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of loans
0-2,000	3,871,361.79	1.93%	3,666	4,182,077.77	1.94%	3,705	11,258,137.72	12.30%	12,818
2,000.01-4,000	12,095,622.48	6.04%	4,059	15,812,044.49	7.34%	5,227	4,652,469.64	5.07%	1,767
4,000.01-6,000	16,518,449.16	8.24%	3,335	29,402,134.24	13.66%	5,865	780,891.96	0.85%	166
6,000.01-8,000	16,544,543.75	8.26%	2,382	30,899,925.74	14.35%	4,463	270,166.45	0.29%	39
8,000.01-10,000	16,950,789.25	8.46%	1,892	27,502,878.10	12.77%	3,059	144,827.02	0.16%	16
10,000.01-12,000	18,360,410.57	9.16%	1,668	22,618,480.02	10.50%	2,050	33,116.84	0.04%	3
12,000.01-14,000	18,034,219.24	9.00%	1,400	32,368,566.32	15.03%	2,465	25,723.90	0.03%	2
14,000.01-16,000	15,164,531.23	7.57%	1,014	28,680,442.27	13.32%	1,958	28,888.83	0.03%	2
16,000.01-18,000	14,906,959.50	7.44%	879	16,063,007.21	7.46%	959	—	0.00%	—
18,000.01-20,000	12,201,421.87	6.09%	643	4,264,901.58	1.98%	227	—	0.00%	—
20,000.01-25,000	22,225,924.62	11.09%	1,002	2,765,669.25	1.28%	126	—	0.00%	—
more than 25,000	33,514,972.24	16.72%	1,010	757,853.63	0.35%	27	—	0.00%	—
	200,389,205.70		22,950	215,317,980.62		30,131	17,194,222.36		14,813

Current Balance of individual loan	Secured Loans			Car Finance Contracts		
	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of car finance contracts
0-2,000	—	0.00%	—	2,362,679.08	4.34%	2,026
2,000.01-4,000	264,570.56	0.86%	79	9,139,212.10	16.78%	3,050
4,000.01-6,000	1,734,704.32	5.64%	326	12,591,966.64	23.12%	2,540
6,000.01-8,000	1,485,193.84	4.83%	211	11,195,772.06	20.56%	1,626
8,000.01-10,000	2,237,209.23	7.27%	243	7,236,508.01	13.29%	813
10,000.01-12,000	3,161,759.78	10.27%	284	3,972,783.50	7.29%	364
12,000.01-14,000	1,644,918.09	5.34%	128	2,493,224.34	4.58%	193
14,000.01-16,000	2,163,520.87	7.03%	145	1,624,491.76	2.98%	109
16,000.01-18,000	2,413,559.22	7.84%	141	1,141,639.60	2.10%	67
18,000.01-20,000	2,006,585.89	6.52%	104	690,267.35	1.27%	36
20,000.01-25,000	4,360,255.78	14.17%	193	888,704.46	1.63%	40
more than 25,000	9,303,666.91	30.23%	271	1,124,982.69	2.07%	34
	30,775,944.49		2,125	54,462,231.59		10,898

BREAKDOWN OF PROVISIONAL POOL ASSET DISTRIBUTION BY REMAINING TERM

Remaining term	Universal Unsecured Loans			PPF Personal Loans			PPF Retail Credit Loans		
	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of loans
<=1 year.....	16,895,081.66	8.43%	3,333	3,700,303.73	1.72%	1,802	7,690,396.13	44.73%	8,745
>1 <=2 years.....	22,094,496.91	11.03%	3,251	9,879,293.90	4.59%	2,616	3,400,026.79	19.77%	2,290
>2 <=3 years.....	19,705,531.37	9.83%	2,746	14,525,852.32	6.75%	3,169	4,651,721.95	27.05%	3,032
>3 <=4 years.....	20,891,764.92	10.43%	2,550	16,526,135.87	7.68%	2,874	870,659.87	5.06%	443
>4 <=5 years.....	14,028,341.16	7.00%	1,836	19,210,196.97	8.92%	2,646	581,417.62	3.38%	303
>5 <=6 years.....	19,184,327.80	9.57%	2,356	12,010,577.66	5.58%	1,243	—	0.00%	—
>6 <=7 years.....	14,997,233.40	7.48%	1,716	18,364,668.70	8.53%	2,024	—	0.00%	—
>7 <=8 years.....	2,008,679.49	1.00%	226	30,025,791.82	13.94%	3,828	—	0.00%	—
>8 <=9 years.....	1,693,859.95	0.85%	170	41,651,045.60	19.34%	4,581	—	0.00%	—
>9 <=10 years.....	36,624,993.46	18.28%	3,333	49,243,441.51	22.87%	5,340	—	0.00%	—
>10 <=15 years.....	2,442,566.87	1.22%	122	37,425.43	0.02%	3	—	0.00%	—
>15 years.....	29,822,328.71	14.88%	1,311	143,247.11	0.07%	5	—	0.00%	—
	200,389,205.70		22,950	215,317,980.62		30,131	17,194,222.36		14,813

Remaining term	Secured Loans			Car Finance Contracts		
	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of car finance contracts
<=1 year.....	—	0.00%	—	3,407,650.60	6.26%	1,814
>1 <=2 years.....	—	0.00%	—	8,103,451.87	14.88%	2,408
>2 <=3 years.....	151,575.80	0.49%	28	12,775,387.60	23.46%	2,539
>3 <=4 years.....	44,608.94	0.14%	7	11,214,962.15	20.59%	1,749
>4 <=5 years.....	7,410,602.93	24.08%	872	18,960,779.37	34.81%	2,388
>5 <=6 years.....	486,321.11	1.58%	39	—	0.00%	—
>6 <=7 years.....	1,073,005.89	3.49%	83	—	0.00%	—
>7 <=8 years.....	1,170,501.45	3.80%	84	—	0.00%	—
>8 <=9 years.....	107,876.95	0.35%	7	—	0.00%	—
>9 <=10 years.....	8,125,918.06	26.40%	484	—	0.00%	—
>10 <=15 years.....	6,571,394.10	21.35%	296	—	0.00%	—
>15 years.....	5,634,139.26	18.31%	225	—	0.00%	—
	30,775,944.49		2,125	54,462,231.59		10,898

BREAKDOWN OF PROVISIONAL POOL ASSET DISTRIBUTION BY MONTHS IN ARREARS

Months in arrears	Universal Unsecured Loans				PPF Personal Loans				PPF Retail Credit Loans				
	Current Balance £	% of total	No. of loans	% of total	Current Balance £	% of total	No. of loans	% of total	Current Balance £	% of total	No. of loans	% of total	Arrears
up to 1	33,982,987.15	16.96%	7,176	31.27%	165,114,007.01	76.68%	24,541	81.45%	17,095,915.35	99.43%	14,738	99.49%	20,761.16
> 1 <= 2	1,312,853.28	0.66%	297	1.29%	3,226,393.07	1.50%	463	1.54%	74,470.65	0.43%	60	0.41%	9,684.85
> 2 <= 3	1,157,112.12	0.58%	242	1.05%	2,854,273.90	1.33%	370	1.23%	163,117.07	0.14%	15	0.10%	5,195.43
> 3 <= 4	1,095,140.40	0.55%	213	0.93%	2,438,313.62	1.13%	290	0.96%	180,934.97	0.00%	—	0.00%	—
> 4 <= 5	1,162,027.77	0.58%	221	0.96%	2,204,159.59	1.02%	273	0.91%	210,987.32	0.00%	—	0.00%	—
> 5 <= 6	1,148,335.42	0.57%	216	0.94%	2,304,365.01	1.07%	261	0.87%	233,069.37	0.00%	—	0.00%	—
> 6 <= 7	1,071,791.78	0.53%	216	0.94%	2,244,410.86	1.04%	259	0.86%	294,051.26	0.00%	—	0.00%	—
> 7 <= 8	1,293,284.32	0.65%	229	1.00%	2,070,797.08	0.96%	242	0.80%	312,606.90	0.00%	—	0.00%	—
> 8 <= 9	1,420,694.59	0.71%	250	1.09%	338,707.17	0.16%	287	0.95%	432,870.11	0.00%	—	0.00%	—
> 9 <= 10	1,386,484.44	0.69%	235	1.02%	349,276.59	0.16%	256	0.85%	437,363.02	0.00%	—	0.00%	—
> 10 <= 11	1,692,682.34	0.84%	251	1.09%	1,958,735.80	0.91%	213	0.71%	409,688.73	0.00%	—	0.00%	—
> 11 <= 12	1,621,297.35	0.81%	253	1.10%	1,786,700.51	0.83%	203	0.67%	416,781.63	0.00%	—	0.00%	—
> 12 months	152,044,514.74	75.87%	13,151	57.30%	63,574,607.74	29.33%	2,473	8.21%	10,124,027.76	0.00%	—	0.00%	—
	200,389,205.70		22,950		66,345,219.53		30,131		13,408,810.40		14,813		35,641.44

Months in arrears	Secured Loans				Car Finance Contracts				
	Current Balance £	% of total	No. of loans	% of total	Current Balance £	% of total	No. of car finance contracts	% of total	Arrears
up to 1	30,309,774.22	98.49%	2,094	98.54%	52,488,021.87	96.38%	10,492	96.27%	50,622.47
> 1 <= 2	454,393.53	1.48%	30	1.41%	625,583.95	1.15%	142	1.30%	43,597.69
> 2 <= 3	1,177,674.74	0.04%	1	0.05%	219,691.73	0.40%	52	0.48%	26,224.90
> 3 <= 4	—	0.00%	—	0.00%	108,362.23	0.20%	26	0.24%	18,534.45
> 4 <= 5	—	0.00%	—	0.00%	90,818.32	0.17%	20	0.18%	19,560.16
> 5 <= 6	—	0.00%	—	0.00%	65,411.57	0.12%	17	0.16%	15,905.27
> 6 <= 7	—	0.00%	—	0.00%	70,831.58	0.13%	15	0.14%	20,188.77
> 7 <= 8	—	0.00%	—	0.00%	70,491.34	0.13%	11	0.10%	20,024.57
> 8 <= 9	—	0.00%	—	0.00%	48,333.29	0.09%	12	0.11%	17,143.45
> 9 <= 10	—	0.00%	—	0.00%	38,852.28	0.07%	10	0.09%	16,164.69
> 10 <= 11	—	0.00%	—	0.00%	5,261.41	0.01%	2	0.02%	2,563.92
> 11 <= 12	—	0.00%	—	0.00%	26,129.66	0.05%	5	0.05%	12,373.49
> 12 months	—	0.00%	—	0.00%	604,442.36	1.11%	94	0.86%	560,742.64
	30,775,944.49		2,125		17,249.87		10,898		823,646.47

BREAKDOWN OF PROVISIONAL POOL ASSET DISTRIBUTION BY INTEREST RATE

Interest rate	Universal Unsecured Loans			PPF Personal Loans			PPF Retail Credit Loans		
	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of loans
<=8.00%	41,550,557.27	20.73%	4,283	4,535,129.85	2.11%	700	8,625.27	0.05%	2
>8.00% <=9.00%	414,646.38	0.21%	66	72,280.96	0.03%	8	2,772,968.64	16.13%	2,008
>9.00% <=10.00%	2,479,575.08	1.24%	397	2,477,755.92	1.15%	193	3,083,547.69	17.93%	2,533
>10.00% <=11.00%	201,653.57	0.10%	27	592,833.42	0.28%	64	1,422,061.86	8.27%	1,008
>11.00% <=12.00%	858,192.39	0.43%	151	24,142,296.64	11.21%	2,228	1,018,642.85	5.92%	696
>12.00% <=13.00%	76,774.05	0.04%	21	9,060,980.57	4.21%	1,419	1,163,982.59	6.77%	817
>13.00% <=14.00%	481,958.17	0.24%	119	25,142,215.54	11.68%	5,506	1,040,243.26	6.05%	851
>14.00% <=15.00%	16,773,661.45	8.37%	3,409	97,482,845.58	45.27%	10,871	613,707.82	3.57%	726
>15.00% <=16.00%	77,992.52	0.04%	19	93,310.25	0.04%	35	631,877.29	3.67%	1,103
>16.00% <=17.00%	6,623,199.99	3.31%	1,924	19,856,930.37	9.22%	5,128	423,978.53	2.47%	566
>17.00% <=18.00%	144,264.56	0.07%	77	22,981,788.84	10.67%	2,397	604,700.08	3.52%	678
>18.00% <=19.00%	10,105,062.80	5.04%	1,067	6,023,849.73	2.80%	1,045	382,887.20	2.23%	477
>19.00% <=20.00%	8,419,093.19	4.20%	677	2,855,762.95	1.33%	537	142,305.76	0.83%	183
>20.00%	112,182,574.28	55.98%	10,713	2,855,762.95	1.33%	537	3,884,693.52	22.59%	3,165
	200,389,205.70		22,950	215,317,980.62		30,131	17,194,222.36		14,813

Interest rate	Secured Loans			Car Finance Contracts		
	Current Balance £	% of total	No. of loans	Current Balance £	% of total	No. of loans
<=8.00%	—	0.00%	—	814,047.41	1.49%	123
>8.00% <=9.00%	1,120,819.55	3.64%	23	1,894,671.89	3.48%	248
>9.00% <=10.00%	3,970,508.09	12.90%	134	4,246,359.67	7.80%	597
>10.00% <=11.00%	7,830,245.03	25.44%	389	9,009,431.63	16.54%	1,426
>11.00% <=12.00%	25,933.35	0.08%	3	5,171,906.54	9.50%	936
>12.00% <=13.00%	17,062,752.52	55.44%	1,489	7,465,035.17	13.71%	1,374
>13.00% <=14.00%	499,757.10	1.62%	55	3,967,522.28	7.28%	719
>14.00% <=15.00%	258,573.18	0.84%	31	7,373,138.38	13.54%	1,643
>15.00% <=16.00%	7,355.67	0.02%	1	4,287,192.19	7.87%	952
>16.00% <=17.00%	—	0.00%	—	1,878,096.00	3.45%	482
>17.00% <=18.00%	—	0.00%	—	4,446,873.85	8.17%	1,222
>18.00% <=19.00%	—	0.00%	—	870,393.88	1.60%	217
>19.00% <=20.00%	—	0.00%	—	689,910.91	1.27%	220
>20.00%	—	0.00%	—	2,347,651.79	4.31%	739
	30,775,944.49		2,125	54,462,231.59		10,898

PPF RETAIL CREDIT LOANS – PRODUCT TYPES

Product type	Current Balance £	% of total	No. of loans
Deferred Payment Loans	2,452,923.35	14.27%	1,658
Non-Deferred	14,741,299.01	85.73%	13,155
	17,194,222.36		14,813

PPF RETAIL CREDIT LOANS – GOODS CATEGORIES

Goods category	Current Balance £	% of total	No. of loans
Brown Electrical	582,760.36	3.39%	473
Carpets	394,221.99	2.29%	583
Electronics incl. Computers	308,100.09	1.79%	207
Furniture	15,494,964.59	90.12%	13,045
Other	303,643.64	1.77%	314
Photographic	15,715.51	0.09%	28
Plastic surgery	1,061.96	0.01%	1
White electrical	93,754.22	0.55%	162
	17,194,222.36		14,813

SECURED LOANS – COMBINED LOAN TO VALUE RATIOS

Loan to value	Current Balance £	% of total	No. of loans
<=25%	373,779.44	1.21%	44
>25% <=50%	1,178,893.92	3.83%	119
>50% <=55%	369,378.07	1.20%	38
>55% <=60%	635,248.20	2.06%	50
>60% <=65%	836,523.45	2.72%	64
>65% <=70%	1,002,087.47	3.26%	87
>70% <=75%	1,473,724.20	4.79%	119
>75% <=80%	1,847,859.68	6.00%	140
>80% <=85%	2,227,909.88	7.24%	172
>85% <=90%	3,546,598.21	11.52%	248
>90% <=95%	6,286,206.37	20.43%	387
>95% <=100%	5,228,514.20	16.99%	346
>100%	5,769,221.40	18.75%	311
	30,775,944.49		2,125

SECURED LOANS – RATE FIXING METHODS

Rate fixing method	Current Balance £	% of total	No. of loans
Fixed	6,203,828.92	20.16%	438
Standard Variable	24,572,115.57	79.84%	1,687
	30,775,944.49		2,125

CAR FINANCE CONTRACTS

Contract type	Current Balance £	% of total	No. of car finance contracts
Motor Vehicle Hire Purchase Agreements	50,555,366.64	92.83%	10,537
Motor Vehicle Contract Purchase Agreements	2,755,374.51	5.06%	297
Motor Vehicle Conditional Sale Agreements	1,124,739.70	2.07%	63
Motor Vehicle Leasing Agreements	26,750.74	0.05%	1
	54,462,231.59		10,898

PORTFOLIO ASSET ADMINISTRATION

Introduction

PFPLC will be appointed by, *inter alios*, each of the Issuer and the Trustee under the Administration Agreement to be their agent (according to their respective interests) to administer the Portfolio Assets. PFPLC will administer the Portfolio Assets with the same diligence and skill as would a reasonably prudent lender or financier administering its own unsecured consumer loans, secured consumer loans and car finance products, subject to the provisions of the Administration Agreement. PFPLC will undertake that in its role as administrator, it will comply with any proper directions, orders and instructions which the Issuer or the Trustee may from time to time give to PFPLC in accordance with the provisions of the Administration Agreement. The services to be provided by PFPLC under the Administration Agreement include, in addition to those duties more fully described below, the sale on behalf of the Issuer of Portfolio Motor Vehicles which are (a) subject to Car Finance Contracts which are motor vehicle hire-purchase agreements or motor vehicle contract purchase agreements in respect of which the option to purchase of the Hirer is not exercised or subject to motor vehicle leasing agreements at the end of the lease period; or (b) repossessed upon default by the Hirer/Lessee. Save as provided therein, the Administration Agreement is conditional upon the issue of the Notes taking place. PFPLC's appointment as administrator can be terminated by the Trustee in the event of, *inter alia*, a breach by PFPLC of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders (subject, in the case of conflict between the interests of Noteholders of different classes, to the provisions of the Trust Deed which require the Trustee to have regard first to the interests of the Class A Noteholders, then to the interests of the Class B Noteholders and then to the interests of the Class C Noteholders) or in the event of PFPLC's insolvency.

Portfolio Asset Interest Rates

After the issue of the Notes and pursuant to the Administration Agreement, PFPLC (on behalf of the Issuer and the Trustee) will set or calculate the rates of interest (or other equivalent revenue charges) applicable to the Portfolio Assets, except in certain limited circumstances. In those limited circumstances, the Trustee, the Issuer or a substitute administrator will be entitled to do so.

If at any time the Administrator on behalf of the Issuer wishes to set (or does not wish to change) the rate of interest applicable to the Portfolio Secured Loans (or any of them) or to purchase any Further Secured Loans with, in any case, the result that the weighted average of the interest rates applicable to the Portfolio Secured Loans which are Performing Assets (taking account of all hedging arrangements entered into by the Issuer in respect of Portfolio Secured Loans and all income expected to be received by the Issuer from any Authorised Investments in the then current Interest Period) would be less than 5% (or such other percentage as may be agreed from time to time by the Rating Agencies) above LIBOR applicable to the Notes at that time, it will be entitled to do so only if and to the extent that there is a credit balance in the Shortfall Fund (if any) (net of all provisions previously made during the then current Interest Period) at least equal to the shortfall which would arise at that time and it makes a provision in such Shortfall Fund equal to such shortfall.

On each Determination Date, the Shortfall Fund (if any) to the extent standing to the credit of the Transaction Account will be taken into account when determining the Issuer Funds in respect of the next following Interest Payment Date.

Furthermore, the weighted average of the interest rates used to calculate payments made under any portfolio of Unsecured Loans being acquired by the Issuer at any time and which are Performing Assets may not on the relevant sale date be less than 5% (in the case of Retail Credit Loans) or 7% (in the case of Personal Loans) (or such other percentages as may be agreed from time to time by the Rating Agencies) above both the rate payable by the Issuer under any swap arrangement (payable in return for the LIBOR applicable to the Notes at that time) and the strike rate (against the LIBOR applicable to the Notes at that time) on any cap arrangement entered into by the Issuer in respect thereof. Similarly, the weighted average of the interest rates used to calculate the payments under any portfolio of Car Finance Contracts being acquired by the Issuer at any time and which are Performing Assets may not on the relevant sale date be less than 6% (or such other percentage as may be agreed from time to time by the Rating Agencies) above the rate payable by the Issuer under any swap arrangement (payable in return for the LIBOR applicable to the Notes at that time) and the strike rate (against the LIBOR applicable to the Notes at that time) on any cap arrangement entered into by the Issuer in respect thereof.

Debtor Ledger/Current Balance/Current Principal Balance

Pursuant to the Administration Agreement, the Administrator will establish and maintain a separate Debtor Ledger for each Portfolio Asset. The Administrator will record on each Debtor Ledger: (i) all amounts from time to time due and payable by the Obligor in respect of the relevant Portfolio Asset, as debits; (ii) the Current Balance of that Portfolio Asset as a debit balance (which includes the part of the Current Balance that represents Current Principal Balance); and (iii) all amounts from time to time received from the Obligor in respect of that Portfolio Asset, as credits.

The Current Balance of a Portfolio Unsecured Loan that is a Personal Loan (other than one originated by PPF prior to 1st September, 1999) or a Portfolio Secured Loan on any date will be the aggregate outstanding amount of principal and all interest and other amounts due and payable by the Borrower thereunder on that date as shown in the Debtor Ledger less, in respect of each such Portfolio Asset, an amount equal to the amount thereof (if any) that has been written off in accordance with the Administration Agreement.

The Current Balance of a Portfolio Car Finance Contract, a Portfolio Unsecured Loan that is a Retail Credit Loan or, as the case may be, a Portfolio Unsecured Loan that is a Personal Loan originated by PPF prior to 1st September, 1999, on any date will be the aggregate amount of those parts of each monthly payment due from the relevant Obligor that is attributable to principal in accordance with the Administration Agreement throughout the remaining term of such Portfolio Asset (including amounts then due and payable but not paid) (and in the case of a Portfolio Car Finance Contract which comprises a conditional sale agreement, a lease agreement or a motor vehicle contract purchase agreement plus the assumed residual value of the relevant Portfolio Motor Vehicle) plus the aggregate outstanding amount of interest (or its equivalent), and other amounts due and payable by the Obligor on that date thereunder each as shown in the Debtor Ledger less, in respect of each such Portfolio Asset, an amount equal to the amount thereof (if any) that has been written off in accordance with the Administration Agreement.

The Current Principal Balance of a Portfolio Unsecured Loan that is a Personal Loan (other than one originated by PPF prior to 1st September, 1999) or a Portfolio Secured Loan on any date will be the aggregate outstanding amount of principal thereunder other than, for the avoidance of doubt, any arrears of interest which have been capitalised on that date thereunder each as shown in the Debtor Ledger for the relevant Portfolio Asset less, in respect of each such Portfolio Asset, an amount equal to the amount thereof (if any) that has been written off in accordance with the Administration Agreement.

The Current Principal Balance of a Portfolio Car Finance Contract, a Portfolio Unsecured Loan that is a Retail Credit Loan or, as the case may be, a Portfolio Unsecured Loan that is a Personal Loan originated by PPF prior to 1st September, 1999, on any date will be the aggregate amount of those parts of each monthly payment due from the relevant Obligor that is attributable to principal in accordance with the Administration Agreement throughout the remaining term of such Portfolio Asset other than, for the avoidance of doubt, any arrears of interest which have been capitalised (including amounts then due and payable but not paid) (and, in the case of a Portfolio Car Finance Contract which comprises a conditional sale agreement, a lease agreement or a motor vehicle contract purchase agreement plus the assumed residual value of the relevant Portfolio Motor Vehicle) on that date thereunder each as shown in the Debtor Ledger for the relevant Portfolio Asset less, in respect of each such Portfolio Asset, an amount equal to the amount thereof (if any) that has been written off in accordance with the Administration Agreement.

On receipt of a payment from an Obligor, or upon any amount becoming payable by that Obligor, in relation to a Portfolio Asset, the Administrator will apportion such amounts as either principal or interest (or their respective equivalents) receipts.

In apportioning receipts in respect of Portfolio Assets, the Administrator will assume that any payment by an Obligor is made first against outstanding interest (or its equivalent) and thereafter against principal (or its equivalent).

