

First Flexible No. 6 plc

(incorporated in England and Wales with limited liability under the Companies Act 1985 with registered number 4579581)

£270,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2035

Issue price : 100%

€200,000,000 Class A2 Mortgage Backed Floating Rate Notes due 2035

Issue price : 100%

\$75,000,000 Class A3 Mortgage Backed Floating Rate Notes due 2035

Issue price : 100%

£40,000,000 Class M1 Mortgage Backed Floating Rate Notes due 2035

Issue price : 100%

€15,000,000 Class M2 Mortgage Backed Floating Rate Notes due 2035

Issue price : 100%

The £270,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A1 Notes**”), the €200,000,000 Class A2 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A2 Notes**”) and the \$75,000,000 Class A3 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A3 Notes**”), and together with the Class A1 Notes and the Class A2 Notes, the “**Class A Notes**”) will be issued by First Flexible No.6 plc (the “**Issuer**”) together with the £40,000,000 Class M1 Mortgage Backed Floating Rate Notes due 2035 (the “**Class M1 Notes**”) and the €15,000,000 Class M2 Mortgage Backed Floating Rate Notes due 2035 (the “**Class M2 Notes**”, and together with the Class M1 Notes, the “**Class M Notes**”) and together with the Class A Notes, the “**Notes**”). In this document the Class A1 Notes and the Class M1 Notes are collectively referred to as the “**Sterling Notes**” and the Class A2 Notes and the Class M2 Notes are collectively referred to as the “**Euro Notes**”. The Class A3 Notes are also referred to as the “**USD Notes**”.

Interest on the Notes is payable quarterly in arrear on the first Business Day (as defined in Condition 4(b) of the Class A Notes and the Class M Notes) of March, June, September and December in each year, subject to adjustment as provided in this document (each such day, an “**Interest Payment Date**”), save for the first payment of interest which will be made in respect of the period commencing on (and including) the Issue Date (as defined below) and ending on (but excluding) the Interest Payment Date falling on 1st June 2004. Interest on the Class A1 Notes is payable at an annual rate equal to the sum of the London Interbank Offered Rate (“**LIBOR**”) for three month sterling deposits (or, in the case of the first Interest Period (as defined below), at an annual rate obtained by linear interpolation of LIBOR for four month sterling deposits and LIBOR for five month sterling deposits) (“**Note Sterling LIBOR**”) plus a margin of 0.28% per annum until the Interest Payment Date falling in March 2009 (the “**Coupon Step Up Date**”) and thereafter 0.56% per annum. Interest on the Class A2 Notes is payable at an annual rate equal to the sum of the Eurozone Interbank Offered Rate (“**EURIBOR**”) for three month euro deposits (or, in the case of the first Interest Period, at an annual rate obtained by linear interpolation of EURIBOR for four month euro deposits and EURIBOR for five month euro deposits) (“**Note EURIBOR**”) plus a margin of 0.28% per annum until the Coupon Step Up Date and thereafter 0.56% per annum. Interest on the Class A3 Notes is payable at an annual rate equal to the sum of LIBOR for deposits in US dollars (“**USD-LIBOR**”) for three month dollar deposits (or, in the case of the first Interest Period, at an annual rate obtained by linear interpolation of USD-LIBOR for four month dollar deposits and USD-LIBOR for five month dollar deposits) (“**Note USD-LIBOR**”) plus a margin of 0.28% per annum until the Coupon Step Up Date and thereafter 0.56% per annum. Interest on the Class M1 Notes is payable at an annual rate of Note Sterling LIBOR plus a margin of 1.10% per annum until the Coupon Step Up Date and thereafter 2.10% per annum. Interest on the Class M2 Notes is payable at an annual rate of Note EURIBOR plus a margin of 1.10% per annum until the Coupon Step Up Date and thereafter 2.10% per annum. The period from (and including) an Interest Payment Date (or the Issue Date in respect of the first Interest Payment Date) to (but excluding) the next following (or first) Interest Payment Date is called an “**Interest Period**”.

The Notes of each class will be subject to mandatory redemption in part from time to time on each Interest Payment Date (other than any Interest Payment Date on which the Notes of such class are redeemed in full or any Interest Payment Date on which the Potential Redemption Amount (as defined in Condition 5(b) of the Class A Notes and the Class M Notes below) applicable to all or such class of Notes is zero). The mandatory redemption in part will be in an amount calculated in accordance with the provisions set out in Condition 5(b) of the Class A Notes and the Class M Notes. In certain other circumstances, and at certain times, all (but not some only) of the Class A Notes and the Class M Notes may be redeemed at the option of the Issuer (see Conditions 5(d), 5(e) and 5(f) of the Class A Notes and the Class M Notes). Unless previously redeemed, the Class A Notes and the Class M Notes will mature on the Final Redemption Date (as defined in Condition 5(a) of the Class A Notes and the Class M Notes) applicable to such Note.

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

The Class M Notes will be secured by the same security which 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 Class M Notes. Each of the Class A Notes and the Class M Notes respectively will rank *pari passu* in point of security without preference or priority amongst themselves.

The right to payment of interest and principal on the Class M Notes will be subordinated to the right to payment of interest and principal on the Class A Notes and may be limited or deferred as described below in Condition 2 of the Class M Notes. As a result, no assurance is given as to the amount (if any) of interest or principal on the Class M Notes which may actually be paid on any Interest Payment Date.

Application has been made to the Financial Services Authority in its capacity as the competent authority for listing in the United Kingdom (the “**UK Listing Authority**”) for the Notes to be admitted to the Official List of the UK Listing Authority (the “**Official List**”). Application has also been made to London Stock Exchange plc (the “**London Stock Exchange**”) for the Notes to be admitted to trading on the London Stock Exchange’s market for listed securities. Admission to the Official List, together with admission to trading on the London Stock Exchange’s market for listed securities, constitute admission to official listing on a stock exchange. Copies of this document which comprises listing particulars, have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 83 of the Financial Services and Markets Act 2000 (“**FSMA**”).

The Notes will be obligations of the Issuer. The Notes will not be obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations of, or the responsibility of, or guaranteed by, Arianty No.1 plc (“**Arianty**”), Mortgage Trust Limited (“**Mortgage Trust**”), Mortgage Trust Services plc (“**Mortgage Trust Services**”), The Paragon Group of Companies PLC (“**Paragon**”), GHL Mortgage Services Limited (“**GHL**”), J.P. Morgan Securities Ltd. (“**JPMorgan**”), Deutsche Bank AG London (“**Deutsche Bank**”), the other Managers (as defined below), Citicorp Trustee Company Limited (the “**Trustee**”), the Currency Swap Counterparty, the Interest Rate Swap Counterparties, the Redraw Facility Provider or the GIC Provider (each as defined below). No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by Arianty, Mortgage Trust, Mortgage Trust Services, Paragon, GHL, JPMorgan, Deutsche Bank, the other Managers, the Trustee, the Interest Rate Swap Counterparties, the Currency Swap Counterparty, the Redraw Facility Provider or the GIC Provider.

The Class A Notes are expected, on issue, to be assigned an Aaa rating by Moody’s Investors Service Limited (“**Moody’s**”) and an AAA rating by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies Inc. (“**S&P**”) and, together with Moody’s, the “**Rating Agencies**”). The Class M Notes are expected, on issue, to be assigned an A2 rating by Moody’s and an A rating by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by one or more of the Rating Agencies.

Notes of each class will each initially be represented by a temporary global note in bearer form (each a “**Temporary Global Note**”), without coupons (the “**Coupons**”) or talons (the “**Talons**”), which is expected to be deposited with Citibank, N.A. as common depository (the “**Common Depository**”) for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) on or about 29th January 2004 (the “**Issue Date**”). Each such Temporary Global Note will be exchangeable not earlier than 40 days after the Issue Date, upon certification of non-US beneficial ownership for interests in a permanent global note in bearer form (a “**Permanent Global Note**”), without Coupons or Talons, (together with each Temporary Global Note, the “**Global Notes**”) for the relevant class of Notes. 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 entitled “**Certain Special Considerations**”.

Class A Managers

Deutsche Bank
Barclays Capital
ING Financial Markets
SG CIB

JPMorgan
HSBC
The Royal Bank of Scotland

Class M Managers

Deutsche Bank

JPMorgan

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

The information relating to Arianty in the section entitled “Arianty No.1 plc” has been produced from information provided by Arianty. The information relating to Mortgage Trust in the section entitled “Mortgage Trust Limited” has been produced from information provided by Mortgage Trust Services. The information relating to Mortgage Trust Services in the section entitled “Mortgage Trust Services plc” has been produced from information provided by Mortgage Trust Services. The information relating to Barclays Bank PLC (“**Barclays**”) in its capacity as the Redraw Facility Provider, the GIC Provider and an Interest Rate Swap Counterparty in the section entitled “Barclays Bank PLC” has been produced from information provided by Barclays. The information relating to JPMorgan Chase Bank in its capacity as an Interest Rate Swap Counterparty and the Currency Swap Counterparty in the section entitled “JPMorgan Chase Bank” has been produced from information provided by JPMorgan Chase Bank.

Any reference in this document to listing particulars means this document excluding all information incorporated by reference. The Issuer has confirmed that any information incorporated by reference, including any such information to which readers of this document are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the FSMA or the listing rules of the UK Listing Authority. The Issuer believes that none of the information incorporated therein by reference conflicts in any material respect with the information included in the listing particulars.

No person is authorised to give any information or to make any representation concerning the issue of the Notes other than those contained in this document. Nevertheless, if any such information is given or representation made, it must not be relied upon as having been authorised by the Issuer, Arianty, Mortgage Trust, Mortgage Trust Services, Paragon, the Trustee, JPMorgan, Deutsche Bank or the other Managers (as defined under “Subscription and Sale” below) or any of their respective affiliates or advisers. Neither the delivery of this document nor any offer, sale, allotment or solicitation made in connection with the offering of the Notes shall, in any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer or in the other information contained herein since the date hereof. Neither the Trustee, JPMorgan, Deutsche Bank or any of the other Managers nor any of their respective affiliates or advisers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this document. Each person receiving this document acknowledges that such person has not relied on JPMorgan, Deutsche Bank, any of the other Managers or any other person affiliated with JPMorgan, Deutsche Bank or any of the other Managers in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the Issuer and the terms of the offering 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. Neither JPMorgan, Deutsche Bank nor any of the other 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 JPMorgan, Deutsche Bank or any of the other Managers.

This document does not constitute an offer of or an invitation by or on behalf of, the Issuer, Arianty, Mortgage Trust, Mortgage Trust Services, Paragon, the Trustee, JPMorgan, Deutsche Bank or any of the other Managers, to subscribe for or purchase any of the Notes. The distribution of this document and the offering of the Notes in certain jurisdictions may be restricted by law. No representation is made by the Issuer, Arianty, Mortgage Trust, Mortgage Trust Services, Paragon, the Trustee, JPMorgan, Deutsche Bank or any of the other Managers that this document may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes any responsibility for facilitating any such distribution or offering. In particular, save for obtaining the approval of this document as listing particulars by the UK Listing Authority and delivery of this document to the Registrar of Companies in England and Wales, no action has been taken by the Issuer, Arianty, Mortgage Trust, Mortgage Trust Services, Paragon, JPMorgan, Deutsche Bank or any of the other Managers which would permit a public offering of the Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this document nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes are required by the Issuer, JPMorgan, Deutsche Bank and the other Managers to inform themselves about and to observe any such restrictions.

The Notes have not been and will not be registered under the US Securities Act of 1933, as amended (the “**Securities Act**”) and comprise Notes in bearer form that are subject to US tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to any US persons. For a more complete description of certain restrictions on the offering, sale and delivery of Notes and distribution of this document, see “Subscription and Sale” below.

The Notes may not be offered, sold, delivered or distributed nor may this Offering Circular or any other offering material relating to the Notes be made available in Italy. No action has been made to obtain an authorisation from CONSOB for the public offering of Notes in Italy and no Article 129 notification has been filed.

Should any investor purchase the Notes, they will be deemed to have represented that (i) they have made their own independent decision to purchase the Notes and have not relied on any recommendation or advice from any Manager; and (ii) they already have all required information and understand all the indicative terms, conditions and restrictions of these Notes.

References in this document to “**£**”, “**pounds**” or “**sterling**” are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

References in this document to “**€**” or “**euro**” are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union and the Treaty of Amsterdam.

References in this document to “**USD**”, “**\$**”, “**dollars**” or “**US dollars**” are to the lawful currency for the time being of the United States of America.

In connection with the issue of the Notes, JPMorgan or any person acting for it may, on the same terms and conditions contained herein, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there may be no obligation on JPMorgan to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be conducted in accordance with all applicable laws and rules.

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Transaction Summary

The following information is a brief overview of certain key features of the Notes and is qualified in its entirety by the more detailed information appearing elsewhere in this document.

Summary of Note Classes	Sterling (or sterling equivalent¹) gross proceeds on Issue Date
Class A Notes	£448,847,935.76
Class M Notes	£50,341,000.00
Total	£499,188,935.76

Class of Notes	Initial Principal Balance	% of Total (sterling equivalent¹)
Class A1	£ 270,000,000	54.09%
Class A2	€200,000,000	27.62%
Class A3	\$ 75,000,000	8.21%
Class M1	£ 40,000,000	8.01%
Class M2	€15,000,000	2.07%

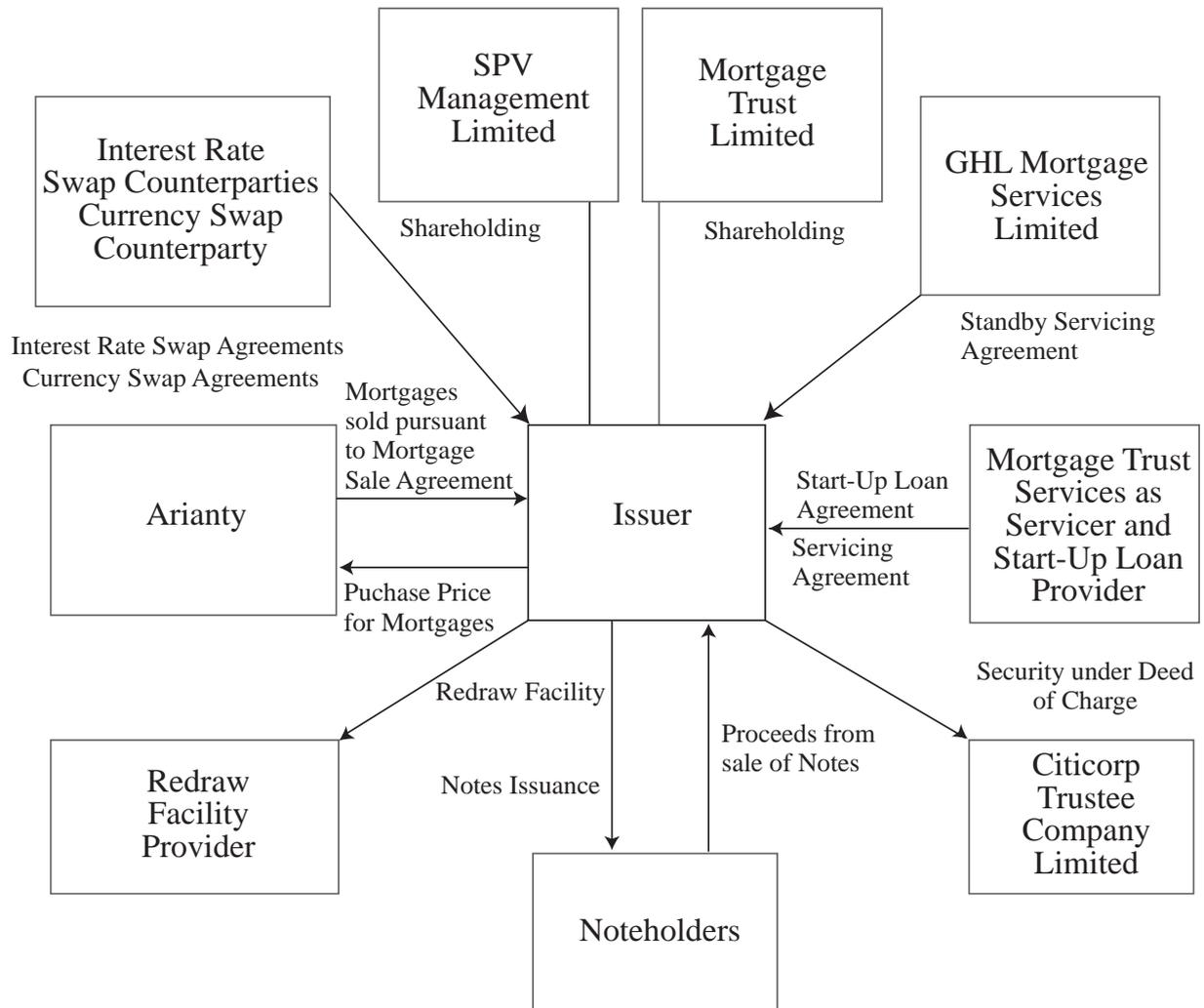
The primary assets of the Issuer securing payments under the Notes are residential mortgages originated by Mortgage Trust.

	<i>Class A Notes</i>	<i>Class M Notes</i>
Anticipated Ratings	AAA/Aaa or equivalent	A/A2 or equivalent
Rating Agencies	S&P Moody's	S&P Moody's
Credit Enhancement	Subordination of the Class M Notes, Reserve Fund, Liquidity Reserve, Base Rate Reserve and Discount Reserve	Reserve Fund, Liquidity Reserve, Base Rate Reserve and Discount Reserve
Interest Rate	0.28% per annum (or 0.56% per annum after the Coupon Step Up Date) above Note Sterling LIBOR for the relevant Interest Period in respect of the Class A1 Notes	1.10% per annum (or 2.10% per annum after the Coupon Step Up Date) above Note Sterling LIBOR for the relevant Interest Period in respect of the Class M1 Notes
	0.28% per annum (or 0.56% per annum after the Coupon Step Up Date) above Note EURIBOR for the relevant Interest Period in respect of the Class A2 Notes	1.10% per annum (or 2.10% per annum after the Coupon Step Up Date) above Note EURIBOR for the relevant Interest Period in respect of the Class M2 Notes
	0.28% per annum (or 0.56% per annum after the Coupon Step Up Date) above Note USD-LIBOR for the relevant Interest Period in respect of the Class A3 Notes	
Interest Accrual Method	Actual/365 (or 366) in respect of the Class A1 Notes	Actual/365 (or 366) in respect of the Class M1 Notes
	Actual/360 in respect of the Class A2 Notes and the Class A3 Notes	Actual/360 in respect of the Class M2 Notes

⁽¹⁾ calculated at the exchange rate of :
 £/\$: 1.8307 (at the relevant Currency Swap Rate)
 £/€ : 1/0.6894 (at the relevant Currency Swap Rate)

Interest Payment Dates	Quarterly on the 1st day of March, June, September and December	Quarterly on the 1st day of March, June, September and December
First Interest Payment Date	1st June 2004	1st June 2004
Issuer Call Date	Interest Payment Date falling in March 2008	Interest Payment Date falling in March 2008
Coupon Step Up Date	Interest Payment Date falling in March 2009	Interest Payment Date falling in March 2009
Final Redemption Date	Class A1 Notes: December 2035 Class A2 Notes: December 2035 Class A3 Notes: December 2035	Class M1 Notes: December 2035 Class M2 Notes: December 2035
Clearance/Settlement	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg
Minimum Denominations	£10,000 in respect of the Class A1 Notes €500,000 in respect of the Class A2 Notes \$10,000 in respect of the Class A3 Notes	£10,000 in respect of the Class M1 Notes €500,000 in respect of the Class M2 Notes

Structure Diagram



Summary Information

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this document. Certain terms used in this summary are defined elsewhere in this document. A listing of the pages on which these terms are defined is set out in the “**Index of Defined Terms**”.

Transaction Summary

The Issuer intends to acquire residential mortgages from Arianty which were originated by Mortgage Trust, such acquisition to be financed by the issue of the Notes.

All the Mortgages to be acquired will be governed by English, Scots or Northern Irish law, as the case may be. “**Mortgages**” means collectively the Initial Mortgages (to be acquired on the Issue Date) together with any Pre-Funded Mortgages and Substitute Mortgages (which may be acquired in certain circumstances after the Issue Date).

Prior to the sale of the Mortgages to the Issuer, the beneficial interests in the Mortgages will have been transferred either (i) to Arianty by Mortgage Trust or (ii) to Mortgage Trust Services by Mortgage Trust and thereafter, to Arianty by Mortgage Trust Services. Pursuant to the Mortgage Sale Agreement, Arianty will transfer all of its interest in each Mortgage to the Issuer. Notices of the equitable assignment and declaration of the Scottish Trust to the Issuer and the security in favour of the Trustee will not, save in certain limited circumstances, be given to the Borrowers although the Issuer will be given the right to call for legal title to the Mortgages to be transferred to it from Mortgage Trust in certain circumstances. Legal title to the Mortgages will therefore, save in limited circumstances, remain with Mortgage Trust.

As the Servicer, Mortgage Trust Services will continue to administer the Mortgage Pool (as defined under “**The Mortgage Pool**” below) on behalf of the Issuer and the Trustee. However, Mortgage Trust Services will not be responsible for payment of principal or interest on the Notes.

The Issuer will finance its purchase of the Mortgages by issuing five separate classes of floating rate notes. The net aggregate proceeds of the issue of the Notes will amount to £499,188,935.76 (after exchanging (a) the dollar proceeds of the USD Notes for sterling proceeds calculated by reference to the relevant Currency Swap Rate and (b) the euro proceeds of the Euro Notes for sterling proceeds calculated by reference to the relevant Currency Swap Rate) and will be applied in the purchase of the Initial Mortgages from Arianty on the Issue Date with any remainder to be invested in Permitted Investments and/or applied in the purchase of Pre-Funded Mortgages.

The Notes will be obligations of the Issuer only and will be secured, *inter alia*, by the Issuer granting to the Trustee a charge over its equitable interest in the Mortgages and their collateral security (or in relation to Scottish Mortgages, the Issuer will grant fixed security over its beneficial interest in the Scottish Trust).

The Parties

Issuer

First Flexible No.6 plc (the “**Issuer**”), a public company incorporated and registered in England and Wales with registered number 4579581 under the Companies Act 1985 as a public limited company on 1st November 2002. The issued share capital of the Issuer comprises 26 class A ordinary shares of £1 each (“**A’ Ordinary Shares**”), paid up as to 25 pence each, all of which are held by SPV Management Limited on trust for charitable purposes, 74 class B ordinary shares of £1 each (“**B’ Ordinary Shares**”), all of which are paid up as to 25 pence each and held by Mortgage Trust and 49,900 preference shares of £1 each (“**Preference Shares**”) all of which are paid up as to 25 pence each and held by Mortgage Trust.

Trustee

Citicorp Trustee Company Limited (the “**Trustee**”), pursuant to a trust deed (the “**Trust Deed**”) to be entered into on the Issue Date between the Issuer and the Trustee will be appointed as trustee to represent, *inter alia*, the interests of the Noteholders. The Trustee’s function will be to act in accordance with its powers and responsibilities set out in the Trust Deed subject to the limitations, rights and indemnifications contained in the Trust Deed. Pursuant to a deed of charge (the “**Deed of Charge**”) to be entered into on the Issue Date by the Issuer, security will be granted by the Issuer in favour of the Trustee who shall hold such security on trust for, *inter alios*, the Noteholders.