Payments from Obligors

All direct debit payments made by Obligors will be paid either (i) directly into the Transaction Account or (ii) if such payments cannot be made directly to the Transaction Account without a change of instructions from the relevant Obligor, to a Collection Account of Universal, PCF or PPF and/or the Seller from whom the Issuer acquired the relevant Portfolio Asset. The Administrator will give the instructions necessary for amounts to be debited from Obligors in accordance with the direct debiting scheme into either the Transaction Account or any one of the Collection Accounts. However, the Administrator may agree

with certain Obligors that the direct debiting scheme need not apply to such Obligors, provided that alternative arrangements apply that are intended to ensure timely payment of amounts due in respect of the relevant Portfolio Assets.

All moneys in respect of Portfolio Assets that are credited directly to a Collection Account will be transferred on the first business day after being credited to such account, or as soon as practicable thereafter, to the Transaction Account.

Universal executed a declaration of trust over its Collection Accounts on 17th March, 1998, which declaration of trust has been or will be amended or supplemented from time to time including by way of supplemental declaration of trust to be executed on or before the Closing Date (such initial declaration of trust and all such supplemental declarations of trust are herein together referred to as the “**Universal Collection Account Declaration of Trust**”) under which it will declare, *inter alia*, that any credit balance on such collection account representing direct debit payments, cheque payments and certain other sums of money in respect of Portfolio Unsecured Loans will be held on trust for the Issuer until they are applied in the manner described above.

PPF executed a declaration of trust over its Collection Accounts on 5th May, 1998 and on 28th June, 2001, which declarations of trust have been or will be amended or supplemented from time to time including by way of a supplemental declaration of trust to be executed on or before the Closing Date. Such initial declarations of trust and all such supplemental declarations of trust are herein together referred to as the “**PPF Collection Account Declarations of Trust**”). Pursuant to the PPF Collection Account Declarations of Trust, PPF will declare, *inter alia*, that any credit balance on such collection accounts representing direct debit payments, cheque payments and certain other sums of money in respect of Portfolio Unsecured Loans and the Portfolio Secured Loans will be held on trust for the Issuer until they are applied in the manner described above.

PCF executed a declaration of trust over its Collection Accounts on 16th June, 1998, which declaration of trust has been or will be amended or supplemented from time to time including by way of a supplemental declaration of trust to be executed on or before the Closing Date (such initial declaration of trust and all such supplemental declarations of trust are herein referred to as the “**PCF Collection Account Declaration of Trust**”) under which it will declare, *inter alia*, that any credit balance on such collection account representing direct debit payments, cheque payments and certain other sums of money in respect of Portfolio Car Finance Contracts will be held on trust for the Issuer until they are applied in the manner described above.

PFPLC executed a declaration of trust over its Collection Accounts in August 1992, which declaration of trust has been or will be amended and supplemented from time to time including by way of a supplemental declaration of trust to be executed on or before the Closing Date (such initial and supplemental declarations of trust are herein referred to as the “**PFPLC Collection Account Declarations of Trust**”) under which it will declare, *inter alia*, that any credit balance on such collection accounts representing direct debit payments, cheque payments and certain other sums of money in respect of Portfolio Assets will be held on trust for the Issuer until they are applied in the manner described above.

Any Seller (other than PPF, Universal, PFPLC and PCF) will execute on or before it sells any Unsecured Loans, Secured Loans or Car Finance Contracts to the Issuer a declaration of trust over any collection account which it operates (together with the PPF Collection Account Declarations of Trust, the PCF Collection Account Declaration of Trust, the PFPLC Collection Account Declarations of Trust and the Universal Collection Account Declaration of Trust, the “**Collection Account Declarations of Trust**” and each a “**Collection Account Declaration of Trust**”) under which it will declare, *inter alia*, that any credit balance on such collection account(s) representing direct debit payments, cheque payments and certain other sums of money in respect of Portfolio Unsecured Loans, Portfolio Secured Loans or Portfolio Car Finance Contracts will be held on trust for the Issuer until they are applied in the manner set out above.

Arrears and Default Procedures

The Administrator will endeavour to collect all payments due under or in connection with the Portfolio Assets in accordance with its own standard procedures but having regard to the circumstances of the Obligor in each case. The Administrator may exercise such discretion as would be exercised by a reasonably prudent lender (or, as the case may be, provider of motor vehicle finance) in applying the enforcement procedures which may include making arrangements whereby an Obligor’s payments may be varied to be payable beyond the original maturity of the Portfolio Asset but only if the Administrator

reasonably believes that such Obligor is unable otherwise to meet his or her payment obligations. Any such variation made by the Administrator may not extend the maturity of such Portfolio Asset beyond January 2031.

In the case of a Portfolio Secured Loan, the enforcement procedures may also include taking legal action for possession of the relevant Property and the subsequent sale of that Property by the mortgagee holding first ranking security over the relevant Property or by the Administrator on behalf of the Issuer. The court has discretion (although this is currently more restricted in Scotland than elsewhere in the United Kingdom – see “Portfolio Assets – Acquisition of Portfolio Assets – Unsecured Loans and Secured Loans”) as to whether on application by the lender it orders a Borrower to vacate the Property after a default. A lender will usually apply for such an order so that it can sell the Property with vacant possession. The net proceeds of sale of any Property (after applying the sale proceeds to discharge amounts secured by prior ranking security(ies) (where applicable) and after payment of the costs and expenses of the sale) would be applied against the sums owing from the Borrower to the extent necessary to repay the Secured Loan and discharge the related Mortgage.

On the earliest to occur of: (i) the day on which the Administrator certifies that in its opinion the prospects of any further recovery from the relevant Obligor are not sufficiently good to merit further action or proceedings and (ii) in the case of a Portfolio Car Finance Contract, the day on which the relevant Motor Vehicle is sold, the Current Balance of the relevant Portfolio Asset will be reduced to zero in accordance with the Administration Agreement.

On the first day on which the arrears in respect of a Portfolio Asset exceeds twelve times the then current monthly instalment, such asset will cease to be a Performing Asset. The Administrator may (but shall not be obliged to do so) on behalf of the Issuer continue enforcement procedures following the Current Balance of the relevant Portfolio Asset being reduced to zero or such Portfolio Asset ceasing to be a Performing Asset.

The Administrator will be responsible for all litigation relating to Portfolio Assets, whether via its in-house litigation department or via an external panel of solicitors, on those accounts where a balance remains outstanding after the sale of any related Property (in the case of Secured Loans) or of the related Motor Vehicle (in the case of Car Finance Contracts) or where enforcement via litigation on Portfolio Assets becomes necessary. The Administrator’s collections department will, if appropriate, instruct its in-house litigation department to obtain a money judgment for the balance outstanding, following which the appropriate method of enforcement (such as attachment of earnings) will be considered.

Further Advances in respect of the Portfolio Secured Loans

In relation to the Portfolio Secured Loans, neither PPF nor the Issuer nor any other Seller is or will be under any obligation mandatorily to advance any further sums to the Borrowers pursuant to the terms of the related Secured Loan Agreements. The Administrator on behalf of the Issuer may, however, at its discretion, but subject to certain conditions in the Administration Agreement described below, decide to make a discretionary further advance, in respect of a Portfolio Secured Loan, on the security of the Property subject to the related Mortgage on the request of a Borrower. Such discretionary further advance may only be made if it is secured on the relevant Property owned by the relevant Borrower subject to the related Mortgage. In addition, the Issuer may make a discretionary further advance in respect of a Portfolio Secured Loan to a Borrower as part of its arrears and default procedures by capitalising outstanding arrears of interest payable by a Borrower. The capitalisation of outstanding arrears constitutes a capitalisation for these purposes if the capitalised amount is added to the principal balance of the Portfolio Secured Loan and the relevant Borrower’s arrears are discharged.

The Issuer may make a further advance on any day if and to the extent that the amount of such further advance when added to the aggregate purchase prices of all Portfolio Assets to be purchased, and the aggregate amount of all other further advances to be made, on the same day does not exceed the Substitution Amount on such day and, where the Substitution Amount is so exceeded, the Issuer will be entitled to request a further drawdown under the Subordinated Loan Agreement to fund such further advance, although PFPLC shall be under no obligation to make available any such advance so requested. The Issuer is not entitled to agree to make any discretionary further advance in respect of a Portfolio Secured Loan unless the Substitution Amount is such that the further advance may be made or unless PFPLC has agreed, at its discretion, to make available an advance under the Subordinated Loan Agreement for such purpose.

The Administration Agreement will provide that discretionary further advances may only be made by the Issuer on a Portfolio Secured Loan if, *inter alia*: (a) the relevant Seller's lending criteria as far as applicable are satisfied at the relevant time subject to such waivers as might be within the discretion of a reasonably prudent lender; (b) the effect of making any such further advance would not be that any Portfolio Secured Loan which is a Performing Asset would have a maturity later than January 2031; (c) as a result of making any such further advance, the aggregate Current Principal Balances of the Portfolio Secured Loans which are Performing Assets would not exceed 30% of (x) the aggregate Current Principal Balances of the Portfolio Assets which are Performing Assets on such day (taking into account the effect on the aggregate Current Principal Balances of the Portfolio Assets of the making of such further advance, the acceptance of any offers by any Sellers to sell Unsecured Loans, Secured Loans and/or Car Finance Contracts to the Issuer on the same day and the making of any other further advances on the same day) plus (y) the excess of the Substitution Amount on such day over the aggregate of (A) the aggregate purchase prices of all Portfolio Assets and (B) the aggregate amount of all further advances, purchased or made by the Issuer on such day; and (d) none of the Rating Agencies has notified the Issuer that any rating assigned by it to any class of Notes would be adversely affected as a result of such further advance.

If the Administrator on behalf of the Issuer does not wish, or is unable, to make a discretionary further advance, the relevant Seller may (but is not obliged to) make that further advance on the security of a mortgage or standard security over the Property in question ranking in point of priority after the relevant Mortgage securing the Portfolio Secured Loan concerned.

Conversion of Portfolio Secured Loans

The Administrator may agree or elect to convert a Portfolio Secured Loan from one type of secured loan into another. If, and to the extent that, the Converted Loan would comprise a fixed rate, capped rate or collared rate Secured Loan the Issuer will, on or before the date of conversion, have entered into one or more interest rate swaps, interest rate caps, interest rate floors or other hedging arrangements together with any related guarantees in respect of the Converted Loans if to do so is necessary to meet the requirements of the Rating Agencies (see "The Issuer – Hedging Arrangements"). The ability of the Issuer to convert a Portfolio Secured Loan which is a Performing Assets to another type is subject to certain further conditions to be set out in the Administration Agreement.

Insurance

The Administrator will, on behalf of the Issuer, administer and maintain all arrangements for insurance in respect of, or in connection with, the Issuer's business and will make claims on behalf of the Issuer under any such insurance policies when necessary.

Reinvestment of Income

The Transaction Account will at all times be maintained with a bank located in the United Kingdom either whose long-term unsecured and unguaranteed debt is rated AAA by Fitch, Aaa by Moody's and AAA by Standard & Poor's or whose short-term debt is rated at least F-1 by Fitch, P-1 by Moody's and at least A-1 by Standard & Poor's or any of the long-term unsecured and unguaranteed debt of which is rated by each of the Rating Agencies as high as or higher than the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes or, if there are no Class B Notes then outstanding, the Class C Notes, and shall not be changed without the prior written consent of the Trustee. If such bank ceases to satisfy the criteria mentioned above (and at such time one or more clearing banks meet such criteria), the Administrator will be required in accordance with the provisions of the Administration Agreement to arrange for the transfer of the Transaction Account to another bank which does satisfy such criteria within 30 days of such occurrence (or such longer period as may be agreed by the Trustee and the Rating Agencies).

Sums held to the credit of the Transaction Account (to which payments of interest and interest equivalent and repayments of principal and principal equivalent in respect of Portfolio Assets are to be credited and into and out of which all other payments to and by the Issuer are to be made) must be invested in Authorised Investments. Any moneys invested in entities rated A-1 by Standard & Poor's (whether as Authorised Investments or standing as a balance on the Transaction Account) may not be invested for a period of more than 30 days and such investments may not exceed 20% of the Principal Amount Outstanding of the Notes. Further, any moneys invested as Authorised Investments in entities whose short term debt is rated no higher than F-1 by Fitch may not be invested for a period of more than 30 days. Such investments and deposits must be denominated in sterling and must always mature on or before the Interest Payment Date immediately following acquisition or deposit.

Such investments will be charged to the Trustee and form part of the security for the payment of principal and interest on the Notes.

Until such time as the Notes are redeemed in full, an amount equal to the First Loss Fund must be invested in accordance with the criteria applicable to cash held in the Transaction Account specified above, save that the relevant short-term debt rating by Standard & Poor's of the entity in which the investment or investments is or are made must, in such case, be A-1+.

Delegation by the Administrator

The Administrator may, in certain circumstances, with the consent of the Issuer and the Trustee, subcontract or delegate its obligations under the Administration Agreement. The Administrator may not subcontract or delegate all or substantially all of its obligations under the Administration Agreement if any of the then current ratings of the Notes would be adversely affected.

Administration Fee

The Administration Agreement makes provision for payments to be made to the Administrator. On each Interest Payment Date the Issuer will pay to PFPLC as Administrator an administration fee of not more than 0.85% (inclusive of VAT) per annum on the Current Principal Balances of the Portfolio Assets on the Determination Date immediately preceding such Interest Payment Date (or, in relation to the first Interest Payment Date, those Current Principal Balances on the Closing Date). That fee will be payable in arrear on each Interest Payment Date. A higher fee at a rate agreed by the Trustee (but which does not exceed the rate then commonly charged by providers of administration services for unsecured consumer loans, secured consumer loans and motor vehicle finance agreements) may be payable to any substitute administrator appointed following termination of PFPLC's appointment.

Each Seller will be entitled to receive from the Issuer for its own account any commissions due to it from insurers out of premiums paid by Obligors as a result of it having placed insurance in relation to the Portfolio Assets of which it is the relevant Seller with such insurers.

The administration fee and all costs and expenses of the Administrator (including those of any substitute administrator) and the aforesaid commissions are to be paid in priority to payments due on the Notes. This order of priority has been agreed with a view to procuring the continuing performance by the Administrator of its duties in relation to the Issuer, the Portfolio Assets and the Notes.

Redemption of Mortgages

Under the Administration Agreement, the Administrator will be responsible for handling the procedures connected with the redemption of Mortgages. In order to enable the Administrator to do this, the Trustee and the Issuer will be required to execute powers of attorney in favour of the Administrator which will enable it to discharge the Mortgages from the security to be created over them in favour of the Trustee under the Deed of Charge, without reference to the Trustee or the Issuer.

Termination of Administrator's Appointment

If, at any time, *inter alia*: (i) the Administrator fails to make any payment when due under the Administration Agreement (subject to a two business day grace period); or (ii) the Administrator defaults in performance of any of its obligations under the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders (subject to a 14 day remedy period, if the breach is remediable); or (iii) the Administrator becomes insolvent or is wound up or proceedings are initiated against it under any applicable insolvency legislation (except where such proceedings are being contested in good faith); or (iv) an administrator or administrative receiver is appointed in respect of the Administrator or its assets, then the Trustee may (but is not obliged to) terminate the Administration Agreement and the appointment of the Administrator. The Trustee has no obligation to act as Administrator.

Upon termination in accordance with the previous paragraph, the Administrator will deliver all relevant data and information relating to the Portfolio Assets to the Trustee, who may appoint a substitute administrator substantially on the terms of the Administration Agreement.

The Administrator may resign from its appointment on the expiry of not less than 12 months' notice, provided that: (i) the Trustee consents to such resignation; (ii) a substitute administrator is appointed with effect from a date that is no later than the date of expiry of such notice; (iii) such substitute administrator is capable of administering unsecured consumer loans and secured consumer loans to, and motor vehicle finance agreements with, Obligors in England, Wales, Scotland and (in the case of unsecured consumer loans) Northern Ireland and is approved by the Trustee; and (iv) each of the Rating Agencies confirms that such resignation will not adversely affect the then current ratings of the Notes. The Administrator will continue to be liable to perform its obligations under the Administration Agreement until the substitute administrator has entered into an administration agreement substantially on the terms of the Administration Agreement.

DESCRIPTION OF THE CLASS A NOTES, THE GLOBAL CLASS A NOTES AND THE SECURITY

The issue of the £146,900,000 Class A Asset Backed Floating Rate Notes due 2022 (the “**Class A Notes**”) will be authorised by a resolution or resolutions of the Board of Directors of Paragon Personal and Auto Finance (No. 2) PLC (the “**Issuer**”) passed on or before the Closing Date (as defined in Class A Condition 4(a) below). The Class A Notes are constituted by a trust deed (the “**Trust Deed**”) to be dated the Closing Date between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class A Notes (the “**Class A Noteholders**”), the holders for the time being of the Class B Notes (as defined in Class A Condition 2 below) (the “**Class B Noteholders**”) and the holders for the time being of the Class C Notes (as defined in Class A Condition 2 below) (the “**Class C Noteholders**”). The net proceeds from the issue of the Notes will be applied, among other things, in the purchase, either on or before the Final Addition Date, of Portfolio Assets (as defined in the Master Definitions Schedule).

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and a deed of charge and assignment (the “**Deed of Charge**”) to be dated the Closing Date between, *inter alios*, the Issuer, the Trustee, Universal Credit Limited (“**Universal**”), Paragon Finance PLC (“**PFPLC**”), Paragon Personal Finance Limited (“**PPF**”), Paragon Car Finance Limited (“**PCF**”), PFPLC in its capacity as administrator and JPMorgan Chase Bank, acting through its London branch, in its capacity as hedge provider (the “**Hedge Provider**”). The Trust Deed will include the form of the temporary global note (the “**Temporary Global Class A Note**”) and the permanent global note (the “**Permanent Global Class A Note**”) for the Class A Notes and the definitive Class A Notes and coupons and talons relating thereto. Certain words and expressions used above and below have the meanings defined in the Trust Deed or the Master Definitions Schedule. In accordance with an agency agreement (the “**Agency Agreement**”) to be dated the Closing Date between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “**Reference Agent**”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the successors of each paying agent appointed as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class A Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class A Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Secured Loan Sale Agreement, the Standard Terms and Conditions, the Bridge Standard Terms and Conditions, the Master Definitions Schedule, the Warranty Deed, the Repurchase Deed (each as defined in the Master Definitions Schedule) and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof Third Floor, Cottons Centre, Hay’s Lane, London SE1 2QT, and at the specified offices for the time being of the Paying Agents.

Class A Notes and Coupons (as defined in Class A Condition 1 below) will bear the following legend: “*Any United States Person (as defined in the Internal Revenue Code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code*”. The sections referred to in the legend provide that a United States Person (as defined in the Internal Revenue Code) will not, with certain exceptions, be permitted to deduct any loss, and will not be eligible for favourable capital gains treatment with respect to any gain, realised on a sale, exchange or redemption of a Class A Note or Coupon.

Global Class A Notes

The Class A Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class A Note in bearer form, without coupons or talons, in the principal amount of £146,900,000. The Temporary Global Class A Note will be deposited on behalf of the subscribers of the Class A Notes with a common depositary for Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”) on the Closing Date. Upon deposit of the Temporary Global Class A Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class A Notes with the principal amount of Class A Notes for which it has subscribed and paid. Interests in the Temporary Global Class A Notes will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class A Noteholders has been received) for interests in the Permanent Global Class A Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class A Note (the expression “**Global Class A Notes**” and “**Global Class A Note**” meaning, respectively, (i) both of the

Temporary Global Class A Note and the Permanent Global Class A Note or (ii) either of the Temporary Global Class A Note or the Permanent Global Class A Note, as the context may require). On the exchange of the Temporary Global Class A Note for the Permanent Global Class A Note, the Permanent Global Class A Note will also be deposited with the Common Depositary. The Global Class A Notes will be transferable by delivery. The Permanent Global Class A Note will be exchangeable for definitive Class A Notes in bearer form in certain circumstances described below. Interest and principal on each Global Class A Note will be payable against presentation of that Global Class A Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Class A Noteholders has been received by Euroclear or Clearstream, Luxembourg. Each of the persons appearing from time to time in the records of Euroclear or of Clearstream, Luxembourg, as the holder of a Class A Note will be entitled to receive any payment so made in respect of that Class A Note in accordance with the respective rules and procedures of Euroclear or, as the case may be, of Clearstream, Luxembourg. Such persons shall have no claim directly against the Issuer in respect of payments due on the Class A Notes, which must be made by the holder of the relevant Global Class A Note, for so long as such Global Class A Note is outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Class A Note for the Permanent Global Class A Note, which date shall be no earlier than the Exchange Date (as defined in the Temporary Global Class A Note) and (ii) the first Interest Payment Date, in order to obtain any payment due on the Class A Notes.

For so long as the Class A Notes are represented by a Global Class A Note, such Class A Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or, as the case may be, of Clearstream, Luxembourg.

For so long as the Class A Notes are represented by a Global Class A Note, each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of Class A Notes will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Class A Notes and the expression “**Class A Noteholder**” shall be construed accordingly, but without prejudice to the entitlement of the bearer of the Global Class A Note to be paid principal and interest thereon in accordance with its terms.

Principal and interest on a Global Class A Note will be payable against presentation of such Global Class A Note at the specified office of the Principal Paying Agent or, at the option of the holder, at any specified office of any Paying Agent provided that no payment of interest on a Global Class A Note may be made by, or upon presentation of such Global Class A Note to, any Paying Agent in the United States of America. A record of each payment made on a Global Class A Note, distinguishing between any payment of principal and payment of interest, will be endorsed on such Global Class A Note by the Paying Agent to which such Global Class A Note was presented for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made.

If (i) the principal amount of the Class A Notes becomes immediately due and payable by reason of default or (ii) 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 (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which become effective on or after 6th December, 2001, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class A Notes which would not be required were the Class A Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class A Notes represented by the Permanent Global Class A Note in exchange for the whole outstanding interest in the Permanent Global Class A Note within 30 days of the occurrence of the relevant event, but in any event not prior to the expiry of 40 days after the Closing Date.

Security

The security for the Class A Notes will be created pursuant to, and on the terms set out in, the Deed of Charge, which creates in favour of the Trustee on trust for, *inter alios*, the Class A Noteholders:

- (1) a sub-charge over the Mortgages which comprise English Mortgages and an assignation in security of the Issuer's interest in the Mortgages which comprise Scottish Mortgages, in each case purchased by the Issuer under the Secured Loan Sale Agreement;
- (2) a conveyance, transfer and assignment by way of first fixed security of:

- (a) subject, where applicable, to the subsisting rights of the Obligors (as defined in the Master Definitions Schedule) all present and future right, title, interest and benefit of the Issuer in and under the Portfolio Assets (including Scottish Unsecured Loans, Scottish Secured Loans or Scottish Car Finance Contracts) other than the Portfolio Motor Vehicles which will be subject to a floating charge only (all as defined in the Master Definitions Schedule) to which it is or becomes beneficially entitled, including for the avoidance of doubt:
 - (i) all sums of principal (or sums equivalent to principal), interest (or revenue charges equivalent to interest) or any other sum payable under and the right to demand, sue for, recover, receive and give receipts for all principal (or equivalent) moneys payable or to become payable under such Portfolio Assets or the unpaid part thereof and the interest (or revenue charges equivalent to interest) due or to become due thereon;
 - (ii) the benefit of and the right to sue on all covenants with, or vested in, the Issuer in respect of each such Portfolio Asset and the right to exercise all powers of the Issuer in relation to each such Portfolio Asset;
 - (iii) all causes and rights of action of the Issuer against any person in connection with any report, opinion, certificate, consent or other statement of fact or opinion given in connection with such Portfolio Asset or affecting any decision to enter into the relevant Financing Agreement (as defined in the Master Definitions Schedule); and
 - (iv) the benefit of any guarantee, indemnity or surety vested in the Issuer relating to each such Portfolio Asset; and
 - (b) subject to any subsisting rights of redemption, all right, title, interest and benefit of the Issuer (whether present or future) in any insurances of which the Issuer may have the benefit or may acquire in the future;
- (3) a charge and assignment by way of first fixed security of:
- (a) all the right, title, interest and benefit, present and future, of the Issuer in, to and under the Unsecured Loan Scottish Trust Property, the Secured Loan Scottish Trust Property, the Car Finance Scottish Trust Property, the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts and the Car Finance Scottish Trusts (each as defined in the Master Definitions Schedule); and
 - (b) all the right, title, interest and benefit, present and future, of the Issuer in and to all moneys, rights and property whatsoever which, from time to time and at any time, may be distributed under, or derived from, or accrue on, the Unsecured Loan Scottish Trust Property, the Secured Loan Scottish Trust Property or the Car Finance Scottish Trust Property or in respect of the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts or the Car Finance Scottish Trusts in any way whatsoever including all rights to receive payment of any amounts which may become payable to the Issuer under the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts or the Car Finance Scottish Trusts and all payments received by the Issuer thereunder and also including, without limitation, all rights to serve notices and/or make demands thereunder, all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof and all rights of the Issuer arising under or in respect of the Unsecured Loan Scottish Trust Property, the Secured Loan Scottish Trust Property, the Car Finance Scottish Trust Property, the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts or the Car Finance Scottish Trusts;
- (4) a conveyance, transfer and assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in the Secured Loan Sale Agreement, each Asset Sale Contract, the Repurchase Deed, the Warranty Deed, the Administration Agreement, the Agency Agreement, the Subordinated Loan Agreement, the VAT Declaration of Trust, the Services Letter, the Fee Letter, the Hedge Agreement, any other hedging arrangements entered into by the Issuer, the Collection Account Declarations of Trust (each as defined in the Master Definitions Schedule) and all other contracts, agreements, deeds and documents, present and future, to which the Issuer is or may become a party, including all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder including, without limitation, all rights to serve notices and/or make

demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof;

- (5) an assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in and to the Transaction Account (as defined in the Master Definitions Schedule) and all sums of money which from time to time may be standing to the credit of the Transaction Account and any other bank or other account in which the Issuer may at any time acquire any right, title, interest or benefit together with all interest accruing from time to time thereon and the debt represented by each such account and the benefit of all covenants relating thereto and all powers and remedies for enforcing the same;
- (6) a first fixed charge over all the right, title, interest and benefit, present and future, of the Issuer in the Authorised Investments (as defined in the Master Definitions Schedule) and each of them made by the Issuer in accordance with the Administration Agreement and all other investments in which the Issuer may at any time acquire any right, title, interest or benefit, in each case together with all moneys, income and proceeds to become payable thereunder or thereon and the benefits of all covenants relating thereto and all powers and remedies for enforcing the same; and
- (7) a first floating charge over the whole of the undertaking and all the property and assets of the Issuer whatsoever and wheresoever situate, present and future, other than any property or assets from time to time or for the time being effectively charged by way of fixed charge, or otherwise assigned as fixed security, by the Deed of Charge (but excepting from the foregoing exclusion all property, assets, rights and interests (i) charged or assigned as referred to in paragraphs (2) and (3) above and (ii) otherwise situate in or governed by Scots law, which are charged by the floating charge). For the avoidance of doubt, the Issuer's interest in each Portfolio Motor Vehicle shall be subject to the floating charge.

The security described above over the assets of the Issuer, which constitutes the security for the Class A Notes, is referred to as the “**Security**”. The Security also stands as security for any amounts payable by the Issuer to the Class B Noteholders, the Class C Noteholders and to any Receiver, the Trustee, the Paying Agents, the Reference Agent, the Administrator, any Subordinated Lender, the Hedge Provider, any Permitted Hedge Provider, PPF, Universal, PCF, and PFPLC under the Notes and any Coupons, the Trust Deed, the Agency Agreement, the Deed of Charge, the Administration Agreement, the Secured Loan Sale Agreement, any Asset Sale Contract, the Subordinated Loan Agreement, the Fee Letter, the Services Letter and the Hedge Agreement (each as defined in the Master Definitions Schedule). The Deed of Charge contains provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After service of an Enforcement Notice, amounts payable to any Receiver, the Trustee, the Paying Agents and the Reference Agent, amounts payable to the Administrator (including fees, out-of-pocket expenses and commissions), amounts payable to the Hedge Provider and any Permitted Hedge Provider (other than Hedge Termination Amounts) and amounts of all commissions (if any) paid by insurance companies to each of PFPLC, PPF, PCF, Universal and any other Seller pursuant to the Administration Agreement will rank in priority to payments on the Class A Notes.

TERMS AND CONDITIONS OF THE CLASS A NOTES

The following, subject to amendments, are the terms and conditions of the Class A Notes (the “Class A Conditions” and any reference to a “Class A Condition” shall be construed accordingly) substantially in the form as they will appear on the reverse of the Class A Notes in definitive form. While the Class A Notes remain in global form, the same terms and conditions govern them, except to the extent that they are appropriate only to the Class A Notes in definitive form.

1. Form, Denomination and Title

The Class A Notes are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons (“**Interest Coupons**”) and principal coupons (“**Principal Coupons**”) (severally or together “**Coupons**”) and talons (“**Talons**”) attached. Title to the Class A Notes, the Coupons and the Talons shall pass by delivery.

The holder of each Coupon (each a “**Couponholder**”) and each Talon (whether or not the Coupon or the Talon is attached to a Class A Note) in his capacity as such shall be subject to and bound by all the provisions contained in the relevant Class A Note.

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents may treat the holder of any Class A Note, Coupon or Talon as the absolute owner thereof (whether or not such Class A Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

2. Status and Relationship between the Class A Notes, the Class B Notes and the Class C Notes

The Class A Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in the Deed of Charge) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

The £70,900,000 Class B Asset Backed Floating Rate Notes due 2033 of the Issuer (the “**Class B Notes**”) and the £26,900,000 Class C Asset Backed Floating Rate Notes due 2033 of the Issuer (the “**Class C Notes**”) are constituted by the Trust Deed and are secured by the same security as secures the Class A Notes, but the Class A Notes will rank in priority to the Class B Notes and the Class C Notes in the event of the security being enforced. The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders, the Class C Noteholders and/or the other persons entitled to the benefit of the Security.

3. Covenants of the Issuer

(A) So long as any of the Class A Notes, the Class B Notes or the Class C Notes remains outstanding (as defined in the Master Definitions Schedule), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:

- (1) carry on any business other than as described in the Offering Circular dated 6th December, 2001 relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Portfolio Assets and the related activities described in any Unsecured Loan Agreement, Secured Loan Agreement (or its related Mortgage) or Car Finance Agreement) and in respect of that business shall not engage in any activity or do anything whatsoever except:
 - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security and the assets comprised therein;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Class A Notes, the Coupons and Talons, the Class B Notes and the Class C Notes and any principal coupons, interest coupons and talons appertaining respectively thereto, the subscription agreements relating to each of the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Secured Loan Sale Agreement, any Asset Sale Contract, the Agency Agreement, the Trust Deed,

the Administration Agreement, the Fee Letter, the Subordinated Loan Agreement, the Portfolio Assets, the Deed of Charge, the Collection Account Declarations of Trust, the Hedge Agreement, the VAT Declaration of Trust, the Services Letter, any insurances in which the Issuer at any time has an interest, the Scottish Trusts and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Master Definitions Schedule) (together the “**Relevant Documents**”);

- (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, *inter alia*, make claims, payments and surrenders in respect of certain tax reliefs;
 - (d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem the Class A Notes, the Class B Notes or the Class C Notes in accordance with their respective terms and conditions; and
 - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;
- (2) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Deed of Charge, the Fee Letter, the Services Letter, the Hedge Agreement, the VAT Declaration of Trust and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;
 - (3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
 - (4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
 - (a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of unsecured and secured consumer loans and motor vehicle finance agreements and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes, the Class B Notes and the Class C Notes and the performance and observance of every covenant in the Trust Deed and in these Class A Conditions on the part of the Issuer to be performed or observed;
 - (b) immediately after giving effect to such transaction, no Event of Default (as defined in Class A Condition 9) shall have occurred and be continuing;
 - (c) the Trustee is satisfied that the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
 - (d) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and
 - (e) the Rating Agencies confirm that the then current ratings of the Class A Notes, the Class B Notes and the Class C Notes will not be adversely affected as a result of such consolidation, merger, conveyance or transfer;
 - (5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
 - (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or

- (7) have an interest in any bank account, other than the Transaction Account, the VAT Account and the Collection Accounts (each as defined in the Master Definitions Schedule), unless such account or interest is charged to the Trustee on terms acceptable to it.
- (B) So long as any of the Class A Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Portfolio Assets (the “**Administrator**”). Any appointment of an Administrator is subject to the prior written approval of the Trustee and must be of a person with experience of the administration of unsecured and secured consumer loans and motor vehicle finance contracts in England, Wales, Scotland and Northern Ireland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class A Notes and the Class B Notes have been redeemed in full, the Class C Noteholders.

4. Interest

(a) Interest Payment Dates

Each Class A Note bears interest on its Principal Amount Outstanding (as defined in Class A Condition 5(b)) from and including 12th December, 2001 or such later date as may be agreed between the Issuer and J.P. Morgan Securities Ltd. (the “**Closing Date**”). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class A Notes, interest in respect of such Class A Notes is payable quarterly in arrear on 15th January, 15th April, 15th July and 15th October in each year (or, if any such date is not a Business Day (as defined below), the next succeeding day which is a Business Day, each an “**Interest Payment Date**”). As used in these Class A Conditions except Class A Condition 6, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) 15th April, 2002 and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an “**Interest Period**”. Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the Interest Payment Date falling in April 2002 in respect of the period from (and including) the Closing Date to (but excluding) the Interest Payment Date falling in April 2002.

Interest shall cease to accrue on any part of the Principal Amount Outstanding of a Class A Note as from (and including) the due date for redemption of such part unless, upon due presentation of the relevant Principal Coupon, payment of principal due is improperly withheld or refused, whereupon interest shall continue to accrue on such principal at the Rate of Interest (as defined in paragraph (c) below) from time to time applicable to the Class A Notes until the moneys in respect thereof have been received by the Trustee or the Principal Paying Agent and notice to that effect is given in accordance with Class A Condition 12.

(b) Coupons and Talons

On issue, Coupons and Talons applicable to Class A Notes in definitive form are attached to the Class A Notes. A Talon may be exchanged for further Coupons and, if applicable, a further Talon on or after the Interest Payment Date for the final Coupon on the relevant Coupon sheet by surrendering such Talon at the specified office of any Paying Agent. Interest payments on the Class A Notes will be made against presentation and surrender of the appropriate Coupons in accordance with Class A Condition 6, except as provided therein.

(c) Rate of Interest

The rate of interest applicable from time to time to the Class A Notes (the “**Rate of Interest**”) will be determined by Citibank, N.A. acting as reference agent (the “**Reference Agent**”, which expression shall include its successors as Reference Agent under the Agency Agreement) on the basis of the following provisions:

- (i) On the Closing Date (an “**Interest Determination Date**”) in respect of the first Interest Period, the Reference Agent will determine the interest rate by reference to a linear interpolation between the rates for sterling deposits for a period of four months and sterling deposits for a

period of five months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “**Interest Determination Date**”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.38% per annum up to and including the Interest Period ending in January 2008 and thereafter 0.76% per annum.

- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “**Reference Banks**”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for four-month and five-month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.
- (iii) There shall be no maximum or minimum Rate of Interest.

(d) *Determination of Rate of Interest and Calculation of Interest Payments*

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable on, the Class A Notes (an “**Interest Payment**”) for the relevant Interest Period. The Interest Payment for the Class A Notes shall be calculated by applying the Rate of Interest for the Class A Notes to the Principal Amount Outstanding of the Class A Notes taking into account any payment of principal due on such Interest Determination Date, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

(e) *Publication of Rate of Interest and Interest Payments*

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to the Class A Notes for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as the Class A Notes are listed by

the UK Listing Authority (the “UKLA”) and admitted to trading by the London Stock Exchange plc (the “London Stock Exchange”), the London Stock Exchange, and will cause the same to be published in accordance with Class A Condition 12 on or as soon as possible after the date of commencement of the relevant Interest Period. The Interest Payment and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a shortening of the Interest Period.

(f) *Determination or Calculation by Trustee*

If the Reference Agent at any time for any reason does not determine the Rate of Interest or calculate an Interest Payment for the Class A Notes in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest for the Class A Notes at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in paragraph (c) above, but subject to the terms of the Trust Deed), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Payment for the Class A Notes in accordance with paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

(g) *Reference Banks and Reference Agent*

The Issuer will procure that, so long as any of the Class A Notes remains outstanding, at all times, there will be at least four Reference Banks and a Reference Agent. The Issuer reserves the right at any time to terminate the appointment of the Reference Agent or of any Reference Bank. Notice of any such termination will be given to the Class A Noteholders. If any person shall be unable or unwilling to continue to act as a Reference Bank or the Reference Agent (as the case may be), or if the appointment of any Reference Bank or the Reference Agent shall be terminated, the Issuer will, with the prior written approval of the Trustee, appoint a successor Reference Bank or Reference Agent (as the case may be) to act as such in its place, provided that neither the resignation nor removal of the Reference Agent shall take effect until a successor approved by the Trustee has been appointed.

5. **Redemption and Purchase**

(a) *Mandatory Redemption in Part from Available Redemption Funds: Apportionment of Available Redemption Funds between the Class A Notes, the Class B Notes and the Class C Notes*

The Class A Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Relevant Determination Date there are any Available Redemption Funds. The principal amount so redeemable in respect of each Class A Note prior to the service of an Enforcement Notice (each a “Principal Payment”) on any Interest Payment Date shall be the amount of the Class A Available Redemption Funds on the Determination Date relating to that Interest Payment Date divided by the number of Class A Notes then outstanding (as defined in the Master Definitions Schedule) (rounded down to the nearest pound sterling); provided always that no Principal Payment may exceed the Principal Amount Outstanding of a Class A Note.

The Available Redemption Funds on a Determination Date shall be apportioned between the Class A Notes, the Class B Notes and the Class C Notes to determine the Class A Available Redemption Funds and the Subordinated Available Redemption Funds as at such Determination Date.

If the Issuer does not for any reason determine the aggregate principal amount of the Class A Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

“Actual Principal Funds” means on any Determination Date (the “Relevant Date”) the lower of:

- (a) the Required Principal Funds on the Relevant Date; and
- (b) the greater of:
 - (i) zero; and
 - (ii) the Issuer Funds on the Relevant Date minus all amounts which are required to make the payments and provisions specified in items (i) to (vii) (inclusive) of Clause 6.2.2 of the Deed of Charge on the Interest Payment Date next following the Relevant Date.

“**Allocated Purchase Funds**” means at any Determination Date (the “**Relevant Date**”) an amount (allocated out of Actual Principal Funds) equal to the lower of:

- (a) the Actual Principal Funds calculated on the Relevant Date; and
- (b) the amount which the Issuer has notified to the Administrator pursuant to the Administration Agreement that it then intends to apply in purchasing Further Unsecured Loans, Further Secured Loans and/or Further Car Finance Contracts (and any related Motor Vehicles) and/or in making any further advances in respect of Portfolio Secured Loans at any time during the period from (and including) the Relevant Date to (and including) the Final Addition Date,

provided that:

- (i) the Allocated Purchase Funds shall be deemed to be zero on any Relevant Date falling after the Business Day immediately preceding the Determination Date falling in December 2005 (the “**Final Addition Date**”); and
- (ii) the Allocated Purchase Funds in respect of any Relevant Date shall be deemed to be zero if the Performance Conditions are not satisfied on the Relevant Date.

“**Available Redemption Funds**” on any Determination Date (the “**Relevant Date**”) means an amount equal to the aggregate of:

- (a) an amount equal to (x) the Actual Principal Funds on the Relevant Date minus (y) the Allocated Purchase Funds on the Relevant Date; and
- (b) an amount equal to the aggregate amount (if any) of the provisions that would have been made as specified in paragraphs (xiii) and (xv) to (xviii) (inclusive) of Clause 6.2.2 of the Deed of Charge on the Interest Payment Date next following the Relevant Date, but which the Issuer gives notice to the Administrator pursuant to the Administration Agreement on the Relevant Date should not be made but the amount of which should instead be added to the Available Redemption Funds on the Relevant Date,

provided that the Available Redemption Funds shall never exceed the Principal Amount Outstanding of the Notes.

The “**Class A Available Redemption Funds**” shall equal:

- (i) on any Interest Payment Date on which Class A Notes were outstanding as at the Determination Date immediately preceding such Interest Payment Date (the “**Relevant Determination Date**”) and any Amortisation Condition is not satisfied, the lesser of (x) the Principal Amount Outstanding of the Class A Notes and (y) the Available Redemption Funds determined as at the Relevant Determination Date; and
- (ii) on any Interest Payment Date on which Class A Notes were outstanding as at the Relevant Determination Date and each of the following conditions (each an “**Amortisation Condition**”) is satisfied, the lesser of (x) the Principal Amount Outstanding of the Class A Notes and (y) the Available Redemption Funds determined as at the Relevant Determination Date less the Subordinated Available Redemption Funds determined as at the Relevant Determination Date:
 - (a) the ratio of the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes to the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes (the “**Ratio**”) equals or exceeds 220,050,000:244,700,000 as at the Relevant Determination Date;
 - (b) the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes is greater than or equal to £16,517,250 (the “**Minimum Amount**”) as at the Relevant Determination Date;
 - (c) the Interest Payment Date is on or after the Interest Payment Date falling in January 2007; and
 - (d) the Performance Conditions are satisfied on the Relevant Determination Date; and
- (iii) on any Interest Payment Date on which no Class A Notes were outstanding as at the Relevant Determination Date, nil.

The “**Subordinated Available Redemption Funds**” shall equal:

- (i) where on such Interest Payment Date Class A Notes were outstanding on the Relevant Determination Date and any Amortisation Condition is not satisfied, the greater of (a) zero and (b) an amount equal to (x) the Available Redemption Funds determined as at the Relevant Determination Date less (y) the Principal Amount Outstanding of the Class A Notes as at the Relevant Determination Date;
- (ii) on any Interest Payment Date on which Class A Notes were outstanding on the Relevant Determination Date and each of the Amortisation Conditions is satisfied, the greater of (a) the Available Redemption Funds as at the Relevant Determination Date less the Principal Amount Outstanding of the Class A Notes on such date and (b) that amount of the Available Redemption Funds as determined on the Relevant Determination Date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the Ratio to be as nearly as possible 220,050,000:244,700,000; provided that if any part of the Available Redemption Funds being applied in accordance with (b) above would result in the sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes after such application being less than the Minimum Amount, the Subordinated Available Redemption Funds shall be reduced by an amount equal to such part of the Available Redemption Funds; and
- (iii) on any Interest Payment Date on which no Class A Notes were outstanding as at the Relevant Determination Date, the Available Redemption Funds as at such date.

“**Current Principal Balance**” on any day means: (a) in relation to (x) a Portfolio Unsecured Loan that is a Personal Loan (other than one originated by PPF prior to 1st September, 1999) or (y) a Portfolio Secured Loan, the aggregate outstanding amount of principal thereunder other than, for the avoidance of doubt, any arrears of interest which have been capitalised; and (b) in relation to (x) a Portfolio Car Finance Contract, or (y) a Portfolio Unsecured Loan that is a Retail Credit Loan, or (z) a Portfolio Unsecured Loan that is a Personal Loan originated by PPF prior to 1st September, 1999, the aggregate amount of those parts of each monthly payment due from the relevant Obligor that is attributable to principal in accordance with the Administration Agreement throughout the remaining term of such Portfolio Asset other than, for the avoidance of doubt, any arrears of interest which have been capitalised (including amounts then due and payable but not paid) (and in the case of a Portfolio Car Finance Contract which comprises a conditional sale agreement, a lease agreement or a motor vehicle contract purchase agreement plus the assumed residual value of the relevant Portfolio Motor Vehicle) on that date each as shown in the Debtor Ledger for the relevant Portfolio Asset, less, in respect of each Portfolio Asset, an amount equal to the amount thereof (if any) that has been written off in accordance with the Administration Agreement.

“**Debtor Ledger**” means the ledger account established and maintained by or on behalf of the Administrator, pursuant to and in accordance with the Administration Agreement, in respect of each Portfolio Asset.

“**Determination Date**” means the last Business Day of the month preceding that in which an Interest Payment Date falls and “**Relevant Determination Date**” means, in respect of an Interest Payment Date, the last Business Day of the month preceding that in which such Interest Payment Date falls.

“**Initial Allocated Purchase Funds**” means an amount equal to the aggregate of:

- (a) the Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes as at the Closing Date; and

- (b) OCRA;

less

- (c) the Current Principal Balance of Performing Assets as at the Closing Date; and
- (d) the aggregate of the Purchased Accruals of Performing Assets as at the Closing Date.

“**Issuer Funds**” means, on any Determination Date (the “**Relevant Date**”), an amount determined by the Administrator pursuant to the Administration Agreement on the Relevant Date to be equal to the aggregate of:

- (a) the amount standing to the credit of the Transaction Account as at the close of business on the Relevant Date (comprising of (i) all moneys received by the Issuer from Obligors or recovered under or in respect of the Portfolio Assets (including all principal and interest, and their equivalent, in relation to Portfolio Unsecured Loans, Portfolio Secured Loans and Portfolio Car Finance Contracts and any amount received on the sale of a Portfolio Motor Vehicle or on

the early settlement of such Portfolio Car Finance Contracts and all other net income and other moneys of the Issuer including any amounts drawn by the Issuer under the Subordinated Loan Agreement, less (ii) certain amounts which under the Deed of Charge are permitted to be paid on any Business Day such as payments of amounts which properly belong to third parties (including, for example, overpayments by Obligors and amounts held on trust) and of sums due to third parties under obligations incurred in the course of the Issuer's business (unless, in any case, the intended recipient agrees otherwise)); and

- (b) any payment due to be received by the Issuer from the Hedge Counterparty or any Permitted Hedge Provider under the Hedge Agreement or otherwise in the period from (but excluding) the Relevant Date to (and including) the Interest Payment Date next following the Relevant Date (the "**Adjustment Period**"); and
- (c) all proceeds of disposal or on maturity of any Authorised Investments made or acquired on or before the Relevant Date and due to mature on or before the next following Interest Payment Date (whether or not reinvested during the Adjustment Period) and any income to be earned thereon (including interest to be earned on the Transaction Account), in each case, due to be received by the Issuer during the Adjustment Period; and
- (d) (i) all borrowings to be made by the Issuer under the Subordinated Loan Agreement during the Adjustment Period for the purpose of ensuring that the Performance Conditions are satisfied on the Relevant Date; and (ii) all borrowings to be made by the Issuer under the Subordinated Loan Agreement during the Adjustment Period (other than on the Interest Payment Date in question) for the purpose of establishing or increasing the Shortfall Fund; and
- (e) all amounts standing to the credit of the Collection Accounts in respect of the Portfolio Assets as at the close of business on the Relevant Date that are to be transferred to the Transaction Account during the Adjustment Period;

less

- (f) but only prior to the earlier of (i) the date on which the Issuer has received an adjudication from the United Kingdom Stamp Office that no stamp duty is payable on the transfer to the Issuer on the Closing Date of the benefit of the Initial Portfolio Unsecured Loans that are Scottish Unsecured Loans and the Initial Portfolio Car Finance Contracts that are Scottish Car Finance Contracts or (ii) the date on which the Issuer pays all such stamp duty (if any) which is so payable, an amount (which may be zero) specified by the Rating Agencies on or before the Closing Date,

but so that no amount shall be added or deducted more than once in the same calculation.

"Over Collateralisation Required Amount" or **"OCRA"** means, on any Determination Date (the **"Relevant Date"**) an amount equal to the sum of:

- (a) an amount determined by the Rating Agencies on or before the Closing Date to be necessary in order to achieve the initial ratings of the Notes, and
- (b) the amount equal to the aggregate of all amounts (if any) which have fallen within paragraph (b) of the definition of Available Redemption Funds at any time prior to the Relevant Date.

The **"Performance Conditions"** are satisfied on any Determination Date (the **"Relevant Date"**) on which:

- (i) the Actual Principal Funds are equal to the Required Principal Funds (each as calculated on the Relevant Date); and
- (ii) no Class B Note Interest Deferral Event or Class C Note Interest Deferral Event subsists.

"Performing Assets" means all Portfolio Assets that are equal to or less than twelve months in arrears excluding those Portfolio Assets identified by the Issuer on or before the Closing Date as non-performing Portfolio Assets which are comprised in the Provisional Pool. A Portfolio Asset for this purpose will not be equal to or less than twelve months in arrears at any time if at such time amounts totalling in aggregate more than twelve times the then current monthly payment due from the Obligor under such Portfolio Asset have not been paid when due and/or have been capitalised within the twelve months immediately preceding such time.

"Purchased Accruals" means that part of the amount (if any) of the interest (or, equivalent revenue charges) accrued on a Portfolio Asset as at the relevant Effective Date which is purchased by the Issuer.

“**Required Principal Funds**” means on any Determination Date (the “**Relevant Date**”) the greater of zero and the sum of:

- (a) the Principal Amount Outstanding of the Class A Notes, the Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes; and
 - (b) OCRA;
- less
- (c) the Current Principal Balance of all Performing Assets on the Relevant Date.

Capitalised terms, not otherwise defined in this Class A Condition 5, have the respective meanings given to those terms in the Master Definitions Schedule.