Principal Paying Agent and Agent Bank	Citibank, N.A. will be the Agent Bank and the Principal Paying Agent at its specified office in London. The Agent Bank will calculate the interest rates applicable to each Class of Notes. The Principal Paying Agent will make payments of interest and principal when due on the Notes.
Servicer	Mortgage Trust Services (the “ Servicer ”) will not be responsible for payment of principal or interest on the Notes but will perform certain functions, principally that of the Servicer (as described under “ Servicing ” below) of the Mortgage Pool (as defined under “ The Mortgage Pool ” below) on behalf of the Issuer and the Trustee. The Servicer may delegate such functions although it remains liable to the Issuer for the performance of those functions.
Standby Servicer	GHL Mortgage Services Limited, a company incorporated in England and Wales with limited liability with registered number 3709886 will be appointed as standby servicer under the Standby Servicing Agreement (together with any substitute standby servicer, the “ Standby Servicer ”). If the appointment of Mortgage Trust Services as Servicer is terminated and the Issuer and the Trustee do not appoint any other servicer, the Standby Servicer will assume such servicing functions subject to the terms and conditions of the Standby Servicing Agreement.
Account Bank	Barclays.
Redraw Facility Provider	Barclays.
GIC Provider	Barclays.
Interest Rate Swap Counterparties	JPMorgan Chase Bank and Barclays.
Currency Swap Counterparty	JPMorgan Chase Bank.
Seller	Arianty.
Originator	Mortgage Trust.
The Notes	
The Notes	£270,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2035 (the “ Class A1 Notes ”), €200,000,000 Class A2 Mortgage Backed Floating Rate Notes due 2035 (the “ Class A2 Notes ”), \$75,000,000 Class A3 Mortgage Backed Floating Rate Notes due 2035 (the “ Class A3 Notes ”), and together with the Class A1 Notes and the Class A2 Notes, the “ Class A Notes ”), £40,000,000 Class M1 Mortgage Backed Floating Rate Notes due 2035 (the “ Class M1 Notes ”) and €15,000,000 Class M2 Mortgage Backed Floating Rate Notes due 2035 (the “ Class M2 Notes ”), and together with the Class M1 Notes, the “ Class M Notes ” and together with the Class A Notes, the “ Notes ”), in each case to be constituted by the Trust Deed.
Form and Denomination	Each Note (which will be in denominations of £10,000, €500,000 and \$10,000 in respect of the Class A1 Notes, the Class A2 Notes and the Class A3 Notes respectively, £10,000 and €500,000 in respect of the Class M1 Notes and the Class M2 Notes respectively and subject to <i>pro rata</i> redemption of Notes of the same class) will initially be represented by a single Temporary Global Note in bearer form. Each Temporary Global Note will be exchangeable, subject as provided under “Description of the Class A Notes – Terms and Conditions of the Class A Notes” (the “ Class A Conditions ”) and “Description of the Class M Notes – Terms and Conditions of the Class M Notes” (the “ Class M Conditions ”) for a Permanent Global Note in bearer form. The Permanent Global Notes will not be exchangeable for definitive notes save in certain limited circumstances (see “Description of the Class A Notes” and “Description of the Class M Notes” below).

Interest on the Notes

The interest rates applicable to the Sterling Notes from time to time will be determined by reference to Note Sterling LIBOR for three month sterling deposits (or, in the case of the first Interest Period, at an annual rate obtained by linear interpolation of Note Sterling LIBOR for four month sterling deposits and Note Sterling LIBOR for five month sterling deposits) plus margins which will differ for each class of Sterling Notes.

The interest rates applicable to the Euro Notes from time to time will be determined by reference to EURIBOR for three month euro deposits (or, in the case of the first Interest Period, at an annual rate obtained by linear interpolation of EURIBOR for four month euro deposits and EURIBOR for five month euro deposits) plus margins which will differ for each class of Euro Notes.

The interest rates applicable to the USD Notes from time to time will be determined by reference to USD-LIBOR for three month dollar deposits (or, in the case of the first Interest Period, at an annual rate obtained by linear interpolation of USD-LIBOR for four month dollar deposits and USD-LIBOR for five month dollar deposits) plus a margin.

The margins applicable to each class of Notes, and the Interest Periods (as defined in Condition 4(b) of the Class A Notes and the Class M Notes) for which such margins apply, will be as set out below:

Class A1 Notes: 0.28% per annum up to and including the Interest Payment Date falling in March 2009 (the “**Coupon Step Up Date**”) and thereafter 0.56% per annum;

Class A2 Notes: 0.28% per annum up to and including the Coupon Step Up Date and thereafter 0.56% per annum;

Class A3 Notes: 0.28% per annum up to and including the Coupon Step Up Date and thereafter 0.56% per annum;

Class M1 Notes: 1.10% per annum up to and including the Coupon Step Up Date and thereafter 2.10% per annum; and

Class M2 Notes: 1.10% per annum up to and including the Coupon Step Up Date and thereafter 2.10% per annum.

Interest is payable in sterling in respect of the Sterling Notes, in dollars in respect of the USD Notes and in euro in respect of the Euro Notes, quarterly in arrear on the first day of March, June, September and December in each year or, if such day is not a day (other than a Saturday or Sunday) on which banks are generally open for business (including dealings in foreign exchange and foreign currency deposits) in the City of London and New York and a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System is open (a “**Business Day**”), on the immediately succeeding Business Day (each such day an “**Interest Payment Date**”), save for the first payment of interest which will be made in respect of the period commencing on (and including) the Issue Date and ending on (but excluding) the Interest Payment Date falling on 1st June 2004.

Withholding or Deduction for Taxes

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

Estimated Average Lives of Class A Notes and Class M Notes

The average lives of the Notes cannot be accurately predicted, as the actual rate of redemption of the Mortgages (as defined under “**The Mortgages**” below) and a number of other relevant factors are unknown. Calculations of the estimated average lives can be made based on certain assumptions, including the rate at which the Mortgages are repaid,

whether and how often borrowers of Mortgages (the “**Borrowers**”) exercise their option to redraw a portion of the principal of their mortgage loans, the likelihood of early amortisation, whether the Issuer exercises any of its options to redeem the Notes set out in Condition 5 of the Class A Notes and the Class M Notes and the extent to which the Issuer acquires Pre-Funded Mortgages and Further Advances (each as defined below). Based on the assumptions referred to under “**Estimated Average Lives of the Class A Notes and the Class M Notes**” below, the average life of the Class A Notes is estimated to range from 1.96 years to 4.47 years and the average life of the Class M Notes is estimated to be 5.09 years.

Redemption and Purchase

(i) *Optional Redemption*

- (a) The Issuer may, at its option, redeem all (but not some only) of the Notes at their Principal Amount Outstanding (as defined in Condition 5 of the Class A Conditions and the Class M Conditions) in the event of certain tax changes affecting the Notes, the Issuer or the Mortgages comprising the Mortgage Pool (as defined in “**The Mortgage Pool**” below) at any time including in the event that the Issuer is obliged to make any withholding or deduction in respect of any of the Notes, or in the event that the Issuer, under any applicable law of the United Kingdom, or the Currency Swap Counterparty or any Interest Rate Swap Counterparty, under any applicable law, is or will be obliged to make any withholding or deduction from amounts payable by it under any Currency Swap Agreement or any Interest Rate Swap Agreement.

The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction save that the Issuer has agreed under each Currency Swap Agreement and each Interest Rate Swap Agreement that it will, subject to and in accordance with the Priority of Payments (as defined below) pay Withholding Compensation Amounts (as defined in “**Credit Structure – Interest Rate Swap Agreements**” and “**Credit Structure – Currency Swap Agreements**”) to the Currency Swap Counterparty or the relevant Interest Rate Swap Counterparty.

- (b) The Issuer may, at its option, redeem all (but not some only) of the Notes at their Principal Amount Outstanding on the Interest Payment Date falling in March 2008 (the “**Issuer Call Date**”) or on any Interest Payment Date falling thereafter.
- (c) The Issuer may, at its option, redeem all (but not some only) of the Notes at their Principal Amount Outstanding on any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10% of the aggregate principal amount of such Notes on the Issue Date.
- (d) The Issuer may, at its option redeem all (but not some only) of the Notes at their Principal Amount Outstanding on the second Interest Payment Date after any Determination Date on which it is determined that the aggregate amount of Redraws made by Borrowers during the immediately preceding Collection Period (as defined below) exceeds the sum of (a) the amount of Principal Collections (as defined below) available for the purpose of purchasing the right to repayment of Redraws in accordance with the Priority of Payments (as defined below), and (b) the lower of (i) the Available Facility under the Redraw Facility (in each case as defined below) and (ii) the aggregate Principal Amount Outstanding of the Notes.

The Issuer shall provide Noteholders with no more than 60 nor less than 20 days’ notice of its intention to redeem all or any class of Notes on any Interest Payment Date.

(ii) *Redemption in Part*

Prior to enforcement, each class of Notes will be subject to redemption in part on each Interest Payment Date in accordance with the Priority of Payments (other than any Interest Payment Date on which the Notes of such class are redeemed in full or any Interest Payment Date on which the Redemption Amount (as defined below) applicable to all or such class of Notes is zero).

(iii) *Final Redemption*

Unless previously redeemed, each class of Notes will mature on the Interest Payment Date falling in:

- (a) in respect of the Class A1 Notes: December 2035;
- (b) in respect of the Class A2 Notes: December 2035;
- (c) in respect of the Class A3 Notes: December 2035;
- (d) in respect of the Class M1 Notes: December 2035; and
- (e) in respect of the Class M2 Notes: December 2035.

(iv) *Purchase*

The Issuer shall not purchase any Notes.

Security for the Notes

The Notes will be obligations of the Issuer only. Pursuant to the Deed of Charge, the Notes will be secured, *inter alia*, by:

- (i) a first fixed equitable charge or mortgage or (in relation to Mortgages secured on properties in Scotland (“**Scottish Mortgages**”)) assignment in security in favour of the Trustee over the Issuer’s right, title, interest and benefit, present and future, in the Mortgages and other collateral security relating to the Mortgages;
- (ii) an equitable assignment by way of first fixed security in favour of the Trustee of the Issuer’s interest in certain buildings policies, contingency policies and mortgage indemnity policies (the “**Insurance Contracts**”) to the extent that they relate to the Mortgages;
- (iii) an assignment by way of first fixed security in favour of the Trustee of the benefit of the servicing agreement to be entered into between the Issuer, Arianty, the Servicer and the Trustee (the “**Servicing Agreement**”), the standby servicing agreement to be entered into between the Issuer, the Servicer, the Standby Servicer and the Trustee (the “**Standby Servicing Agreement**”), the mortgage sale agreement to be entered into between Arianty, Mortgage Trust, Mortgage Trust Services, the Issuer and the Trustee (the “**Mortgage Sale Agreement**”), the Scottish Trust, the Agency Agreement, the Guaranteed Investment Contract, the Redraw Facility Agreement, the Declarations of Trust, the VAT Declaration of Trust, the Tax Deed of Covenant, the Bank Agreement, the Start-Up Loan Agreement, the Interest Rate Swap Agreements, the Currency Swap Agreements, the Master Definitions Schedule (all as defined below) and such other documents as are expressed to be subject to the charges under the Deed of Charge (all such documents together, the “**Transaction Documents**”);
- (iv) a first fixed equitable charge in favour of the Trustee over the Issuer’s beneficial interest in the Trust Accounts, the Transaction Account, the GIC Account, the VAT Account and the Issuer’s Investments (each as defined in “**Credit Structure**” below), and any other bank account of the Issuer from time to time; and

- (v) a first floating charge in favour of the Trustee (ranking after the security referred to in (i) to (iv) above) over the whole of the undertaking, property, assets and rights of the Issuer ((i) to (v) together the “**Security**”).

The Class A Notes and the Class M Notes will be constituted by 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 Class M Notes.

Rating of Notes

The Class A Notes are expected to be assigned an Aaa rating by Moody’s and an AAA rating by S&P. The Class M Notes are expected to be assigned an A2 rating by Moody’s and an A rating by S&P.

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

Listing of the Notes

Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List. Application has also been made to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange’s market for listed securities.

Governing Law of the Notes

The Notes will be governed by and construed in accordance with English law.

The Mortgages - Overview

Mortgages

All the Mortgages met certain lending criteria at the time of origination (see “**The Mortgage Pool – Lending Policy**” below) and were originated by Mortgage Trust. The beneficial interest in the Mortgages was either (i) transferred by Mortgage Trust directly to Arianty pursuant to a mortgage sale agreement dated 21st December 2000 as amended and restated on 14th November 2001 between, *inter alios*, Mortgage Trust and Arianty (the “**First Origination Mortgage Sale Agreement**”) or (ii) transferred by Mortgage Trust to Mortgage Trust Services pursuant to a mortgage sale agreement dated 30th September 2003 between Mortgage Trust and Mortgage Trust Services (the “**Mortgage Trust Mortgage Sale Agreement**”) and, simultaneously with such transfer, by Mortgage Trust Services to Arianty pursuant to a mortgage sale agreement dated 30th September 2003 between Mortgage Trust, Mortgage Trust Services, Arianty and Citicorp Trustee Company Limited (the “**Second Origination Mortgage Sale Agreement**”).

As at the date immediately prior to (i) the Issue Date (in respect of the Initial Mortgages) and (ii) the date on which the Issuer purchases Pre-Funded Mortgages or Substitute Mortgages, the beneficial interest in the relevant Mortgages will reside with Arianty and legal title in the relevant Mortgages will be held by Mortgage Trust. Pursuant to the Mortgage Sale Agreement, the Issuer will be given the right to call for legal title to the Mortgages to be transferred to it from Mortgage Trust in certain circumstances. On the Issue Date, in respect of the Initial Mortgages and on any other date that the Issuer purchases Pre-Funded Mortgages or Substitute Mortgages from Arianty, the Issuer shall purchase all of Arianty’s interest in the relevant Mortgages.

The Provisional Mortgage Pool comprises Standard Variable Mortgages, Base Rate Linked Mortgages, LIBOR Linked Mortgages and Fixed Rate Mortgages (see “**The Provisional Mortgage Pool – Rate of Interest**” below). For a specified period of time some of these Mortgages may also be Discounted Mortgages.

Repayment terms under each Mortgage differ according to the repayment type. The Provisional Mortgage Pool (as defined below) will include Repayment Mortgages, Endowment Mortgages, Pension Mortgages and Interest Only Mortgages (see “**The Provisional Mortgage Pool – Repayment Terms**” below).

All of the Mortgages are secured by (i) first legal charges or standard securities or mortgages or (ii) in relation to Further Advances where the Borrower Loan Limit is not increased, second or subsequent legal charges or standard securities or mortgages over which no legal charge or standard security or mortgage which is not a Mortgage, has priority, in each case, over freehold or heritable or leasehold properties located in England or Wales or Scotland or Northern Ireland and relate to either investment properties or owner-occupied properties.

98.76% of Mortgages by drawn value in the Mortgage Pool as at 30th September 2003 provide the relevant Borrower with the option to redraw a portion of the principal of his Mortgage (or, subject to the consent of Mortgage Trust, take a Payment Holiday (as defined in “**The Mortgage Pool – The Provisional Mortgage Pool**” below)) (“**Redraws**”) if and to the extent that such Borrower has previously made prepayments on its Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments and provided that the amount of such Redraw is limited to ensure that the outstanding balance of the Mortgage after such Redraw is no greater than the principal balance of the Mortgage which would have been outstanding at such time if the Borrower had made payments in accordance with the repayment plan used by Mortgage Trust to provide a baseline for repayment of the Mortgage. The amount which is capable of being redrawn under a Mortgage is referred to as the “**Potential Redraw Amount**”.

95.50% of the Mortgages by drawn value in the Mortgage Pool as at 30th September 2003 relate to properties purchased by the relevant Borrower to be occupied by tenants or held as an investment. The conditions of such Mortgages require that these properties, if let, will be let under an assured shorthold or short assured tenancy and in all cases that any occupier will have no statutory security of tenure (see “**The Mortgage Pool – Investment Home Loans**” below). The other 4.50% of the Mortgages by drawn value in the Mortgage Pool as at 30th September 2003 relate to owner occupied properties.

Representations and Warranties

The Issuer will have the benefit of (i) warranties given by Arianty as at the Issue Date in relation to the Mortgages (or, in the case of Pre-Funded Mortgages or Substitute Mortgages, as at the date such Mortgages are acquired by the Issuer), (ii) warranties given by Mortgage Trust Services in relation to those Mortgages sold by Mortgage Trust to Arianty under the First Origination Mortgage Sale Agreement as at the date of the sale of such Mortgages to Arianty; (iii) warranties given by Mortgage Trust Services in relation to those Mortgages sold by it to Arianty under the Second Origination Mortgage Sale Agreement as at the date of the sale of such Mortgages to Arianty; (iv) warranties given by Mortgage Trust Services in its capacity as administrator pursuant to an administration agreement dated 21st December 2000 as amended and restated on 14th November 2001 and on 30th September 2003 between Mortgage Trust, Mortgage Trust Services, Arianty and Citicorp Trustee Company Limited (the “**Origination Administration Agreement**”) for the period between the date of sale of the Mortgages to Arianty pursuant to the First Origination Mortgage Sale Agreement or the Second Origination Mortgage Sale Agreement, as applicable, and the Issue Date (or, in the case of Pre-Funded Mortgages or Substitute Mortgages, at the date such Mortgages are acquired by the Issuer) including in respect of the relevant period that Mortgage Trust acted as administrator under the Origination Administration Agreement.

Arianty and/or Mortgage Trust Services, as applicable, will be required to either provide a substitute Mortgage (a “**Substitute Mortgage**”) in exchange for, or repurchase, any Mortgage with respect to which any warranty made by Arianty and/or Mortgage Trust Services, as applicable, proves to be untrue as at the date made and which breach has not been remedied within 30 days of receipt of notice from the Issuer. Such Substitute Mortgage shall comply with the requirements applicable to the

Initial Mortgages. Neither Arianty nor Mortgage Trust Services, as applicable, may offer a Substitute Mortgage to the Issuer if the aggregate outstanding principal balance of the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the aggregate outstanding principal balance of the Substitute Mortgage offered plus the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the Substitute Mortgage offered exceeds the sum of (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool and (ii) the aggregate Potential Redraw Amount with respect to such Mortgages, each as at the Determination Date immediately preceding the last Interest Payment Date.

Where a Mortgage triggers a warranty breach by both Arianty and Mortgage Trust Services (the “**Warrantors**”), the Issuer may claim or, as the case may be, initiate claims against either or both of the Warrantors in respect of such breach.

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

Pre-Funded Mortgages

To the extent that the proceeds of the Notes exceed the Purchase Price (as defined in “**The Mortgage Pool – Sale of Mortgages**” below) of the Initial Mortgages purchased, the Issuer shall as soon as practicable purchase further mortgages from Arianty (the “**Pre-Funded Mortgages**”) at any time on or after the Issue Date but no later than the first Determination Date after the Issue Date. Such Pre-Funded Mortgages shall comply with the eligibility criteria applicable to the Initial Mortgages (as amended or varied with the prior written confirmation of the Rating Agencies that such amendment to or variation of such eligibility criteria will not cause the downgrade of the then current rating of the Notes).

For further criteria relating to the purchase of Pre-Funded Mortgages, see “**The Mortgage Pool – Pre-Funded Mortgages**” below.

Pre-Funded Ledger

The proceeds of the Notes which exceed the Purchase Price (as defined in “**The Mortgage Pool – Sale of Mortgages**” below) of the Initial Mortgages shall be credited to a ledger to be established and maintained in the Issuer’s accounting books and represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer’s Investments (the “**Pre-Funded Ledger**”). The Issuer (or the Servicer on its behalf) shall use the amounts standing to the credit of the Pre-Funded Ledger to purchase Pre-Funded Mortgages.

Any amounts not applied to purchase Pre-Funded Mortgages on or before the first Determination Date and standing to the credit of the Pre-Funded Ledger shall be treated as Redemptions and shall be applied in accordance with the Priority of Payments.

Servicing

Mortgage Trust Services will be appointed under the terms of the Servicing Agreement as agent for the Issuer and the Trustee, *inter alia*, to administer the Mortgage Pool, including the collection of payments under the Mortgages, the operation of the arrears procedures and the setting of interest rates under the Mortgages (in its capacity as such, the “**Servicer**”). The Servicer is obliged under the Servicing Agreement to report on a monthly basis to the Trustee and the Issuer on the Mortgage Pool and the administration of the Mortgages (see “**The Mortgage Pool – Administration of the Mortgage Pool**” below). If the appointment of Mortgage Trust Services as Servicer is terminated and the Issuer and the Trustee do not appoint any other servicer, the Standby Servicer will assume such servicing functions pursuant to the terms of the Standby Servicing Agreement.

Covenants

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

Priority of Payments

Priority of Payments - Pre Enforcement

On each Interest Payment Date, the monies standing to the credit of the Transaction Account (save for any cash representing collateral posted by the Currency Swap Counterparty or any Interest Rate Swap Counterparty to the extent that such cash has not been released to the Issuer pursuant to the terms of the relevant Currency Swap Agreement or Interest Rate Swap Agreement and any interest earned thereon) including, for the avoidance of doubt, all available monies representing a credit balance in the Reserve Ledger (as defined in “**Credit Structure – Reserve Fund**”) (save that such monies may only be applied to meet items (i) to (vi) below), all available monies representing a credit balance in the Liquidity Reserve Ledger (as defined in “**Credit Structure – Liquidity Reserve**” below)(save that such monies may only be applied to meet items (i) to (vi) below), all available monies advanced under the Redraw Facility or monies released from the Redraw Ledger (as defined in “**Credit Structure – Redraw Facility**” below) in the preceding Interest Period (save that such monies may only be applied to purchase the right to repayment of Redraws under item (ix) below or to rollover existing advances under the Redraw Facility), any Threshold Amount Deposit made on the immediately preceding Determination Date, all amounts paid by the Interest Rate Swap Counterparties under any Interest Rate Swap Agreement in the preceding Interest Period, all monies released from the Base Rate Reserve (as defined in “**Credit Structure – Base Rate Reserve**” below) in the preceding Interest Period and all monies released from the Discount Reserve (as defined in “**Credit Structure – Discount Reserve**” below) in the preceding Interest Period will, after making payment of or providing for Excluded Items (as defined under “**Excluded Items**” below), until enforcement of the Security for the Notes, be applied (save as the payee may otherwise agree) in making the following payments or provisions in the following order of priority (the “**Priority of Payments**”):

- (i) to pay or provide for *pari passu* and *pro rata* (a) the remuneration payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents and (b) amounts due and payable to the Standby Servicer under the Standby Servicing Agreement;
- (ii) to pay or provide for amounts due and payable and/or which will become due and payable prior to the next Interest Payment Date to the Paying Agents and Agent Bank under the Agency Agreement;
- (iii) to pay or provide for *pari passu* and *pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer on or after such Interest Payment Date by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere and (b) the Issuer’s liability or possible liability for corporation tax and (c) the balance, if any, of the value added tax liability of the Paragon VAT Group (as defined in “**The Paragon VAT Group**” below) following a demand being made by HM

Customs & Excise on the Issuer where the value added tax liability is not satisfied in full in accordance with the Deed of Charge, the Servicing Agreement and the VAT Declaration of Trust (as defined in “**The Paragon VAT Group**” below);

- (iv) to pay the Senior Servicing Fee (as defined in “**The Mortgage Pool – Administration of the Mortgage Pool**” below) due and payable to the Servicer on such Interest Payment Date together with costs and expenses which are payable or expected to become payable by the Servicer under the Servicing Agreement prior to the next Interest Payment Date;
- (v) to pay *pari passu* and *pro rata*:
 - (a) all amounts payable by the Issuer to the Interest Rate Swap Counterparties pursuant to the Interest Rate Swap Agreements other than (i) any Interest Rate Swap Counterparty Default Payments (as defined below) and (ii) any Withholding Compensation Amounts;
 - (b) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class A2 Currency Swap Agreement and the Class A3 Currency Swap Agreement (each as defined below) other than (i) any Currency Swap Counterparty Default Payments (as defined below) and (ii) any Withholding Compensation Amounts;
 - (c) all amounts payable under the Redraw Facility other than in respect of principal; and
 - (d) all amounts payable in respect of the Class A Notes other than in respect of principal on the Class A Notes;
- (vi) subject to an M Note Trigger Event not having occurred on that Interest Payment Date, to pay *pari passu* and *pro rata*:
 - (a) all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes; and
 - (b) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class M2 Currency Swap Agreement (as defined below) other than (i) any Currency Swap Counterparty Default Payment and (ii) any Withholding Compensation Amounts;
- (vii) to credit all amounts, other than Principal Collections (as defined below), to the Reserve Fund up to the Reserve Fund Required Amount (as defined in “**Credit Structure – Reserve Fund**” below);
- (viii) if a Liquidity Trigger Event has occurred and is continuing on the immediately preceding Determination Date, to credit the Liquidity Reserve up to the Liquidity Reserve Required Amount (as defined in “**Credit Structure – Reserve Fund**” below) unless, upon the Issuer’s request, the Rating Agencies have confirmed that failure to make such credit will not adversely affect the then current rating of the Notes;
- (ix) to pay for the purchase by the Issuer of the rights to repayment of Redraws;
- (x) to repay all principal amounts outstanding under the Redraw Facility;