(b) Calculation of Principal Payments, Principal Amount Outstanding and Pool Factor

- (i) On (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment in respect of each Class A Note due on the Interest Payment Date next following such Determination Date, (y) the Principal Amount Outstanding of each Class A Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class A Note on the next Interest Payment Date) and (z) the fraction in respect of each Class A Note expressed as a decimal to the sixth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Class A Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class A Note and the Pool Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The “**Principal Amount Outstanding**” of a Class A Note on any date shall be the principal amount of that Class A Note upon issue less the aggregate amount of all Principal Payments in respect of that Class A Note that have become due and payable (whether or not paid) prior to such date.
- (ii) The Issuer will, by not later than the ninth Business Day after the Determination Date immediately preceding the relevant Interest Payment Date or as soon as possible thereafter, cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class A Notes are listed by the UKLA and admitted to trading by the London Stock Exchange) the UKLA and the London Stock Exchange and will immediately cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class A Condition 12 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Class A Notes on any Interest Payment Date a notice to this effect will be given to the Class A Noteholders.
- (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) Redemption for Taxation or Other Reasons

If the Issuer satisfies the Trustee immediately prior to giving 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 in respect of any Class A Notes, or the Issuer or a Hedge Provider or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under a Hedge Agreement or other hedging agreement, any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest (or equivalent revenue charges) in relation to any of the Portfolio Assets for an Interest Period ceases to be

receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, provided that each of the Rating Agencies has confirmed to the Trustee that the then current rating of either or both the Class B Notes or Class C Notes would not thereby be adversely affected and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class A Condition 12, redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date.

(d) *Optional Redemption in Full*

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class A Noteholders, and provided no Enforcement Notice has been served following an Event of Default, provided that each of the Rating Agencies has confirmed to the Trustee that the then current rating of either or both the Class B Notes or Class C Notes would not thereby be adversely affected and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, the Issuer may redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after January 2005 (the "**Coupon Call Date**").

All (but not some only) of the Class A Notes may, at the option of the Issuer, provided that each of the Rating Agencies has confirmed to the Trustee that the then current rating of either or both the Class B Notes or Class C Notes would not thereby be adversely affected, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the sum of (1) the aggregate Principal Amount Outstanding of the Class A Notes, (2) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and (3) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes is less than £48,940,000.

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in January 2022.

(f) *Purchases*

The Class A Notes may not be purchased by the Issuer.

(g) *Cancellation*

All Class A Notes redeemed in full pursuant to the foregoing provisions will be cancelled forthwith, together with all unmatured and unused Coupons and Talons attached thereto or surrendered therewith, and may not be resold or reissued.

(h) *Certification*

For the purposes of any redemption made pursuant to Class A Condition 5(c) or Class A Condition 5(d), as the case may be, the Trustee may rely upon any certificate of two Directors of the Issuer that the Issuer will be in a position to discharge all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes and such certificate shall be conclusive and binding on the Issuer and the holders of the Class A Notes.

6. Payments

Interest Payments and Principal Payments on Class A Notes will be made against presentation and surrender of, or, in the case of partial redemption, endorsement of, respectively, Interest Coupons and Principal Coupons relating to Class A Notes (except where, after such surrender, the unpaid principal amount of a Class A Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Class A Note) in which case such Principal Payment will be made against presentation and surrender of such Class A Note). Payments of principal other than Principal Payments (except as provided in the preceding sentence) will be made against presentation and surrender of Class A Notes. Presentation must be made at the specified office of any Paying Agent provided that no payment of

interest will be made by, or upon presentation of any Class A Note or Coupon to, any Paying Agent in the United States of America. Payments will be made by pounds sterling cheque drawn on a branch in the City of London of, or transfer to a pounds sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment.

The initial Principal Paying Agent is Citibank, N.A. at its office at 5 Carmelite Street, London EC4Y 0PA.

The Issuer may at any time (with the previous written approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will at all times maintain a Paying Agent having a specified office in the City of London. Notice of any such termination or appointment and of any change in the office through which any Paying Agent will act will be given in accordance with Class A Condition 12.

Upon the date on which the Principal Amount Outstanding of a Class A Note is due to be reduced to zero, unmatured and unused Coupons and Talons relating thereto (whether or not attached) shall become void and no payment or exchange shall be made in respect thereof. If the due date for redemption in full of a Class A Note is not an Interest Payment Date, the interest accrued in respect of the period from the preceding Interest Payment Date (or from the Closing Date as the case may be) shall be payable only against presentation or surrender of the relevant Class A Note.

If the due date for payment of any amount of principal or interest in respect of any Class A Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay.

In this Class A Condition 6 the expression “**Business Day**” means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class A Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class A Note for definitive Class A Notes, on which both Euroclear and Clearstream, Luxembourg are open for business.

7. Taxation

All payments in respect of the Class A Notes 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 any Paying Agent is required by applicable law to make any payment in respect of the Class A Notes subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor the Paying Agents will be obliged to make any additional payments to holders of the Class A Notes or Coupons in respect of such withholding or deduction.

8. Prescription

A Principal Coupon shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon. A Class A Note shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon the effect of which would be to reduce the Principal Amount Outstanding of such Class A Note to zero. An Interest Coupon shall become void unless surrendered for payment within five years of the Relevant Payment Date in respect thereof. After the date on which a Class A Note or a Coupon becomes void in its entirety, no claim may be made in respect thereof.

As used in this Class A Condition 8, the “**Relevant Payment Date**” means the date on which a payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given in accordance with Class A Condition 12.

9. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class A Notes outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders (subject, in each case, to being indemnified to its satisfaction), shall (but, in the case of the happening of any of the events mentioned in (ii) to (v) inclusive

below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Class A Notes, only if the Trustee shall have certified in writing that the Issuer had, on the due date for payment of the amount of interest in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such interest (after payment of all sums which it is permitted under the Deed of Charge to pay in priority thereto or *pari passu* therewith)) give notice (an “**Enforcement Notice**”) to the Issuer that the Class A Notes are, and each Class A Note shall accordingly forthwith become, immediately due and repayable at its Principal Amount Outstanding, together with accrued interest as provided in the Trust Deed, if any of the following events (each an “**Event of Default**”) shall occur:

- (i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Class A Notes or any of them or for a period of 15 days or more in the payment on the due date of any interest upon the Class A Notes or any of them; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class A Noteholders; or
- (iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the Court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be 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 shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or
- (iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Class A Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Class A Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the Subordinated Loan Agreement, the Fee Letter and the Services Letter) or otherwise becomes insolvent.

10. Enforcement

At any time after the Class A Notes become due and repayable at their Principal Amount Outstanding, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the security for the Class A Notes and Coupons and to enforce repayment of the Class A Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or so requested in writing by Class A Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing, if the Class A Notes have become due and repayable pursuant to Class A Condition 9 otherwise than by reason of a default in payment of any amount due on the Class A Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class A Noteholders and the Couponholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable

by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class A Noteholders and the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class A Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

11. Replacement of Class A Notes, Coupons and Talons

If any Class A Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Class A Notes, Coupons or Talons must be surrendered before replacements will be issued.

12. Notices

All notices, other than notices given in accordance with the next following paragraph, to Class A Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the *Financial Times*). 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 is made in the manner required in the newspaper or in one of the newspapers referred to above.

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently Page PGCM) or such other medium for the electronic display of data as may be approved by the Trustee and notified to the Class A Noteholders (the “**Relevant Screen**”). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class A Condition 12 shall be given in accordance with the preceding paragraph.

The Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Class A Noteholders in accordance with this Class A Condition 12.

13. Meetings of Class A Noteholders; Modifications; Consents; Waiver

The Trust Deed contains provisions for convening meetings of Class A Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class A Noteholders of a modification of the Class A Notes (including these Class A Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class A Notes, or a modification which would have the effect of postponing any day for payment of interest on the Class A Notes, reducing or cancelling the amount of principal payable on the Class A Notes or the rate of interest applicable to the Class A Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Class A Notes or the Coupons or any alteration of the date or priority of redemption of the Class A Notes (any such modification being referred to below as a “**Basic Terms Modification**”) shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class A Noteholders as described below. The quorum at any meeting of Class A Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 75% of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class A Noteholders whatever the aggregate Principal Amount Outstanding of the Class A Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing 75%, or at any adjourned such meeting, 25%, or more of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding. In the case of a Basic Terms Modification, an Extraordinary Resolution of a meeting of Class A Noteholders affected by such Basic Terms Modification will also be required. In any other case, no such separate meetings will be required unless an Enforcement Notice has been served (and the rules relating to meetings of Class A Noteholders, including matters relating to quorums and resolutions, shall apply *mutatis mutandis* to any meeting of Class A Noteholders). The Trust Deed contains

provisions limiting the powers of the Class B Noteholders and the Class C Noteholders, *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 Class A Noteholders. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders and the Class C Noteholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class A Noteholders shall be binding on all Class A Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution.

The Trustee may agree, without the consent of the Class A Noteholders or Couponholders, (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, the Class A Notes (including these Class A Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Class A Noteholders or (ii) to any modification of the Class A Notes (including these Class A Conditions) or any of the 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 Class A Noteholders or the Couponholders, determine that any Event of Default or any condition, event or act which with the giving of notice and/or lapse of time and/or the issue of a certificate would constitute an Event of Default shall not, or shall not subject to specified conditions, be treated as such. Any such modification, waiver, authorisation or determination shall be binding on the Class A Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class A Noteholders in accordance with Class A Condition 12 as soon as practicable thereafter.

14. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to realise the Security and to obtain repayment of the Class A Notes unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other party to the Relevant Documents without accounting for any profit resulting from such transactions. 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 Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

15. Notifications and Other Matters to be Final

Notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Class A Notes and the Coupons, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Reference Agent, the Trustee, the Administrator, the Principal Paying Agent, the other Paying Agents (if any) and all Class A Noteholders and Couponholders and (subject as aforesaid) no liability to the Issuer, the Administrator or the Class A Noteholders or Couponholders shall attach to the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

16. The Contracts (Rights of Third Parties) Act 1999

The Class A Notes confer no rights on any person pursuant to the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Class A Notes, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

17. Governing Law

The Class A Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof as are particular to Scots law, which are governed by and shall be construed in accordance with the laws of Scotland and such provisions thereof as are particular to Northern Irish law, which are governed by, and shall be construed in accordance with, the laws of Northern Ireland.

DESCRIPTION OF THE CLASS B NOTES, THE GLOBAL CLASS B NOTES AND THE SECURITY

The issue of the £70,900,000 Class B Asset Backed Floating Rate Notes due 2033 (the “**Class B Notes**”) will be authorised by a resolution or resolutions of the Board of Directors of Paragon Personal and Auto Finance (No. 2) PLC (the “**Issuer**”) passed on or before the Closing Date (as defined in Class B Condition 4(a) below). The Class B Notes are constituted by a trust deed (the “**Trust Deed**”) to be dated the Closing Date between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class B Notes (the “**Class B Noteholders**”), the holders for the time being of the Class A Notes (as defined in Class B Condition 2 below) (the “**Class A Noteholders**”) and the holders for the time being of the Class C Notes (as defined in Class B Condition 2 below) (the “**Class C Noteholders**”). The net proceeds from the issue of the Notes will be applied, among other things, in the purchase, either on or before the Final Addition Date, of Portfolio Assets (as defined in the Master Definitions Schedule).

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and a deed of charge and assignment (the “**Deed of Charge**”) to be dated the Closing Date between, *inter alios*, the Issuer, the Trustee, Universal Credit Limited (“**Universal**”), Paragon Finance PLC (“**PFPLC**”), Paragon Personal Finance Limited (“**PPF**”), Paragon Car Finance Limited (“**PCF**”), PFPLC in its capacity as administrator and JPMorgan Chase Bank, acting through its London branch, in its capacity as hedge provider (the “**Hedge Provider**”). The Trust Deed will include the form of the temporary global note (the “**Temporary Global Class B Note**”) and the permanent global note (the “**Permanent Global Class B Note**”) for the Class B Notes and the definitive Class B Notes and coupons and talons relating thereto. Certain words and expressions used above and below have the meanings defined in the Trust Deed or the Master Definitions Schedule. In accordance with an agency agreement (the “**Agency Agreement**”) to be dated the Closing Date between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “**Reference Agent**”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the successors of each paying agent appointed as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class B Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class B Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Secured Loan Sale Agreement, the Standard Terms and Conditions, the Bridge Standard Terms and Conditions, the Master Definitions Schedule, the Warranty Deed, the Repurchase Deed (each as defined in the Master Definitions Schedule) and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof Third Floor, Cottons Centre, Hay’s Lane, London SE1 2QT, and at the specified offices for the time being of the Paying Agents.

Class B Notes and Coupons (as defined in Class B Condition 1 below) will bear the following legend: “*Any United States Person (as defined in the Internal Revenue Code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code*”. The sections referred to in the legend provide that a United States Person (as defined in the Internal Revenue Code) will not, with certain exceptions, be permitted to deduct any loss, and will not be eligible for favourable capital gains treatment with respect to any gain, realised on a sale, exchange or redemption of a Class B Note or Coupon.

Global Class B Notes

The Class B Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class B Note in bearer form, without coupons or talons, in the principal amount of £70,900,000. The Temporary Global Class B Note will be deposited on behalf of the subscribers of the Class B Notes with a common depositary for Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”) on the Closing Date. Upon deposit of the Temporary Global Class B Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class B Notes with the principal amount of Class B Notes for which it has subscribed and paid. Interests in the Temporary Global Class B Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received) for interests in the Permanent Global Class B Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class B Note (the expression “**Global Class B Notes**” and “**Global Class B Note**” meaning, respectively, (i) both of the

Temporary Global Class B Note and the Permanent Global Class B Note or (ii) either of the Temporary Global Class B Note or the Permanent Global Class B Note, as the context may require). On the exchange of the Temporary Global Class B Note for the Permanent Global Class B Note, the Permanent Global Class B Note will also be deposited with the Common Depositary. The Global Class B Notes will be transferable by delivery. The Permanent Global Class B Note will be exchangeable for definitive Class B Notes in bearer form in certain circumstances described below. Interest and principal on each Global Class B Note will be payable against presentation of that Global Class B Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received by Euroclear or Clearstream, Luxembourg. Each of the persons appearing from time to time in the records of Euroclear or of Clearstream, Luxembourg, as the holder of a Class B Note will be entitled to receive any payment so made in respect of that Class B Note in accordance with the respective rules and procedures of Euroclear or, as the case may be, of Clearstream, Luxembourg. Such persons shall have no claim directly against the Issuer in respect of payments due on the Class B Notes, which must be made by the holder of the relevant Global Class B Note, for so long as such Global Class B Note is outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Class B Note for the Permanent Global Class B Note, which date shall be no earlier than the Exchange Date (as defined in the Temporary Global Class B Note) and (ii) the first Interest Payment Date, in order to obtain any payment due on the Class B Notes.

For so long as the Class B Notes are represented by a Global Class B Note, such Class B Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or, as the case may be, of Clearstream, Luxembourg.

For so long as the Class B Notes are represented by a Global Class B Note, each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of Class B Notes will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Class B Notes and the expression “**Class B Noteholder**” shall be construed accordingly, but without prejudice to the entitlement of the bearer of the Global Class B Note to be paid principal and interest thereon in accordance with its terms.

Principal and interest on a Global Class B Note will be payable against presentation of such Global Class B Note at the specified office of the Principal Paying Agent or, at the option of the holder, at any specified office of any Paying Agent provided that no payment of interest on a Global Class B Note may be made by, or upon presentation of such Global Class B Note to, any Paying Agent in the United States of America. A record of each payment made on a Global Class B Note, distinguishing between any payment of principal and payment of interest, will be endorsed on such Global Class B Note by the Paying Agent to which such Global Class B Note was presented for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made.

If (i) the principal amount of the Class B Notes becomes immediately due and payable by reason of default or (ii) 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 (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which become effective on or after 6th December, 2001, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class B Notes which would not be required were the Class B Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class B Notes represented by the Permanent Global Class B Note in exchange for the whole outstanding interest in the Permanent Global Class B Note within 30 days of the occurrence of the relevant event, but in any event not prior to the expiry of 40 days after the Closing Date.

Security

The security for the Class B Notes will be created pursuant to, and on the terms set out in, the Deed of Charge, which creates in favour of the Trustee on trust for, *inter alios*, the Class B Noteholders:

- (1) a sub-charge over the Mortgages which comprise English Mortgages and an assignation in security of the Issuer's interest in the Mortgages which comprise Scottish Mortgages, in each case, purchased by the Issuer under the Secured Loan Sale Agreement;
- (2) a conveyance, transfer and assignment by way of first fixed security of:

- (a) subject, where applicable, to the subsisting rights of the Obligors (as defined in the Master Definitions Schedule), all present and future right, title, interest and benefit of the Issuer in and under the Portfolio Assets (including Scottish Unsecured Loans, Scottish Secured Loans or Scottish Car Finance Contracts) other than the Portfolio Motor Vehicles which will be subject to a floating charge only (all as defined in the Master Definitions Schedule) to which it is or becomes beneficially entitled, including for the avoidance of doubt:
 - (i) all sums of principal (or sums equivalent to principal), interest (or revenue charges equivalent to interest) or any other sum payable under and the right to demand, sue for, recover, receive and give receipts for all principal (or equivalent) moneys payable or to become payable under such Portfolio Assets or the unpaid part thereof and the interest (or revenue charges equivalent to interest) due or to become due thereon;
 - (ii) the benefit of and the right to sue on all covenants with, or vested in, the Issuer in respect of each such Portfolio Asset and the right to exercise all powers of the Issuer in relation to each such Portfolio Asset;
 - (iii) all causes and rights of action of the Issuer against any person in connection with any report, opinion, certificate, consent or other statement of fact or opinion given in connection with such Portfolio Asset or affecting any decision to enter into the relevant Financing Agreement (as defined in the Master Definitions Schedule); and
 - (iv) the benefit of any guarantee, indemnity or surety vested in the Issuer relating to each such Portfolio Asset; and
 - (b) subject to any subsisting rights of redemption, all right, title, interest and benefit of the Issuer (whether present or future) in any insurances of which the Issuer may have the benefit or may acquire in the future;
- (3) a charge and assignment by way of first fixed security of:
- (a) all the right, title, interest and benefit, present and future, of the Issuer in, to and under the Unsecured Loan Scottish Trust Property, the Secured Loan Scottish Trust Property, the Car Finance Scottish Trust Property, the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts and the Car Finance Scottish Trusts (each as defined in the Master Definitions Schedule); and
 - (b) all the right, title, interest and benefit, present and future, of the Issuer in and to all moneys, rights and property whatsoever which, from time to time and at any time, may be distributed under, or derived from, or accrue on, the Unsecured Loan Scottish Trust Property, the Secured Loan Scottish Trust Property or the Car Finance Scottish Trust Property or in respect of the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts or the Car Finance Scottish Trusts in any way whatsoever including all rights to receive payment of any amounts which may become payable to the Issuer under the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts or the Car Finance Scottish Trusts and all payments received by the Issuer thereunder and also including, without limitation, all rights to serve notices and/or make demands thereunder, all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof and all rights of the Issuer arising under or in respect of the Unsecured Loan Scottish Trust Property, the Secured Loan Scottish Trust Property, the Car Finance Scottish Trust Property, the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts or the Car Finance Scottish Trusts;
- (4) a conveyance, transfer and assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in the Secured Loan Sale Agreement, each Asset Sale Contract, the Repurchase Deed, the Warranty Deed, the Administration Agreement, the Agency Agreement, the Subordinated Loan Agreement, the VAT Declaration of Trust, the Services Letter, the Fee Letter, the Hedge Agreement, any other hedging arrangements entered into by the Issuer, the Collection Account Declarations of Trust (each as defined in the Master Definitions Schedule) and all other contracts, agreements, deeds and documents, present and future, to which the Issuer is or may become a party, including all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder including, without limitation, all rights to serve notices and/or make

demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof;

- (5) an assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in and to the Transaction Account (as defined in the Master Definitions Schedule) and all sums of money which from time to time may be standing to the credit of the Transaction Account and any other bank or other account in which the Issuer may at any time acquire any right, title, interest or benefit together with all interest accruing from time to time thereon and the debt represented by each such account and the benefit of all covenants relating thereto and all powers and remedies for enforcing the same;
- (6) a first fixed charge over all the right, title, interest and benefit, present and future, of the Issuer in the Authorised Investments (as defined in the Master Definitions Schedule) and each of them made by the Issuer in accordance with the Administration Agreement and all other investments in which the Issuer may at any time acquire any right, title, interest or benefit, in each case together with all moneys, income and proceeds to become payable thereunder or thereon and the benefits of all covenants relating thereto and all powers and remedies for enforcing the same; and
- (7) a first floating charge over the whole of the undertaking and all the property and assets of the Issuer whatsoever and wheresoever situate, present and future, other than any property or assets from time to time or for the time being effectively charged by way of fixed charge, or otherwise assigned as fixed security, by the Deed of Charge (but excepting from the foregoing exclusion all property, assets, rights and interests (i) charged or assigned as referred to in paragraphs (2) and (3) above and (ii) otherwise situate in or governed by Scots law, which are charged by the floating charge). For the avoidance of doubt, the Issuer's interest in each Portfolio Motor Vehicle shall be subject to the floating charge.

The security described above over the assets of the Issuer, which constitutes the security for the Class B Notes, is referred to as the “**Security**”. The Security also stands as security for any amounts payable by the Issuer to the Class A Noteholders, the Class C Noteholders and to any Receiver, the Trustee, the Paying Agents, the Reference Agent, the Administrator, any Subordinated Lender, the Hedge Provider, any Permitted Hedge Provider, PPF, Universal, PCF and PFPLC under the Notes and any Coupons, the Trust Deed, the Agency Agreement, the Deed of Charge, the Administration Agreement, the Secured Loan Sale Agreement, any Asset Sale Contract, the Subordinated Loan Agreement, the Fee Letter, the Services Letter and the Hedge Agreement (each as defined in the Master Definitions Schedule). The Deed of Charge contains provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After service of an Enforcement Notice, amounts payable to any Receiver, the Trustee, the Paying Agents and the Reference Agent, amounts payable to the Administrator (including fees, out-of-pocket expenses and commissions), amounts payable to the Hedge Provider and any Permitted Hedge Provider (other than Hedge Termination Amounts) and amounts of all commissions (if any) paid by insurance companies to each of PFPLC, PPF, PCF, Universal and any other Seller pursuant to the Administration Agreement and amounts due and payable to Class A Noteholders will rank in priority to payments on the Class B Notes.

TERMS AND CONDITIONS OF THE CLASS B NOTES

The following, subject to amendments, are the terms and conditions of the Class B Notes (the “**Class B Conditions**” and any reference to a “**Class B Condition**” shall be construed accordingly) substantially in the form as they will appear on the reverse of the Class B Notes in definitive form. While the Class B Notes remain in global form, the same terms and conditions govern them, except to the extent that they are appropriate only to the Class B Notes in definitive form.

1. Form, Denomination and Title

The Class B Notes are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons (“**Interest Coupons**”) and principal coupons (“**Principal Coupons**”) (severally or together “**Coupons**”) and talons (“**Talons**”) attached. Title to the Class B Notes, the Coupons and the Talons shall pass by delivery.

The holder of each Coupon (each a “**Couponholder**”) and each Talon (whether or not the Coupon or the Talon is attached to a Class B Note) in his capacity as such shall be subject to and bound by all the provisions contained in the relevant Class B Note.

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents may treat the holder of any Class B Note, Coupon or Talon as the absolute owner thereof (whether or not such Class B Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

2. Status and Relationship between the Class A Notes, the Class B Notes and the Class C Notes

The Class B Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in the Deed of Charge) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

Payments of principal and interest on the Class B Notes are subordinated to, *inter alia*, payments of principal and interest on the £146,900,000 Class A Asset Backed Floating Rate Notes due 2022 of the Issuer (the “**Class A Notes**”) in accordance with the provisions of Class B Conditions 4, 5 and 7, the Trust Deed and the Deed of Charge.

The Class B Notes are secured by the same security that secures the Class A Notes and the £26,900,000 Class C Asset Backed Floating Rate Notes due 2033 of the Issuer (the “**Class C Notes**”), but the Class A Notes and certain other obligations of the Issuer will rank in point of security in priority to the Class B Notes in the event of the security being enforced, whereas the Class B Notes will rank in point of security in priority to the Class C Notes in the event of the security being enforced.

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class B Noteholders, the Class A Noteholders and the Class C Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders, the Class C Noteholders or the other persons entitled to the benefit of the Security and subject thereto to have regard only to the interests of the Class B Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class B Noteholders and/or the interests of the Class C Noteholders and/or the other persons entitled to the benefit of the Security.

3. Covenants of the Issuer

(A) So long as any of the Class A Notes, the Class B Notes or the Class C Notes remains outstanding (as defined in the Master Definitions Schedule), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:

- (1) carry on any business other than as described in the Offering Circular dated 6th December, 2001 relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Portfolio Assets and the related activities described in any Unsecured Loan Agreement, Secured Loan Agreement (or its related Mortgage) or Car Finance Agreement) and in respect of that business shall not engage in any activity or do anything whatsoever except:

- (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security and the assets comprised therein;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Class B Notes, the Coupons and Talons, the Class A Notes and the Class C Notes and any principal coupons, interest coupons and talons appertaining respectively thereto, the subscription agreements relating to each of the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Secured Loan Sale Agreement, any Asset Sale Contract, the Agency Agreement, the Trust Deed, the Administration Agreement, the Fee Letter, the Subordinated Loan Agreement, the Portfolio Assets, the Deed of Charge, the Collection Account Declarations of Trust, the Hedge Agreement, the VAT Declaration of Trust, the Services Letter, any insurances in which the Issuer at any time has an interest, the Scottish Trusts and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Master Definitions Schedule) (together the “**Relevant Documents**”);
 - (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, *inter alia*, make claims, payments and surrenders in respect of certain tax reliefs;
 - (d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem the Class B Notes, the Class A Notes or the Class C Notes in accordance with their respective terms and conditions; and
 - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;
- (2) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Deed of Charge, the Fee Letter, the Services Letter, the Hedge Agreement, the VAT Declaration of Trust and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;
 - (3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
 - (4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
 - (a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of unsecured and secured consumer loans and motor vehicle finance agreements and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes, the Class B Notes and the Class C Notes and the performance and observance of every covenant in the Trust Deed and in these Class B Conditions on the part of the Issuer to be performed or observed;
 - (b) immediately after giving effect to such transaction, no Event of Default (as defined in Class B Condition 10) shall have occurred and be continuing;
 - (c) the Trustee is satisfied that the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
 - (d) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and

- (e) the Rating Agencies confirm that the then current ratings of the Class A Notes, the Class B Notes and the Class C Notes will not be adversely affected as a result of such consolidation, merger, conveyance or transfer;
 - (5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
 - (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
 - (7) have an interest in any bank account, other than the Transaction Account, the VAT Account and the Collection Accounts (each as defined in the Master Definitions Schedule), unless such account or interest is charged to the Trustee on terms acceptable to it.
- (B) So long as any of the Class B Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Portfolio Assets (the “**Administrator**”). Any appointment of an Administrator is subject to the prior written approval of the Trustee and must be of a person with experience of the administration of unsecured and secured consumer loans and motor vehicle finance contracts in England, Wales, Scotland and Northern Ireland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class A Notes and the Class B Notes have been redeemed in full, the Class C Noteholders.

4. Interest

(a) Interest Payment Dates

Each Class B Note bears interest on its Principal Amount Outstanding (as defined in Class B Condition 5(b)) from and including 12th December, 2001 or such later date as may be agreed between the Issuer and J.P. Morgan Securities Ltd. (the “**Closing Date**”). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class B Notes, interest in respect of such Class B Notes is (subject to Class B Condition 7) payable quarterly in arrear on 15th January, 15th April, 15th July and 15th October in each year (or, if any such date is not a Business Day (as defined below), the next succeeding day which is a Business Day, each an “**Interest Payment Date**”). To the extent that the funds available to the Issuer (as determined by the Administrator) to pay interest on the Class B Notes on an Interest Payment Date are insufficient to pay the full amount of such interest, then payment of the shortfall or, as the case may be, such interest on the Class B Notes which would otherwise have fallen due on such Interest Payment Date (“**Deferred Interest**”), which will be borne by each Class B Note in a proportion equal to the proportion that the Principal Amount Outstanding of that Class B Note bears to the aggregate Principal Amount Outstanding of the Class B Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not fall due on such Interest Payment Date but will instead, subject to Class B Condition 7, be deferred until the first Interest Payment Date thereafter on which funds are available (after allowing for the Issuer’s liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. In the event of any such deferral, the rate of interest applicable to the Class B Notes will be increased to the extent necessary so that the Class B Notes accrue additional interest (“**Additional Interest**”) equal to the interest which would accrue on the relevant Deferred Interest during the period of deferral if interest were to accrue thereon at the Rate of Interest (as defined below) applicable from time to time to the Class B Notes and, subject to Class B Condition 7, payment of any Additional Interest will also be deferred until the first Interest Payment Date thereafter on which funds are available to the Issuer to pay such Additional Interest (and any interest and Deferred Interest) to the extent of such available funds. As used in these Class B Conditions except Class B Condition 6, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) 15th April, 2002 and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an “**Interest Period**”. Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day

year. The first interest payment will be made on the Interest Payment Date falling in April 2002 in respect of the period from (and including) the Closing Date to (but excluding) the Interest Payment Date falling in April 2002.

Interest shall cease to accrue on any part of the Principal Amount Outstanding of a Class B Note as from (and including) the due date for redemption of such part unless, upon due presentation of the relevant Principal Coupon, payment of principal due is improperly withheld or refused, whereupon interest shall continue to accrue on such principal at the Rate of Interest (as defined in paragraph (c) below) from time to time applicable to the Class B Notes until the moneys in respect thereof have been received by the Trustee or the Principal Paying Agent and notice to that effect is given in accordance with Class B Condition 13.

(b) *Coupons and Talons*

On issue, Coupons and Talons applicable to Class B Notes in definitive form are attached to the Class B Notes. A Talon may be exchanged for further Coupons and, if applicable, a further Talon on or after the Interest Payment Date for the final Coupon on the relevant Coupon sheet by surrendering such Talon at the specified office of any Paying Agent. Interest payments on the Class B Notes will be made against presentation and surrender of the appropriate Coupons in accordance with Class B Condition 6, except as provided therein.

(c) *Rate of Interest*

The rate of interest applicable from time to time to the Class B Notes disregarding any Additional Interest which may accrue in accordance with paragraph (a) above (the “**Rate of Interest**”) will be determined by Citibank, N.A. acting as reference agent (the “**Reference Agent**”, which expression shall include its successors as Reference Agent under the Agency Agreement) on the basis of the following provisions:

- (i) On the Closing Date (an “**Interest Determination Date**”) in respect of the first Interest Period, the Reference Agent will determine the interest rate by reference to a linear interpolation between the rates for sterling deposits for a period of four months and sterling deposits for a period of five months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “**Interest Determination Date**”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 1.20% per annum up to and including the Interest Period ending in January 2008 and thereafter 2.40% per annum.
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “**Reference Banks**”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for four-month and five-month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent

with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.

(iii) There shall be no maximum or minimum Rate of Interest.

(d) Determination of Rate of Interest, Calculation of Interest Payments, Deferred Interest and Additional Interest

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest (other than Additional Interest) payable, subject to Class B Condition 7, on the Class B Notes (an “**Interest Payment**”) for the relevant Interest Period. The Interest Payment for the Class B Notes shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of the Class B Notes taking into account any payment of principal due on such Interest Determination Date, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). On (or as soon as practicable after) each Determination Date (as defined in Class B Condition 5(a)), the Issuer shall determine (or cause the Administrator to determine) the actual amount of interest which will be paid on each Class B Note on the Interest Payment Date next following such Determination Date and the amount of Deferred Interest (if any) on each Class B Note in respect of the Interest Period ending on (but excluding) such Interest Payment Date and the amount of Additional Interest (if any) which will be paid on such Interest Payment Date. The amount of Additional Interest shall be calculated by applying the relevant Rate of Interest to the Deferred Interest relating to the Class B Notes and any Additional Interest from prior Interest Periods which remains unpaid, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). In the event that on any Determination Date the funds then available to the Issuer are insufficient to pay in full the Interest Payment, any outstanding Deferred Interest and any Additional Interest due on the Interest Payment Date next following such Determination Date, such funds will be applied first to the payment of any Interest Payment, secondly to the payment of any outstanding Deferred Interest and thereafter to the payment of any Additional Interest.

(e) Publication of Rates of Interest, Interest Payments, Deferred Interest and Additional Interest

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to the Class B Notes for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as the Class B Notes are listed by the UK Listing Authority (the “**UKLA**”) and admitted to trading by the London Stock Exchange plc (the “**London Stock Exchange**”), the London Stock Exchange, and will cause the same to be published in accordance with Class B Condition 13 on or as soon as possible after the date of commencement of the relevant Interest Period. The Issuer will cause the Deferred Interest (if any) and the Additional Interest (if any) applicable to the Class B Notes for each Interest Period to be notified to the Trustee, the Paying Agents and (for so long as the Notes are listed by the UKLA and admitted to trading by the London Stock Exchange) the London Stock Exchange, and will cause the same to be published in accordance with Class B Condition 13 no later than the fourth Business Day prior to the relevant Interest Payment Date. The Interest Payment, Deferred Interest, Additional Interest and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a shortening of the Interest Period.

(f) Determination or Calculation by Trustee

If the Reference Agent at any time for any reason does not determine the Rate of Interest or calculate an Interest Payment or the Additional Interest (if any) in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest for the Class B Notes at such rate as, in its absolute

discretion (having such regard as it shall think fit to the procedure described in paragraph (c) above, but subject to the terms of the Trust Deed), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Payment or the Additional Interest (if any) for the Class B Notes in accordance with paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

(g) *Reference Banks and Reference Agent*

The Issuer will procure that, so long as any of the Class B Notes remains outstanding, at all times there will be at least four Reference Banks and a Reference Agent. The Issuer reserves the right at any time to terminate the appointment of the Reference Agent or of any Reference Bank. Notice of any such termination will be given to the Class B Noteholders. If any person shall be unable or unwilling to continue to act as a Reference Bank or the Reference Agent (as the case may be), or if the appointment of any Reference Bank or the Reference Agent shall be terminated, the Issuer will, with the prior written approval of the Trustee, appoint a successor Reference Bank or Reference Agent (as the case may be) to act as such in its place, provided that neither the resignation nor removal of the Reference Agent shall take effect until a successor approved by the Trustee has been appointed.

5. Redemption and Purchase

(a) *Mandatory Redemption in Part from Available Redemption Funds: Apportionment of Available Redemption Funds between the Class A Notes, the Class B Notes and the Class C Notes*

The Class B Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Relevant Determination Date there are any Class B Available Redemption Funds. The principal amount so redeemable in respect of each Class B Note prior to the service of an Enforcement Notice (each a “**Principal Payment**”) on any Interest Payment Date shall be the amount of the Class B Available Redemption Funds on the Determination Date relating to that Interest Payment Date divided by the number of Class B Notes then outstanding (as defined in the Master Definitions Schedule) (rounded down to the nearest pound sterling), provided always that no Principal Payment may exceed the Principal Amount Outstanding of a Class B Note.

The Available Redemption Funds on a Determination Date shall be apportioned between the Class A Notes, the Class B Notes and the Class C Notes to determine the Class A Available Redemption Funds, the Subordinated Available Redemption Funds and the Class B Available Redemption Funds as at such Determination Date.

If the Issuer does not for any reason determine the aggregate principal amount of the Class A Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

“**Actual Principal Funds**” means on any Determination Date (the “**Relevant Date**”) the lower of:

- (a) the Required Principal Funds on the Relevant Date; and
- (b) the greater of:
 - (i) zero; and
 - (ii) the Issuer Funds on the Relevant Date minus all amounts which are required to make the payments and provisions specified in items (i) to (vii) (inclusive) of Clause 6.2.2 of the Deed of Charge on the Interest Payment Date next following the Relevant Date.

“**Allocated Purchase Funds**” means at any Determination Date (the “**Relevant Date**”) an amount (allocated out of Actual Principal Funds) equal to the lower of:

- (a) the Actual Principal Funds calculated on the Relevant Date; and
- (b) the amount which the Issuer has notified to the Administrator pursuant to the Administration Agreement that it then intends to apply in purchasing Further Unsecured Loans, Further Secured Loans and/or Further Car Finance Contracts (and any related Motor Vehicles) and/or in making any further advances in respect of Portfolio Secured Loans at any time during the period from (and including) the Relevant Date to (and including) the Final Addition Date,

provided that:

- (i) the Allocated Purchase Funds shall be deemed to be zero on any Relevant Date falling after the Business Day preceding the Determination Date falling in December 2005 (the “**Final Addition Date**”); and
- (ii) the Allocated Purchase Funds in respect of any Relevant Date shall be deemed to be zero if the Performance Conditions are not satisfied on the Relevant Date.

“**Available Redemption Funds**” on any Determination Date (the “**Relevant Date**”) means an amount equal to the aggregate of:

- (a) an amount equal to (x) the Actual Principal Funds on the Relevant Date minus (y) the Allocated Purchase Funds on the Relevant Date, and
- (b) an amount equal to the aggregate amount (if any) of the provisions that would have been made as specified in paragraphs (xiii) and (xv) to (xviii) (inclusive) of Clause 6.2.2 of the Deed of Charge on the Interest Payment Date next following the Relevant Date, but which the Issuer gives notice to the Administrator pursuant to the Administration Agreement on the Relevant Date should not be made but the amount of which should instead be added to the Available Redemption Funds on the Relevant Date,

provided that the Available Redemption Funds shall never exceed the Principal Amount Outstanding of the Notes.

The “**Class A Available Redemption Funds**” shall equal:

- (i) on any Interest Payment Date on which Class A Notes were outstanding as at the Determination Date immediately preceding such Interest Payment Date (the “**Relevant Determination Date**”) and any Amortisation Condition is not satisfied, the lesser of (x) the Principal Amount Outstanding of the Class A Notes and (y) the Available Redemption Funds determined as at the Relevant Determination Date; and
- (ii) on any Interest Payment Date on which Class A Notes were outstanding as at the Relevant Determination Date and each of the following conditions (each an “**Amortisation Condition**”) is satisfied, the lesser of (x) the Principal Amount Outstanding of the Class A Notes and (y) the Available Redemption Funds determined as at the Relevant Determination Date less the Subordinated Available Redemption Funds determined as at the Relevant Determination Date:
 - (a) the ratio of the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes to the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes (the “**Ratio**”) equals or exceeds 220,050,000:244,700,000 as at the Relevant Determination Date;
 - (b) the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes is greater than or equal to £16,517,250 (the “**Minimum Amount**”) as at the Relevant Determination Date;
 - (c) the Interest Payment Date is on or after the Interest Payment Date falling in January 2007; and
 - (d) the Performance Conditions are satisfied on the Relevant Determination Date; and
- (iii) on any Interest Payment Date on which no Class A Notes were outstanding as at the Relevant Determination Date, nil.

The “**Subordinated Available Redemption Funds**” shall equal:

- (i) where on such Interest Payment Date Class A Notes were outstanding on the Relevant Determination Date and any Amortisation Condition is not satisfied, the greater of (a) zero and (b) an amount equal to (x) the Available Redemption Funds determined as at the Relevant Determination Date less (y) the Principal Amount Outstanding of the Class A Notes as at the Relevant Determination Date;
- (ii) on any Interest Payment Date on which Class A Notes were outstanding on the Relevant Determination Date and each of the Amortisation Conditions is satisfied, the greater of (a) the Available Redemption Funds as at the Relevant Determination Date less the Principal Amount Outstanding of the Class A Notes on such date and (b) that amount of the Available Redemption Funds as determined on the Relevant Determination Date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the Ratio to be as nearly as possible 220,050,000:244,700,000; provided that if any part of the Available Redemption Funds being applied in accordance with (b) above would result in the sum of the aggregate

Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes after such application being less than the Minimum Amount the Subordinated Available Redemption Funds shall be reduced by an amount equal to such part of the Available Redemption Funds; and

- (iii) on any Interest Payment Date on which no Class A Notes were outstanding as at the Relevant Determination Date, the Available Redemption Funds as at such date.

The “**Class B Available Redemption Funds**”:

- (a) on any Interest Payment Date on which there are Class A Notes outstanding following the application of the Class A Available Redemption Funds and each of the Amortisation Conditions is satisfied, shall be determined on the Relevant Determination Date in accordance with the following formula:

BARF = the lesser of:

- (i) $(\text{SARF} \times \frac{70,900,000}{97,800,000})$; and

- (ii) the Principal Amount Outstanding of the Class B Notes,

where:

- (i) “**BARF**” means the Class B Available Redemption Funds on the Relevant Determination Date; and

- (ii) “**SARF**” means the Subordinated Available Redemption Funds on the Relevant Determination Date; and

- (b) on any Interest Payment Date on which (i) there were no Class A Notes outstanding as at the Relevant Determination Date or (ii) there are no Class A Notes outstanding following the application of the Class A Available Redemption Funds, shall equal the lesser of (x) SARF on the Relevant Determination Date and (y) the aggregate Principal Amount Outstanding of the Class B Notes on the Relevant Determination Date.

If the Issuer does not for any reason determine the aggregate principal amount of Class B Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

“**Current Principal Balance**” on any day means: (a) in relation to (x) a Portfolio Unsecured Loan that is a Personal Loan (other than one originated by PPF prior to 1st September, 1999) or (y) a Portfolio Secured Loan, the aggregate outstanding amount of principal thereunder other than, for the avoidance of doubt, any arrears of interest which have been capitalised; and (b) in relation to (x) a Portfolio Car Finance Contract, or (y) a Portfolio Unsecured Loan that is a Retail Credit Loan, or (z) a Portfolio Unsecured Loan that is a Personal Loan originated by PPF prior to 1st September, 1999, the aggregate amount of those parts of each monthly payment due from the relevant Obligor that is attributable to principal in accordance with the Administration Agreement throughout the remaining term of such Portfolio Asset other than, for the avoidance of doubt, any arrears of interest which have been capitalised (including amounts then due and payable but not paid) (and in the case of a Portfolio Car Finance Contract which comprises a conditional sale agreement, a lease agreement or a motor vehicle contract purchase agreement plus the assumed residual value of the relevant Portfolio Motor Vehicle) on that date each as shown in the Debtor Ledger for the relevant Portfolio Asset, less, in respect of each Portfolio Asset, an amount equal to the amount thereof (if any) that has been written off in accordance with the Administration Agreement.

“**Debtor Ledger**” means the ledger account established and maintained by or on behalf of the Administrator, pursuant to and in accordance with the Administration Agreement, in respect of each Portfolio Asset.

“**Determination Date**” means the last Business Day of the month preceding that in which an Interest Payment Date falls and “**Relevant Determination Date**” means, in respect of an Interest Payment Date, the last Business Day of the month preceding that in which such Interest Payment Date falls.

“**Initial Allocated Purchase Funds**” means an amount equal to the aggregate of:

- (a) the Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes as at the Closing Date; and
- (b) OCRA;

less

- (c) the Current Principal Balance of Performing Assets as at the Closing Date; and
- (d) the aggregate of the Purchased Accruals of Performing Assets as at the Closing Date.

“**Issuer Funds**” means, on any Determination Date (the “**Relevant Date**”), an amount determined by the Administrator pursuant to the Administration Agreement on the Relevant Date to be equal to the aggregate of:

- (a) the amount standing to the credit of the Transaction Account as at the close of business on the Relevant Date (comprising of (i) all moneys received by the Issuer from Obligors or recovered under or in respect of the Portfolio Assets (including all principal and interest, and their equivalent, in relation to Portfolio Unsecured Loans, Portfolio Secured Loans and Portfolio Car Finance Contracts and any amount received on the sale of a Portfolio Motor Vehicle or on the early settlement of such Portfolio Car Finance Contracts and all other net income and other moneys of the Issuer including any amounts drawn by the Issuer under the Subordinated Loan Agreement, less (ii) certain amounts which under the Deed of Charge are permitted to be paid on any Business Day such as payments of amounts which properly belong to third parties (including, for example, overpayments by Obligors and amounts held on trust) and of sums due to third parties under obligations incurred in the course of the Issuer’s business (unless, in any case, the intended recipient agrees otherwise)); and
- (b) any payment due to be received by the Issuer from the Hedge Counterparty or any Permitted Hedge Provider under the Hedge Agreement or otherwise in the period from (but excluding) the Relevant Date to (and including) the Interest Payment Date next following the Relevant Date (the “**Adjustment Period**”); and
- (c) all proceeds of disposal or on maturity of any Authorised Investments made or acquired on or before the Relevant Date and due to mature on or before the next following Interest Payment Date (whether or not reinvested during the Adjustment Period) and any income to be earned thereon (including interest to be earned on the Transaction Account), in each case, due to be received by the Issuer during the Adjustment Period; and
- (d) (i) all borrowings to be made by the Issuer under the Subordinated Loan Agreement during the Adjustment Period for the purpose of ensuring that the Performance Conditions are satisfied on the Relevant Date; and (ii) all borrowings to be made by the Issuer under the Subordinated Loan Agreement during the Adjustment Period (other than on the Interest Payment Date in question) for the purpose of establishing or increasing the Shortfall Fund; and
- (e) all amounts standing to the credit of the Collection Accounts in respect of the Portfolio Assets as at the close of business on the Relevant Date that are to be transferred to the Transaction Account during the Adjustment Period;

less

- (f) but only prior to the earlier of (i) the date on which the Issuer has received an adjudication from the United Kingdom Stamp Office that no stamp duty is payable on the transfer to the Issuer on the Closing Date of the benefit of the Initial Portfolio Unsecured Loans that are Scottish Unsecured Loans and the Initial Portfolio Car Finance Contracts that are Scottish Car Finance Contracts or (ii) the date on which the Issuer pays all such stamp duty (if any) which is so payable, an amount (which may be zero) specified by the Rating Agencies on or before the Closing Date,

but so that no amount shall be added or deducted more than once in the same calculation.

“**Over Collateralisation Required Amount**” or “**OCRA**” means, on any Determination Date (the “**Relevant Date**”) an amount equal to the sum of:

- (a) an amount determined by the Rating Agencies on or before the Closing Date to be necessary in order to achieve the initial ratings of the Notes, and
- (b) the amount equal to the aggregate of all amounts (if any) which have fallen within paragraph (b) of the definition of Available Redemption Funds at any time prior to the Relevant Date.

The “**Performance Conditions**” are satisfied on any Determination Date (the “**Relevant Date**”) on which:

- (i) the Actual Principal Funds are equal to the Required Principal Funds (each as calculated on the Relevant Date); and
- (ii) no Class B Note Interest Deferral Event or Class C Note Interest Deferral Event subsists.

“**Performing Assets**” means all Portfolio Assets that are equal to or less than twelve months in arrears excluding those Portfolio Assets identified by the Issuer on or before the Closing Date as non-performing Portfolio Assets which are comprised in the Provisional Pool. A Portfolio Asset for this purpose will not be equal to or less than twelve months in arrears at any time if at such time amounts totalling in aggregate more than twelve times the then current monthly payment due from the Obligor under such Portfolio Asset have not been paid when due and/or have been capitalised within the twelve months immediately preceding such time.

“**Purchased Accruals**” means that part of the amount (if any) of the interest (or, equivalent revenue charges) accrued on a Portfolio Asset as at the relevant Effective Date which is purchased by the Issuer.

“**Required Principal Funds**” means on any Determination Date (the “**Relevant Date**”) the greater of zero and the sum of:

- (a) the Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the Principal Amount Outstanding of the Class B Notes and the Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes; and
- (b) OCRA;

less

- (c) the Current Principal Balance of all Performing Assets on the Relevant Date.

Capitalised terms, not otherwise defined in this Class B Condition 5, have the respective meanings given to those terms in the Master Definitions Schedule.

(b) Calculation of Principal Payments, Principal Amount Outstanding and Pool Factor

- (i) On (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment in respect of each Class B Note due on the Interest Payment Date next following such Determination Date, (y) the Principal Amount Outstanding of each Class B Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class B Note on the next Interest Payment Date) and (z) the fraction in respect of each Class B Note expressed as a decimal to the sixth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Class B Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class B Note and the Pool Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The “**Principal Amount Outstanding**” of a Class B Note on any date shall be the principal amount of that Class B Note upon issue less the aggregate amount of all Principal Payments in respect of that Class B Note that have become due and payable (whether or not paid) prior to such date.
- (ii) The Issuer will, by not later than the ninth Business Day after the Determination Date immediately preceding the relevant Interest Payment Date or as soon as possible thereafter, cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class B Notes are listed by the UKLA and admitted to trading by the London Stock Exchange) the UKLA and the London Stock Exchange and will immediately cause details of each determination of Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class B Condition 13 on the next following Business Day or as soon as practicable thereafter. If no Principal Payment is due to be made on the Class B Notes on any Interest Payment Date a notice to this effect will be given to the Class B Noteholders.

- (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) *Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving 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 in respect of any Class B Notes, or the Issuer or a Hedge Provider or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under a Hedge Agreement or other hedging agreement, any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest (or equivalent revenue charges) in relation to any of the Portfolio Assets for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, provided that on the Interest Payment Date on which such notice expires either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided further that each of the Rating Agencies has confirmed to the Trustee that the then current rating of the Class C Notes will not thereby be adversely affected and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class B Condition 4 or Class B Condition 7) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes, or the Trustee is otherwise directed by Extraordinary Resolution (as defined in the Trust Deed) of the Class B Noteholders, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class B Condition 13, redeem all (but not some only) of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date.