- (xi) to fund the purchase by the Issuer of Further Advances up to an amount equal to the lower of (a) the Potential Redemption Amount less amounts applied in accordance with item (x) above and (b) the aggregate amount of Redemptions received during the immediately preceding Collection Period less amounts applied in accordance with item (x) above;
 - (xii) to allocate an amount to be applied in redeeming the Notes equal to the greater of (a) zero and (b) the Potential Redemption Amount less the sum of the amounts applied under items (x) and (xi) above;
 - (xiii) if an M Note Trigger Event occurs on such Interest Payment Date, to pay *pari passu* and *pro rata*:
 - (a) all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes; and
 - (b) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class M2 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment and (ii) any Withholding Compensation Amounts;
 - (xiv) to credit the Base Rate Reserve up to the Base Rate Reserve Required Amount;
 - (xv) to fund the purchase by the Issuer of hedges that may be required in order to preserve a rate at least equal to the Threshold Rate (as defined in “**Credit Structure – Threshold Rate**” below) in respect of Pre-Funded Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date (see “**The Mortgage Pool**” below);
 - (xvi) to credit the Discount Reserve in an amount equal to the aggregate Loan Expected Differentials arising from Discounts on Substitute Mortgages or Further Advances purchased on such Interest Payment Date (see “**The Mortgage Pool**” below);
 - (xvii) *pari passu* and *pro rata*:
 - (a) to pay (i) any Withholding Compensation Amounts to be paid *pro rata* to such amounts due under the relevant Interest Rate Swap Agreement and (ii) any Interest Rate Swap Counterparty Default Payments payable to any Interest Rate Swap Counterparty to be paid *pro rata* to such amounts due under the relevant Interest Rate Swap Agreement; and
 - (b) to pay (i) any Withholding Compensation Amounts to be paid *pro rata* to such amounts due under the relevant Currency Swap Agreement and (ii) any Currency Swap Counterparty Default Payments payable to the Currency Swap Counterparty to be paid *pro rata* to such amounts due under the relevant Currency Swap Agreement;
- and provided that there is no Principal Deficiency on such Interest Payment Date and that no Event of Default has occurred:
- (xviii) to pay the Subordinated Servicing Fee (as defined in “**The Mortgage Pool – Administration of the Mortgage Pool**” below) due and payable to the Servicer on such Interest Payment Date;
 - (xix) to pay amounts repayable to the Servicer in respect of any Threshold Amount Deposit (as defined in “**Credit Structure – Threshold Rate**” below) which the Servicer elects to release;
 - (xx) to pay amounts payable in respect of the Start-Up Loan other than in respect of principal on the Start-Up Loan;
 - (xxi) to pay amounts payable in respect of principal under the Start-Up Loan;

(xxii) to pay *pari passu* and *pro rata* (a) sums due to Arianty as Arianty Deferred Purchase Consideration (as defined in “**Credit Structure – Deferred Purchase Consideration**” below) and (b) sums due to Mortgage Trust as Mortgage Trust Deferred Purchase Consideration (as defined in “**Credit Structure – Deferred Purchase Consideration**” below); and

(xxiii) to make dividend payments to shareholders of the Issuer.

In the event that any payment is to be made in accordance with the above Priority of Payments and the money available at a particular level of that priority does not comprise a sufficient amount in the relevant currency in which such payment is to be made, the Issuer shall, if the relevant Currency Swap Agreement has terminated, convert such of that available money into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

Liquidity Trigger Event

A “**Liquidity Trigger Event**” will occur if more than 15% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool on the immediately preceding Determination Date comprise Mortgages in respect of which there are arrears equal to or greater than an amount equal to the then current scheduled monthly payment due under the relevant Mortgage multiplied by three.

M Note Trigger Event

If there are Class A Notes outstanding, an “**M Note Trigger Event**” will occur on an Interest Payment Date if on such Interest Payment Date, on the assumption that an M Note Trigger Event does not occur, the application of funds in accordance with the Priority of Payments will give rise to a Principal Deficiency which exceeds the then Principal Amount Outstanding of the Class M Notes on such Interest Payment Date.

Potential Redemption Amount

The “**Potential Redemption Amount**” will be determined on each Determination Date as follows:

- (a) the aggregate amount of Redemptions, Prepayments, enforcement proceeds, recoveries and insurance proceeds (in each case, to the extent they relate to principal) received during the immediately preceding Collection Period in respect of the Mortgages (“**Principal Collections**”); plus
- (b) principal losses realised upon completion of the enforcement and recovery process in relation to the Mortgages during the immediately preceding Collection Period; plus
- (c) an amount equal to the Principal Deficiency (as defined in “**Credit Structure – Use of Ledgers**” below) recorded on the previous Determination Date; less
- (d) the aggregate principal amount of Redraws the right to repayment of which are to be purchased by the Issuer using Principal Collections on the immediately succeeding Interest Payment Date,

provided that the Potential Redemption Amount shall never be less than zero.

Redemption Amount

The amount allocated for redemption of the Notes under item (xii) of the Priority of Payments (the “**Redemption Amount**”) will be divided into a “**Class A Redemption Amount**” and a “**Class M Redemption Amount**”. During a Class M Principal Lock Out, the Class A Redemption Amount will equal the lesser of the Redemption Amount and the aggregate principal amount of the Class A Notes then outstanding and the Class M Redemption Amount will be zero (except that if the Redemption Amount is greater than the aggregate principal amount of the Class A Notes then outstanding, then the excess will be allocated to the Class M Redemption Amount (after the payment of any shortfall in item (xiii) of the Priority of Payments) up to the aggregate principal amount of the Class M Notes then outstanding).

A “**Class M Principal Lock Out**” shall occur on any Interest Payment Date provided that there are Class A Notes outstanding (i) during the period up to (and including) the Interest Payment Date falling five years after the Issue Date (the “**Class M Principal Lock Out Period**”), (ii) where on such Interest Payment Date the sum of the Reserve Fund and the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class M Conditions) of the Class M Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes and Class M Notes is not at least twice that same percentage as at the Issue Date, (iii) where a Principal Deficiency exists on such Interest Payment Date, (iv) where the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than 2.5% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, in each case as at the immediately preceding Determination Date, or (v) where the sum of the Principal Amount Outstanding of the Class M Notes on such Interest Payment Date is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date.

If no Class M Principal Lock Out applies on an Interest Payment Date and there are Class A Notes outstanding, the Redemption Amount will be divided between the Class A Redemption Amount and the Class M Redemption Amount in such amounts as would maintain the then current ratio of Class A Notes to Class M Notes. If on any Interest Payment Date there are no Class A Notes outstanding, the Redemption Amount will be equal to the Class M Redemption Amount.

Excluded Items

The following items (“**Excluded Items**”) may be paid or provided for prior to the allocation of sums under the Priority of Payments:

- (i) certain monies which properly belong to third parties (such as monies owing to any party in respect of reimbursement for direct debit recalls);
- (ii) on the first Interest Payment Date following the Issue Date, amounts payable to Arianty under the Mortgage Sale Agreement in respect of reconciliations of the amounts paid in respect of the purchase of the Mortgages on the Issue Date; and
- (iii) where the Issuer is unable to purchase the right to repayment of Redraws and/or Further Advances made with respect to one or more Mortgages on any Interest Payment Date (such Redraws and/or Further Advances continuing to be funded by Mortgage Trust or Mortgage Trust Services, as applicable, on the basis that the Issuer holds each relevant Mortgage on trust for itself and Mortgage Trust or Mortgage Trust Services, as applicable, each party’s interest being proportionate to the funding provided by it), the aggregate of Mortgage Trust’s *pro rata* share of amounts received in respect of each such Mortgage during the immediately preceding Collection Period.

Priority of Payments – Post-Enforcement

After the Trustee has given notice to the Issuer pursuant to Condition 9 of the Class A Notes and the Class M Notes, declaring the Notes to be due and payable, no rights to repayment of Redraws, Further Advances or Pre-Funded Mortgages may be purchased and the Trustee shall, after making payment of or providing for Excluded Items, use the money received in respect of the Mortgages (including proceeds of the enforcement of the Security) and monies standing to the credit of the Transaction Account (excluding any cash representing collateral posted by the Currency Swap Counterparty or any Interest Rate Swap Counterparty to the extent that such cash has not been released to the Issuer pursuant to the terms of the relevant Currency Swap Agreement or Interest Rate Swap Agreement and any interest earned thereon) and the Issuer’s Investments (as defined in “**Credit Structure – Issuer’s Investments**” below) and the Issuer’s share of monies standing to the

credit of the Trust Accounts to make payments in the following order of priority pursuant to and in accordance with, and as set out more fully in, the Deed of Charge:

- (i) to pay the remuneration then due and payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by the Trustee or any receiver appointed by the Trustee under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
- (ii) to pay the remuneration then due and payable to the Agent Bank and the Paying Agents and any fees, costs, charges, liabilities and expenses incurred by them or by the Account Bank under the Bank Agreement and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
- (iii) to pay or provide for *pari passu* and *pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere; (b) the Issuer's liability or possible liability for corporation tax and (c) the balance, if any, of the value added tax liability of the Paragon VAT Group following a demand being made by HM Customs & Excise on the Issuer where the value added tax liability is not satisfied in full in accordance with the Deed of Charge, the Servicing Agreement and the VAT Declaration of Trust;
- (iv) to pay *pari passu* and *pro rata* (a) in or towards satisfaction of any fees, other than the Subordinated Servicing Fee, due and payable to the Servicer and any costs, charges, expenses and liabilities incurred by the Servicer and (b) all amounts due and payable to the Standby Servicer under the Standby Servicing Agreement;
- (v) to pay *pari passu* and *pro rata* (a) all amounts due under the Interest Rate Swap Agreements, and all amounts due to the Currency Swap Counterparty in respect of the Class A2 Currency Swap Agreement and the Class A3 Currency Swap Agreement, to be applied *pro rata* to such amounts due under the relevant Currency Swap Agreement or Interest Rate Swap Agreement other than (i) any Currency Swap Counterparty Default Payment, (ii) any Interest Rate Swap Counterparty Default Payment and (iii) any Withholding Compensation Amounts, (b) all amounts due under the Redraw Facility; and (c) interest and principal and all other amounts due and payable in respect of the Class A Notes;
- (vi) to pay *pari passu* and *pro rata*:
 - (a) interest due and payable in respect of the Class M Notes and then principal and all other amounts due and payable in respect of the Class M Notes; and
 - (b) all amounts due to the Currency Swap Counterparty in respect of the Class M2 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment and (ii) any Withholding Compensation Amounts;
- (vii) to pay (a) to the Currency Swap Counterparty, any Currency Swap Counterparty Default Payments; (b) to the Interest Rate Swap Counterparties, any Interest Rate Swap Counterparty Default Payments and (c) any Withholding Compensation Amounts, in each case to be paid *pro rata* to such amounts due under the relevant Currency Swap Agreement or Interest Rate Swap Agreement;

- (viii) to pay any Subordinated Servicing Fee due and payable to the Servicer;
- (ix) to pay any interest and principal amounts due and payable under the Start-Up Loan Agreement;
- (x) to pay *pro rata* and *pari passu* (a) sums due to Arianty as Arianty Deferred Purchase Consideration and (b) sums due to Mortgage Trust as Mortgage Trust Deferred Purchase Consideration; and
- (xi) to pay the surplus (if any) to the shareholders of the Issuer by way of dividends.

In the event that any payment is to be made in accordance with the above priority of payments and the money available at a particular level of that priority does not comprise a sufficient amount in the relevant currency in which such payment is to be made, the Issuer shall, if the relevant Currency Swap Agreement has terminated, convert such of that available money into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

“**Redemptions**” means scheduled principal payments plus full and part principal repayments (including enforcement and insurance proceeds) under a Mortgage where the Borrower Loan Limit (as defined in “**The Mortgage Pool – The Provisional Mortgage Pool**” below) reduces as a result of repayment ahead of the repayment plan administered by Mortgage Trust to provide a baseline for the repayment of the Mortgage.

“**Prepayments**” means part principal repayments under a Mortgage where the Borrower Loan Limit does not change following prepayment ahead of the repayment plan used by Mortgage Trust to provide a baseline for the repayment of the Mortgage.

Credit Structure

Redraw Facility

The Issuer will enter into a sterling revolving credit facility (the “**Redraw Facility**”, which term will include any extended or replacement facility) with Barclays (the “**Redraw Facility Provider**”, which term will include any replacement Redraw Facility Provider). The Redraw Facility may be utilised by the Issuer on any Interest Payment Date to fund the purchase of rights to repayment of Redraws (including Payment Holidays) (as defined below) with respect to Mortgages owned by the Issuer up to an amount calculated on such Interest Payment Date as the lower of (a) the difference between the Redraw Facility Limit (as defined in “**Credit Structure – Redraw Facility**” below) and the aggregate amount of advances outstanding under the Redraw Facility which will not be repaid on such Interest Payment Date or following a downgrade in the Required Redraw Facility Provider Rating (as defined below), the amount standing to the credit of the Redraw Ledger (as defined below) (the “**Available Facility**”) and (b) the aggregate Principal Amount Outstanding of the Class A Notes on such Interest Payment Date. The Redraw Facility Provider will not be obliged to advance funds on any Interest Payment Date beyond such maximum amount. Amounts may only be drawn under the Redraw Facility if there are no amounts available for the purpose of purchasing the right to repayment of Redraws in accordance with the Priority of Payments.

The commitment of the Redraw Facility Provider under the Redraw Facility will expire on the Interest Payment Date falling in December 2035 provided that the Notes have not been redeemed earlier and enforcement of the Security in accordance with Condition 10 of the Class A Notes and the Class M Notes has not occurred (the “**Redraw Commitment Expiry Date**”).

Redraws

On each Interest Payment Date while Notes are outstanding, Mortgage Trust’s rights with respect to any Redraws made by Borrowers during the immediately preceding Collection Period shall be assigned to the Issuer by Mortgage Trust and the Issuer shall be obliged to purchase such rights

up to an aggregate amount (the “**Maximum Redraw Amount**”) equal to the amount available for such purpose in accordance with the Priority of Payments on such Interest Payment Date (including the amount of the Available Facility at such time under the Redraw Facility). A Payment Holiday is deemed to be a Redraw in respect of the increase in the principal balance of the Mortgage as a result of the capitalisation of the relevant Borrower’s Overpayments (as defined under “**The Mortgage Pool – The Provisional Mortgage Pool**” below) in an amount equal to the Minimum Monthly Payments (as defined under “**The Mortgage Pool – The Provisional Mortgage Pool**” below) such Borrower would have had to make had the Borrower not taken a Payment Holiday.

Issuer’s Investments

Amounts standing to the credit of the Transaction Account may be invested in the Issuer’s Investments (as defined in “**Credit Structure**” below). Amounts of interest earned on amounts standing to the credit of the Transaction Account or amounts invested in the Issuer’s Investments shall be credited to the Transaction Account on or before each Interest Payment Date and applied in accordance with the Priority of Payments.

Reserve Fund

A Reserve Fund (as defined in “**Credit Structure – Reserve Fund**” below) will be established on the Issue Date using a tranche of the Start-Up Loan (as defined in “**Credit Structure – Start-Up Loan**” below). All amounts representing a credit balance in the Reserve Ledger may be applied to meet items (i) to (vi) of the Priority of Payments provided that whilst there are Class A Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class M Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than the lower of (1) £2,995,134 and (2) the Principal Amount Outstanding of the Class A Notes (plus any amounts to be paid in priority thereto). The Reserve Fund shall be replenished on each Interest Payment Date in accordance with the Priority of Payments up to the Reserve Fund Required Amount. If at any time the amount standing to the credit of the Reserve Fund exceeds the Reserve Fund Required Amount, the amount of such excess shall be debited from the Reserve Fund and made available for application in accordance with the Priority of Payments. The “**Reserve Fund Required Amount**” means (A) from and including the Issue Date to and including the Coupon Step Up Date, on each Interest Payment Date, (1) if an Arrears Event is not occurring, £14,476,479 or (2) if an Arrears Event is occurring, £16,972,424; (B) from and excluding the Coupon Step Up Date, on each Interest Payment Date, (1) if an Arrears Event is not occurring, the greater of (i) 5.80% multiplied by the aggregate Principal Amount Outstanding of the Class A Notes and the Class M Notes and (ii) the Reserve Fund Requirement Floor or (2) if an Arrears Event is occurring, £16,972,424.

An “**Arrears Event**” means an event where more than 3% of the aggregate principal balance of the Mortgages comprised in the Mortgage Pool on the immediately preceding Determination Date comprises Mortgages in respect of which there are arrears equal to or greater than an amount equal to the then current scheduled monthly payment due under the relevant Mortgages multiplied by two.

The “**Reserve Fund Requirement Floor**” is equal to the greater of (a) £2,000,000, (b) two times the aggregate principal balance of the largest Mortgage or two times the aggregate principal balance of the largest group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date, (c) the aggregate principal balance of the five largest Mortgages or the aggregate principal balance of the five largest groups of Mortgages in the names of single Borrowers as at the immediately preceding Determination Date and (d) two times the aggregate of (1) amounts to be applied to meet items (i) to (iv) of the Priority of Payments on that Interest Payment Date, (2) all amounts payable under the Redraw Facility other than in respect of principal on that Interest Payment Date and (3) the amount of interest payable on the Class A Notes and the Class M Notes on that Interest Payment Date in respect of the immediately preceding Interest Period.

Liquidity Reserve

A fund will be established in the Transaction Account (the “**Liquidity Reserve**”) on the occurrence of a Liquidity Trigger Event (as defined in “**Priority of Payments – Pre-Enforcement**” above). The Liquidity Reserve may be applied to meet items (i) to (vi) of the Priority of Payments. All amounts representing a credit balance on the Liquidity Reserve shall be replenished on each Interest Payment Date in accordance with the Priority of Payments up to the Liquidity Reserve Required Amount. If at any time the amount representing a credit balance in the Liquidity Reserve exceeds the Liquidity Reserve Required Amount, the amount of such excess shall be debited from the Liquidity Reserve and made available for application in accordance with the Priority of Payments. The “**Liquidity Reserve Required Amount**” on any Interest Payment Date following a Liquidity Trigger Event, shall be the amount (if any) which is 3% of the aggregate Principal Amount Outstanding of the Notes minus the amount held (if any) as a credit balance in the Reserve Fund at such time.

Base Rate Reserve

A Base Rate Reserve (as defined in “**Credit Structure – Base Rate Reserve**” below) will be established using a tranche of the Start-Up Loan. All amounts representing a credit balance in the Base Rate Reserve will be available to cover any shortfalls resulting from the base rate applicable to Base Rate Linked Mortgages (as defined in “**The Provisional Mortgage Pool – Rate of interest**” below) being at a level more than 0.15% below Note Sterling LIBOR in respect of any Interest Period. The base rate applicable to Base Rate Linked Mortgages is the Bank of England repo rate set from time to time by the Monetary Policy Committee of the Bank of England (the “**Bank of England Base Rate**”). The Base Rate Reserve shall be replenished on each Interest Payment Date in accordance with the Priority of Payments up to the Base Rate Reserve Required Amount (as defined in “**Credit Structure – Base Rate Reserve**” below). If, on any Interest Payment Date, the amount standing to the credit of the Base Rate Reserve exceeds the Base Rate Reserve Required Amount, the amount of such excess shall be debited from the Base Rate Reserve and made available for application in accordance with the Priority of Payments.

Discount Reserve

A Discount Reserve (as defined in “**Credit Structure – Discount Reserve**” below) will be established on the Issue Date using a tranche of the Start-Up Loan. All amounts representing a credit balance in the Discount Reserve will be available to cover the aggregate of any Expected Differentials (as defined in “**Credit Structure – Discount Reserve**” below) resulting from Discounted Mortgages (as defined in “**The Provisional Mortgage Pool – Rate of Interest**” below). Each time a Pre-Funded Mortgage comprising a Discounted Mortgage is acquired by the Issuer, the Loan Expected Differential (as defined in “**Credit Structure – Discount Reserve**” below) arising from the future discount of such Pre-Funded Mortgage shall be credited to the Discount Reserve using amounts drawn under the Start-Up Loan. The Discount Reserve shall be replenished by the Issuer on each Interest Payment Date to cover the Expected Differentials arising from future discounts on any Substitute Mortgages and Further Advances which are, or relate to, Discounted Mortgages purchased on such Interest Payment Date by crediting the Discount Reserve and be made available in accordance with the Priority of Payments. On each Interest Payment Date, the aggregate amount of any Loan Expected Differentials (as defined in “**Credit Structure – Discount Reserve**” below) allocated to Discounted Mortgages which have redeemed in the immediately preceding Interest Period shall be debited from the Discount Reserve and be made available for application in accordance with the Priority of Payments.

Interest Rate Hedging

Under the Threshold Rate mechanism (as described under “**Credit Structure – Threshold Rate**” below), the Servicer is obliged to procure, in respect of each Interest Period, that the interest expected to be received from the Mortgages in the Mortgage Pool during such Interest Period,

plus related amounts available as described below, is equal to or greater than the amount produced by applying the Threshold Rate (as defined under “**Credit Structure – Threshold Rate**” below) to the aggregate outstanding balances of the Mortgages in the Mortgage Pool in respect of such Interest Period. Compliance with this requirement will be achieved through a combination of (i) initial hedges entered into with the Interest Rate Swap Counterparties (as defined under “**Credit Structure – Interest Rate Hedging**” below), (ii) reserves established to provide for potential interest shortfalls and (iii) the Servicer’s ability to require the standard variable rate to be set in relation to each Standard Variable Rate Mortgage to ensure compliance with the Threshold Rate mechanism.

Currency Swap Agreements

The Currency Swap Counterparty will provide the Issuer with the benefit of currency swap agreements in relation to the Class A2 Notes (the “**Class A2 Currency Swap Transaction**”), the Class A3 Notes (the “**Class A3 Currency Swap Transaction**”) and the Class M2 Notes (the “**Class M2 Currency Swap Transaction**”). The Class A2 Currency Swap Transaction and the Class M2 Currency Swap Transaction are together referred to in this document as the “**Euro Currency Swap Transactions**” and will be subject to separate agreements to be entered into between the Currency Swap Counterparty and the Issuer. The Euro Currency Swap Transactions and the Class A3 Currency Swap Transaction are together referred to in this document as the “**Currency Swap Transactions**”. The Currency Swap Transactions shall be in the form of an International Swaps and Derivatives Association, Inc. (“**ISDA**”) 1992 Master Agreement (Multicurrency – Cross Border) together with the relevant schedules and confirmations attached thereto (respectively, the “**Class A2 Currency Swap Agreement**”, the “**Class A3 Currency Swap Agreement**” and the “**Class M2 Currency Swap Agreement**”, and together, the “**Currency Swap Agreements**”).

Start-Up Loan

The Issuer will enter into a start-up loan agreement (the “**Start-Up Loan Agreement**”) with Mortgage Trust Services (the “**Start-Up Loan Provider**”) pursuant to which a loan (the “**Start-Up Loan**”) will be made available by Mortgage Trust Services to the Issuer in five tranches. The purpose of each tranche of the Start-Up Loan is specified in “**Credit Structure – Start-Up Loan**” below.

Permitted Investments

The Servicer will be entitled to invest cash from time to time standing to the credit of the Transaction Account in Permitted Investments (as defined in “**Credit Structure – Permitted Investments**” below) provided that each such Permitted Investment (i) has a yield which is higher than that which could otherwise be obtained under the Guaranteed Investment Contract, (ii) matures or can be repaid without penalty on or prior to the Interest Payment Date on which the cash represented by such Permitted Investment is required by the Issuer and (iii) that such investments are in the same currency as that of the cash used to make such investments. Permitted Investments shall not include investments in equity securities.

Certain Special Considerations

The following is a summary of certain aspects of the issue of the Notes about which prospective Noteholders should be aware. The summary is not intended to be exhaustive and prospective Noteholders should read the detailed information set out in the section below entitled “Credit Structure” and elsewhere in this document.

Warranties

The Issuer will have the benefit of (i) warranties given by Arianty as at the Issue Date in relation to the Mortgages (or, in the case of Pre-Funded Mortgages or Substitute Mortgages, as at the date such Mortgages are acquired by the Issuer), (ii) warranties given by Mortgage Trust Services in relation to those Mortgages sold by Mortgage Trust to Arianty under the First Origination Mortgage Sale Agreement as at the date of the sale of such Mortgages to Arianty; (iii) warranties given by Mortgage Trust Services in relation to those Mortgages sold by it to Arianty under the Second Origination Mortgage Sale Agreement as at the date of the sale of such Mortgages to Arianty; (iv) warranties given by Mortgage Trust Services in its capacity as administrator pursuant to an administration agreement dated 21st December 2000 as amended and restated on 14th November 2001 and on 30th September 2003 between Mortgage Trust, Mortgage Trust Services, Arianty and Citicorp Trustee Company Limited (the “**Origination Administration Agreement**”) for the period between the date of sale of the Mortgages to Arianty pursuant to the First Origination Mortgage Sale Agreement or the Second Origination Mortgage Sale Agreement, as applicable, and the Issue Date (or, in the case of the Pre-Funded Mortgages or Substitute Mortgages, at the date such Mortgages are acquired by the Issuer) including in respect of the relevant period that Mortgage Trust acted as administrator under the Origination Administration Agreement.

Neither the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions in respect of the Mortgages, and each will rely instead on the warranties given by Arianty and/or Mortgage Trust Services, as applicable, in the Mortgage Sale Agreement (the “**Warranties**”). The sole remedy (save as described below) of each of the Issuer and the Trustee in respect of a breach of Warranty (see “**The Mortgage Pool – Warranties and Repurchase**” below) shall be the requirement that Arianty and/or Mortgage Trust Services, as applicable, repurchases or procures the repurchase of, or substitutes or procures the substitution of a similar Mortgage in replacement for, any Mortgage which is the subject of any breach, provided that this shall not limit any other remedies available to the Issuer and/or the Trustee if Arianty and/or Mortgage Trust Services fails to repurchase or procure the repurchase of, or substitute or procure the substitution of, a Mortgage when obliged to do so.

Where a Mortgage triggers a warranty breach by both Arianty and Mortgage Trust Services (the “**Warrantors**”), the Issuer may claim or, as the case may be, initiate claims against either or both of the Warrantors in respect of such breach.

Possessory Title Mortgages

0.26% of the Mortgages by drawn value in the Provisional Mortgage Pool are secured over a Property all or part of which is registered at HM Land Registry with possessory title (“**Possessory Title Mortgages**”).

In relation to 51.12% of the Possessory Title Mortgages by drawn value, a valuer approved by Mortgage Trust or Mortgage Trust Services has confirmed that the possessory title element of the Property does not adversely affect the value of the Property.

In relation to 48.88% of the Possessory Title Mortgages by drawn value, representing 0.13% of the Mortgages by drawn value in the Provisional Mortgage Pool, there is no confirmation that the possessory title element will not adversely affect the value of the Property. In respect of these, there is a risk that: (i) it will not be possible to sell the whole or relevant part of the relevant Property on enforcement of the Mortgage security other than with possessory title, adversely affecting its value, and/or (ii) if a person with a superior title to the relevant Borrower’s title registers this at HM Land Registry it is possible that any security, including the Mortgage, granted by the Borrower over the Property will be unenforceable against the superior title holder and/or (iii) if a person with an adverse title to the relevant Borrower’s title registers it at HM Land Registry it is possible that any security, including the Mortgage, granted by the Borrower over the Property will be unenforceable against the adverse title holder.

Non-Recourse Obligations

The Notes will be obligations solely of the Issuer and will not be guaranteed by, or be the responsibility of, any other entity. In particular, the Notes will not be obligations of, and will not be guaranteed by Arianty, Mortgage Trust, Mortgage Trust Services, Paragon, GHL, the Trustee, JPMorgan, Deutsche Bank, any other Manager, the Interest Rate Swap Counterparties, the Currency Swap Counterparty, the Redraw Facility Provider or the GIC Provider. The Issuer will rely solely on payments in respect of amounts due under the Mortgages, amounts standing to the credit of the Transaction Account, the Redraw Facility, the Guaranteed Investment Contract and Permitted Investments to enable it to make payments in respect of the Notes.

Upon enforcement of the security for the Notes, the Trustee will have recourse only to the Mortgages and any other assets of the Issuer then in existence, including amounts standing to the credit of the Guaranteed Investment Contract, the Permitted Investments, amounts standing to the credit of the Transaction Account and the Issuer's interest in the Trust Accounts. Other than as provided in the Transaction Documents, the Issuer and the Trustee will have no recourse to Arianty, Mortgage Trust, Mortgage Trust Services, Paragon, GHL, the Interest Rate Swap Counterparties, the Currency Swap Counterparty, the Redraw Facility Provider, the GIC Provider, JPMorgan, Deutsche Bank, any other Manager, or any other entity.

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

Collectability of Loans

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

In addition, the ability of the Issuer to dispose of a property at a price sufficient to repay the amounts outstanding under the relevant Mortgage will depend upon the availability of buyers for the property.

Risk of Losses Associated with Declining Property Values

The security for the Notes consists of, *inter alia*, the Issuer's interest in the Mortgages. This security may be affected by, among other things, a decline in property values. No assurance can be given that values of the properties have remained or will remain at the level at which they were on the dates of origination of the related Mortgages. If the residential property market in the United Kingdom should experience an overall decline in property values, such a decline could in certain circumstances result in the value of the security created by the Mortgages being significantly reduced and, ultimately, may result in losses to the Noteholders if the security is required to be enforced.

Investors should be aware that, other than the valuation of properties undertaken as at origination or revaluation of the relevant properties for the purposes of making Further Advances (as more fully described in "**The Mortgage Pool**"), no revaluation of any property has been undertaken by Mortgage Trust, the Issuer, the Servicer, the Trustee or any other person for the purposes of the transactions described in this document.

Risk of Losses Associated with the Condition of the Private Rental Market and Non-Owner Occupied Properties

As 95.50% of Mortgages by drawn value in the Mortgage Pool relate to non-owner-occupied properties which are required to be let (save in the case of certain properties held as investments) by the relevant Borrowers, the security for the Notes may also be affected by the condition of the private residential rental market in the United Kingdom. The condition of the market will influence both the ability of the Borrower to find tenants and the level of rental which may be achieved in any letting.

It is a requirement (save in the case of certain properties held as investments) that non-owner-occupied properties will be let by the relevant Borrower to tenants but there can be no guarantee that each such property will be the subject of an existing tenancy when the relevant Mortgage is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Mortgage and/or that the rental income achievable from tenancies of the relevant property will be sufficient to provide the Borrower with sufficient income to meet the Borrower's obligations in respect of the Mortgage.

Upon enforcement of a Mortgage in respect of a property which is the subject of an existing tenancy, until the relevant tenancy has expired, the Servicer may not be able to obtain vacant possession of that property in which case the Servicer will only be able to sell the property as an investment property with one or more tenants. This may affect the amount which the Servicer could realise upon enforcement of the Mortgage and a sale of the relevant property. However, enforcement procedures in relation to such Mortgages include appointing a receiver of rent in which case such a receiver must collect any rents payable in respect of such property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage.

Enforcement

In order to enforce a power of sale in respect of an English property, the relevant mortgagee (which may be Mortgage Trust, the Issuer or the Trustee) must first obtain possession of the property. In relation to Investment Home Loans, on default of a relevant mortgage, the mortgagee will have a right to possession of the Property on the expiry of the relevant lease provided there is no right to statutory security of tenure. In relation to owner-occupied mortgages, possession is usually obtained by way of a court order although this can be a lengthy and costly process and will involve the mortgagee assuming certain risks. See “**The Mortgage Pool – English Mortgages – Enforcement**” below for further details in respect of the enforcement process and related risks applicable in England and Wales. In relation to the enforcement of Scottish and Northern Irish Mortgages, see “**The Mortgage Pool – Scottish Mortgages**” and “**The Mortgage Pool – Northern Irish Mortgages**” respectively below.

Geographic Concentration of Mortgaged Properties

Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than will other regions and, consequently, will experience higher rates of loss and delinquency on mortgage loans generally. There are concentrations of properties within certain regional areas which may present risk considerations in addition to those generally present for similar mortgage loan asset backed securities without such concentrations. See “**The Mortgage Pool – Characteristics of the Provisional Mortgage Pool**” below.

Endowment Mortgages, Pension Mortgages and Life Cover

In the case of Endowment Mortgages and Pension Mortgages, although the Borrower is required to take out a policy of endowment life assurance or pension life assurance, as applicable, none of Mortgage Trust, Mortgage Trust Services or Arianty has verified that such a policy of life assurance has been taken out by each Borrower. If such policies are taken out, Borrowers may not make payment in full, or on time, of the premium due on the relevant policy which may therefore lapse and no further benefit will accrue thereunder. None of Mortgage Trust, Mortgage Trust Services or Arianty has taken security over such policy of life assurance.

In relation to all Mortgages, applicants are requested to ensure that they have adequate life cover in place to repay the advance in the event of their death prior to the end of the Mortgage term. Such life cover is not secured in favour of Arianty, Mortgage Trust Services or Mortgage Trust.

Risk of Losses Associated with Interest Only Mortgages

Approximately 82.83% of the Mortgages in the Provisional Mortgage Pool by value of drawn balances constitute “Interest Only Mortgages” (see “**The Mortgage Pool – Characteristics of the Provisional Mortgage Pool**” below). Interest Only Mortgages are originated with a requirement that the Borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest Only Mortgage, the Borrower will be required to make a “bullet” payment that will represent the entirety of the principal amount outstanding. The ability of such a Borrower to repay an Interest Only Mortgage at maturity frequently may depend on such Borrower’s ability to obtain funds from another source, the financial condition of the Borrower, tax laws and general economic conditions at the time.

Perfection of Title

The sale by Arianty to the Issuer of the Mortgages will only be perfected in certain circumstances. Until such time, neither the Issuer nor the Trustee will acquire legal title to any of the Mortgages. Prior to the Issuer obtaining legal title to the Mortgages, a *bona fide* purchaser from Arianty or Mortgage Trust or Mortgage Trust Services for value of any such Mortgage without notice of the interest of the Issuer or the Trustee might obtain a good title free of any such interest. However, the risk of third party claims obtaining priority to the interest of the Issuer or the Trustee will be likely to be limited to circumstances arising from a breach by Arianty or Mortgage Trust of its contractual obligations or fraud or negligence or mistake on the part of Arianty or Mortgage Trust. These and other issues relating to title are described further under “**The Mortgage Pool – Title to the Mortgage Pool**” below.

Yield and Prepayment Considerations

The yield to maturity of the Notes of each class will depend on, *inter alia*, the amount and timing of payment of principal (including Prepayments, Redemptions before the end of the mortgage term, Redraws, sale proceeds arising on enforcement of a Mortgage and repurchases or substitutions of Mortgages due to, *inter alia*, breaches of any of the Warranties) on the Mortgages and the price paid by the holders of the Notes. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments on the Mortgages.

It will also be affected by the fact that 98.76% of Mortgages by value of drawn balances in the Mortgage Pool as at 30th September 2003 provide the relevant Borrower with the option to redraw a portion of the principal of its Mortgage (or, subject to the consent of Mortgage Trust, take a Payment Holiday) (each a “**Redraw**”) if and to the

extent that such Borrower has previously made prepayments on its Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments. However, the amount of such Redraw is limited to ensure that the outstanding balance of the Mortgage after such Redraw is no greater than the principal balance of the Mortgage which would have been outstanding at such time if the Borrower had made payments in accordance with the repayment plan used by Mortgage Trust to provide a baseline for repayment of the Mortgage. The Issuer shall be obliged to purchase Redraws up to an amount equal to the sum of (a) amounts available for the purpose in accordance with the Priority of Payments, and (b) the lower of (i) the Available Facility at such time under the Redraw Facility (as defined in “**Credit Structure – Redraw Facility**” below) and (ii) the aggregate Principal Amount Outstanding of the Class A Notes.

Redemptions before the end of a mortgage term may be as a result of a Borrower voluntarily refinancing or selling the relevant property or as a result of enforcement proceedings under the relevant Mortgage, as well as the receipt of proceeds from buildings insurance and life insurance policies (where relevant). In addition, repurchases of Mortgages required to be made under the Mortgage Sale Agreement will have the same effect as early redemption of such Mortgages.

The rates of Redemption and Prepayment and the amount of Redraws by Borrowers cannot be predicted and are influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing, local and regional economic conditions and homeowner mobility. Therefore, no assurance can be given as to the level of Prepayments, Redemptions and Redraws that the Mortgage Pool will experience (see “**Estimated Average Lives of the Class A Notes and the Class M Notes**” below).

Set Off

As described under “**The Mortgage Pool – Title to the Mortgage Pool**” below, pursuant to the First Origination Mortgage Sale Agreement and the Second Origination Mortgage Sale Agreement, Mortgage Trust or Mortgage Trust Services, as applicable, made an equitable assignment of the Mortgages to Arianty (or, in relation to Scottish Mortgages, Mortgage Trust has granted a declaration of trust, as supplemented from time to time with the consent of Mortgage Trust Services, where appropriate, in favour of Arianty). Arianty will on the Issue Date make an equitable assignment of all of its interests in the Mortgages except the Scottish Mortgages to the Issuer with legal title in the Mortgages being retained by Mortgage Trust. In relation to Scottish Mortgages, Mortgage Trust will, at the direction and with the consent of Arianty and, where appropriate, Mortgage Trust Services, declare a trust over the Scottish Mortgages in favour of the Issuer (the “**Scottish Trust**”). As a result, the rights of the Issuer and the Trustee (as assignees or, in Scotland, as beneficiary or security holder respectively) may be or become subject to the direct rights of the Borrower against Mortgage Trust including rights of set-off existing prior to notification to the Borrowers of the sale of the Mortgages. Such set-off rights may arise, in particular, if Mortgage Trust is unable to advance to a Borrower a Redraw to which the Borrower is contractually entitled (notwithstanding that Mortgage Trust Services covenants in the Mortgage Sale Agreement to Arianty, the Issuer and the Trustee that Mortgage Trust and itself will comply with the terms of each Mortgage). In this event, the relevant Borrower may be able to exercise an equitable right to set off any damages claim arising from Mortgage Trust’s breach of contract against principal and/or interest under the relevant Mortgage as and when it becomes due.

The amount of the Borrower’s damages claim will, in many cases, be the cost to the Borrower of finding an alternative source of finance: the Borrower may obtain a loan elsewhere and the damages will be any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the Borrower is unable to obtain an alternative loan, he may have a damages claim in respect of other losses arising from Mortgage Trust’s breach of contract where there are special circumstances communicated by the Borrower to Mortgage Trust at the time the Mortgage was taken out. In either case, the damages claim will be limited by general legal principles concerning remoteness of loss and mitigation. These include (i) the principle that something which is a real possibility but would only occur in a small minority of cases will not usually fall within the contractual measure of damages, and (ii) the Borrower’s duty to mitigate his loss. There is also a practical risk that a Borrower may purport to set-off against his mortgage payments an amount greater than the amount of his damages claim. In such a case, the Issuer will be entitled to take enforcement proceedings against the Borrower, although the period of non-payment by the Borrower is likely to continue until a judgment or decree is obtained.

In addition, a Borrower may have entered or the situation may arise in the future where a Borrower may enter into two or more mortgages with Mortgage Trust, two or more of which have been purchased by Arianty and at least one of which is an Investment Home Loan. If Arianty assigns some but not all of these mortgages to the Issuer and Mortgage Trust is subsequently unable to fund a Redraw to which the Borrower is contractually entitled under a mortgage not assigned to the Issuer, the Borrower may still be able to set off the damages claim in respect of such breach against sums due under the Borrower’s other mortgages that have been assigned to the Issuer, where the damages claim becomes liquidated before notice of assignment is given to the Borrower.

It is unlikely in practice that the Borrower’s damages claim will become liquidated before a notice of the sale of the Mortgages is given to the Borrower as the Issuer and the Trustee are entitled to give notice immediately in the circumstances described in “**Title to the Mortgage Pool**” above, including, *inter alia*, the possible insolvency of Arianty and/or Mortgage Trust and/or Mortgage Trust Services.

In relation to Scottish Mortgages it is arguable that, in the event of such a damages claim arising against Mortgage Trust, the relevant Borrower would still be entitled to set off the claim against his mortgage payments even after receipt of notice of the making of the Scottish Trust on the basis that the two obligations are interdependent under a single contract and that the Borrower accordingly has a right of retention which will subsist until Mortgage Trust performs its own obligations under the relevant Scottish Mortgage. Such a right of retention may be excluded by agreement between the parties to the relevant contract, however, and it is possible that the mortgage conditions applicable to the Scottish Mortgages are sufficient in their terms to exclude such a right. If this is correct the Borrower's rights to set off will be terminated on receipt of notice of the making of the Scottish Trust as indicated above (except to the extent that any such right existed prior to the giving of the notice).

In addition, 0.56% of the Mortgages in the Provisional Mortgage Pool by drawn value are Mortgages in respect of which the relevant Borrower is an employee of Mortgage Trust Services (each such Mortgage, a "**Staff Mortgage**" and each such Borrower, an "**Employee Borrower**"). Although an Employee Borrower has no right to set off any damages claim arising from a breach of his employment contract against any claim by Mortgage Trust for payment of principal and/or interest under the relevant Staff Mortgage (other than in respect of any outstanding claim as at the date of transfer of the relevant employment contract from Mortgage Trust to Mortgage Trust Services), there is a risk that a Borrower may nevertheless purport to exercise such set off. In relation to outstanding claims as at the date of transfer of the relevant employment contract from Mortgage Trust to Mortgage Trust Services, the Issuer will have the benefit of a warranty provided by Mortgage Trust Services that no such outstanding claims exist in relation to any Staff Mortgage.

The exercise of set-off rights by Borrowers would reduce the incoming cash flow to the Issuer during the period of such set-off and, if the aggregate amount set off is sufficiently large, may reduce or prevent payments due under the Notes. The total credit enhancement (see "**Credit Structure**" below for a discussion of the various enhancements) for the transaction has been established with the Rating Agencies at a level which takes into account this set-off risk.

In addition, Mortgage Trust will grant to the Issuer a power of attorney which would (including on the insolvency of Mortgage Trust) enable the Issuer to advance to Borrowers Redraws on behalf of and in the name of Mortgage Trust in an amount up to the Maximum Redraw Amount and Mortgage Trust has agreed to assign the right to repayment of such Redraws to the Issuer on the immediately succeeding Interest Payment Date.

Limited Secondary Market for Mortgages

The ability of the Issuer to redeem all of the Notes in full, including following the occurrence of an Event of Default (as defined in "**Description of the Class A Notes – Terms and Conditions of the Class A Notes**" and "**Description of the Class M Notes – Terms and Conditions of the Class M Notes**") in relation to the Notes while any of the Mortgages are still outstanding may depend upon whether the Mortgages can be realised to obtain an amount sufficient to redeem the Notes. There is not, at present, an active and liquid secondary market for mortgages of the type being acquired by the Issuer in the United Kingdom. The Issuer, and following the occurrence of an Event of Default, the Trustee, may not, therefore, be able to sell the Mortgages to realise a sufficient amount to redeem the Notes in full.

Exchange Rate Risks

Repayments of principal and payments of interest on the USD Notes and the Euro Notes will be made in US dollars and euro respectively, by the Issuer, but payments will be received by the Issuer from the Borrowers under the Mortgages in sterling. In order to mitigate the Issuer's currency exchange rate exposure, including any interest rate exposure connected with that currency exposure, the Issuer will enter into Currency Swap Agreements with the Currency Swap Counterparty.

If the Issuer fails to make timely payments of amounts due under any of the Currency Swap Agreements, then it will have defaulted under that Currency Swap Transaction. The Currency Swap Counterparty is only obliged to make payments to the Issuer under the Currency Swap Agreements as long as the Issuer complies with its payment obligations under such Currency Swap Agreements. If the Issuer fails to make timely payments under one or more of the Currency Swap Agreements, the Currency Swap Counterparty will have the right to terminate the relevant Currency Swap Agreement.

If the Currency Swap Counterparty terminates one or more of the Currency Swap Agreements or if the Currency Swap Counterparty defaults in its obligations to make payments of amounts in dollars (in relation to the Class A3 Currency Swap Transaction) or euro (in relation to any of the Euro Currency Swap Transactions), as the case may be, equal to the full amount to be paid to the Issuer on the payment date under the relevant Currency Swap Agreements, the Issuer will be exposed to changes in euro/sterling (in relation to any of the Euro Currency Swap Transactions) and dollar/sterling (in relation to the Class A3 Currency Swap Agreement) currency exchange rates and could have insufficient dollar and/or euro funds to enable it to make payments under the USD Notes and/or the Euro Notes unless a replacement currency swap agreement is entered into.

If the Currency Swap Counterparty defaults under a Currency Swap Agreement, the Issuer will have the right under certain circumstances to terminate the relevant Currency Swap Agreement. Upon such termination the Issuer is obliged to obtain a replacement currency swap. There can be no assurance that a suitable currency swap counterparty could be so obtained. Unless a suitable replacement currency swap agreement is entered into, the Issuer would be exposed to currency exchange risks in connection with the USD Notes and the Euro Notes.

Termination Payments on the Interest Rate Swap Agreements and the Currency Swap Agreements

If any of the Currency Swap Agreements or the Interest Rate Swap Agreements terminate, the Issuer may be obliged to make a termination payment to the Currency Swap Counterparty or any Interest Rate Swap Counterparty. The amount of the termination payment will be based on the cost of entering into a replacement currency swap agreement or interest rate swap agreement. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment due under any Currency Swap Agreement or Interest Rate Swap Agreement. Nor can any assurance be given that the Issuer will be able to enter into a replacement currency swap agreement or interest rate swap agreement, or if one is entered into, that the credit rating of the relevant replacement currency swap counterparty or interest rate swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Notes by the Rating Agencies.

Except in relation to any Currency Swap Counterparty Default Payment or any Interest Rate Swap Counterparty Default Payment, any termination payment due by the Issuer following termination of the relevant Currency Swap Agreement or Interest Rate Swap Agreement (including any extra costs incurred (for example, from entering into “spot” currency or interest rate swaps) if the Issuer cannot immediately enter into a replacement currency swap agreement or interest rate swap agreement), will also rank *pari passu* to the relevant class of Notes.

Therefore, if the Issuer is obliged to make a termination payment to the Currency Swap Counterparty or an Interest Rate Swap Counterparty or pay any other additional amounts as a result of the termination of the relevant Currency Swap Agreement or Interest Rate Swap Agreement, this could reduce the Issuer’s ability to service payments on the Notes.

In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, investors may be adversely affected.

EU Directive on the taxation of savings income in the form of interest payments

On 3rd June 2003, the Council of the European Union adopted a new directive regarding the taxation of savings income in the form of interest payments (Council Directive 2003/48/EC) (the “**Directive**”). The Directive is scheduled to be applied by member states of the European Union (“**Member States**”) from 1st January 2005, provided that certain other territories adopt similar measures from the same date. Under the Directive, each 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 or for the benefit of an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the Directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-European Union countries to the exchange of information relating to such payments.