(d) *Optional Redemption in Full*

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class B Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided further that each of the Rating Agencies has confirmed to the Trustee that the then current rating of the Class C Notes will not thereby be adversely affected and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class B Condition 4 or Class B Condition 7) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes or the Trustee is otherwise directed by Extraordinary Resolution of the Class B Noteholders, the Issuer may, on any Interest Payment Date falling in or after January 2005 (the "**Coupon Call Date**") or, if earlier, falling on or after the date on which all the Class A Notes are redeemed in full, redeem all (but not some only) of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption.

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in January 2033.

(f) *Purchases*

The Class B Notes may not be purchased by the Issuer.

(g) *Cancellation*

All Class B Notes redeemed in full pursuant to the foregoing provisions will be cancelled forthwith, together with all unmatured and unused Coupons and Talons attached thereto or surrendered therewith, and may not be resold or reissued.

(h) *Certification*

For the purposes of any redemption made pursuant to Class B Condition 5(c) or Class B Condition 5(d), as the case may be, the Trustee may rely upon any certificate of two Directors of the Issuer that the Issuer will be in a position to discharge all its liabilities in respect of the Class B Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes and such certificate shall be conclusive and binding on the Issuer and the holders of the Class B Notes.

6. Payments

Subject to Class B Condition 7, Interest Payments and Principal Payments on Class B Notes will be made against presentation and surrender of, or, in the case of partial redemption, endorsement of, respectively, Interest Coupons and Principal Coupons relating to Class B Notes (except where, after such surrender, the unpaid principal amount of a Class B Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Class B Note) in which case such Principal Payment will be made against presentation and surrender of such Class B Note). Payments of principal other than Principal Payments (except as provided in the preceding sentence) will be made against presentation and surrender of Class B Notes. Presentation must be made at the specified office of any Paying Agent provided that no payment of interest will be made by, or upon presentation of any Class B Note or Coupon to, any Paying Agent in the United States of America. Payments will be made by pounds sterling cheque drawn on a branch in the City of London of, or transfer to a pounds sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment.

The initial Principal Paying Agent is Citibank, N.A. at its office at 5 Carmelite Street, London EC4Y 0PA.

The Issuer may at any time (with the previous written approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will at all times maintain a Paying Agent having a specified office in the City of London. Notice of any such termination or appointment and of any change in the office through which any Paying Agent will act will be given in accordance with Class B Condition 13.

Upon the date on which the Principal Amount Outstanding of a Class B Note is due to be reduced to zero, unmatured and unused Coupons and Talons relating thereto (whether or not attached) shall become void and no payment or exchange shall be made in respect thereof. If the due date for redemption in full of a Class B Note is not an Interest Payment Date, the interest accrued in respect of the period from the preceding Interest Payment Date (or from the Closing Date as the case may be) shall be payable only against presentation or surrender of the relevant Class B Note.

If the due date for payment of any amount of principal or interest in respect of any Class B Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay.

In this Class B Condition 6 the expression “**Business Day**” means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class B Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class B Note for definitive Class B Notes, on which both Euroclear and Clearstream, Luxembourg are open for business.

If interest is not paid in respect of a Class B Note on the date when due and payable (other than because the due date is not a Business Day), such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to the Class B Notes until such interest and interest thereon is available for payment and notice thereof has been duly given in accordance with Class B Condition 13.

7. Subordination

Interest on the Class B Notes shall be payable in accordance with the provisions of Class B Conditions 4 and 6 subject to the terms of this Class B Condition 7.

In the event that the aggregate funds, if any (computed in accordance with the provisions of the Deed of Charge), available to the Issuer on any Interest Payment Date for application in or towards the payment of interest which is, subject to Class B Conditions 4 and 6 and this Class B Condition 7, due on the Class B Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class B Condition as the “**Residual Amount**”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to Class B Conditions 4 and 6 and this Class B Condition 7, due on the Class B Notes on such Interest Payment Date, there shall be payable on such Interest Payment Date, by way of interest on each Class B Note, a *pro rata* share of the Residual Amount on such Interest Payment Date. In any such event the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class B Notes on such Interest Payment Date in accordance with Class B Conditions 4 and 6 and this Class B Condition 7 falls short of the aggregate amount of interest which would have been due and payable on the Class B Notes on that date pursuant to Class B Condition 4 had no such deferral provided for in Class B Condition 4(a) then occurred as a result of such insufficiency.

8. Taxation

All payments in respect of the Class B Notes 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 any Paying Agent is required by applicable law to make any payment in respect of the Class B Notes subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor the Paying Agents will be obliged to make any additional payments to holders of the Class B Notes or Coupons in respect of such withholding or deduction.

9. Prescription

A Principal Coupon shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon. A Class B Note shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon the effect of which would be to reduce the Principal Amount Outstanding of such Class B Note to zero. An Interest Coupon shall become void unless surrendered for payment within five years of the Relevant Payment Date in respect thereof. After the date on which a Class B Note or a Coupon becomes void in its entirety, no claim may be made in respect thereof.

As used in this Class B Condition 9, the “**Relevant Payment Date**” means the date on which a payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given in accordance with Class B Condition 13.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class B Notes outstanding or if so directed by an Extraordinary Resolution of the Class B Noteholders (subject, in each case, to being indemnified to its satisfaction and to restrictions contained in the Trust Deed to protect the interests of the Class A Noteholders) shall (but, in the case of the happening of any of the events mentioned in (ii) to (v) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders while any Class A Notes are outstanding or, if there are no Class A Notes outstanding, to the interests of the Class B Noteholders and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Class B Notes, only if the Trustee shall have certified in writing that the Issuer had, on the due date for payment of the amount of interest in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such interest (after payment of all sums which it is permitted under the Deed of Charge to pay in priority thereto or *pari passu* therewith)), give notice (an “**Enforcement Notice**”) to the Issuer that the Class B Notes are, and each Class B Note shall if notice is, or has already been, given that the Class A Notes are due and payable pursuant to the terms and conditions of the Class A Notes, or if there are no Class A Notes then

outstanding, accordingly forthwith become immediately due and repayable at its Principal Amount Outstanding, together with accrued interest (including any Deferred Interest and Additional Interest) as provided in the Trust Deed, if any of the following events (each an “**Event of Default**”) shall occur:

- (i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Class B Notes or any of them or for a period of 15 days or more in the payment on the due date of any interest upon the Class B Notes or any of them; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class B Noteholders; or
- (iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the Court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be 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 shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or
- (iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Class B Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Class B Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the Subordinated Loan Agreement, the Fee Letter and the Services Letter) or otherwise becomes insolvent; or
- (vi) notice is given to the Issuer pursuant to the Trust Deed that the Class A Notes are immediately due and repayable.

11. Enforcement and Post-Enforcement Call Option

At any time after the Class B Notes become due and repayable at their Principal Amount Outstanding, subject to Class B Condition 7, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the security for the Class B Notes and Coupons and to enforce repayment of the Class B Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class B Noteholders or so requested in writing by Class B Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing but provided that all of the Class A Notes have been redeemed in full so long as any of the Class B Notes remains outstanding, if the Class B Notes have become due and repayable pursuant to these Class B Conditions otherwise than by reason of a default in payment of any amount due on the Class B Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class B Noteholders and the Couponholders and to other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class B Noteholders and the

Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class B Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

In the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class B Notes under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class B Notes and all other claims ranking *pari passu* therewith, then the Class B Noteholders shall, upon the Security having been enforced and realised to the maximum possible extent as certified by the Trustee, be forthwith entitled to their respective shares of such remaining proceeds (as determined in accordance with the provisions of the Deed of Charge) and, after payment to each Class B Noteholder of its respective share of such remaining proceeds, all interests in the Permanent Global Class B Note will be automatically exchanged for equivalent interests in an equivalent amount of Class B Notes in definitive form and such Permanent Global Class B Note (if any) will be cancelled. On the date of such exchange (the “**Option Exercise Date**”), the Trustee (on behalf of all of the Class B Noteholders) will, at the request of Paragon Options PLC (“**POPLC**”), transfer for a consideration of £0.01 per Class B Note all (but not some only) of the Class B Notes to POPLC pursuant to the option granted to it by the Trustee (as agent for the Noteholders but without any personal liability on the part of the Trustee) pursuant to a post-enforcement call option deed (the “**Post-Enforcement Call Option Deed**”) to be dated the Closing Date between POPLC and the Trustee. Immediately upon such transfer, no such former Class B Noteholder shall have any further interest in the Class B Notes. Each of the Class B Noteholders acknowledges that the Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post-Enforcement Call Option Deed and each Class B Noteholder, by subscribing for or purchasing Class B Notes, agrees to be so bound.

12. Replacement of Class B Notes, Coupons and Talons

If any Class B Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Class B Notes, Coupons or Talons must be surrendered before replacements will be issued.

13. Notices

All notices, other than notices given in accordance with the next following paragraph, to Class B Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the *Financial Times*). 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 is made in the manner required in the newspaper or in one of the newspapers referred to above.

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently Page PGCM) or such other medium for the electronic display of data as may be approved by the Trustee and notified to the Class B Noteholders (the “**Relevant Screen**”). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class B Condition 13 shall be given in accordance with the preceding paragraph.

The Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Class B Noteholders in accordance with this Class B Condition 13.

14. Meetings of Class B Noteholders; Modifications; Consents; Waiver

The Trust Deed contains provisions for convening meetings of Class B Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class B Noteholders of a modification of the Class B Notes (including these Class B Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class B Notes, or a modification which would have the effect of postponing any day for payment of interest on the Class B Notes, reducing or cancelling the amount of principal payable on the Class B Notes or the rate of interest applicable to the Class B Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Class B Notes or the Coupons

or any alteration of the date or priority of redemption of the Class B Notes (any such modification being referred to below as a “**Basic Terms Modification**”) shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class B Noteholders as described below. The quorum at any meeting of Class B Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 75% of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class B Noteholders whatever the aggregate Principal Amount Outstanding of the Class B Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing 75%, or at any adjourned such meeting, 25%, or more of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding. The Trust Deed contains provisions limiting the powers of the Class B Noteholders and the Class C Noteholders, *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 Class A Noteholders. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders and the Class C Noteholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class B Noteholders shall not be effective for any purpose unless either (i) the Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders or (ii) it is sanctioned by an Extraordinary Resolution of the Class A Noteholders but, subject thereto, it shall be binding on all Class B Noteholders and Class C Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution. An Extraordinary Resolution passed at any meeting of the Class A Noteholders shall be binding on all Class B Noteholders and Couponholders, irrespective of its effect upon such holders or their interests.

The Trustee may agree, without the consent of the Class B Noteholders or Couponholders, (i) to any modification (except a Basic Terms Modification) of, or to waiver or authorisation of any breach or proposed breach of, the Class B Notes (including these Class B Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Class B Noteholders or (ii) to any modification of the Class B Notes (including these Class B Conditions) or any of the 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 Class B Noteholders or the Couponholders, determine that any Event of Default or any condition, event or act which with the giving of notice and/or lapse of time and/or the issue of a certificate would constitute an Event of Default shall not, or shall not subject to specified conditions, be treated as such. Any such modification, waiver, authorisation or determination shall be binding on the Class B Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class B Noteholders in accordance with Class B Condition 13 as soon as practicable thereafter.

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to realise the Security and to obtain repayment of the Class B Notes unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other party to the Relevant Documents without accounting for any profit resulting from such transactions. 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 Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

16. Notifications and Other Matters to be Final

Notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Class B Notes and the Coupons, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Reference Agent, the Trustee, the Administrator, the Principal Paying Agent, the other Paying Agents (if any and all Class B Noteholders and Couponholders and (subject as aforesaid) no

liability to the Issuer, the Administrator or the Class B Noteholders or Couponholders shall attach to the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions).

17. The Contracts (Rights of Third Parties) Act 1999

The Class B Notes confer no rights on any person pursuant to the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Class B Notes, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

18. Governing Law

The Class B Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof as are particular to Scots law, which are governed by and shall be construed in accordance with the laws of Scotland and such provisions thereof as are particular to Northern Irish law, which are governed by, and shall be construed in accordance with, the laws of Northern Ireland.

DESCRIPTION OF THE CLASS C NOTES, THE GLOBAL CLASS C NOTES AND THE SECURITY

The issue of the £26,900,000 Class C Asset Backed Floating Rate Notes due 2033 (the “**Class C Notes**”) will be authorised by a resolution or resolutions of the Board of Directors of Paragon Personal and Auto Finance (No. 2) PLC (the “**Issuer**”) passed on or before the Closing Date (as defined in Class C Condition 4(a) below). The Class C Notes are constituted by a trust deed (the “**Trust Deed**”) to be dated the Closing Date between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class C Notes (the “**Class C Noteholders**”), the holders for the time being of the Class A Notes (as defined in Class C Condition 2 below) (the “**Class A Noteholders**”) and the holders for the time being of the Class B Notes (as defined in Class C Condition 2 below) (the “**Class B Noteholders**”). The net proceeds from the issue of the Notes will be applied, among other things, in the purchase, either on or before the Final Addition Date, of Portfolio Assets (as defined in the Master Definitions Schedule).

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and a deed of charge and assignment (the “**Deed of Charge**”) to be dated the Closing Date between, *inter alios*, the Issuer, the Trustee, Universal Credit Limited (“**Universal**”), Paragon Finance PLC (“**PFPLC**”), Paragon Personal Finance Limited (“**PPF**”), Paragon Car Finance Limited (“**PCF**”), PFPLC in its capacity as administrator and JPMorgan Chase Bank, acting through its London branch, in its capacity as hedge provider (the “**Hedge Provider**”). The Trust Deed will include the form of the temporary global note (the “**Temporary Global Class C Note**”) and the permanent global note (the “**Permanent Global Class C Note**”) for the Class C Notes and the definitive Class C Notes and coupons and talons relating thereto. Certain words and expressions used above and below have the meanings defined in the Trust Deed or the Master Definitions Schedule. In accordance with an agency agreement (the “**Agency Agreement**”), to be dated the Closing Date between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “**Reference Agent**”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the successors of each paying agent appointed as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class C Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class C Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Administration Agreement, the Secured Loan Sale Agreement, the Standard Terms and Conditions, the Bridge Standard Terms and Conditions, the Master Definitions Schedule, the Warranty Deed, the Repurchase Deed (each as defined in the Master Definitions Schedule) and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof Third Floor, Cottons Centre, Hay’s Lane, London SE1 2QT, and at the specified offices for the time being of the Paying Agents.

Class C Notes and Coupons (as defined in Class C Condition 1 below) will bear the following legend: “*Any United States Person (as defined in the Internal Revenue Code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code*”. The sections referred to in the legend provide that a United States Person (as defined in the Internal Revenue Code) will not, with certain exceptions, be permitted to deduct any loss, and will not be eligible for favourable capital gains treatment with respect to any gain, realised on a sale, exchange or redemption of a Class C Note or Coupon.

Global Class C Notes

The Class C Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class C Note in bearer form, without coupons or talons, in the principal amount of £26,900,000. The Temporary Global Class C Note will be deposited on behalf of the subscribers of the Class C Notes with a common depositary for Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”) on the Closing Date. Upon deposit of the Temporary Global Class C Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class C Notes with the principal amount of Class C Notes for which it has subscribed and paid. Interests in the Temporary Global Class C Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class C Noteholders has been received) for interests in the Permanent Global Class C Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class C Note (the expression “**Global Class C Notes**” and “**Global Class C Note**” meaning, respectively, (i) both of the

Temporary Global Class C Note and the Permanent Global Class C Note or (ii) either of the Temporary Global Class C Note or the Permanent Global Class C Note, as the context may require). On the exchange of the Temporary Global Class C Note for the Permanent Global Class C Note, the Permanent Global Class C Note will also be deposited with the Common Depositary. The Global Class C Notes will be transferable by delivery. The Permanent Global Class C Note will be exchangeable for definitive Class C Notes in bearer form in certain circumstances described below. Interest and principal on each Global Class C Note will be payable against presentation of that Global Class C Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Class C Noteholders has been received by Euroclear or Clearstream, Luxembourg. Each of the persons appearing from time to time in the records of Euroclear or of Clearstream, Luxembourg, as the holder of a Class C Note will be entitled to receive any payment so made in respect of that Class C Note in accordance with the respective rules and procedures of Euroclear or, as the case may be, of Clearstream, Luxembourg. Such persons shall have no claim directly against the Issuer in respect of payments due on the Class C Notes, which must be made by the holder of the relevant Global Class C Note, for so long as such Global Class C Note is outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Class C Note for the Permanent Global Class C Note, which date shall be no earlier than the Exchange Date (as defined in the Temporary Global Class C Note) and (ii) the first Interest Payment Date, in order to obtain any payment due on the Class C Notes.

For so long as the Class C Notes are represented by a Global Class C Note, such Class C Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or, as the case may be, of Clearstream, Luxembourg.

For so long as the Class C Notes are represented by a Global Class C Note, each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg, as the holder of a particular principal amount of Class C Notes will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Class C Notes and the expression “**Class C Noteholder**” shall be construed accordingly, but without prejudice to the entitlement of the bearer of the Global Class C Note to be paid principal and interest thereon in accordance with its terms.

Principal and interest on a Global Class C Note will be payable against presentation of such Global Class C Note at the specified office of the Principal Paying Agent or, at the option of the holder, at any specified office of any Paying Agent provided that no payment of interest on a Global Class C Note may be made by, or upon presentation of such Global Class C Note to, any Paying Agent in the United States of America. A record of each payment made on a Global Class C Note, distinguishing between any payment of principal and payment of interest, will be endorsed on such Global Class C Note by the Paying Agent to which such Global Class C Note was presented for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made.

If (i) the principal amount of the Class C Notes becomes immediately due and payable by reason of default or (ii) 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 (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which become effective on or after 6th December, 2001, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class C Notes which would not be required were the Class C Notes in definitive form, then the Issuer will (at the Issuer’s expense) issue definitive Class C Notes represented by the Permanent Global Class C Note in exchange for the whole outstanding interest in the Permanent Global Class C Note within 30 days of the occurrence of the relevant event, but in any event not prior to the expiry of 40 days after the Closing Date.

Security

The security for the Class C Notes will be created pursuant to, and on the terms set out in, the Deed of Charge, which creates in favour of the Trustee on trust for, *inter alios*, the Class C Noteholders:

- (1) a sub-charge over the Mortgages which comprise English Mortgages and an assignation in security of the Issuer’s interest in the Mortgages which comprise Scottish Mortgages, in each case, purchased by the Issuer under the Secured Loan Sale Agreement;
- (2) a conveyance, transfer and assignment by way of first fixed security of:

- (a) subject, where applicable, to the subsisting rights of the Obligors (as defined in the Master Definitions Schedule), all present and future right, title, interest and benefit of the Issuer in and under the Portfolio Assets (including Scottish Unsecured Loans, Scottish Secured Loans or Scottish Car Finance Contracts) other than the Portfolio Motor Vehicles which will be subject to a floating charge only (all as defined in the Master Definitions Schedule) to which it is or becomes beneficially entitled, including for the avoidance of doubt:
 - (i) all sums of principal (or sums equivalent to principal), interest (or revenue charges equivalent to interest) or any other sum payable under and the right to demand, sue for, recover, receive and give receipts for all principal (or equivalent) moneys payable or to become payable under such Portfolio Assets or the unpaid part thereof and the interest (or revenue charges equivalent to interest) due or to become due thereon;
 - (ii) the benefit of and the right to sue on all covenants with, or vested in, the Issuer in respect of each such Portfolio Asset and the right to exercise all powers of the Issuer in relation to each such Portfolio Asset;
 - (iii) all causes and rights of action of the Issuer against any person in connection with any report, opinion, certificate, consent or other statement of fact or opinion given in connection with such Portfolio Asset or affecting any decision to enter into the relevant Financing Agreement (as defined in the Master Definitions Schedule); and
 - (iv) the benefit of any guarantee, indemnity or surety vested in the Issuer relating to each such Portfolio Asset; and
 - (b) subject to any subsisting rights of redemption, all right, title, interest and benefit of the Issuer (whether present or future) in any insurances of which the Issuer may have the benefit or may acquire in the future;
- (3) a charge and assignment by way of first fixed security of:
- (a) all the right, title, interest and benefit, present and future, of the Issuer in, to and under the Unsecured Loan Scottish Trust Property, the Secured Loan Scottish Trust Property, the Car Finance Scottish Trust Property, the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts and the Car Finance Scottish Trusts (each as defined in the Master Definitions Schedule); and
 - (b) all the right, title, interest and benefit, present and future, of the Issuer in and to all moneys, rights and property whatsoever which, from time to time and at any time, may be distributed under, or derived from, or accrue on, the Unsecured Loan Scottish Trust Property, the Secured Loan Scottish Trust Property or the Car Finance Scottish Trust Property or in respect of the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts or the Car Finance Scottish Trusts in any way whatsoever including all rights to receive payment of any amounts which may become payable to the Issuer under the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts or the Car Finance Scottish Trusts and all payments received by the Issuer thereunder and also including, without limitation, all rights to serve notices and/or make demands thereunder, all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof and all rights of the Issuer arising under or in respect of the Unsecured Loan Scottish Trust Property, the Secured Loan Scottish Trust Property, the Car Finance Scottish Trust Property, the Unsecured Loan Scottish Trusts, the Secured Loan Scottish Trusts or the Car Finance Scottish Trusts;
- (4) a conveyance, transfer and assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in the Secured Loan Sale Agreement, each Asset Sale Contract, the Repurchase Deed, the Warranty Deed, the Administration Agreement, the Agency Agreement, the Subordinated Loan Agreement, the VAT Declaration of Trust, the Services Letter, the Fee Letter, the Hedge Agreement, any other hedging arrangements entered into by the Issuer, the Collection Account Declarations of Trust (each as defined in the Master Definitions Schedule) and all other contracts, agreements, deeds and documents, present and future, to which the Issuer is or may become a party, including all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder including, without limitation, all rights to serve notices and/or make

demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof;

- (5) an assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in and to the Transaction Account (as defined in the Master Definitions Schedule) and all sums of money which from time to time may be standing to the credit of the Transaction Account and any other bank or other account in which the Issuer may at any time acquire any right, title, interest or benefit together with all interest accruing from time to time thereon and the debt represented by each such account and the benefit of all covenants relating thereto and all powers and remedies for enforcing the same;
- (6) a first fixed charge over all the right, title, interest and benefit, present and future, of the Issuer in the Authorised Investments (as defined in the Master Definitions Schedule) and each of them made by the Issuer in accordance with the Administration Agreement and all other investments in which the Issuer may at any time acquire any right, title, interest or benefit, in each case together with all moneys, income and proceeds to become payable thereunder or thereon and the benefits of all covenants relating thereto and all powers and remedies for enforcing the same; and
- (7) a first floating charge over the whole of the undertaking and all the property and assets of the Issuer whatsoever and wheresoever situate, present and future, other than any property or assets from time to time or for the time being effectively charged by way of fixed charge, or otherwise assigned as fixed security, by the Deed of Charge (but excepting from the foregoing exclusion all property, assets, rights and interests (i) charged or assigned as referred to in paragraphs (2) and (3) above and (ii) otherwise situate in or governed by Scots law, which are charged by the floating charge). For the avoidance of doubt, the Issuer's interest in each Portfolio Motor Vehicle shall be subject to the floating charge.

The security described above over the assets of the Issuer, which constitutes the security for the Class C Notes, is referred to as the “**Security**”. The Security also stands as security for any amounts payable by the Issuer to the Class A Noteholders, the Class B Noteholders and to any Receiver, the Trustee, the Paying Agents, the Reference Agent, the Administrator, any Subordinated Lender, the Hedge Provider, any Permitted Hedge Provider, PPF, Universal, PCF and PFPLC under the Notes and any Coupons, the Trust Deed, the Agency Agreement, the Deed of Charge, the Administration Agreement, the Secured Loan Sale Agreement, any Asset Sale Contract, the Subordinated Loan Agreement, the Fee Letter, the Services Letter and the Hedge Agreement (each as defined in the Master Definitions Schedule). The Deed of Charge contains provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After service of an Enforcement Notice, amounts payable to any Receiver, the Trustee, the Paying Agents and the Reference Agent, amounts payable to the Administrator (including fees, out-of-pocket expenses and commissions), amounts payable to the Hedge Provider and any Permitted Hedge Provider (other than Hedge Termination Amounts) and amounts of all commissions (if any) paid by insurance companies to each of PFPLC, PPF, PCF, Universal and any other Seller pursuant to the Administration Agreement and amounts due and payable to the Class A Noteholders and the Class B Noteholders will rank in priority to payments on the Class C Notes.