European Monetary Union

It is possible that, prior to the maturity of the Notes, the United Kingdom may become a participating Member State in European 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 certain classes of Notes may become payable in euro; (ii) applicable provisions of law may allow the Issuer to redenominate certain classes of Notes into euro and take additional measures in respect of certain classes of Notes; and/or (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 certain classes of Notes or changes in the way those rates are calculated, quoted, published or displayed. If the Notes are outstanding at a time when the euro becomes the lawful currency of the United Kingdom, the Issuer intends to make payment on the Notes in accordance with the then market practice of payment of such debts. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Notes.

Conflict between classes of Noteholders

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders and the Class M Noteholders (each as defined below) 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 (i) the Class A Noteholders if, in the Trustee’s opinion, there is or may

be a conflict between the interests of the Class A Noteholders and the interests of the Class M Noteholders and/or any persons entitled to the benefit of the Security (as defined in the Trust Deed); and (ii) if there are no Class A Notes outstanding, the Class M Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class M Noteholders and the other persons entitled to the benefit of the Security.

Regulatory Considerations

A general description of the regulatory environment affecting the UK residential mortgage market is set out herein under "**Regulation of the UK Residential Mortgage Market**".

The Financial Services and Markets Act 2000

The FSMA prohibits any person from carrying on a "**regulated activity**" in the United Kingdom, or purporting to do so, unless he is an authorised person or an exempt person and provides that, in certain circumstances, an agreement made after 30th November 2001 by a person in the course of carrying on a regulated activity in contravention of this prohibition is unenforceable against the other party and a criminal offence may be committed.

H.M. Treasury has made the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "**Regulated Activities Order**"). Article 61 of the Regulated Activities Order currently contemplates that each of (i) administering a "**regulated mortgage contract**" (as defined below under "**Regulation of the UK Residential Mortgage Market**") where the contract was entered into by way of business after the coming into force of Article 61 and (ii) entering into a regulated mortgage contract as lender, will become activities which, if carried on by way of business, are "**regulated activities**" for the purposes of the FSMA. Article 61 has not yet come into force. On 12th December 2001, H.M. Treasury announced its proposal that arranging and advising on regulated mortgage contracts should also become regulated activities for the purposes of the FSMA and that, as a result, the Financial Services Authority (the "**FSA**") would need to re-consult on mortgage regulation generally. In February 2002, H.M. Treasury issued a consultation document entitled "**Regulating Mortgages**" which attached draft legislation to amend the Regulated Activities Order to implement its proposal of 12th December 2001 by specifying two new regulated activities, namely arranging for another person to enter into or vary the terms of a regulated mortgage contract and advising a person on entering into or varying the terms of a regulated mortgage contract. The consultation document stated that H.M. Treasury does not propose to amend the existing provisions of Article 61 except where necessary to regulate these two proposed regulated activities. The consultation document also stated that regulated activities will also be brought within the scope of the Financial Ombudsman Service. The Regulated Activities Order was amended in June 2003 to incorporate these two new activities. The United Kingdom government and the FSA have announced that the new regulatory regime will commence with effect from 31st October 2004. Corporate mortgages, where credit is provided to limited liability companies incorporated in England and Wales, Scotland or Northern Ireland and not to an individual or to trustees, and buy-to-let mortgages, where the relevant property is not to be used, and is not intended to be used, as or in connection with a dwelling by the Borrower or (in the case of credit provided to trustees) by an individual who is the beneficiary of the trust, or by a related person, should not be regulated mortgage contracts for these purposes. Mortgage loans which do not satisfy the requirements of a "**regulated mortgage contract**", such as loans secured by a second or lower ranking legal mortgage or, in Scotland, standard security, may, depending on the circumstances be subject to the regime established by the Consumer Credit Act 1974 and related regulations and other consumer protection legislation.

In August 2002, the FSA published Consultation Paper 146 – The FSA's approach to regulating mortgage sales ("**CP 146**"). This sets out detailed policy proposals and the draft rules and guidance which will put the policy into effect. Among other things, CP 146 states that a person who is not an authorised person will not carry on the activity of administering a regulated mortgage contract where he arranges for another person, being an authorised person with permission to carry on that activity, to administer the contract or administers the contract himself for a period of not more than one month beginning with the day on which any such arrangement comes to an end. CP 146 specifically provides that a special purpose vehicle (such as the Issuer) which administers regulated mortgage contracts which are transferred to it as part of a securitisation exercise may avail itself of the exception referred to in the preceding sentence such that it does not carry on the regulated activity of administering a regulated mortgage. The FSA issued a further consultation paper in May 2003 ("**CP 186**") as a follow up to CP 146 containing draft notes on further areas and "near final" rules in relation to financial promotion, APRs, charges and arrears and repossessions and published the "final" rules for conduct of business in October 2003.

The Regulated Activities Order sets out an exclusion to the provisions of Article 61. This states that a person who is not an authorised person does not carry on the regulated activity of administering a regulated mortgage contract as described above where he (i) arranges for another person, being an authorised person with permission to carry on an activity of that kind, to administer the contract or (ii) administers the contract himself during a period of not more than one month beginning with the day on which any such arrangement comes to an end.

The Issuer does not itself propose to be an authorised person under the FSMA and so if, and when, Article 61 comes into force in its current form it will mean that the Servicer or any substitute servicer will need to be authorised to administer the Mortgages to enable the Issuer to take advantage of the exclusion referred to in the previous

paragraphs. As a result, the Servicing Agreement will contain an undertaking on the part of the Servicer to the effect that, to the extent that the services which it has agreed in the Servicing Agreement to perform require it or the Issuer to obtain any authorisation under the FSMA and/or the Regulated Activities Order, the Servicer will obtain, and use its reasonable endeavours to keep in force, such an authorisation in respect of itself. The Servicing Agreement will also provide that the appointment of the Servicer will, unless the Issuer and the Trustee agree otherwise, be terminated with immediate effect if at any time the Servicer does not have any authorisation which, under the FSMA and/or the Regulated Activities Order, it is required to have in order to perform the services which it has agreed in the Servicing Agreement to perform without it or the Issuer carrying on a regulated activity in circumstances where the Issuer is itself not so authorised. If the Servicing Agreement is terminated for this reason, the Issuer and the Trustee will have a period of no more than one month in which to arrange for a replacement servicer having the required authorisation.

It is also possible that under Article 61, the provision of any further advance under a mortgage could, depending on the circumstances in which it is made, constitute entering into a regulated mortgage contract as lender. As a result, as and when Article 61 comes into effect, unless certain authorisation requirements are complied with, a Further Advance in respect of a Mortgage made after the date on which Article 61 comes into effect, could, if the circumstances are such that the Issuer may be said to be entering into a regulated mortgage contract as lender, be unenforceable in whole or in part against the borrower and/or result in the Issuer carrying on a regulated activity when neither authorised to do so nor exempt from authorisation. It will be a condition to the making of any Further Advance by the Issuer (or Mortgage Trust Services, the Servicer, Arianty or Mortgage Trust, on its behalf) in respect of a Mortgage that the making of that advance will not involve the Issuer in carrying on a regulated activity in the United Kingdom if the Issuer would be required to be authorised under the FSMA to do so but is not at the relevant time so authorised.

On 13th March 2003, the FSA published a further consultation paper on proposals setting out its framework for the regulation of mortgage lenders and administrators, including issues relating to the meeting of the threshold conditions for authorisation. The FSA published a feedback on this consultation and “near final” rules on 8th September 2003.

Given that a number of matters remain to be determined (in particular, the final form which the proposals described above will eventually take), there can be no assurance that they will not affect the Issuer, the Noteholders, the Mortgages, or any Further Advances or Redraws made under the Mortgages.

Financial Services Authority and the Office of Fair Trading

No assurance can be given that the Office of Fair Trading (the “OFT”), the FSA or any other regulatory authority will not in the future take action, or that future adverse regulatory developments will not arise, with regard to the mortgage market in the UK generally, Mortgage Trust’s, Mortgage Trust Services’, the Servicer’s and Arianty’s particular sector in that market or specifically in relation to Mortgage Trust and/or Mortgage Trust Services and/or the Servicer and/or Arianty. Any such action or developments may have a material adverse effect on Mortgage Trust, Mortgage Trust Services, the Issuer and/or the Servicer and their respective businesses and operations. In particular, the cost of compliance with any such regulation, action or requirement may adversely affect the ability of the Issuer to meet its financial obligations under the Notes.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

The Unfair Terms in Consumer Contracts Regulations 1999 (the “**Regulations**”), which together with The Unfair Terms in Consumer Contracts Regulations 1994 apply to agreements made on or after 1st July 1995 and affect all or almost all of the Mortgages, provide that (a) a consumer may challenge a term in an agreement on the basis that it is “unfair” within the Regulations and therefore not binding on the consumer and (b) the Director General of Fair Trading and any “qualifying body” may seek to injunct (or in Scotland, interdict) a business against relying on unfair terms.

This will not generally affect “core terms” which set out the main subject-matter of the contract (for example, the Borrower’s obligation to repay the principal) but may affect terms deemed to be ancillary terms, which may well include the ability to choose a substitute for LIBOR where LIBOR cannot be determined under the Mortgage Loan and other terms the application of which are in the lender’s discretion, or the ability to impose a charge upon redemption by reference to the early redemption charges.

In February 2000, the OFT issued a guidance note (the “**Guidance Note**”) on what the OFT considers to be “fair” or “unfair” within the Regulations (see further below) for interest variation terms. The OFT considers unrestricted interest variation terms in mortgages to be unfair where consumers are “locked in”. Restrictions, on the mortgage lender’s discretion to vary rates, that the OFT considers could make the interest rate variation term fair include:

- (a) an explicit link to an external rate, or index or openly marketed rate, for example a term that provides for the mortgage rate to be at a fixed margin above LIBOR for any period during which the rate is variable and there is a “lock in” of some sort (for example an early repayment charge); or

- (b) a floor or cap with reference to an external rate or index or openly marketed rate, so that again there is a link to an independently set rate/index but with some room to vary the rate below the cap.

It is a condition of the Mortgages that at the end of any discounted or fixed rate period the interest rate under a Mortgage will revert to either Mortgage Trust's standard variable rate or to a rate that is linked to LIBOR or the Bank of England Base Rate. On this basis, the Issuer considers that the terms of the Mortgages fall within the situations which the OFT considers are "fair".

The Guidance Note has been withdrawn from the OFT website and is currently being revised by the OFT and the FSA, but there is no indication as to when the revised guidance will be issued and what changes, if any, may arise from it.

Following consultation between the FSA and the OFT, the FSA has assumed responsibility for considering the fairness of terms within the meaning of the Regulations in relation to financial services contracts for carrying on any regulated activity. This will include responsibility for residential mortgages which would fall within the definition of "Regulated Mortgage Contract" even if they are entered into prior to 31st October 2004. Details of the FSA's approach to enforcement can be found in PS148 published in April 2003.

In August 2002, the Law Commission and the Scottish Law Commission issued a joint consultation on proposals to consolidate the Unfair Contract Terms Act 1977 and the Regulations into a single piece of legislation. It is not proposed that there should be any significant increase in the extent of controls over terms in consumer contracts. Some changes are proposed, however, such as that the legislation should not affect core terms in so far as they are not substantially different from what the consumer should reasonably expect and are transparent.

UK Insolvency Law

The Enterprise Act 2002

On 15th September 2003, the corporate insolvency provisions of the Enterprise Act 2002 (the "Act") came into force, amending certain provisions of the Insolvency Act 1986 (as amended, the "Insolvency Act"). These provisions introduced significant reforms to corporate insolvency law. In particular, the reforms restrict the right of the holder of a floating charge to appoint an administrative receiver (unless an exception applies) and instead give primacy to collective insolvency procedures (in particular, administration). Previously, the holder of a floating charge over the whole or substantially the whole of the assets of a company had the ability to block the appointment of an administrator by appointing an administrative receiver, who would act primarily in the interests of the floating charge holder.

The Insolvency Act contains provisions which continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security which form part of a capital market arrangement (as defined in the Insolvency Act) and which involves indebtedness of at least £50,000,000 or, when the relevant security document (being in respect of the transactions described in this document, the Deed of Charge) was entered into, a party to the relevant transaction (such as the Issuer) was expected to incur a debt of at least £50,000,000 and the issue of a capital market investment (as defined in the Insolvency Act). It is expected that the security which the Issuer will grant to the Trustee will fall within the capital markets exception. However, it should be noted that the Secretary of State may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this document, will not be detrimental to the interests of the Noteholders.

The Insolvency Act also contains a new out-of-court route into administration for a qualifying floating charge-holder, the directors of a company or the relevant company itself. The relevant provisions provide for a notice period during which the holder of the qualifying floating charge can either agree to the appointment of the administrator proposed by the directors or the company or appoint an alternative administrator, although a moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating charge-holder does not respond to the directors' or company's notice of intention to appoint, the directors', or, as the case may be, the company's, appointee will automatically take office after the notice period has elapsed. Where the holder of a qualifying floating charge within the context of a capital market transaction retains the power to appoint an administrative receiver, such holder may prevent the appointment of an administrator (either by the new out-of-court route or by the court based procedure) by appointing an administrative receiver prior to the appointment of the administrator being completed.

The new provisions of the Insolvency Act give primary emphasis to the rescue of a company as a going concern and achieving a better result for the creditors as a whole. The purpose of realising property to make a distribution to secured creditors is secondary. No assurance can be given that the primary purposes of the new provisions will not conflict with the interests of Noteholders were the Issuer ever subject to administration.

The Act also removes the Crown's preferential rights in all insolvencies (section 251) and makes provisions to ensure that unsecured creditors take the benefit of the floating charge (section 252). Under this latter provision the unsecured creditors will have recourse to the floating charge assets up to a fixed amount (the "prescribed part") in priority to the holder of the floating charge concerned. The floating charge assets must be worth at least £10,000 before the prescribed part will apply. The prescribed part will be 50% of the first £10,000; then 20% of the rest, up to a total of £600,000. The prescribed part will apply to all floating charges created on or after the Appointed Date regardless as to whether they fall within the capital markets exception in the Insolvency Act (as described above) or not. However, this provision is unlikely to be of practical significance in the case of a special purpose entity such as the Issuer which is subject to substantial restrictions on its activities (see Condition 3 of the Class A Conditions and the Class M Conditions). As a result of those restrictions the Issuer will only have a limited ability to incur unsecured liabilities (as would any holding company of the Issuer which is subject to similar restrictions).

The corporate insolvency provisions of the Enterprise Act 2002 do not apply in Northern Ireland and the current law is contained in the Insolvency (Northern Ireland) Order 1986. Consequently in Northern Ireland the holder of a floating charge over the whole or substantially the whole of the assets of a company has the ability to block the appointment of an administrator by appointing an administrative receiver, who acts primarily in the interests of the floating charge holder. In April 2003, however, the Department of Enterprise Trade and Investment issued a consultation paper on proposals to implement in Northern Ireland corporate insolvency provisions identical to those introduced by the provisions of the Enterprise Act 2002 in England and Wales. The deadline for responses on the consultative document was 31st August 2003 and it is likely that identical provisions will be introduced in Northern Ireland by 2005.

Issuer as a "Small Company" under the Insolvency Act 2000

The Insolvency Act 2000 introduced significant changes to the UK insolvency regime which allow certain "small" companies to obtain protection from their creditors for a period of 28 days as part of the company voluntary arrangement procedure with the option for the company and its creditors to extend the protection period for a further two months.

During this period, no insolvency procedures may be commenced in relation to the company, any security created by the company over its property cannot be enforced and no other legal process can be taken in relation to the company except with the consent of the Court.

A company may continue to make payments in respect of its debts in existence before the beginning of the moratorium only if there are reasonable grounds for believing such payments will benefit the company and the payment is approved by either the moratorium committee of the creditors of the company or, if none, by a nominee of the company appointed under the provisions of the Insolvency Act 2000.

For the purposes of the Insolvency Act 2000, a "small company" is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £2.8 million; (ii) its balance sheet total is not more than £1.4 million; and (iii) the number of its employees is not more than 50.

For as long as the turnover of the Issuer is greater than £2.8 million and its balance sheet total is greater than £1.4 million, the Issuer will not be regarded as a "small" company under the law as it currently stands. The Secretary of State for Trade and Industry may by regulation in the future modify the eligibility requirements for the applicability of the Insolvency Act 2000, including altering the definition of "small" company.

Whether or not the Issuer is a "small" company within the provisions of the Insolvency Act 2000 will be an accounting matter determined on a financial year by financial year basis for the relevant company.

Pursuant to regulations made recently by the Secretary of State which came into force on 1st January 2003, companies which are party to a capital market arrangement, under which a debt of at least £10 million is incurred and which involves the issue of a capital market investment, are excluded from being eligible for the moratorium. The definitions of "capital market arrangement" and "capital market investment" are broad such that, in general terms, any company which is a party to an arrangement which involves at least £10 million of debt, the granting of security to a trustee, and the issue of a rated, listed or traded debt instrument, may be ineligible to seek the benefit of the small companies protection in any event.

These provisions may serve to limit the Trustee's ability to enforce the Security if, first, the Issuer falls within the eligibility criteria for a moratorium at the relevant time; secondly, if the directors of the Issuer seek a moratorium in advance of a company voluntary arrangement and, thirdly, if the Issuer is considered not to fall within the capital market exception: in those circumstances, the enforcement of the Security by the Trustee may, for a period, be prohibited by the imposition of the moratorium.

Even if a moratorium could delay enforcement proceedings against the Issuer, this would be for a maximum period of only three months as described above (subject to the Secretary of State increasing, by order, the period for which a

moratorium may be obtained). In addition, even if a protection period were granted in relation to it, it could obtain approval to continue to make payments in accordance with the Trust Deed, the Class A Conditions and the Class M Conditions.

The changes introduced in England and Wales by the Insolvency Act 2000 in relation to “small” companies are mirrored in the Insolvency (Northern Ireland) Order 2002. This order has passed all the necessary legislative stages in Parliament and received royal assent on 17th December 2002 but has not yet been brought into effect in Northern Ireland.

Consumer Credit Act

In the United Kingdom, the OFT is responsible for the issue of licenses under, and the enforcement of, the Consumer Credit Act 1974 (the “CCA”), related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take remedial or enforcement action when necessary with regard to many aspects of the mortgage market in the United Kingdom.

No assurance can be given that future adverse regulatory developments will not arise with regard to the mortgage market in the UK generally, Mortgage Trust’s, Mortgage Trust Services’, the Servicer’s and Arianty’s particular sector in that market or specifically in relation to Mortgage Trust and/or Mortgage Trust Services and/or the Servicer and/or Arianty. Any such developments may have a material adverse effect on the Issuer and/or the Servicer and their respective businesses and operations. This may adversely affect the ability of the Issuer to make payment in full on the Notes when due.

In March 2002, the Department of Trade and Industry (“DTI”) published a Consultation Paper on Modernising the Consumer Credit Act 1974 (No. CA 005/01). Its stated objectives are to develop a new consumer credit regime that targets rogue traders, reduces the burden on legitimate businesses, reflects market changes on consumer credit and provides timely and effective advice to consumers and greater transparency when they take out credit. Detailed consultation on the Government’s proposals is currently being conducted. The DTI announced in July 2003 that a white paper will be published in Autumn 2003 setting out its proposals for amending the CCA. The DTI has indicated that it wishes to coincide certain amendments with the introduction of mortgage regulation.

While the form that these proposals will eventually take (if enacted) and the timetable for implementation is not yet known, there can be no assurance that any such legislative changes will not adversely affect the Loans.

The FSA states in CP 146 (Chapter 4, paragraph 4.2.4) that to avoid dual regulation once the new regulatory regime (as described in “**Financial Services and Markets Act 2000**” above) is introduced, mortgages which fall within the new FSA regime will no longer be subject to the requirements of the CCA. This carve-out only affects mortgages entered into after the new regulatory regime is effective. All other consumer mortgages will continue to be subject to the CCA. The effect of mortgages being regulated by the FSA has been considered under “**Financial Services and Markets Act 2000**” above.

The proposals could have an effect on the regulation of Further Advances and Redraws such that Further Advances and Redraws made prior to the implementation of the planned changes would not be regulated by the CCA, but those made after such implementation would be.

Additionally, the Consumer Credit Directive (Council Directive 87/102/EEC) is under review. Wide ranging changes were proposed but these are currently subject to further review. It is not anticipated that any changes to the Directive (which would require implementation into English, Scottish and Northern Irish law) will take effect for at least two years from the date of this Offering Circular. As for changes to the CCA, it is anticipated that changes to the Consumer Credit Directive could have an effect on the regulation of Further Advances and Redraws.

Credit Structure

Flexible Mortgages

Approximately 98.76% of the Initial Mortgages by value of drawn balances provide Borrowers with the option to make Redraws in the circumstances described in “**Summary – The Mortgages**” above. On each Interest Payment Date, Mortgage Trust shall sell the right to repayment of Redraws to the Issuer and the Issuer shall be obliged to purchase such rights up to an aggregate amount (the “**Maximum Redraw Amount**”) equal to the sum of (a) amounts available for the purpose in accordance with the Priority of Payments and (b) the lower of (i) the Available Facility (as defined in “**Credit Structure – Redraw Facility**” below) at such time under the Redraw Facility (as defined in “**Credit Structure – Redraw Facility**” below) and (ii) the aggregate Principal Amount Outstanding of the Notes (as further described in Class A Condition 5(f) and Class M Condition 5(f)).

If on any Determination Date, the aggregate amount of Redraws made by Borrowers during the immediately preceding Collection Period exceeds the Maximum Redraw Amount, the Issuer shall at its option be entitled to redeem the Notes in whole (not in part) on the second Interest Payment Date after such Determination Date in accordance with Class A Condition 5(f) and Class M Condition 5(f).

Borrower Commitment Fees

As at 30th September 2003, 98.76% by value of drawn balances of the Initial Mortgages were Flexible Mortgages (as defined in “**The Mortgage Pool**” below). As at 30th September 2003, Borrowers of 97.71% by number and 98.14% by value of the Flexible Mortgages were bound to pay a Commitment Fee in the circumstances set out below. If a Borrower under a Flexible Mortgage prepays his Mortgage loan in excess of the relevant repayment plan then on any date when the aggregate principal amount of such prepayments less any Redraws made by such Borrower up to such date (“**Net Prepayments**”) is greater than a predetermined percentage of the Borrower Loan Limit set by Mortgage Trust or Mortgage Trust Services (such predetermined percentage being no more than 20% as at the Issue Date and the excess over the predetermined percentage of the Borrower Loan Limit being referred to as the “**Excess Amount**”), such Borrower will be obliged to pay a percentage set by Mortgage Trust or Mortgage Trust Services of the Excess Amount by way of an annual commitment fee (the “**Commitment Fee**”) (such predetermined percentage being no less than 1% of the Excess Amount). Any Commitment Fee payable by a Borrower will belong to the Issuer, will be credited to the Transaction Account and will be available for application in accordance with the Priority of Payments. Mortgage Trust Services may, but is not obliged to, vary the percentage of the Borrower Loan Limit used in determining the Excess Amount (but not above 20%) and the size of the Commitment Fee (but not below 1%).