TERMS AND CONDITIONS OF THE CLASS C NOTES

The following, subject to amendments, are the terms and conditions of the Class C Notes (the “**Class C Conditions**” and any reference to a “**Class C Condition**” shall be construed accordingly) substantially in the form as they will appear on the reverse of the Class C Notes in definitive form. While the Class C Notes remain in global form, the same terms and conditions govern them, except to the extent that they are appropriate only to the Class C Notes in definitive form.

1. Form, Denomination and Title

The Class C Notes are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons (“**Interest Coupons**”) and principal coupons (“**Principal Coupons**”) (severally or together “**Coupons**”) and talons (“**Talons**”) attached. Title to the Class C Notes, the Coupons and the Talons shall pass by delivery.

The holder of each Coupon (each a “**Couponholder**”) and each Talon (whether or not the Coupon or the Talon is attached to a Class C Note) in his capacity as such shall be subject to and bound by all the provisions contained in the relevant Class C Note.

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents may treat the holder of any Class C Note, Coupon or Talon as the absolute owner thereof (whether or not such Class C Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

2. Status and Relationship between the Class A Notes, the Class B Notes and the Class C Notes

The Class C Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in the Deed of Charge) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

Payments of principal and interest on the Class C Notes are subordinated to, *inter alia*, payments of principal and interest on the £146,900,000 Class A Asset Backed Floating Rate Notes due 2022 of the Issuer (the “**Class A Notes**”) and payments of principal and interest on the £70,900,000 Class B Asset Backed Floating Rate Notes due 2033 of the Issuer (the “**Class B Notes**”) in accordance with the provisions of Class C Conditions 4, 5 and 7, the Trust Deed and the Deed of Charge.

The Class C Notes are secured by the same security that secures the Class A Notes and the Class B Notes, but the Class A Notes, the Class B Notes and certain other obligations of the Issuer will rank in point of security in priority to the Class C Notes in the event of the security being enforced.

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders, the Class C Noteholders and other persons entitled to the benefit of the Security and subject thereto to have regard only to the interests of the Class B Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class B Noteholders and/or the interests of the Class C Noteholders and/or the other persons entitled to the benefit of the Security and subject thereto to have regard only to the interests of the Class C Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class C Noteholders and/or the other persons entitled to the benefit of the Security.

3. Covenants of the Issuer

(A) So long as any of the Class A Notes, the Class B Notes or the Class C Notes remains outstanding (as defined in the Master Definitions Schedule), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:

- (1) carry on any business other than as described in the Offering Circular dated 6th December, 2001 relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Portfolio Assets and the related activities described in any Unsecured Loan Agreement, Secured Loan Agreement (or its related Mortgage) or Car Finance Agreement) and in respect of that business shall not engage in any activity or do anything whatsoever except:

- (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security and the assets comprised therein;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Class C Notes, the Coupons and Talons, the Class A Notes and the Class B Notes and any principal coupons, interest coupons and talons appertaining respectively thereto, the subscription agreements relating to each of the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Secured Loan Sale Agreement, any Asset Sale Contract, the Agency Agreement, the Trust Deed, the Administration Agreement, the Fee Letter, the Subordinated Loan Agreement, the Portfolio Assets, the Deed of Charge, the Collection Account Declarations of Trust, the Hedge Agreement, the VAT Declaration of Trust, the Services Letter, any insurances in which the Issuer at any time has an interest, the Scottish Trusts and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Master Definitions Schedule) (together the “**Relevant Documents**”);
 - (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, *inter alia*, make claims, payments and surrenders in respect of certain tax reliefs;
 - (d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem the Class C Notes, the Class A Notes or the Class B Notes in accordance with their respective terms and conditions; and
 - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;
- (2) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Deed of Charge, the Fee Letter, the Services Letter, the Hedge Agreement, the VAT Declaration of Trust and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;
 - (3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
 - (4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
 - (a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of unsecured and secured consumer loans and motor vehicle finance agreements and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes, the Class B Notes and the Class C Notes and the performance and observance of every covenant in the Trust Deed and in these Class C Conditions on the part of the Issuer to be performed or observed;
 - (b) immediately after giving effect to such transaction, no Event of Default (as defined in Class C Condition 10) shall have occurred and be continuing;
 - (c) the Trustee is satisfied that the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
 - (d) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and

- (e) the Rating Agencies confirm that the then current ratings of the Class A Notes, the Class B Notes and the Class C Notes will not be adversely affected as a result of such consolidation, merger, conveyance or transfer;
 - (5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
 - (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
 - (7) have an interest in any bank account, other than the Transaction Account, the VAT Account and the Collection Accounts (each as defined in the Master Definitions Schedule), unless such account or interest is charged to the Trustee on terms acceptable to it.
- (B) So long as any of the Class C Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Portfolio Assets (the “**Administrator**”). Any appointment of an Administrator is subject to the prior written approval of the Trustee and must be of a person with experience of the administration of unsecured and secured consumer loans and motor vehicle finance contracts in England, Wales, Scotland and Northern Ireland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class A Notes and the Class B Notes have been redeemed in full, the Class C Noteholders.

4. Interest

(a) Interest Payment Dates

Each Class C Note bears interest on its Principal Amount Outstanding (as defined in Class C Condition 5(b)) from and including 12th December, 2001 or such later date as may be agreed between the Issuer and J.P. Morgan Securities Ltd. (the “**Closing Date**”). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class C Notes interest in respect of such Class C Notes is (subject to Class C Condition 7) payable quarterly in arrear on 15th January, 15th April, 15th July and 15th October in each year (or, if any such date is not a Business Day (as defined below), the next succeeding day which is a Business Day, each an “**Interest Payment Date**”). To the extent that the funds available to the Issuer (as determined by the Administrator) to pay interest on the Class C Notes on an Interest Payment Date are insufficient to pay the full amount of such interest, then payment of the shortfall or, as the case may be, such interest on the Class C Notes which would otherwise have fallen due on such Interest Payment Date (“**Deferred Interest**”), which will be borne by each Class C Note in a proportion equal to the proportion that the Principal Amount Outstanding of that Class C Note bears to the aggregate Principal Amount Outstanding of the Class C Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not fall due on such Interest Payment Date but will instead, subject to Class C Condition 7, be deferred until the first Interest Payment Date thereafter on which funds are available (after allowing for the Issuer’s liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. In the event of any such deferral, the rate of interest applicable to the Class C Notes will be increased to the extent necessary so that the Class C Notes accrue additional interest (“**Additional Interest**”) equal to the interest which would accrue on the relevant Deferred Interest during the period of deferral if interest were to accrue thereon at the Rate of Interest (as defined below) applicable from time to time to the Class C Notes and, subject to Class C Condition 7, payment of any Additional Interest will also be deferred until the first Interest Payment Date thereafter on which funds are available to the Issuer to pay such Additional Interest (and any interest and Deferred Interest) to the extent of such available funds. As used in these Class C Conditions except Class C Condition 6, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) 15th April, 2002 and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an “**Interest Period**”. Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day

year. The first interest payment will be made on the Interest Payment Date falling in April 2002 in respect of the period from (and including) the Closing Date to (but excluding) the Interest Payment Date falling in April 2002.

Interest shall cease to accrue on any part of the Principal Amount Outstanding of a Class C Note as from (and including) the due date for redemption of such part unless, upon due presentation of the relevant Principal Coupon, payment of principal due is improperly withheld or refused, whereupon interest shall continue to accrue on such principal at the Rate of Interest (as defined in paragraph (c) below) from time to time applicable to the Class C Notes until the moneys in respect thereof have been received by the Trustee or the Principal Paying Agent and notice to that effect is given in accordance with Class C Condition 13.

(b) *Coupons and Talons*

On issue, Coupons and Talons applicable to Class C Notes in definitive form are attached to the Class C Notes. A Talon may be exchanged for further Coupons and, if applicable, a further Talon on or after the Interest Payment Date for the final Coupon on the relevant Coupon sheet by surrendering such Talon at the specified office of any Paying Agent. Interest payments on the Class C Notes will be made against presentation and surrender of the appropriate Coupons in accordance with Class C Condition 6, except as provided therein.

(c) *Rate of Interest*

The rate of interest applicable from time to time to the Class C Notes disregarding any Additional Interest which may accrue in accordance with paragraph (a) above (the “**Rate of Interest**”) will be determined by Citibank, N.A. acting as reference agent (the “**Reference Agent**”, which expression shall include its successors as Reference Agent under the Agency Agreement) on the basis of the following provisions:

- (i) On the Closing Date (an “**Interest Determination Date**”) in respect of the first Interest Period, the Reference Agent will determine the interest rate by reference to a linear interpolation between the rates for sterling deposits for a period of four months and sterling deposits for a period of five months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “**Interest Determination Date**”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 2.75% per annum up to and including the Interest Period ending in January 2008 and thereafter 5.50% per annum.
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “**Reference Banks**”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for four-month and five-month sterling deposits of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent

with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.

(iii) There shall be no maximum or minimum Rate of Interest.

(d) Determination of Rate of Interest, Calculation of Interest Payments, Deferred Interest and Additional Interest

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest (other than Additional Interest) payable, subject to Class C Condition 7, on the Class C Notes (an “**Interest Payment**”) for the relevant Interest Period. The Interest Payment for the Class C Notes shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of the Class C Notes taking into account any payment of principal due on such Interest Determination Date, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). On (or as soon as practicable after) each Determination Date (as defined in Class C Condition 5(a)), the Issuer shall determine (or cause the Administrator to determine) the actual amount of interest which will be paid on each Class C Note on the Interest Payment Date next following such Determination Date and the amount of Deferred Interest (if any) on each Class C Note in respect of the Interest Period ending on (but excluding) such Interest Payment Date and the amount of Additional Interest (if any) which will be paid on such Interest Payment Date. The amount of Additional Interest shall be calculated by applying the relevant Rate of Interest to the Deferred Interest relating to the Class C Notes and any Additional Interest from prior Interest Periods which remains unpaid, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). In the event that on any Determination Date the funds then available to the Issuer are insufficient to pay in full the Interest Payment, any outstanding Deferred Interest and any Additional Interest due on the Interest Payment Date next following such Determination Date such funds will be applied first to the payment of any Interest Payment, secondly to the payment of any outstanding Deferred Interest and thereafter to the payment of any Additional Interest.

(e) Publication of Rates of Interest, Interest Payments, Deferred Interest and Additional Interest

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to the Class C Notes for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as the Class C Notes are listed by the UK Listing Authority (the “**UKLA**”) and admitted to trading by the London Stock Exchange plc (the “**London Stock Exchange**”), the London Stock Exchange, and will cause the same to be published in accordance with Class C Condition 13 on or as soon as possible after the date of commencement of the relevant Interest Period. The Issuer will cause the Deferred Interest (if any) and the Additional Interest (if any) applicable to the Class C Notes for each Interest Period to be notified to the Trustee, the Paying Agents and (for so long as the Notes are listed by the UKLA and admitted to trading by the London Stock Exchange) the London Stock Exchange, and will cause the same to be published in accordance with Class C Condition 13 no later than the fourth Business Day prior to the relevant Interest Payment Date. The Interest Payment, Deferred Interest, Additional Interest and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a shortening of the Interest Period.

(f) Determination or Calculation by Trustee

If the Reference Agent at any time for any reason does not determine the Rate of Interest or calculate an Interest Payment or the Additional Interest (if any) in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest for the Class C Notes at such rate as, in its absolute

discretion (having such regard as it shall think fit to the procedure described in paragraph (c) above, but subject to the terms of the Trust Deed), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Payment or the Additional Interest (if any) for the Class C Notes in accordance with paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

(g) *Reference Banks and Reference Agent*

The Issuer will procure that, so long as any of the Class C Notes remains outstanding, at all times there will be at least four Reference Banks and a Reference Agent. The Issuer reserves the right at any time to terminate the appointment of the Reference Agent or of any Reference Bank. Notice of any such termination will be given to the Class C Noteholders. If any person shall be unable or unwilling to continue to act as a Reference Bank or the Reference Agent (as the case may be), or if the appointment of any Reference Bank or the Reference Agent shall be terminated, the Issuer will, with the prior written approval of the Trustee, appoint a successor Reference Bank or Reference Agent (as the case may be) to act as such in its place, provided that neither the resignation nor removal of the Reference Agent shall take effect until a successor approved by the Trustee has been appointed.

5. Redemption and Purchase

(a) *Mandatory Redemption in Part from Available Redemption Funds: Apportionment of Available Redemption Funds between the Class A Notes, the Class B Notes and the Class C Notes*

The Class C Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Relevant Determination Date there are any Class C Available Redemption Funds. The principal amount so redeemable in respect of each Class C Note prior to the service of an Enforcement Notice (each a “**Principal Payment**”) on any Interest Payment Date shall be the amount of the Class C Available Redemption Funds on the Determination Date relating to that Interest Payment Date divided by the number of Class C Notes then outstanding (as defined in the Master Definitions Schedule) (rounded down to the nearest pound sterling), provided always that no Principal Payment may exceed the Principal Amount Outstanding of a Class C Note.

The Available Redemption Funds on a Determination Date shall be apportioned between the Class A Notes, the Class B Notes and the Class C Notes to determine the Class A Available Redemption Funds, the Subordinated Available Redemption Funds, the Class B Available Redemption Funds and the Class C Available Redemption Funds as at such Determination Date.

If the Issuer does not for any reason determine the aggregate principal amount of the Class A Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

“**Actual Principal Funds**” means on any Determination Date (the “**Relevant Date**”) the lower of:

- (a) the Required Principal Funds on the Relevant Date; and
- (b) the greater of:
 - (i) zero; and
 - (ii) the Issuer Funds on the Relevant Date minus all amounts which are required to make the payments and provisions specified in items (i) to (vii) (inclusive) of Clause 6.2.2 of the Deed of Charge on the Interest Payment Date next following the Relevant Date.

“**Allocated Purchase Funds**” means at any Determination Date (the “**Relevant Date**”) an amount (allocated out of Actual Principal Funds) equal to the lower of:

- (a) the Actual Principal Funds calculated on the Relevant Date; and
- (b) the amount which the Issuer has notified to the Administrator pursuant to the Administration Agreement that it then intends to apply in purchasing Further Unsecured Loans, Further Secured Loans and/or Further Car Finance Contracts (and any related Motor Vehicles) and/or in making any further advances in respect of Portfolio Secured Loans at any time during the period from (and including) the Relevant Date to (and including) the Final Addition Date,

provided that:

- (i) the Allocated Purchase Funds shall be deemed to be zero on any Relevant Date falling after the Business Day immediately preceding the Determination Date falling in December 2005 (the “**Final Addition Date**”); and
- (ii) the Allocated Purchase Funds in respect of any Relevant Date shall be deemed to be zero if the Performance Conditions are not satisfied on the Relevant Date.

“**Available Redemption Funds**” on any Determination Date (the “**Relevant Date**”) means an amount equal to the aggregate of:

- (a) an amount equal to (x) the Actual Principal Funds on the Relevant Date minus (y) the Allocated Purchase Funds on the Relevant Date, and
- (b) an amount equal to the aggregate amount (if any) of the provisions that would have been made as specified in paragraphs (xiii) and (xv) to (xviii) (inclusive) of Clause 6.2.2 of the Deed of Charge on the Interest Payment Date next following the Relevant Date, but which the Issuer gives notice to the Administrator pursuant to the Administration Agreement on the Relevant Date should not be made but the amount of which should instead be added to the Available Redemption Funds on the Relevant Date,

provided that the Available Redemption Funds shall never exceed the Principal Amount Outstanding of the Notes.

The “**Class A Available Redemption Funds**” shall equal:

- (i) on any Interest Payment Date on which Class A Notes were outstanding as at the Determination Date immediately preceding such Interest Payment Date (the “**Relevant Determination Date**”) and any Amortisation Condition is not satisfied, the lesser of (x) the Principal Amount Outstanding of the Class A Notes and (y) the Available Redemption Funds determined as at the Relevant Determination Date; and
- (ii) on any Interest Payment Date on which Class A Notes were outstanding as at the Relevant Determination Date and each of the following conditions (each an “**Amortisation Condition**”) is satisfied, the lesser of (x) the Principal Amount Outstanding of the Class A Notes and (y) the Available Redemption Funds determined as at the Relevant Determination Date less the Subordinated Available Redemption Funds determined as at the Relevant Determination Date:
 - (a) the ratio of the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes to the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes (the “**Ratio**”) equals or exceeds 220,050,000:244,700,000 as at the Relevant Determination Date;
 - (b) the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes is greater than or equal to £16,517,250 (the “**Minimum Amount**”) as at the Relevant Determination Date;
 - (c) the Interest Payment Date is on or after the Interest Payment Date falling in January 2007; and
 - (d) the Performance Conditions are satisfied on the Relevant Determination Date; and
- (iii) on any Interest Payment Date on which no Class A Notes were outstanding as at the Relevant Determination Date, nil.

The “**Subordinated Available Redemption Funds**” shall equal:

- (i) where on such Interest Payment Date Class A Notes were outstanding on the Relevant Determination Date and any Amortisation Condition is not satisfied, the greater of (a) zero and (b) an amount equal to (x) the Available Redemption Funds determined as at the Relevant Determination Date less (y) the Principal Amount Outstanding of the Class A Notes as at the Relevant Determination Date;
- (ii) on any Interest Payment Date on which Class A Notes were outstanding on the Relevant Determination Date and each of the Amortisation Conditions is satisfied, the greater of (a) the Available Redemption Funds as at the Relevant Determination Date less the Principal Amount Outstanding of the Class A Notes on such date and (b) that amount of the Available Redemption Funds as determined on the Relevant Determination Date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the Ratio to be as nearly as possible 220,050,000:244,700,000; provided that if any part of the Available Redemption Funds being applied in accordance with (b) above would result in the sum of the aggregate

Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes after such application being less than the Minimum Amount the Subordinated Available Redemption Funds shall be reduced by an amount equal to such part of the Available Redemption Funds; and

- (iii) on any Interest Payment Date on which no Class A Notes were outstanding as at the Relevant Determination Date, the Available Redemption Funds as at such date.

The “**Class B Available Redemption Funds**”:

- (i) on any Interest Payment Date on which there are Class A Notes outstanding following the application of the Class A Available Redemption Funds and each of the Amortisation Conditions is satisfied, shall be determined on the Relevant Determination Date in accordance with the following formula:

BARF = the lesser of:

- (i) $(SARF \times \frac{70,900,000}{97,800,000})$; and

- (ii) the Principal Amount Outstanding of the Class B Notes,

where:

- (a) “**BARF**” means the Class B Available Redemption Funds on the Relevant Determination Date; and

- (b) “**SARF**” means the Subordinated Available Redemption Funds on the Relevant Determination Date; and

- (ii) on any Interest Payment Date on which (i) there were no Class A Notes outstanding as at the Relevant Determination Date or (ii) there are no Class A Notes outstanding following the application of the Class A Available Redemption Funds, shall equal the lesser of (x) SARF on the Relevant Determination Date and (y) the aggregate Principal Amount Outstanding of the Class B Notes on the Relevant Determination Date.

The “**Class C Available Redemption Funds**” on any Interest Payment Date shall be determined on the Relevant Determination Date in accordance with the following formula:

$$CARF = SARF - BARF$$

where:

- (x) “**BARF**” has the meaning given to that term above;

- (y) “**CARF**” means the Class C Available Redemption Funds on the Relevant Determination Date; and

- (z) “**SARF**” has the meaning given to that term above.

If the Issuer does not for any reason determine the aggregate principal amount of Class C Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

“**Current Principal Balance**” on any day means: (a) in relation to (x) a Portfolio Unsecured Loan that is a Personal Loan (other than one originated by PPF prior to 1st September, 1999) or (y) a Portfolio Secured Loan, the aggregate outstanding amount of principal thereunder other than, for the avoidance of doubt, any arrears of interest which have been capitalised; and (b) in relation to (x) a Portfolio Car Finance Contract, or (y) a Portfolio Unsecured Loan that is a Retail Credit Loan or (z) a Portfolio Unsecured Loan that is a Personal Loan originated by PPF prior to 1st September, 1999, the aggregate amount of those parts of each monthly payment due from the relevant Obligor that is attributable to principal in accordance with the Administration Agreement throughout the remaining term of such Portfolio Asset other than, for the avoidance of doubt, any arrears of interest which have been capitalised (including amounts then due and payable but not paid) (and in the case of a Portfolio Car Finance Contract which comprises a conditional sale agreement, a lease agreement or a motor vehicle contract purchase agreement plus the assumed residual value of the relevant Portfolio Motor Vehicle) on that date each as shown in the Debtor Ledger for the relevant Portfolio Asset, less, in respect of each Portfolio Asset, an amount equal to the amount thereof (if any) that has been written off in accordance with the Administration Agreement.

“**Debtor Ledger**” means the ledger account established and maintained by or on behalf of the Administrator, pursuant to and in accordance with the Administration Agreement, in respect of each Portfolio Asset.

“**Determination Date**” means the last Business Day of the month preceding that in which an Interest Payment Date falls and “**Relevant Determination Date**” means, in respect of an Interest Payment Date, the last Business Day of the month preceding that in which such Interest Payment Date falls.

“**Initial Allocated Purchase Funds**” means an amount equal to the aggregate of:

- (a) the Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes as at the Closing Date; and
 - (b) OCRA;
- less
- (c) the Current Principal Balance of Performing Assets as at the Closing Date; and
 - (d) the aggregate of the Purchased Accruals of Performing Assets as at the Closing Date.

“**Issuer Funds**” means, on any Determination Date (the “**Relevant Date**”), an amount determined by the Administrator pursuant to the Administration Agreement on the Relevant Date to be equal to the aggregate of:

- (a) the amount standing to the credit of the Transaction Account as at the close of business on the Relevant Date (comprising of (i) all moneys received by the Issuer from Obligors or recovered under or in respect of the Portfolio Assets (including all principal and interest, and their equivalent, in relation to Portfolio Unsecured Loans, Portfolio Secured Loans and Portfolio Car Finance Contracts and any amount received on the sale of a Portfolio Motor Vehicle or on the early settlement of such Portfolio Car Finance Contracts and all other net income and other moneys of the Issuer including any amounts drawn by the Issuer under the Subordinated Loan Agreement, less (ii) certain amounts which under the Deed of Charge are permitted to be paid on any Business Day such as payments of amounts which properly belong to third parties (including, for example, overpayments by Obligors and amounts held on trust) and of sums due to third parties under obligations incurred in the course of the Issuer’s business (unless, in any case, the intended recipient agrees otherwise)); and
- (b) any payment due to be received by the Issuer from the Hedge Counterparty or any Permitted Hedge Provider under the Hedge Agreement or otherwise in the period from (but excluding) the Relevant Date to (and including) the Interest Payment Date next following the Relevant Date (the “**Adjustment Period**”); and
- (c) all proceeds of disposal or on maturity of any Authorised Investments made or acquired on or before the Relevant Date and due to mature on or before the next following Interest Payment Date (whether or not reinvested during the Adjustment Period) and any income to be earned thereon (including interest to be earned on the Transaction Account), in each case, due to be received by the Issuer during the Adjustment Period; and
- (d) (i) all borrowings to be made by the Issuer under the Subordinated Loan Agreement during the Adjustment Period for the purpose of ensuring that the Performance Conditions are satisfied on the Relevant Date; and (ii) all borrowings to be made by the Issuer under the Subordinated Loan Agreement during the Adjustment Period (other than on the Interest Payment Date in question) for the purpose of establishing or increasing the Shortfall Fund; and
- (e) all amounts standing to the credit of the Collection Accounts in respect of the Portfolio Assets as at the close of business on the Relevant Date that are to be transferred to the Transaction Account during the Adjustment Period;

less

- (f) but only prior to the earlier of (i) the date on which the Issuer has received an adjudication from the United Kingdom Stamp Office that no stamp duty is payable on the transfer to the Issuer on the Closing Date of the benefit of the Initial Portfolio Unsecured Loans that are Scottish Unsecured Loans and the Initial Portfolio Car Finance Contracts that are Scottish Car Finance Contracts or (ii) the date on which the Issuer pays all such stamp duty (if any) which is so payable, an amount (which may be zero) specified by the Rating Agencies on or before the Closing Date,

but so that no amount shall be added or deducted more than once in the same calculation.

“**Over Collateralisation Required Amount**” or “**OCRA**” means, on any Determination Date (the “**Relevant Date**”) an amount equal to the sum of:

- (a) an amount determined by the Rating Agencies on or before the Closing Date to be necessary in order to achieve the initial ratings of the Notes; and
- (b) the amount equal to the aggregate of all amounts (if any) which have fallen within paragraph (b) of the definition of Available Redemption Funds at any time prior to the Relevant Date.

The “**Performance Conditions**” are satisfied on any Determination Date (the “**Relevant Date**”) on which:

- (i) the Actual Principal Funds are equal to the Required Principal Funds (each as calculated on the Relevant Date); and
- (ii) no Class B Note Interest Deferral Event or Class C Note Interest Deferral Event subsists.

“**Performing Assets**” means all Portfolio Assets that are equal to or less than twelve months in arrears excluding those Portfolio Assets identified by the Issuer on or before the Closing Date as non-performing Portfolio Assets which are comprised in the Provisional Pool. A Portfolio Asset for this purpose will not be equal to or less than twelve months in arrears at any time if at such time amounts totalling in aggregate more than twelve times the then current monthly payment due from the Obligor under such Portfolio Asset have not been paid when due and/or have been capitalised within the twelve months immediately preceding such time.

“**Purchased Accruals**” means that part of the amount (if any) of the interest (or, equivalent revenue charges) accrued on a Portfolio Asset as at the relevant Effective Date which is purchased by the Issuer.

“**Required Principal Funds**” means on any Determination Date (the “**Relevant Date**”) the greater of zero and the sum of:

- (a) the Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the Principal Amount Outstanding of the Class C Notes; and
 - (b) OCRA;
- less
- (c) the Current Principal Balance of all Performing Assets on the Relevant Date.

Capitalised terms, not otherwise defined in this Class C Condition 5, have the respective meanings given to those terms in the Master Definitions Schedule.

(b) Calculation of Principal Payments, Principal Amount Outstanding and Pool Factor

- (i) On (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment in respect of each Class C Note due on the Interest Payment Date next following such Determination Date, (y) the Principal Amount Outstanding of each Class C Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class C Note on the next Interest Payment Date) and (z) the fraction in respect of each Class C Note expressed as a decimal to the sixth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Class C Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class C Note and the Pool Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The “**Principal Amount Outstanding**” of a Class C Note on any date shall be the principal amount of that Class C Note upon issue less the aggregate amount of all Principal Payments in respect of that Class C Note that have become due and payable (whether or not paid) prior to such date.
- (ii) The Issuer will, by not later than the ninth Business Day after the Determination Date immediately preceding the relevant Interest Payment Date or as soon as possible thereafter, cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class C Notes are listed by the UKLA and admitted to trading by the London Stock Exchange) the UKLA and the London Stock Exchange and will immediately

cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class C Condition 13 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Class C Notes on any Interest Payment Date a notice to this effect will be given to the Class C Noteholders.

- (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) *Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving 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 in respect of any Class C Notes, or the Issuer or a Hedge Provider or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under a Hedge Agreement or other hedging agreement, any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest (or equivalent revenue charges) in relation to any of the Portfolio Assets for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, provided that on the Interest Payment Date on which such notice expires either there are no Class A Notes or Class B Notes outstanding or the Issuer redeems in full all of the Class A Notes and the Class B Notes outstanding in accordance with the terms and conditions thereof and provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class C Notes (including the full amount of interest payable on the Class C Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class C Condition 4 or Class C Condition 7) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class C Notes or the Trustee is otherwise directed by Extraordinary Resolution (as defined in the Trust Deed) of the Class C Noteholders, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class C Condition 13, redeem all (but not some only) of the Class C Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date.

(d) *Optional Redemption in Full*

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class C Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes or Class B Notes outstanding or the Issuer redeems in full all of the Class A Notes and the Class B Notes outstanding in accordance with the terms and conditions thereof and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class C Notes (including the full amount of interest payable on the Class C Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class C Condition 4 or Class C Condition 7) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class C Notes or the Trustee is otherwise directed by Extraordinary Resolution of the Class C Noteholders, the Issuer may, on any Interest Payment Date falling in or after January 2005 (the "**Coupon Call Date**") or, if earlier, falling on or after the date on which all the Class A Notes and the Class B Notes are redeemed in full, redeem all (but not some only) of the Class C Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption.

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class C Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in January 2033.

(f) *Purchases*

The Class C Notes may not be purchased by the Issuer.

(g) *Cancellation*

All Class C Notes redeemed in full pursuant to the foregoing provisions will be cancelled forthwith, together with all unmatured and unused Coupons and Talons attached thereto or surrendered therewith, and may not be resold or reissued.

(h) *Certification*

For the purposes of any redemption made pursuant to Class C Condition 5(c) or Class C Condition 5(d), as the case may be, the Trustee may rely upon any certificate of two Directors of the Issuer that the Issuer will be in a position to discharge all its liabilities in respect of the Class C Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class C Notes and such certificate shall be conclusive and binding on the Issuer and the holders of the Class C Notes.

6. Payments

Subject to Class C Condition 7, Interest Payments and Principal Payments on Class C Notes will be made against presentation and surrender of, or, in the case of partial redemption, endorsement of, respectively, Interest Coupons and Principal Coupons relating to Class C Notes (except where, after such surrender, the unpaid principal amount of a Class C Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Class C Note) in which case such Principal Payment will be made against presentation and surrender of such Class C Note). Payments of principal other than Principal Payments (except as provided in the preceding sentence) will be made against presentation and surrender of Class C Notes. Presentation must be made at the specified office of any Paying Agent provided that no payment of interest will be made by, or upon presentation of any Class C Note or Coupon to, any Paying Agent in the United States of America. Payments will be made by pounds sterling cheque drawn on a branch in the City of London of, or transfer to a pounds sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment.

The initial Principal Paying Agent is Citibank, N.A. at its office at 5 Carmelite Street, London EC4Y 0PA.

The Issuer may at any time (with the previous written approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will at all times maintain a Paying Agent having a specified office in the City of London. Notice of any such termination or appointment and of any change in the office through which any Paying Agent will act will be given in accordance with Class C Condition 13.

Upon the date on which the Principal Amount Outstanding of a Class C Note is due to be reduced to zero, unmatured and unused Coupons and Talons relating thereto (whether or not attached) shall become void and no payment or exchange shall be made in respect thereof. If the due date for redemption in full of a Class C Note is not an Interest Payment Date, the interest accrued in respect of the period from the preceding Interest Payment Date (or from the Closing Date as the case may be) shall be payable only against presentation or surrender of the relevant Class C Note.

If the due date for payment of any amount of principal or interest in respect of any Class C Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay.

In this Class C Condition 6 the expression “**Business Day**” means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class C Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class C Note for definitive Class C Notes, on which both Euroclear and Clearstream, Luxembourg are open for business.

If interest is not paid in respect of a Class C Note on the date when due and payable (other than because the due date is not a Business Day) such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to the Class C Notes until such interest and interest thereon is available for payment and notice thereof has been duly given in accordance with Class C Condition 13.

7. Subordination

Interest on the Class C Notes shall be payable in accordance with the provisions of Class C Conditions 4 and 6 subject to the terms of this Class C Condition 7.

In the event that the aggregate funds, if any (computed in accordance with the provisions of the Deed of Charge), available to the Issuer on any Interest Payment Date for application in or towards the payment of interest which is, subject to Class C Conditions 4 and 6 and this Class C Condition 7, due on the Class C Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class C Condition 7 as the “**Residual Amount**”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to Class C Conditions 4 and 6 and this Class C Condition 7, due on the Class C Notes on such Interest Payment Date, there shall be payable on such Interest Payment Date, by way of interest on each Class C Note, a *pro rata* share of the Residual Amount on such Interest Payment Date. In any such event the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class C Notes on such Interest Payment Date in accordance with Class C Conditions 4 and 6 and this Class C Condition 7 falls short of the aggregate amount of interest which would have been due and payable on the Class C Notes on that date pursuant to Class C Condition 4 had no such deferral provided for in Class C Condition 4(a) then occurred as a result of such insufficiency.

8. Taxation

All payments in respect of the Class C Notes 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 any Paying Agent is required by applicable law to make any payment in respect of the Class C Notes subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor the Paying Agents will be obliged to make any additional payments to holders of the Class C Notes or Coupons in respect of such withholding or deduction.

9. Prescription

A Principal Coupon shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon. A Class C Note shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon the effect of which would be to reduce the Principal Amount Outstanding of such Class C Note to zero. An Interest Coupon shall become void unless surrendered for payment within five years of the Relevant Payment Date in respect thereof. After the date on which a Class C Note or a Coupon becomes void in its entirety, no claim may be made in respect thereof.

As used in this Class C Condition 9, the “**Relevant Payment Date**” means the date on which a payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such date, it means the date on which the full amount of such money having been so received, notice to that effect shall have been duly given in accordance with Class C Condition 13.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class C Notes outstanding or if so directed by an Extraordinary Resolution of the Class C Noteholders (subject, in each case, to being indemnified to its satisfaction and to restrictions contained in the Trust Deed to protect the interests of the Class A Noteholders and the Class B Noteholders) shall (but, in the case of the happening of any of the events mentioned in (ii) to (v) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders while any Class A Notes are outstanding or, if there are no Class A Notes outstanding, to the interests of the Class B Noteholders while any Class B Notes are outstanding or, if there are no Class B Notes outstanding, to the interests of the Class C Noteholders and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Class C Notes, only if the Trustee shall have certified in writing that the Issuer had, on the due date for payment of the amount of interest in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such interest (after payment of all sums which it is permitted under the Deed of Charge to pay in priority thereto or *pari passu* therewith)), give notice (an “**Enforcement Notice**”) to the Issuer that the Class C Notes are, and each Class C Note shall, if notice is, or has already been, given that the Class A Notes are due and payable pursuant to the terms and conditions of the Class A

Notes, or if there are no Class A Notes then outstanding, if notice is, or has already been given, that the Class B Notes are due and payable pursuant to the terms and conditions of the Class B Notes, or if there are no Class B Notes then outstanding, accordingly forthwith become, immediately due and repayable at its Principal Amount Outstanding, together with accrued interest (including any Deferred Interest and Additional Interest) as provided in the Trust Deed, if any of the following events (each an “**Event of Default**”) shall occur:

- (i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Class C Notes or any of them or for a period of 15 days or more in the payment on the due date of any interest upon the Class C Notes or any of them; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class C Noteholders; or
- (iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the Court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be 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 shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or
- (iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Class C Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Class C Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the Subordinated Loan Agreement, the Fee Letter and the Services Letter) or otherwise becomes insolvent; or
- (vi) notice is given to the Issuer pursuant to the Trust Deed that the Class A Notes or the Class B Notes are immediately due and repayable.

11. Enforcement and Post-Enforcement Call Option

At any time after the Class C Notes become due and repayable at their Principal Amount Outstanding, subject to Class C Condition 7, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the security for the Class C Notes and Coupons and to enforce repayment of the Class C Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class C Noteholders or so requested in writing by Class C Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class C Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing but provided that all of the Class A Notes and all of the Class B Notes have been redeemed in full so long as any of the Class C Notes remains outstanding, if the Class C Notes have become due and repayable pursuant to these Class C Conditions otherwise than by reason of a default in payment of any amount due on the Class C Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class C Noteholders and the Couponholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not

(or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class C Noteholders and the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class C Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

In the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class C Notes under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class C Notes and all other claims ranking *pari passu* therewith, then the Class C Noteholders shall, upon the Security having been enforced and realised to the maximum possible extent as certified by the Trustee, be forthwith entitled to their respective shares of such remaining proceeds (as determined in accordance with the provisions of the Deed of Charge) and, after payment to each Class C Noteholder of its respective share of such remaining proceeds, all interests in the Permanent Global Class C Note will be automatically exchanged for equivalent interests in an equivalent amount of Class C Notes in definitive form and such Permanent Global Class C Note (if any) will be cancelled. On the date of such exchange (the “**Option Exercise Date**”), the Trustee (on behalf of all of the Class C Noteholders) will, at the request of Paragon Options PLC (“**POPLC**”), transfer for a consideration of £0.01 per Class C Note all (but not some only) of the Class C Notes to POPLC pursuant to the option granted to it by the Trustee (as agent for the Noteholders but without any personal liability on the part of the Trustee) pursuant to a post-enforcement call option deed (the “**Post-Enforcement Call Option Deed**”) to be dated the Closing Date between POPLC and the Trustee. Immediately upon such transfer, no such former Class C Noteholder shall have any further interest in the Class C Notes. Each of the Class C Noteholders acknowledges that the Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post-Enforcement Call Option Deed and each Class C Noteholder, by subscribing for or purchasing Class C Notes, agrees to be so bound.

12. Replacement of Class C Notes, Coupons and Talons

If any Class C Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Class C Notes, Coupons or Talons must be surrendered before replacements will be issued.

13. Notices

All notices, other than notices given in accordance with the next following paragraph, to Class C Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the *Financial Times*). 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 is made in the manner required in the newspaper or in one of the newspapers referred to above.

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently Page PGCM) or such other medium for the electronic display of data as may be approved by the Trustee and notified to the Class C Noteholders (the “**Relevant Screen**”). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class C Condition 13 shall be given in accordance with the preceding paragraph.

The Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Class C Noteholders in accordance with this Class C Condition 13.

14. Meetings of Class C Noteholders; Modifications; Consents; Waiver

The Trust Deed contains provisions for convening meetings of Class C Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class C Noteholders of a modification of the Class C Notes (including these Class C Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class C Notes, or a modification which would have the effect of postponing any day for payment of interest on the Class C Notes, reducing or cancelling the amount of principal payable on the

Class C Notes or the rate of interest applicable to the Class C Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Class C Notes or the Coupons or any alteration of the date or priority of redemption of the Class C Notes (any such modification being referred to below as a “**Basic Terms Modification**”) shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class C Noteholders as described below. The quorum at any meeting of Class C Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 75% of the aggregate Principal Amount Outstanding of the Class C Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class C Noteholders whatever the aggregate Principal Amount Outstanding of the Class C Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing 75%, or at any adjourned such meeting, 25%, or more of the aggregate Principal Amount Outstanding of the Class C Notes then outstanding. The Trust Deed contains provisions limiting the powers of the Class C Noteholders and the Class B Noteholders, *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 Class A Noteholders. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Class C Noteholders and the Class B Noteholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class C Noteholders shall not be effective for any purpose unless either (i) the Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders or the interests of the Class B Noteholders or (ii) it is sanctioned by an Extraordinary Resolution of the Class A Noteholders and an Extraordinary Resolution of the Class B Noteholders but, subject thereto, it shall be binding on all Class C Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution. An Extraordinary Resolution passed at any meeting of the Class A Noteholders or at any meeting of the Class B Noteholders shall be binding on all Class C Noteholders and Couponholders, irrespective of its effect upon such holders or their interests.

The Trustee may agree, without the consent of the Class C Noteholders or Couponholders, (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of the Class C Notes (including these Class C Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Class C Noteholders or (ii) to any modification of the Class C Notes (including these Class C Conditions) or any of the 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 Class C Noteholders or the Couponholders, determine that any Event of Default or any condition, event or act which with the giving of notice and/or lapse of time and/or the issue of a certificate would constitute an Event of Default shall not, or shall not subject to specified conditions, be treated as such. Any such modification, waiver, authorisation or determination shall be binding on the Class C Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class C Noteholders in accordance with Class C Condition 13 as soon as practicable thereafter.

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to realise the Security and to obtain repayment of the Class C Notes unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other party to the Relevant Documents without accounting for any profit resulting from such transactions. 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 Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

16. Notifications and Other Matters to be Final

Notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Class C Notes and the Coupons, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the

Reference Banks, the Reference Agent, the Trustee, the Administrator, the Principal Paying Agent, the other Paying Agents (if any) and all Class C Noteholders and Couponholders and (subject as aforesaid) no liability to the Issuer, the Administrator or the Class C Noteholders or Couponholders shall attach to the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

17. The Contracts (Rights of Third Parties) Act 1999

The Class C Notes confer no rights on any person pursuant to the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Class C Notes, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

18. Governing Law

The Class C Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof as are particular to Scots law, which are governed by and shall be construed in accordance with the laws of Scotland and such provisions thereof as are particular to Northern Irish law, which are governed by, and shall be construed in accordance with, the laws of Northern Ireland.

UNITED KINGDOM TAXATION

The following is a summary of the current United Kingdom tax treatment of the Notes. It is not exhaustive. It relates only to the position of persons who are the absolute beneficial owner of their Notes and related Coupons and some aspects do not apply to certain classes of taxpayer (such as dealers). Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction outside the United Kingdom should consult their professional advisers.

1. There will be no United Kingdom withholding tax in relation to interest payments on the Notes provided that the Notes are listed on a “recognised stock exchange”, as defined in section 841 of the Income and Corporation Taxes Act 1988 (“ICTA”). The London Stock Exchange is currently a recognised stock exchange for this purpose. The Inland Revenue is instead able to obtain information about persons to whom or, in certain circumstances, for whose benefit interest is paid.
2. The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that a Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments.
3. The interest on the Notes will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom income tax even if paid without withholding or deduction. However, interest received without deduction or withholding is not chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless the Noteholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom in connection with which the interest is received or to which the Notes are attributable. There are certain exceptions for income received by specified categories of agent (such as some brokers and investment managers).
4. If interest on the Notes were to be paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
5. A Noteholder within the charge to United Kingdom corporation tax in respect of a Note (including a Noteholder so chargeable in relation to a branch or agency in the United Kingdom) will, generally, be liable to corporation tax on income on any profits (and obtain relief for permitted losses) on the Notes. Any such profits (including interest) or permitted losses on the Notes will generally be chargeable by reference to accounting periods of the company in accordance with an authorised accounting method. For such Noteholders, the provisions described in paragraphs 6 and 7 below will not apply to such a Note.
6. A Noteholder (other than a Noteholder within the charge to corporation tax in respect of the relevant Note) who is resident or ordinarily resident in the United Kingdom may be chargeable to United Kingdom tax on income on an amount treated (by rules known as the accrued income scheme contained in Chapter II of Part XVII of ICTA) as representing interest accrued on the Note at the time of disposal (determined by the Inland Revenue on a just and reasonable basis). A purchaser of a Note will not be entitled to any allowance under the accrued income scheme to set against any deemed or actual interest it receives in respect of the Notes. If for any reason any interest due on an Interest Payment Date is not paid and a Note is subsequently disposed of with the right to receive accrued interest, special rules may apply for the purposes of the accrued income scheme.
7. The Notes will constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, neither a chargeable gain nor an allowable loss will arise on a disposal or redemption of the Notes for the purposes of United Kingdom taxation of chargeable gains.
8. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Notes or on the issue of a Note in definitive form.

SUBSCRIPTION AND SALE

J.P. Morgan Securities Ltd. (the “**Class A Manager**”) has agreed, pursuant to a subscription agreement dated the date of this Offering Circular (to which PFPLC, PPF, PCF and Universal are also party) (the “**Class A Subscription Agreement**”), subject to certain conditions, to subscribe for the Class A Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class A Manager for certain of its expenses in connection with the issue of the Class A Notes. The Class A Subscription Agreement entitles the Class A Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A Manager against certain liabilities in connection with the offer and sale of the Class A Notes.

J.P. Morgan Securities Ltd. (the “**Class B Manager**”) has agreed, pursuant to a subscription agreement dated the date of this Offering Circular (to which PFPLC, PPF, PCF and Universal are also party) (the “**Class B Subscription Agreement**”) subject to certain conditions, to subscribe for the Class B Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class B Manager for certain of its expenses in connection with the issue of the Class B Notes. The Class B Subscription Agreement entitles the Class B Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class B Manager against certain liabilities in connection with the offer and sale of the Class B Notes.

J.P. Morgan Securities Ltd. (the “**Class C Manager**”) has agreed, pursuant to a subscription agreement dated the date of this Offering Circular (to which PFPLC, PPF, PCF and Universal are also party) (the “**Class C Subscription Agreement**”) subject to certain conditions, to subscribe for the Class C Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class C Manager for certain of its expenses in connection with the issue of the Class C Notes. The Class C Subscription Agreement entitles the Class C Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class C Manager against certain liabilities in connection with the offer and sale of the Class C Notes.

The Class A Manager, the Class B Manager and the Class C Manager are together referred to in this Offering Circular as the “**Managers**”.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the requirements of the Securities Act. Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or for the account or benefit of a U.S. Person, except in certain transactions permitted by U.S. tax regulations (terms used in this sentence have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder). Each of the Class A Manager, in respect of the Class A Notes, the Class B Manager, in respect of the Class B Notes and the Class C Manager, in respect of the Class C Notes, has agreed that, except as permitted by the relevant Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date (the “**Restricted Period**”) within the United States or to, or for the account or benefit of, U.S. Persons, and that it will have sent to each dealer to which it sells Notes during the Restricted Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by a dealer, whether or not participating in the offering, may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S of the Securities Act.

The Class A Manager, in respect of the Class A Notes, the Class B Manager, in respect of the Class B Notes and the Class C Manager, in respect of the Class C Notes, has represented and agreed that:

- (a) since the repeal of section 57 of the Financial Services Act 1986 (the “**FSA**”):
 - (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part VI of the Financial Services and Markets Act 2000 (the “**FSMA**”), except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the FSMA;

- (ii) it has 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
 - (iii) 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 the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) before the repeal of section 57 of the FSA:
- (i) it did not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and did not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the FSA;
 - (ii) it complied with all applicable provisions of the FSA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom;
 - (iii) it only issued or passed on, in the United Kingdom, documents received by it in connection with the issue of the Notes, other than any document which consisted of or of any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who was of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or was a person to whom such document could otherwise lawfully have been issued or passed on.

Other than admission of the Notes to the Official List and to trading, no action is being taken to permit a public offering of the Notes, or possession or distribution of the Offering Circular or other material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

The Class A Manager, in respect of the Class A Notes, the Class B Manager, in respect of the Class B Notes and the Class C Manager, in respect of the Class C Notes, has undertaken not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Offering Circular or any other material relating to the Notes, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

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

GENERAL INFORMATION

1. It is expected that the admission of the Notes to the Official List of the UK Listing Authority and admission of the Notes to trading by the London Stock Exchange will be granted on or around 12th December, 2001, subject only to the issue of the Temporary Global Notes. Prior to the official listing, however, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules. The listing of the Notes will be cancelled if the Temporary Global Notes are not issued.
2. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and the Common Code Numbers and ISIN numbers are as follows:
Class A Notes, Common Code Number 014027947; ISIN XS0140279471;
Class B Notes, Common Code Number 014027963; ISIN XS0140279638; and
Class C Notes, Common Code Number 014027980; ISIN XS0140279802.
Transactions will normally be effected for settlement in sterling for delivery on the third calendar day after the date of the transaction.
3. Deloitte & Touche have given and not withdrawn their written consent to the issue of the Offering Circular and authorised contents of that part of the Listing Particulars with their report on the Issuer and references to their name included herein in the form and context in which they appear for the purposes of section 79(3) of the Financial Services and Markets Act 2000.
4. So long as the Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange, the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent in London. The Issuer does not intend to publish interim accounts from the date hereof.
5. Save as disclosed herein, since 30th September, 2001 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.
6. The Issuer is not, nor has it been, involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the twelve months preceding the date of this Offering Circular, a significant effect on the financial position of the Issuer or the group of companies of which the Issuer is a member.
7. The financial statements of the Issuer for the period from 1st October, 2000 until 30th September, 2001 have been audited by Deloitte & Touche, Chartered Accountants of Colmore Gate, Colmore Row, Birmingham B3 2BN.
8. The financial information included on pages 55 to 58 of this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Unaudited statutory accounts of the Issuer have been delivered to the Registrar of Companies in respect of the financial year ended 30th September, 2000. Audited statutory accounts of the Issuer on which the Issuer's auditors have given an unqualified report which contains no statement under section 237(2) or (3) of the Companies Act 1985 will be delivered to the Registrar of Companies in respect of the financial year ended 30th September, 2001 in accordance with the Companies Act 1985.
9. Copies of the following documents may be inspected during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB during the period of fourteen days from the date of this Offering Circular:
 - (a) the Memorandum and Articles of Association of the Issuer;
 - (b) copies of the Class A Subscription Agreement, the Class B Subscription Agreement and the Class C Subscription Agreement;
 - (c) drafts (subject to modification) of the Master Definitions Schedule, the Trust Deed, the Secured Loan Sale Agreement, the Administration Agreement, the Deed of Charge, the Warranty Deed, the Standard Terms and Conditions, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the Hedge Agreement, the Repurchase Deed, the PPF Collection Account Declarations of Trust, the PCF Collection Account Declaration of Trust, the Universal Collection Account Declaration of Trust, the PFPLC Collection Account Declarations of Trust, the Agency Agreement, the VAT Declaration of Trust and the Post-Enforcement Call Option Deed;

- (d) the audited financial statements of the Issuer for the period from 1st October, 2000 until 30th September, 2001 and the unaudited statutory accounts of the Issuer for the period ending 30th September, 2000; and
- (e) the Accountants' Report of Deloitte & Touche dated 6th December, 2001 the text of which is reproduced on pages 55 to 58 of this Offering Circular.

GLOSSARY OF TERMS AND DEFINITIONS

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