Use of Ledgers

A principal deficiency ledger (the “**Principal Deficiency Ledger**”) will be established in order to record the principal deficiency (if any) (a “**Principal Deficiency**”) on the day which is eight Business Days preceding each Interest Payment Date (each a “**Determination Date**”) calculated by deducting from the “**Liabilities**” expected to exist as at close of business on the immediately succeeding Interest Payment Date, the “**Assets**” expected to exist as at close of business on the immediately succeeding Interest Payment Date (after having made all payments in accordance with the Priority of Payments) where “**Liabilities**” means:

- (a) the aggregate Principal Amount Outstanding of the Notes on the last day of the immediately preceding Collection Period; less
- (b) the amount allocated in the Priority of Payments to redemption of the Notes under item (xii) on the immediately succeeding Interest Payment Date; plus
- (c) the aggregate principal amount outstanding under the Redraw Facility on the last day of the immediately preceding Collection Period; plus
- (d) the amount by which the aggregate principal amount outstanding under the Redraw Facility is expected to increase on the immediately succeeding Interest Payment Date as a result of the purchase of the right to repayment of Redraws; less
- (e) the amount allocated in the Priority of Payments to repayment of principal amounts outstanding under the Redraw Facility under item (x) on the immediately succeeding Interest Payment Date,

and “**Assets**” means:

- (a) the aggregate outstanding principal balances of the Mortgages (including amounts receivable in respect of claims under property related insurance policies) on the last day of the immediately preceding Collection Period; plus

- (b) the aggregate principal amount of the Redraws the right of repayment of which are to be purchased on the immediately succeeding Interest Payment Date; plus
- (c) the amount, if any, allocated in the Priority of Payments to credit the Liquidity Reserve up to the Liquidity Reserve Required Amount under item (viii) on the immediately succeeding Interest Payment Date plus the amount already standing to the credit of the Liquidity Reserve on such date; plus
- (d) the amount allocated in the Priority of Payments to purchase Further Advances under item (xi) on the immediately succeeding Interest Payment Date; plus
- (e) the amount standing to the credit of the Pre-Funded Ledger,

provided that the Principal Deficiency shall never be less than zero.

In addition, ledgers will be established (as described in “**Credit Structure**” below) to record the amount from time to time standing to the credit of the Reserve Fund (the “**Reserve Ledger**”), the amount from time to time standing to the credit of the Redraw Ledger (as defined below), the amount from time to time standing to the credit of the Liquidity Reserve (as defined below) (the “**Liquidity Reserve Ledger**”), the amount from time to time standing to the credit of the Base Rate Reserve (the “**Base Rate Reserve Ledger**”) and the amount from time to time standing to the credit of the Discount Reserve (the “**Discount Reserve Ledger**”). Furthermore, ledgers will be established (as described in “**Credit Structure**” below) to record the amount from time to time available to the Issuer to purchase Pre-Funded Mortgages (the “**Pre-Funded Ledger**”).

The Class A Notes and The Class M Notes

Holders of the Class M Notes (the “**Class M Noteholders**”) will not be entitled to receive any payment of principal if a Class M Principal Lock Out applies.

The Class A Notes and the Class M Notes will be constituted by the Trust Deed and will share the same security although, upon enforcement, the Class A Notes will rank in priority to the Class M Notes.

If on the Interest Payment Date falling in December 2035 or on any prior date after the assets of the Issuer have been exhausted, there remains a debit balance on the Principal Deficiency Ledger having taken account of any credit balance in the Transaction Account (the “**Adjusted Principal Deficiency**”) then the aggregate principal amount payable on redemption of the Class M Notes still outstanding shall be their aggregate Principal Amount Outstanding less the Adjusted Principal Deficiency. If the Adjusted Principal Deficiency exceeds the aggregate Principal Amount Outstanding of the Class M Notes, the remaining debit balance on the Principal Deficiency Ledger after such debit balance has been applied to reduce the aggregate principal amount payable on redemption of the Class M Notes to zero, shall be applied to reduce the amount payable on redemption of the Class A Notes.

Trust Accounts

Direct debit payments in respect of amounts due under the Mortgages will be made to an account in the name of Mortgage Trust Services at Barclays Bank PLC (the “**Account Bank**”) (the “**MTS Direct Debit Account**”) and other payments in respect of amounts due under the Mortgages will be made to accounts in the name of Mortgage Trust Services at the Account Bank (the “**MTS Non-Direct Debit Accounts**”) and in the name of Mortgage Trust at The Royal Bank of Scotland plc, whose address is 2nd Floor, 79-83 Colmore Row, Birmingham B3 2AP (“**RBS**”) (the “**RBS Trust Accounts**”) and, together with the MTS Non-Direct Debit Accounts, the “**Non-Direct Debit Accounts**”). The MTS Direct Debit Account and the MTS Non-Direct Debit Accounts are together referred to as the “**MTS Trust Accounts**”. The RBS Trust Accounts and the MTS Trust Accounts are together referred to as the “**Trust Accounts**”. Mortgage Trust will execute a declaration of trust in favour of the Issuer (the “**MTL Declaration of Trust**”) declaring a trust over the amounts which relate to the Mortgages which are from time to time standing to the credit of the RBS Trust Accounts. Mortgage Trust Services will execute a declaration of trust in favour of the Issuer (the “**MTS Declaration of Trust**”) and, together with the MTL Declaration of Trust, the “**Declarations of Trust**”) declaring a trust over the amounts which relate to the Mortgages which are from time to time standing to the credit of the MTS Trust Accounts.

Transaction Account

Payments in respect of amounts due and amounts received under the Mortgages which are credited to the Trust Accounts will be transferred to an account denominated in sterling in the name of the Issuer at the Account Bank (the “**Transaction Account**”) in accordance with the terms of a bank agreement between Mortgage Trust, Mortgage Trust Services, RBS, the Issuer, the Trustee and the Account Bank (the “**Bank Agreement**”) (i) in respect of direct debit collections, on the Business Day on which they are credited to the MTS Direct Debit Account and (ii) in respect of all other monies, on the day following the Business Day on which they are credited to the Non-Direct Debit Accounts. Amounts standing to the credit of the Transaction Account may be invested in Issuer’s Investments. The Issuer will establish and maintain on its accounting books and in the Transaction Account a ledger for amounts which are available to it to purchase Pre-Funded Mortgages.

Issuer's Investments

Amounts deposited and standing to the credit of the Transaction Account will be, as far as practically possible, the subject of the Guaranteed Investment Contract and transferred to an account (the "**GIC Account**") or invested in Permitted Investments (the Guaranteed Investment Contract and the Permitted Investments together being referred to as the "**Issuer's Investments**"). Interest earned on amounts standing to the credit of the Transaction Account, the GIC Account or amounts invested in the Issuer's Investments during each Interest Period shall be credited to the Transaction Account or the GIC Account on or before the Interest Payment Date immediately succeeding such Interest Period and applied in accordance with the Priority of Payments. The Issuer will maintain on its accounting books, in relation to the Transaction Account and the Issuer's Investments, ledgers for the Reserve Fund, the Liquidity Reserve, the Base Rate Reserve and the Discount Reserve.

Bank Accounts

The "**Bank Accounts**" represent the Trust Accounts, the Transaction Account and the GIC Account. If the rating of the unsubordinated, unguaranteed and unsecured short-term debt of the Account Bank assigned by the Rating Agencies falls below P-1 from Moody's or A-1+ from S&P (unless the applicable Rating Agency confirms in writing that such event would not cause it to downgrade the then current rating of the Notes) the Servicer will, within 30 days, transfer the Bank Accounts (excluding the RBS Trust Accounts) to a bank whose unsubordinated, unguaranteed and unsecured short-term debt is so rated.

If the rating of the short-term unsecured, unsubordinated and unguaranteed debt of RBS falls below P-1 by Moody's or A-1+ by S&P or in the event of insolvency of RBS, the Servicer (on behalf of the Issuer), Mortgage Trust and Mortgage Trust Services shall consult with the Rating Agencies to agree the action to be taken in relation to the RBS Trust Accounts.

Redraw Facility

The Issuer will enter into a sterling revolving credit facility (the "**Redraw Facility**", which term will include any extended or replacement facility) with Barclays Bank PLC (the "**Redraw Facility Provider**", which term will include any replacement Redraw Facility Provider) which facility may be utilised by the Issuer on any Interest Payment Date to fund the purchase of the right to repayment of Redraws (including Payment Holidays) with respect to Mortgages beneficially owned by the Issuer if there are no amounts available for the purpose of purchasing the right to repayment of Redraws in accordance with the Priority of Payments. The maximum amount that can be drawn on any Interest Payment Date under the Redraw Facility is the lower of (a) the difference between the Redraw Facility Limit (as defined below) and the aggregate amount of advances outstanding under the Redraw Facility which will not be repaid on such Interest Payment Date or, following a downgrade in the Required Redraw Facility Provider Rating (as defined below) and a resultant drawdown of a sum equal to the Redraw Facility Limit (as defined below) less the aggregate amount of advances outstanding under the Redraw Facility which were not repaid on the immediately preceding Interest Payment Date to the Redraw Ledger (as defined below), the amount standing to the credit of the Redraw Ledger (the "**Available Facility**") and (b) the aggregate Principal Amount Outstanding of the Class A Notes on such Interest Payment Date. The "**Redraw Facility Limit**" means (a) initially, £24,959,447 and then (b) on any Interest Payment Date where the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool is less than 7.50% of the aggregate Principal Amount Outstanding of the Notes, the greater of (i) 5% of the aggregate Principal Amount Outstanding of the Notes at the immediately preceding Interest Payment Date and (ii) £14,975,668, which limit may be varied on any Interest Payment Date by agreement between the Issuer, the Trustee, the Redraw Facility Provider and the Servicer (as agent of the Issuer) provided that the Rating Agencies have given prior written confirmation that such variation will not adversely affect the then current rating of the Notes. The Redraw Facility Provider will not be obliged by any party to advance funds on any Interest Payment Date beyond such maximum amount.

On each Interest Payment Date falling prior to the Final Redemption Date of the Notes, Redraws by Borrowers during the immediately preceding Collection Period shall be assigned to the Issuer (so far as not already held by it) by Mortgage Trust and the Issuer shall be obliged to purchase the right to repayment of such Redraws (including Payment Holidays) in accordance with the Priority of Payments up to an aggregate amount (the "**Maximum Redraw Amount**") equal to the sum of (a) the amount of Principal Collections available for such purpose on such Interest Payment Date in accordance with the Priority of Payments and (b) the lower of (i) the Available Facility (as defined below) under the Redraw Facility at such time and (ii) the aggregate Principal Amount Outstanding of the Notes.

Not later than the penultimate Interest Payment Date prior to the Coupon Step Up Date, the Issuer and the Servicer (as agent of the Issuer) shall consult with the Rating Agencies with a view to agreeing a new Redraw Facility Limit (a "**New Redraw Facility Limit**") to take effect as of the Coupon Step Up Date and the Issuer will request the consent of the Redraw Facility Provider to such New Redraw Facility Limit. If a New Redraw Facility Limit is not approved by the Rating Agencies at least 60 days prior to the Coupon Step Up Date, the Redraw Facility Limit prevailing at such time will continue to apply. If the Redraw Facility Provider fails to consent to the New Redraw Facility Limit, the Redraw Facility Limit prevailing at such time will continue to apply and the Issuer may seek an alternative Redraw Facility Provider willing to provide a redraw facility in an amount equal to the New Redraw Facility Limit.

The commitment of the Redraw Facility Provider under the Redraw Facility will expire on the Interest Payment Date falling in December 2035 provided that the Notes have not been redeemed earlier and enforcement of the Security in accordance with Class A Condition 10 and Class M Condition 10 has not occurred (the “**Redraw Commitment Expiry Date**”).

If at any time the short term unsecured, unguaranteed and unsubordinated debt rating of the Redraw Facility Provider assigned by the Rating Agencies falls below P-1 from Moody’s and A-1+ from S&P (unless the applicable Rating Agency confirms in writing that such event would not cause it to downgrade the then current rating of the Notes) (the “**Required Redraw Facility Provider Rating**”) and the Redraw Facility Provider is not replaced by a suitable Redraw Facility Provider with the Required Redraw Facility Provider Rating within 30 days of such downgrade, the Issuer shall request an advance equal to the Redraw Facility Limit less the aggregate amount of advances outstanding under the Redraw Facility which were not repaid on the immediately preceding Interest Payment Date and shall credit such advance to the Transaction Account to be used to establish a redraw ledger in the Issuer’s accounting books (the “**Redraw Ledger**”). Amounts standing to the credit of the Redraw Ledger, represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer’s Investments, shall be applied by the Issuer in the purchase of the right to repayment of Redraws.

Pre-Funding Ledger

At any time on or after the Issue Date but no later than the first Determination Date after the Issue Date the Issuer shall purchase further mortgages (each a “**Pre-Funded Mortgage**”) from Arianty subject to compliance with the eligibility criteria applicable to the Initial Mortgages (as amended or varied with the prior written confirmation of the Rating Agencies that such amendment to or variation of such eligibility criteria will not cause the downgrade of the then current rating of the Notes). It is a requirement of the Mortgage Sale Agreement that in respect of the Pre-Funded Mortgages sold to the Issuer by Arianty, Arianty must have verified receipt of the first monthly payment due from the relevant Borrower (and in respect of Pre-Funded Mortgages which are Scottish Mortgages, Mortgage Trust will at the direction and with the consent of Arianty and, where appropriate, Mortgage Trust Services, declare a supplemental trust over the Scottish Mortgages (each a “**Scottish Supplemental Declaration of Trust**”). For further criteria relating to the purchase of Pre-Funded Mortgages, see “**The Mortgage Pool – Pre-Funded Mortgages**” below.

The Issuer may only purchase the Pre-Funded Mortgages utilising amounts standing to the credit of the Pre-Funded Ledger, represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer’s Investments. After the Issue Date, no further amounts may be credited to the Pre-Funded Ledger. The amounts standing to the credit of the Pre-Funded Ledger may not be used for any purpose other than for the acquisition of Pre-Funded Mortgages. Any amounts not applied to purchase Pre-Funded Mortgages on or before the first Determination Date shall be treated as Redemptions and shall be applied in accordance with the Priority of Payments on the first Interest Payment Date.

Reserve Fund

The following amounts shall be credited to the Transaction Account and represented by a reserve fund in the Issuer’s accounting books (the “**Reserve Fund**”):

- (a) on the Issue Date, £14,476,479 represented by the amounts drawn under Tranche B of the Start-Up Loan; and
- (b) on any Interest Payment Date following the Issue Date, amounts paid pursuant to item (vii) of the Priority of Payments, up to the Reserve Fund Required Amount.

The Issuer will be obliged to maintain the Reserve Fund at the level of the Reserve Fund Required Amount. The Reserve Fund will be available to meet items (i) to (vi) of the Priority of Payments if insufficient funds are available to meet such items under the Priority of Payments provided that whilst there are Class A Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class M Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than the lower of (1) £2,995,134 and (2) the Principal Amount Outstanding of the Class A Notes (plus any amounts to be paid in priority thereto).

If at any time the amount standing to the credit of the Reserve Fund exceeds the Reserve Fund Required Amount, the amount of such excess shall be debited from the Reserve Fund and be made available for application in accordance with the Priority of Payments.

Liquidity Reserve

On each Interest Payment Date where a Liquidity Trigger Event has occurred and is continuing, the Issuer will be obliged to credit a fund established in the Issuer’s accounting books, represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer’s Investments (the “**Liquidity Reserve**”) in accordance with the Priority of Payments up to the Liquidity Reserve Required Amount.

The Liquidity Reserve may be applied to meet items (i) to (vi) of the Priority of Payments to the extent that, on any Determination Date, amounts standing to the credit of the Transaction Account and to be applied in accordance with the Priority of Payments (other than those amounts representing the Liquidity Reserve) plus the amount expected to be received under the Mortgages in respect of monthly payments from Borrowers by means of direct debit on the next

Interest Payment Date together with payments made in accordance with the Reserve Fund are insufficient to meet items (i) to (vi) (inclusive) of the Priority of Payments.

If at any time the amount representing a credit balance on the Liquidity Reserve exceeds the Liquidity Reserve Required Amount the amount of such excess shall be debited from the Liquidity Reserve and applied in accordance with the Priority of Payments.

Base Rate Reserve

The average spread at which Bank of England Base Rate is expected to be set below Note LIBOR has been determined by the Issuer to equal 0.15%. Accordingly, the Issuer will establish a reserve in its accounting books (the “**Base Rate Reserve**”), in an initial amount of £6,792 using Tranche D of the Start-Up Loan to be credited to the Transaction Account and/or invested in the Issuer’s Investments and to cover any shortfalls resulting from the Bank of England Base Rate being set at a level more than 0.15% below Note Sterling LIBOR in respect of any Interest Period.

If, during an Interest Period, the Bank of England Base Rate is more than 0.15% below Note Sterling LIBOR in respect of that Interest Period, then on the following Interest Payment Date a portion of the monies standing to the credit of the Base Rate Reserve equal to the maximum amount by which Bank of England Base Rate has been lower than 0.15% below Note Sterling LIBOR multiplied by the aggregate outstanding principal balances (including drawn balances) of any Base Rate Linked Mortgages as at the previous Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year) will be released from the Base Rate Reserve and will be available for application in accordance with the Priority of Payments. The Issuer will be obliged to maintain the Base Rate Reserve at the Base Rate Reserve Required Amount under item (xiv) of the Priority of Payments. If on an Interest Payment Date the amount standing to the credit of the Base Rate Reserve (after taking into account the above reduction) exceeds the Base Rate Reserve Required Amount, the amount of such excess shall be debited to the Base Rate Reserve for application in accordance with the Priority of Payments.

The “**Base Rate Reserve Required Amount**” means on the Issue Date and each Interest Payment Date thereafter an amount equal to 0.15% of the aggregate outstanding principal balances (including drawn and undrawn balances) of the Base Rate Linked Mortgages.

Discount Reserve

On the Issue Date, in respect of each Mortgage which is a Discounted Mortgage, the Issuer will determine the Loan Expected Differential for each Discounted Mortgage in the Initial Mortgage Pool resulting from the Discount over the time period during which the Discount applies and the anticipated Pool Expected Differential. In respect of each Pre-Funded Mortgage which comprises a Discounted Mortgage acquired by or transferred to the Issuer, the Issuer will determine the Loan Expected Differential in respect of such Pre-Funded Mortgage on the date of such acquisition or transfer to the Issuer. On each Determination Date the Issuer will calculate the Loan Expected Differential in respect of any Substitute Mortgages or Further Advances to be transferred into the Mortgage Pool on the immediately succeeding Interest Payment Date in respect of Discounted Mortgages and will calculate the Pool Expected Differential in respect of the Interest Period commencing on the next Interest Payment Date to take into account such new loans or advances and any redemptions of Discounted Mortgages in the immediately preceding Interest Period.

To cover these Expected Differentials resulting from Discounted Mortgages, the Issuer will establish a reserve in its accounting books, represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer’s Investments (the “**Discount Reserve**”), using Tranche E of the Start-Up Loan. On each Interest Payment Date (i) a portion of the amount standing to the credit of the Discount Reserve equal to the amount of any Pool Expected Differential determined in respect of the Interest Period ending immediately prior to such Interest Payment Date and (ii) the aggregate amount of any Loan Expected Differentials allocated to Discounted Mortgages which have redeemed in the immediately preceding Collection Period, shall each be released from the Discount Reserve and will be available for application in accordance with the Priority of Payments. Under item (xvi) of the Priority of Payments, the Issuer shall on each Interest Payment Date allocate additional amounts to the Discount Reserve to cover Expected Differentials arising from future Discounts on any Substitute Mortgages and Further Advances which are or are in respect of Discounted Mortgages being purchased on such Interest Payment Date.

On the Issue Date the Discount Reserve shall be an amount of up to £1,100,000. This amount is calculated by representing the aggregate Loan Expected Differentials in respect of each Discounted Mortgage in the Initial Mortgage Pool. An amount equal to the Loan Expected Differential in respect of each Pre-Funded Mortgage which comprises a Discounted Mortgage shall be credited to the Discount Reserve on the date each such Mortgage is acquired or transferred to the Issuer by utilising proceeds drawn under Tranche E of the Start-Up Loan.

“**Discount**” means the discount below the Reference Rate applicable to a Discounted Mortgage at the relevant time.

“Effective Interest Margin” in relation to Discounted Mortgages in the Mortgage Pool will be determined as follows:

- (a) for each Standard Variable Rate Mortgage, the Threshold Margin less the Discount;
- (b) for each Base Rate Linked Mortgage, the margin of that Mortgage over Bank of England Base Rate less 0.15% less the Discount;
- (c) for each LIBOR Linked Mortgage, the margin of that Mortgage over LIBOR less the Discount; and
- (d) for each Fixed Rate Mortgage which has been swapped to the Threshold Rate, the Threshold Margin less the Discount.

“Expected Differential” means an amount calculated in respect of each Discounted Mortgage and each Interest Period as the difference between the Threshold Margin and the Effective Interest Margin on such Discounted Mortgage, to the extent such difference is positive, multiplied by the outstanding principal balance in respect of such Discounted Mortgage as of the Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the succeeding Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year).

“Loan Expected Differential” means the aggregate of all Expected Differentials applying to Interest Periods that fall during the discount period for such Mortgage.

“Pool Expected Differential” means in relation to an Interest Period, the aggregate of the Expected Differentials in relation to such Interest Period of all Discounted Mortgages in the Mortgage Pool.

“Reference Rate” means:

- (a) for each Standard Variable Rate Mortgage, the standard variable rate set by Mortgage Trust Services from time to time;
- (b) for each LIBOR Linked Mortgage, LIBOR plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower;
- (c) for each Base Rate Linked Mortgage, Bank of England Base Rate, plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower; and
- (d) for each Fixed Rate Mortgage, the rate set out in the mortgage documentation entered into with the relevant Borrower.

“Threshold Margin” means (i) up to (but excluding) the Coupon Step Up Date, the figure expressed as a percentage resulting from the addition of (a) the average total principal balance outstanding of Owner Occupied Loans during the relevant Interest Period multiplied by 1.0% plus (b) the average total principal balance outstanding of Investment Home Loans during the relevant Interest Period multiplied by 1.4%, all divided by the average total principal balance outstanding of all Mortgages during that Interest Period and (ii) from and including the Coupon Step Up Date, 1.9%. The average total principal balance outstanding in any category of loan for the purposes of the above calculation shall be calculated by reference to the total principal balance outstanding of such category of loan on each day during the relevant Interest Period.

Threshold Rate

So long as any of the Notes are outstanding, the Servicer shall be obliged to procure on each Interest Payment Date that the standard variable rate in relation to each Standard Variable Mortgage in the Mortgage Pool is set such that the amount represented by:

- (a) the aggregate of the annual rate of interest applicable on such Interest Payment Date to each Mortgage in the Mortgage Pool multiplied by the principal balance outstanding of such Mortgage on such Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year); plus
- (b) any amount expected to be released from the Base Rate Reserve for application in accordance with the Priority of Payments on the next following Interest Payment Date; plus
- (c) any amount expected to be released from the Discount Reserve for application in accordance with the Priority of Payments on the next following Interest Payment Date (the sum of (a) to (c), **“Amount A”**); plus
- (d) any amounts received in respect of Interest Rate Swap Agreements; plus
- (e) any income received in respect of the Issuer’s Investments,

is equal to or greater than the amount (“**Amount B**”) produced by multiplying the Threshold Rate with the aggregate outstanding balances of the Mortgages in the Mortgage Pool on such Interest Payment Date and the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year). This exercise is linked to the Issuer’s requirements to maintain hedging protection relative to each interest rate type of Mortgage (see “**Interest Rate Hedging**” below).

Alternatively, the Servicer may procure on such Interest Payment Date that a deposit (the “**Threshold Amount Deposit**”) equal to the amount by which Amount B exceeds Amount A (such amount not to be less than zero) is paid into the Transaction Account. Such deposit is repayable at item (xix) of the Priority of Payments to the extent that it is no longer required to cover such difference.

The “**Threshold Rate**” in respect of an Interest Period means an annual rate of LIBOR as determined in relation to the Notes for such Interest Period plus the Threshold Margin.

Interest Rate Hedging

The Servicer is obliged to procure in respect of each Interest Period that the interest expected to be received from the Mortgages in the Mortgage Pool during such Interest Period plus related amounts available as described below is equal to or greater than the amount produced by applying the Threshold Rate to the aggregate outstanding principal balances of the Mortgages in the Mortgage Pool in respect of such Interest Period. Compliance with this requirement will be achieved through a combination of hedges entered into with the Interest Rate Swap Counterparties, reserves established to supplement potential interest shortfalls and the Servicer’s ability to require the standard variable rate to be set in respect of the Standard Variable Mortgages as follows:

- (a) *Standard Variable Mortgages*: The standard variable rate in respect of the Standard Variable Mortgages shall be set as described under “**Threshold Rate**” above.
- (b) *Fixed Rate Mortgages*: The Issuer will initially enter into a series of interest rate swap agreements with JPMorgan Chase Bank and/or Barclays and may also enter into interest rate swap agreements from time to time with such other entity as the Issuer may decide provided that such entity has a rating of at least P-1 by Moody’s and A-1+ by S&P in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (the “**Interest Rate Swap Counterparties**”, each an “**Interest Rate Swap Counterparty**”) to hedge the variance between the fixed rate of interest payable on the Fixed Rate Mortgages and the Notes, to the satisfaction of S&P (each an “**Interest Rate Swap Agreement**” and together the “**Interest Rate Swap Agreements**”). Further Interest Rate Swap Agreements may also be entered into by the Issuer in relation to Pre-Funded Mortgages, Substitute Mortgages and Further Advances.
- (c) *Base Rate Linked Mortgages*: The average spread at which Bank of England Base Rate is expected to set below Note LIBOR has been determined by the Issuer to equal 0.15%. Accordingly, the Issuer will establish a Base Rate Reserve using Tranche D of the Start-Up Loan to cover any shortfalls resulting from Bank of England Base Rate setting at a level more than 0.15% below Note Sterling LIBOR in respect of any Interest Period in respect of the Base Rate Linked Mortgages. The use of the Base Rate Reserve is described under “**Base Rate Reserve**” above.
- (d) *LIBOR Linked Mortgages*: LIBOR on the Mortgages linked to three month LIBOR and Note Sterling LIBOR (other than the first calculation of Note Sterling LIBOR) are fixed on the same quarter date so that no basis risk exists in relation to these Mortgages. The Initial Mortgage Pool will comprise less than 0.1% by principal amount outstanding of Mortgages linked to one month LIBOR and the Issuer will not enter into hedging in respect of the variance between one month LIBOR and Note Sterling LIBOR in respect of the Mortgages which are linked to one month LIBOR.
- (e) *Discounted Mortgages*: On the Issue Date, in respect of each Initial Mortgage which is a Discounted Mortgage, the Issuer will determine the Loan Expected Differential resulting from the Discount over the time period during which the Discount applies and the anticipated Pool Expected Differential for the first Interest Period. On each Determination Date the Issuer will calculate the Pool Expected Differential in respect of the Interest Period commencing on the next Interest Payment Date to take into account any Substitute Mortgages transferred into the Mortgage Pool on such date and any redemptions of Discounted Mortgages in the immediately preceding Collection Period. To cover the Expected Differentials resulting from Discounted Mortgages, the Issuer will establish a Discount Reserve using Tranche E of the Start-Up Loan. The use of the Discount Reserve is described under “**Discount Reserve**” above.

Each of the Interest Rate Swap Counterparties will, on the Issue Date, have a rating in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations of at least P-1 by Moody’s and A-1+ by S&P.

Each Interest Rate Swap Agreement may be terminated by the relevant Interest Rate Swap Counterparty in circumstances including, broadly, where the Issuer is in default by reason of failure by the Issuer to make payments and where certain insolvency related events affect the Issuer and in the event that proceedings are taken against the Issuer by the Trustee to enforce payment in respect of the Notes. Each Interest Rate Swap Agreement may be terminated by the Issuer in circumstances including, *inter alia*, where the relevant Interest Rate Swap Counterparty is in default by reason of the failure by the relevant Interest Rate Swap Counterparty to make payments, where the relevant Interest Rate Swap Counterparty is otherwise in breach of an Interest Rate Swap Agreement or has made a misrepresentation and where certain insolvency related events affect the relevant Interest Rate Swap Counterparty.

Each Interest Rate Swap Agreement may also terminate early in the event that there are changes in law resulting in the illegality of the obligations to be performed by either party.

Promptly upon the termination of any Interest Rate Swap Agreement, the Issuer will notify the Trustee of such termination.

Any termination of an Interest Rate Swap Agreement (whether in full or in part) may give rise to a termination payment due either to or from the Issuer. Any such payment due from the Issuer to an Interest Rate Swap Counterparty will rank in order of priority as described in “**Priority of Payments – Pre-Enforcement**” or “**Priority of Payments – Post-Enforcement**” above, as applicable, and for the purposes of the relevant priority of payments “**Interest Rate Swap Counterparty Default Payment**” means on any Interest Payment Date in relation to an Interest Rate Swap Agreement the amount, if any, due to the relevant Interest Rate Swap Counterparty on that Interest Payment Date (excluding the amount of any collateral which is not to be applied towards any termination payment) in connection with a termination of that Interest Rate Swap Agreement where such termination has arisen as a result of an Event of Default where the Interest Rate Swap Counterparty is the Defaulting Party or as a result of a Termination Event where the Interest Rate Swap Counterparty is the Affected Party (and for these purposes, Event of Default, Defaulting Party, Termination Event and Affected Party have the meanings indicated in that Interest Rate Swap Agreement).

Where the Issuer enters into a further Interest Rate Swap Agreement to replace all or part of any Interest Rate Swap Agreement which terminates early, the Issuer shall upon receipt, apply the amount, if any, received in consideration for entry into that replacement Interest Rate Swap Agreement in or towards payment of any termination payment then payable by the Issuer to the Interest Rate Swap Counterparty in respect of that Interest Rate Swap Agreement which has terminated early and the remainder of that amount, if any, shall be credited to the relevant ledger.

If an Interest Rate Swap Counterparty is required to make any deduction or withholding for or on account of tax from any amounts payable by it under an Interest Rate Swap Agreement on any Interest Payment Date, then under the terms of the relevant Interest Rate Swap Agreement it will be obliged to pay additional amounts (“**Additional Amounts**”) to ensure that the Issuer receives the full amount it would otherwise have received from the relevant Interest Rate Swap Counterparty. If the Issuer is required to make any deduction or withholding for or on account of tax from any amounts payable by it under an Interest Rate Swap Agreement on any Interest Payment Date, then, under the terms of the relevant Interest Rate Swap Agreement, it shall make such payment after such withholding or deduction has been made and shall not be obliged to make any additional payments to the relevant Interest Rate Swap Counterparty in respect of such withholding or deduction.

However, under each Interest Rate Swap Agreement the Issuer will agree that on each Interest Payment Date it will, subject to and in accordance with the agreed order of priority of payments referred to in “**Priority of Payments – Pre-Enforcement**” above, pay to the relevant Interest Rate Swap Counterparty an amount or amounts (“**Withholding Compensation Amounts**”) equal to (i) any Additional Amounts so paid by the relevant Interest Rate Swap Counterparty to the Issuer on such Interest Payment Date together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the Interest Rate Swap Counterparty under the relevant Interest Rate Swap Agreement on any previous Interest Payment Date, and (ii) any amount that the Issuer is required to withhold or deduct for, or on account of, United Kingdom tax (a “**Withheld Amount**”) on such Interest Payment Date, together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Withheld Amount applicable to any previous Interest Payment Date.

In the event that the relevant rating(s) of an Interest Rate Swap Counterparty is downgraded below the relevant rating(s) specified (in accordance with the requirements of S&P and Moody’s) in the relevant Interest Rate Swap Agreement (the “**Interest Rate Swap Trigger Ratings**”) then the Issuer has the right to terminate the Interest Rate Swap Agreements unless the relevant Interest Rate Swap Counterparty, within the relevant periods set out in the relevant Interest Rate Swap Agreement, takes certain remedial measures which may include: (i) providing collateral for its obligations under the relevant Interest Rate Swap Agreement; (ii) arranging for its obligations under the relevant Interest Rate Swap Agreement to be transferred to an entity with ratings required by the relevant Rating Agency as specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the relevant Rating Agency); (iii) procuring another entity, with ratings required by the relevant Rating Agency as specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the relevant Rating Agency), to become co-obligor in respect of its obligations under the relevant Interest Rate Swap Agreement, and/or (iv) taking such other action as it may agree with the relevant Rating Agency.

Where an Interest Rate Swap Counterparty provides collateral in accordance with the terms of any Interest Rate Swap Agreement, such collateral will be credited by the Issuer to a separate ledger created to record such amounts and transferred (if in cash form) to the Transaction Account. Any collateral provided by the relevant Interest Rate Swap Counterparty will not form part of amounts available to the Issuer in respect of payments to be made under the Priority of Payments until it is applied in or towards satisfaction of amounts due by the Interest Rate Swap Counterparty to the Issuer in accordance with the terms under which the collateral was provided.

An Interest Rate Swap Counterparty may terminate the Interest Rate Swap Agreements in the event that proceedings are taken against the Issuer to enforce payment of the Notes.

An Interest Rate Swap Counterparty may, at its own expense and provided it has obtained the prior written approval of the Issuer, in certain circumstances transfer its obligations in respect of an Interest Rate Swap Agreement to another entity provided that such entity is acceptable to the Trustee and the Rating Agencies confirm that such transfer of obligations would not result in a downgrade of the then current ratings of the Notes.

Currency Swap Agreements

The USD Notes and the Euro Notes will be denominated in dollars and euro respectively, and the Issuer will pay interest and principal on the USD Notes in dollars and on the Euro Notes in euro. However, payments of interest and principal by Borrowers under the Mortgages will be made in sterling. In addition, each of the USD Notes and the Euro Notes will bear interest at a rate based on a margin over Note USD-LIBOR and Note EURIBOR respectively. In order to protect itself against currency exchange rate exposure (and any related interest rate exposure in connection with such currency exchange rate exposure) in respect of the USD Notes and the Euro Notes, the Issuer will enter into the Currency Swap Agreements with the Currency Swap Counterparty on or prior to the Issue Date.

Under the terms of each Currency Swap Agreement, the Issuer will pay to the Currency Swap Counterparty:

- (a) on the Issue Date, the net dollar and euro proceeds received on the issue of the USD Notes and the Euro Notes respectively;
- (b) on each Interest Payment Date, an amount in sterling based on three month sterling LIBOR (or, in the case of the initial Interest Payment Date, an amount in sterling based on the linear interpolation of four month sterling LIBOR and five month sterling LIBOR) plus a margin in accordance with the relevant Currency Swap Agreement; and
- (c) on each Interest Payment Date, an amount in sterling equal to the amount available to be applied in repayment of principal on the USD Notes and/or the Euro Notes (as applicable) on that Interest Payment Date.

Under the terms of each Currency Swap Agreement, the Currency Swap Counterparty will pay to the Issuer or to its order:

- (a) on the Issue Date, an amount in sterling equal to the net dollar (in relation to the Class A3 Currency Swap Agreement) and euro (in relation to the Euro Currency Swap Transactions) proceeds of the issue of the USD Notes and the Euro Notes respectively, such proceeds to be converted into sterling at the relevant Currency Swap Rate (as defined below);
- (b) on each Interest Payment Date, an amount in dollars (in relation to the Class A3 Currency Swap Agreement) and euro (in relation to the Euro Currency Swap Transactions) equal to the interest to be paid in dollars (in relation to the Class A3 Currency Swap Agreement) and euro (in relation to the Euro Currency Swap Transactions) on the USD Notes and the Euro Notes respectively on such Interest Payment Date; and
- (c) on each Interest Payment Date, an amount in dollars (in relation to the Class A3 Currency Swap Agreement) and euro (in relation to the Euro Currency Swap Transactions) equal to the amount of principal to be repaid on the USD Notes and the Euro Notes respectively, on such Interest Payment Date.

Under the terms of the relevant Currency Swap Agreement, the Issuer and the Currency Swap Counterparty have agreed that each such payment to be made by the Currency Swap Counterparty shall be made to the relevant Paying Agent (for payment to the relevant Noteholders) instead of being paid to the Issuer.

The relevant euro/sterling and USD/sterling exchange rates will be determined in respect of each Currency Swap Agreement on or prior to the Issue Date. The relevant euro/sterling exchange rates in respect of the Class A2 Currency Swap Agreement and the Class M2 Currency Swap Agreement are together the “**Euro Currency Swap Rate**”. The relevant dollar/sterling exchange rate in respect of the Class A3 Currency Swap Agreement is referred to as the “**USD Currency Swap Rate**” and together with the Euro Currency Swap Rate and each of them the “**Currency Swap Rate**”.

Each Currency Swap Agreement may be terminated by the Currency Swap Counterparty in circumstances including, broadly, where the Issuer is in default by reason of failure by the Issuer to make payments and where certain insolvency related events affect the Issuer and in the event that proceedings are taken against the Issuer by the Trustee to enforce payment in respect of the Notes. Each Currency Swap Agreement may be terminated by the Issuer in circumstances including, *inter alia*, where the Currency Swap Counterparty is in default by reason of the failure by the Currency Swap Counterparty to make payments, where the Currency Swap Counterparty is otherwise in breach of the Currency Swap Agreement or has made a misrepresentation and where certain insolvency related events affect the Currency Swap Counterparty.

Each Currency Swap Agreement may also terminate early in the event that there are changes in law resulting in the illegality of the obligations to be performed by either party.

Promptly upon the termination of any Currency Swap Agreement, the Issuer will notify the Trustee of such termination.

Any termination of a Currency Swap Agreement (whether in full or in part) may give rise to a termination payment due either to or from the Issuer. Any such payment due from the Issuer to the Currency Swap Counterparty will rank in order of priority as described in “**Priority of Payments – Pre-Enforcement**” or “**Priority of Payments – Post-Enforcement**” above, as applicable, and for the purposes of the relevant priority of payments “**Currency Swap Counterparty Default Payment**” means on any Interest Payment Date in relation to a Currency Swap Agreement the amount, if any, due to the Currency Swap Counterparty on that Interest Payment Date (excluding the amount of any collateral which is not to be applied towards any termination payment) in connection with a termination of that Currency Swap Agreement where such termination has arisen as a result of an Event of Default where the Currency Swap Counterparty is the Defaulting Party or as a result of a Termination Event where the Currency Swap Counterparty is the Affected Party (and for these purposes, Event of Default, Defaulting Party, Termination Event and Affected Party have the meanings indicated in that Currency Swap Agreement).

Where the Issuer enters into a further currency swap agreement to replace all or part of any Currency Swap Agreement which terminates early, the Issuer shall upon receipt, apply the amount, if any, received in consideration for entry into that replacement currency swap agreement in or towards payment of any termination payment then payable by the Issuer to the Currency Swap Counterparty in respect of that Currency Swap Agreement which has terminated early and the remainder of that amount, if any, shall be credited to the relevant ledger.

If the Currency Swap Counterparty is required to make any deduction or withholding for or on account of tax from any amounts payable by it under a Currency Swap Agreement on any Interest Payment Date, then under the terms of the relevant Currency Swap Agreement it will be obliged to pay additional amounts (“**Additional Amounts**”) to ensure that the Issuer receives the full amount it would otherwise have received from the Currency Swap Counterparty. If the Issuer is required to make any deduction or withholding for or on account of tax from any amounts payable by it under a Currency Swap Agreement on any Interest Payment Date, then, under the terms of the relevant Currency Swap Agreement, it shall make such payment after such withholding or deduction has been made and shall not be obliged to make any additional payments to the Currency Swap Counterparty in respect of such withholding or deduction.

However, under each Currency Swap Agreement the Issuer will agree that on each Interest Payment Date it will, subject to and in accordance with the agreed order of priority of payments referred to in “**Priority of Payments – Pre-Enforcement**” above, pay to the Currency Swap Counterparty an amount or amounts (“**Withholding Compensation Amounts**”) equal to (i) any Additional Amounts so paid by the Currency Swap Counterparty to the Issuer on such Interest Payment Date together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the Currency Swap Counterparty under the relevant Currency Swap Agreement on any previous Interest Payment Date, and (ii) any amount that the Issuer is required to withhold or deduct for or on account of United Kingdom tax (a “**Withheld Amount**”) on such Interest Payment Date, together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Withheld Amount applicable to any previous Interest Payment Date.

In the event that the relevant rating(s) of the Currency Swap Counterparty is downgraded below the relevant rating(s) specified (in accordance with the requirements of S&P and Moody’s) in the relevant Currency Swap Agreement (the “**Currency Swap Trigger Ratings**”) then the Issuer has the right to terminate the Currency Swap Agreements unless the Currency Swap Counterparty, in accordance with the procedure set out in the relevant Currency Swap Agreement, takes certain remedial measures which may include: (i) providing collateral for its obligations under the relevant Currency Swap Agreement; (ii) arranging for its obligations under the relevant Currency Swap Agreement to be transferred to an entity with ratings required by the relevant Rating Agency as specified in the relevant Currency Swap Agreement (in accordance with the requirements of the relevant Rating Agency); (iii) procuring another entity, with ratings required by the relevant Rating Agency as specified in the relevant Currency Swap Agreement (in accordance with the requirements of the relevant Rating Agency), to become co-obligor in respect of its obligations under the Currency Swap Agreement, and/or (iv) taking such other action as it may agree with the relevant Rating Agency.

Where the Currency Swap Counterparty provides collateral in accordance with the terms of any Currency Swap Agreement, such collateral will be credited by the Issuer to a separate ledger created to record such amounts and transferred (if in cash form) to the Transaction Account. Any collateral provided by the Currency Swap Counterparty will not form part of amounts available to the Issuer in respect of payments to be made under the Priority of Payments until it is applied in or towards satisfaction of amounts due by the Currency Swap Counterparty to the Issuer in accordance with the terms under which the collateral was provided.

The Currency Swap Counterparty may terminate the Currency Swap Agreements in the event that proceedings are taken against the Issuer to enforce payment of the Notes.

The Currency Swap Counterparty may, at its own expense and provided it has obtained the prior written approval of the Issuer, in certain circumstances transfer its obligations in respect of a Currency Swap Agreement to another entity provided that such entity is acceptable to the Trustee and the Rating Agencies confirm that such transfer of obligations would not result in a downgrade of the then current ratings of the relevant Notes.

Guaranteed Investment Contract

Pursuant to a guaranteed investment contract (the “**Guaranteed Investment Contract**”), to be entered into on or before the Issue Date between the Issuer and Barclays (the “**GIC Provider**”) the GIC Provider will agree to pay to the Issuer a rate of interest equal to Note Sterling LIBOR minus 0.175% per annum on the sums deposited under the Guaranteed Investment Contract and which have not been invested in other Permitted Investments between one Interest Payment Date and the next Interest Payment Date.

The Issuer may terminate the Guaranteed Investment Contract and enter into a replacement contract if (i) the Trustee provides its prior written consent to such replacement and the Rating Agencies confirm that such replacement would not cause a downgrade of the then current rating of the Notes and (ii) the value of such replacement contract (taking into account the guaranteed rate of return, any termination fees under the original contract and any fees in respect of the replacement contract) to the Issuer is equal to or greater than the rate under the original contract.

If the rating of the unsubordinated, unsecured and unguaranteed short term debt of the GIC Provider falls below P-1 by Moody’s and A-1+ by S&P then the Servicer will within 30 days of notification of such downgrade (unless the applicable Rating Agency confirms in writing that such investment would not cause it to downgrade the then current rating of the Notes) procure that a bank whose unsubordinated, unsecured and unguaranteed short-term debt is so rated becomes the GIC Provider.

Permitted Investments

The Servicer will be entitled to invest cash from time to time standing to the credit of the Transaction Account in various investments (such as gilt-edged securities, certificates of deposit, commercial paper and other short term securities or deposits or money market instruments/funds) with or issued by an entity with a short term unsecured, unguaranteed and unsubordinated rating of at least P-1 by Moody’s and A-1+ by S&P or guaranteed by an entity with a short term unsecured, unguaranteed and unsubordinated rating of at least P-1 by Moody’s and A-1+ by S&P (or with any other entity where the applicable Rating Agency confirms in writing that such investment would not cause it to downgrade the then current rating of the Notes) or in the case of money market instruments/funds such instruments/funds are rated at least Aaa by Moody’s and AAA by S&P (each a “**Permitted Investment**”) provided that each such Permitted Investment (i) has a yield which is higher than that which could otherwise be obtained under the Guaranteed Investment Contract, (ii) matures or can be repaid without penalty on or prior to the Interest Payment Date on which the cash represented by such Permitted Investment is required by the Issuer and (iii) that such investments are in the same currency as that of the cash used to make such investments. Permitted Investments shall not include investments in equity securities.

Start-Up Loan

The Issuer will enter into a loan facility agreement (the “**Start-Up Loan Agreement**”) with Mortgage Trust Services on or prior to the Issue Date whereby Mortgage Trust Services will provide the Issuer with a term loan (the “**Start-Up Loan**”). The Start-Up Loan will consist of five tranches. The first tranche of the Start-Up Loan (“**Tranche A**”) will be an amount of £1,300,000 and will be used for meeting the costs and expenses of the Issuer arising in respect of the Issue of the Notes. The second tranche of the Start-Up Loan (“**Tranche B**”) will be an amount of £14,476,479 and will be represented by a credit balance on the Reserve Fund. The third tranche of the Start-Up Loan (“**Tranche C**”) will be an initial amount of up to £2,650,000 to be used to enter into the Interest Rate Swap Agreements. The Issuer may at any time up to and including the first Interest Payment Date, make drawings under Tranche C of the Start-Up Loan. The fourth tranche of the Start-Up Loan (“**Tranche D**”) will be an initial amount of £6,792 and will be represented by a credit balance on the Base Rate Reserve. The Issuer may at any time up to and including the first Interest Payment Date, make drawings under Tranche D of the Start-Up Loan. The fifth tranche of the Start-Up Loan

(“**Tranche E**”) will be an initial amount of up to £1,100,000 and will be represented by a credit balance on the Discount Reserve. The Issuer may at any time up to and including the first Interest Payment Date, make drawings under Tranche E of the Start-Up Loan. Payments of interest and repayments of principal under the Start-Up Loan will be made by the Issuer only in accordance with (and to the extent only that funds are available under) the Priority of Payments.

Deferred Purchase Consideration

On each Interest Payment Date the Issuer shall pay on a *pari passu* and *pro rata* basis by way of deferred purchase consideration under the Mortgage Sale Agreement (i) to Arianty all amounts due in respect of the Initial Mortgages, Pre-Funded Mortgages and Substitute Mortgages (the “**Arianty Deferred Purchase Consideration**”) and (ii) to Mortgage Trust all amounts due in respect of the Further Advances purchased by the Issuer from Mortgage Trust (the “**Mortgage Trust Deferred Purchase Consideration**”), in each case to the extent amounts are available for such purpose in accordance with the Priority of Payments.

The Mortgage Pool

Introduction

Each of the Mortgages to be acquired by the Issuer on the Issue Date (the “**Initial Mortgage Pool**”) was originated by Mortgage Trust and the beneficial interest in each Mortgage was either (i) transferred by Mortgage Trust directly to Arianty pursuant to a mortgage sale agreement dated 21st December 2000 as amended and restated on 14th November 2001 between, amongst others, Mortgage Trust and Arianty (the “**First Origination Mortgage Sale Agreement**”); or (ii) transferred by Mortgage Trust to Mortgage Trust Services pursuant to a mortgage sale agreement dated 30th September 2003 between Mortgage Trust and Mortgage Trust Services (the “**Mortgage Trust Mortgage Sale Agreement**”) and, simultaneously with such transfer by Mortgage Trust Services to Arianty pursuant to a mortgage sale agreement dated 30th September 2003 between Mortgage Trust, Mortgage Trust Services and Arianty (the “**Second Origination Mortgage Sale Agreement**”). The provisional pool of Mortgages (the “**Provisional Mortgage Pool**”) was drawn up as at 30th September 2003. The Initial Mortgage Pool will be selected from the Provisional Mortgage Pool after excluding mortgages, *inter alia*, which are repaid between that date and the Issue Date or which do not otherwise comply with the Warranties. On or after the Issue Date, to the extent that the proceeds of the issue of the Notes exceed the aggregate amount of Initial Mortgages purchased, the Issuer shall no later than the first Determination Date purchase Pre-Funded Mortgages from Arianty to the extent that such Pre-Funded Mortgages comply with the terms of the Mortgage Sale Agreement and with the eligibility criteria applicable to the Initial Mortgages (as amended or varied with the prior written confirmation of the Rating Agencies that such amendments to or variation of such eligibility criteria will not cause the downgrade of the then current rating of the Notes). For further criteria relating to the purchase of Pre-Funded Mortgages, see “**The Mortgage Pool – Pre-Funded Mortgages**” below. The “**Mortgage Pool**” means the Initial Mortgage Pool and any Pre-Funded Mortgages and Substitute Mortgages acquired by the Issuer under the Mortgage Sale Agreement together with any Further Advances and Redraws.

Sale of Mortgages

Arianty will sell its beneficial interest in each Mortgage in the Mortgage Pool and each Pre-Funded Mortgage to the Issuer for a consideration equal to (a) the Purchase Price on the date such Mortgage is acquired by the Issuer and (b) the right to receive Arianty Deferred Purchase Consideration (as defined in “**Credit Structure**” above) from the Issuer in accordance with the Priority of Payments. Payments received on the Initial Mortgages up to but excluding the Issue Date or, with respect to Pre-Funded Mortgages, up to but excluding the date on which such Pre-Funded Mortgage is to be purchased (as the case may be) will be for the account of Arianty and payments made on or after the Issue Date or, with respect to Pre-Funded Mortgages, on or after the date on which a Pre-Funded Mortgage is to be purchased (as the case may be) will be for the account of the Issuer. The Purchase Price will be calculated on the assumption that payments scheduled to be made by any Borrower of a Mortgage on the date the Mortgage is purchased have been received by or on behalf of Arianty. To the extent that amounts representing interest accrued but not yet due, referable to the period before the Issue Date or the date on which a Pre-Funded Mortgage is to be purchased (as the case may be), are subsequently received by the Issuer, the Issuer will pay to Arianty an amount equal to the aggregate amount of such payments by way of price adjustment for the Mortgage Pool. Subject as stated below, the “**Purchase Price**” on the Issue Date or the date on which a Pre-Funded Mortgage is to be purchased (as the case may be) for each Mortgage means the aggregate of the amounts secured or intended to be secured under the Mortgage comprising (i) the original principal amount advanced to the Borrower plus (ii) any advance of further moneys (including Redraws) to the Borrower thereof on the security of the relevant Mortgage and any amount due under the terms of the Mortgage after the date of completion of such Mortgage which remains outstanding as at the Issue Date or the date on which a Pre-Funded Mortgage is to be purchased (as the case may be) less (iii) any repayments of such principal as at the Issue Date or the date on which a Pre-Funded Mortgage is to be purchased (as the case may be).

Any amounts that have not been used to purchase Pre-Funded Mortgages by the first Determination Date shall be treated as Redemptions and shall be applied in accordance with the Priority of Payments.

The Provisional Mortgage Pool

The Mortgages contained in the Provisional Mortgage Pool comprise mortgages with the following characteristics:

(a) *Rate of Interest*

- (i) Mortgages which are subject to a standard variable rate of interest set by Mortgage Trust Services from time to time (“**Standard Variable Mortgages**”).
- (ii) Mortgages which are subject to a variable rate of interest set by Mortgage Trust Services from time to time, which is linked to Bank of England Base Rate (“**Base Rate Linked Mortgages**”).
- (iii) Mortgages which are subject to a fixed rate of interest set by reference to a pre-determined rate or series of rates for a fixed period or periods (“**Fixed Rate Mortgages**”).

- (iv) Mortgages which are subject to a variable rate of interest set by Mortgage Trust Services from time to time, which is linked to LIBOR (“**LIBOR Linked Mortgages**”).

Some of these Mortgages are subject to a discounted rate of interest for a specified period. Such Mortgages are referred to herein as “**Discounted Mortgages**” while the specified period applies. Mortgages which were but are no longer subject to a discounted, or fixed rate of interest are treated as and are referred to herein as Base Rate Linked Mortgages, LIBOR Linked Mortgages or Standard Variable Mortgages, as applicable. Some of the Mortgages that are referred to herein as Fixed Rate Mortgages will become subject to a rate of interest linked to Bank of England Base Rate after certain specified periods of time.

(b) Repayment Terms

- (i) Mortgages in relation to which the principal amount is not repayable before maturity and which require a policy of endowment life assurance (which is in certain cases a unit-linked policy) (an “**Endowment Policy**”) (“**Endowment Mortgages**”).
- (ii) Mortgages in respect of which the principal amount is not payable before maturity and under the terms of which a pension policy is required (“**Pension Mortgages**”).
- (iii) Mortgages (other than those referred to in paragraphs b(i) and b(ii) above) under the terms of which the principal amount is not repayable before maturity (“**Interest Only Mortgages**”).
- (iv) Mortgages under the terms of which monthly instalments, which can cover both interest and principal, are payable until the mortgage is fully repaid by its maturity (“**Repayment Mortgages**”).

(c) Endowment Mortgages, Pension Mortgages and Life Cover

In the case of Endowment Mortgages and Pension Mortgages, although the Borrower is required to take out a policy of endowment life assurance or pension life assurance, as applicable, none of Arianty, Mortgage Trust or Mortgage Trust Services has verified that such a policy of life assurance has been taken out by each Borrower. None of Arianty, Mortgage Trust or Mortgage Trust Services take security over such policies of life assurance.

In relation to all Mortgages, applicants are recommended to ensure that they have adequate life cover in place to repay the advance in the event of their death prior to the end of the Mortgage term. Such life cover is not secured in favour of Mortgage Trust, Arianty or Mortgage Trust Services.

(d) Flexible Mortgages

Approximately 98.76% of the Mortgages by value of drawn balances as at 30th September 2003 to be acquired by the Issuer from Arianty on the Issue Date are “**Flexible Mortgages**”. Flexible Mortgages allow a Borrower to make payments at any time into his/her mortgage account (the “**Borrower Mortgage Account**”) exceeding the minimum monthly payment agreed with Mortgage Trust or Mortgage Trust Services (the “**Minimum Monthly Payment**”) and the amount that exceeds the Minimum Monthly Payment, an “**Overpayment**”) and at anytime thereafter withdraw sums from his/her Borrower Mortgage Account provided that the amount outstanding on such Borrower Mortgage Account does not exceed the amount of the Borrower’s loan which would have been outstanding at such time if the Borrower had only made the Minimum Monthly Payment (the “**Borrower Loan Limit**”).

In the case of a Repayment Mortgage, the Borrower Loan Limit reduces over the period of repayment of the advance secured by the Mortgage and in the case of an Endowment Mortgage, Pension Mortgage and an Interest Only Mortgage, the Borrower Loan Limit is the advance secured by the Mortgage, until repayment by the Borrower at the end of the period of repayment of such advance.

The Borrower may request, and Mortgage Trust Services may consent, to such Borrower’s monthly payments being met by applying Overpayments not previously redrawn by way of capitalisation of such monthly payments (a “**Payment Holiday**”).

Mortgage Trust’s and Mortgage Trust Services’ ability to consent to a Borrower taking a Payment Holiday will be limited by the terms of the Servicing Agreement.

Mortgage Trust Services deducts the Minimum Monthly Payment by direct debit from the Borrower Mortgage Account (unless a different arrangement has been agreed between the Borrower and Mortgage Trust Services) each month. The amount outstanding on the Borrower’s balance shall become immediately repayable to Mortgage Trust if (a) the Borrower fails to make at least the Minimum Monthly Payment in any month as agreed between the Borrower and Mortgage Trust Services without Mortgage Trust Services’ prior written consent and/or (b) the Borrower exceeds the Borrower Loan Limit. Notwithstanding the foregoing, if the Borrower exceeds the Borrower Loan Limit, the Borrower is required to pay to Mortgage Trust the amount above such Borrower Loan Limit immediately. Any Mortgage which has an outstanding principal balance in excess of the Borrower Loan Limit is treated as in arrear and is administered in accordance with the enforcement procedures described below under “**Enforcement Procedures**”.

(e) *Owner Occupied Loans*

4.50% of the Mortgages by drawn value to be acquired by the Issuer from Arianty on the Issue Date are mortgages in respect of Owner Occupied Loans (the “**Owner Occupied Loans**”). Owner Occupied Loans are loans made to a Borrower to be used to acquire properties to be used as its primary residence. Pre-Funded Mortgages or Substitute Mortgages acquired may comprise Owner Occupied Loans.

(f) *Investment Home Loans*

95.50% of the Mortgages by drawn value to be acquired by the Issuer from Arianty on the Issue Date are mortgages in respect of Investment Home Loans (the “**Investment Home Loans**”). Investment Home Loans are loans made to a Borrower to be used to remortgage or acquire properties to be occupied by tenants or held as an investment. Unless waived by Mortgage Trust Services, the conditions of the Mortgages in respect of Investment Home Loans require these properties to be let under an assured shorthold or short assured tenancy and in all cases that the occupier will have no statutory security of tenure (see “**Certain Special Considerations – Risk of Losses Associated with the Condition of the Private Rental Market and Non-Owner Occupied Properties**” above). Pre-Funded Mortgages or Substitute Mortgages acquired may comprise Investment Home Loans.

(g) *Cross Default and Cross Collateralisation of Mortgages*

The conditions of Investment Home Loans and Owner Occupied Loans provide for the cross-default and cross-collateralisation of all mortgages in the name of the same Borrower. Documentation shall be entered into by all parties with a beneficial interest in any mortgage where such cross-default or cross-collateralisation applies, to ensure that no Mortgage shall be enforced by the Issuer (or the Servicer at the direction of the Issuer) if the only reason for such enforcement is the default by a Borrower under a mortgage that is not part of the Mortgage Pool.

Lending Policy

On origination of each Mortgage from time to time comprised in the Mortgage Pool, the standard lending policy (the “**Lending Policy**”) for the relevant product type would have been applied, allowing for certain minor variations to reflect different products originated in different periods.

General Lending Procedures

Type:	Endowment, Interest Only, Pension, Capital Repayment.
Term:	Minimum 5 years. Maximum 40 years in respect of Owner Occupied Loans and 30 years in respect of Investment Home Loans. <i>There is discretion to allow for the Original Term to be amended based upon age and ability to repay.</i>
Charge:	First Legal Charge or Standard Security only.
Original Loan:	Minimum loan of (i) £15,001 in respect of loans originated on or before 30th April 1998; and (ii) £25,001 in respect of loans originated on or after 1st May 1998. There is no maximum loan amount. Where the aggregated lending exceeds £300,000, an Executive Summary is produced highlighting key factors to support the lending decision.
Tenure:	Freehold, heritable or long leasehold leases to have a minimum of 30 years unexpired at the end of the mortgage term. Leases of less than 30 years may be accepted for lower risk cases, determined by LTV and credit score.
Property:	Located in England, Wales, Scotland or Northern Ireland, readily saleable, residential, of standard construction and (in the case of owner occupied properties) is the borrower’s prime residence and (in the case of investment properties) is capable of being occupied by residential tenants. Properties with not more than 25% commercial usage are permitted.
Applicant:	Resident in England, Wales, Scotland, Northern Ireland or the Republic of Ireland (unless in respect of an Investment Home Loan, the applicant is an expatriate as mentioned below).

One or more of the applicants must be a residential homeowner or a British or Irish expatriate working overseas. *There is discretion for this requirement to be waived.*

LTV:

Mortgage Trust will lend an amount based on the valuation or (in the case of properties being purchased) the purchase price, whichever is the lower (“LTV”), as follows:

(a) For Investment Home Loans

85% on loans of up to £250,000

80% on loans of £250,001 to £500,000

75% on loans of £500,001 to £1,000,000

70% on loans over £1,000,000

There is discretion for amendments to be made to the amount lent based on the valuation, without additional security.

The LTV is restricted to 80% where the property to be secured is a studio flat, a flat over a shop, or an ex local authority property.

(b) For Owner Occupied Loans

95% on loans of up to £250,000

90% on loans of £250,001 to £300,000

85% on loans of £300,001 to £500,000

75% on loans of £500,001 or more.

There is discretion for amendments to be made to the amount lent based on the valuation, without additional security. Discretion is permitted to lend more than 95% of the valuation. In these cases, each application is assessed on its own merits.

In the case of purchases, the LTV calculation may be based on the valuation rather than purchase price, where the property is being acquired at a discount.

Mortgage indemnity guarantee insurance is required on owner occupied loans with an LTV of greater than 75% unless the applicant has certified their income in accordance with lending guidelines.

Age:

Minimum age is 25 years (for individuals) in respect of Investment Home Loans and 18 years for Owner Occupied Loans.

Income:

(a) Owner Occupied Loans

Single Applicant – up to 3.50 times the applicant’s income.

Multiple Applicants – up to 3.50 times primary income plus 1 times secondary income or up to 2.75 times joint income.

Income is defined as:

(a) for all self employed applicants or applicants who are directors of a company with a 25% or more shareholding, 100% of the income as declared on the application form or 100% of the average income over the last two years as advised by an accountant’s declaration or 100% of the average income shown in the last two years’ tax assessments;

(b) for employed applicants, 100% gross basic annual salary/wages and any regional allowances, shift allowances, mortgage subsidy and “Profit Related Pay” (“PRP”) and 50% regular overtime/commissions, bonuses and other income assessed on its merits; and

- (c) for applicants on long term IT contracts, eleven twelfths of the annualised contract rate.

Depending upon LTV, the multiple may reach a maximum of four times income or in the case of joint applicants, the greater of three times joint income or four times primary income plus one times secondary income.

Self-employed applicants are permitted to certify their income in which case independent verification is not carried out. In such cases the maximum LTV's are:

85% for loans of up to £200,000;

80% for loans of £200,001 or more.

- (b) Investment Home Loans:

Rental income as confirmed by Mortgage Trust Services' appointed valuer must cover typically 125% to 130% of the annual interest payment calculated at the initial offered charging rate or the non-discounted or capped rate, whichever is the higher. Where a borrower has more than one Investment Home Loan, rental income of less than 125% may be permitted subject to the aggregate rental income meeting 125% of the aggregate annual interest payment.

There is discretion for rental income of less than 125% to be accepted if the shortfall is covered by other income.

Applicants are permitted to certify their income in which case independent verification is not carried out. In such cases the maximum LTV is 80%.

Owner Occupied Loans and non-portfolio Investment Home Loans are credit scored. The credit score is based on a generic scorecard supplied by a credit reference agency. Where credit scoring has been used, a combination of the score and LTV will determine the level of references required. For cases with an LTV of 75% or less, and a credit score deemed to indicate a low risk applicant, a valuation report only is obtained. Notwithstanding this, at the time of application, the applicant will be advised that references shall be sought and will be required to provide income and employer details.

Purpose:

- (a) For Owner Occupied Loans:

Purchase or remortgage of owner occupied primary residence.

- (b) For Investment Home Loans:

Purchase or remortgage of residential property for short term letting on an Assured Shorthold Tenancy (as defined in "**The Mortgage Pool – Warranties and Repurchase**" below) or for investment purposes.

There is discretion for other types of tenancies to be accepted based upon the amount of rent paid and the type of tenant in occupation.

Buildings Insurance:

Insurance required on standard terms with an acceptable insurer and issued for a sum insured of not less than that recommended by the surveyor.

Minimum Property Valuation or Purchase Price:

Owner Occupied Loans: £30,000

Investment Home Loans: £40,000

There is discretion for values or purchase prices to be lower based upon the surveyors report and the rental assessment.

References Required:

Credit reference searches are conducted on each applicant at all addresses disclosed over a three year period. Lenders and/or bank statements may also be required. Where subsequent Investment Home Loans are made to existing borrowers, income and lenders references may not be taken up.

Life Policies: Applicants are recommended to ensure that they have adequate life cover in place to repay the advance in the event of their death prior to the end of the Mortgage term. Such life cover is not assigned to Mortgage Trust.

Expatriates: The following restrictions apply to expatriates and only in respect of Investment Home Loans:

Must be employed, not self-employed;

Maximum loan size of £500,000; and

Maximum LTV of 80%.

Discretion: To ensure flexibility the lending policy allows for applications that may be outside of the normal guidelines to be approved on condition that other mitigating factors of the application are of the highest quality.

All such cases are to be referred to the underwriters for approval.

Characteristics of the Provisional Mortgage Pool

The Mortgages in the Provisional Mortgage Pool have the aggregate characteristics indicated in Tables A to J below. Interest on the Mortgages in the Provisional Mortgage Pool is currently, other than in certain circumstances normally related to mortgages in arrears, paid on the last Business Day of each month and there is, therefore, a concentration of monthly payments under the Mortgages as at those dates.

The following tables give information on the Provisional Mortgage Pool at 30th September 2003.

Table A Key Data on the Provisional Mortgage Pool

Aggregate Drawn Mortgage Balances	£329,095,847
Aggregate Potential Redraw Amount	£3,547,687
Total Number of Mortgages	3,141
Largest Drawn Mortgage Balance	£2,876,530
Smallest Drawn Mortgage Balance	£987
Average Drawn Mortgage Balance	£104,774
Largest Potential Redraw Amount	£210,789
Average Potential Redraw Amount	£1,129
Weighted Average Loan to Value Ratio (including undrawn amount)	79.26%
Weighted Average Loan to Value Ratio (drawn amounts only)	78.84%
Weighted Average Seasoning (months)	6 months
Weighted Average Rental Cover (IHLs only)*	161.9%
Longest Maturity Date	21st October 2033

* Based on 95.50% of the Provisional Mortgage Pool relating to Investment Home Loans (only) by drawn value, for which data is available.

Characteristics of the Provisional Mortgage Pool

Table B Distribution By Mortgage Size

Size of Mortgage	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
up to 30,000	22	0.70	345,363	0.10	43,054	1.21
over 30,000 – 40,000	182	5.79	6,520,553	1.98	28,943	0.82
over 40,000 – 50,000	261	8.31	11,749,202	3.57	82,503	2.33
over 50,000 – 75,000	726	23.11	45,065,169	13.69	329,470	9.29
over 75,000 – 100,000	655	20.85	56,248,059	17.09	696,741	19.64
over 100,000 – 150,000	808	25.72	97,319,684	29.57	782,633	22.06
over 150,000 – 200,000	287	9.14	48,388,152	14.70	594,852	16.77
over 200,000 – 300,000	146	4.65	33,067,650	10.05	494,496	13.94
over 300,000 – 400,000	19	0.60	6,306,263	1.92	89,801	2.53
over 400,000 – 500,000	18	0.57	7,954,340	2.42	184,276	5.19
500,000 and over	17	0.54	16,131,412	4.90	220,919	6.23
	3,141	100.00	329,095,847	100.00	3,547,687	100.00

Table C Loan to Value Ratio (Principal + Collection Balance/Latest Valuation)

LTV (%)	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
0 – 40	64	2.04	2,797,668	0.85	1,403,817	39.57
over 40 – 50	35	1.11	4,380,687	1.33	470,039	13.25
over 50 – 60	68	2.16	7,077,682	2.15	410,407	11.57
over 60 – 70	164	5.22	19,639,259	5.97	618,125	17.42
over 70 – 75	257	8.18	30,828,029	9.37	145,842	4.11
over 75 – 80	577	18.37	64,140,286	19.49	298,243	8.41
over 80 – 85	976	31.07	104,001,531	31.60	188,064	5.30
over 85 – 90	976	31.07	94,672,353	28.77	13,090	0.37
over 90 – 95	17	0.54	1,078,012	0.33	60	0.00
over 95 – 100	7	0.22	480,339	0.15		0.00
100 and over		0.00	—	0.00		0.00
	3,141	100.00	329,095,847	100.00	3,547,687	100.00

Table D Geographic Distribution

Region	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
East Anglia	155	4.93	13,615,923	4.14	57,038	1.61
East Midlands	189	6.02	14,060,995	4.27	53,288	1.50
North	108	3.44	9,399,604	2.86	109,590	3.09
North West	271	8.63	20,397,633	6.20	139,193	3.92
Northern Ireland	128	4.08	6,783,735	2.06	11,706	0.33
Scotland	83	2.64	6,485,222	1.97	45,773	1.29
South East Inc London	1,435	45.69	194,196,936	59.01	2,477,960	69.85
South West	266	8.47	26,638,270	8.09	381,877	10.76
Wales	101	3.22	7,560,418	2.30	7,588	0.21
West Midlands	200	6.37	14,593,805	4.43	89,065	2.51
Yorkshire & Humberside	205	6.53	15,363,306	4.67	174,609	4.92
Other*	—	0.00	—	0.00	—	0.00
	3,141	100.00	329,095,847	100.00	3,547,687	100.00

* Mortgages falling within the “Other” category represent cases where more than one property is recorded within a mortgage account, and as a result a specific region cannot be allocated.

Table E Seasoning

Year of Origination	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
<1996	13	0.41	880,091	0.27	925	0.03
1996	10	0.32	532,010	0.16	13,876	0.39
1997	21	0.67	1,312,549	0.40	5,698	0.16
1998	17	0.54	1,515,298	0.46	20,496	0.58
1999	11	0.35	1,711,577	0.52	41,475	1.17
2000	15	0.48	1,020,543	0.31	119,600	3.37
2001	19	0.60	3,424,894	1.04	25,717	0.72
2002	301	9.58	31,122,714	9.46	408,180	11.51
2003	2,734	87.04	287,576,170	87.38	2,911,719	82.07
	3,141	100.00	329,095,847	100.00	3,547,687	100.00

Table F Loan Maturity

Years to Maturity	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
Less than 1 year	—	0.00	—	0.00	—	0.00
>=1 – less than 5 years	9	0.29	382,404	0.12	19,247	0.54
>=5 – less than 10 years	143	4.55	14,836,787	4.51	176,900	4.99
>=10 – less than 15 years	319	10.16	31,996,843	9.72	365,443	10.30
>=15 – less than 20 years	663	21.11	70,546,880	21.44	435,087	12.26
>=20 – less than 25 years	1,802	57.37	191,201,402	58.10	1,507,142	42.48
>=25 years	205	6.53	20,131,530	6.12	1,043,868	29.42
	3,141	100.00	329,095,847	100.00	3,547,687	100.00

Table G Repayment Method

	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
Endowment	35	1.11	1,824,893	0.55	23,287	0.66
Interest Only	2,450	78.00	272,576,848	82.83	2,540,934	71.62
Capital Repayment	654	20.82	54,511,857	16.56	978,770	27.59
Other	2	0.06	182,248	0.06	4,697	0.13
	3,141	100.00	329,095,847	100.00	3,547,687	100.00

Table H Mortgage Purpose

Purpose	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
Purchase	2,066	65.78	208,702,698	63.42	1,418,978	40.00
Remortgage	1,075	34.22	120,393,148	36.58	2,128,709	60.00
	3,141	100.00	329,095,847	100.00	3,547,687	100.00

Table I Owner Occupied/Investment Home Loans

Owner Occupied/ Investment Home Loans	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
Owner Occupied Loans	175	5.57	14,825,309	4.50	1,064,933	30.02
Investment Home Loans	2,966	94.43	314,270,538	95.50	2,482,755	69.98
	3,141	100.00	329,095,847	100.00	3,547,687	100.00

Table J Number of Months in Arrears

No. of Months	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
Up to 1	3106	98.89	327,086,461	99.39	3,547,687	100.00
> 1 <= 2	18	0.57	1,217,083	0.37	—	0.00
> 2 <= 3	5	0.16	276,740	0.08	—	0.00
> 3 <= 4	3	0.10	189,515	0.06	—	0.00
> 4 <= 5	0	0.00	—	0.00	—	0.00
> 5 <= 6	0	0.00	—	0.00	—	0.00
> 6	9	0.29	326,048	0.10	—	0.00
	3,141	100.00	329,095,847	100.00	3,547,687	100.00

Rounding may cause minor variations to the total percentage proportions shown in all of the Tables set out above.

Scottish Mortgages

Approximately 1.97% by value of the Mortgages in the Initial Mortgage Pool are Scottish Mortgages. These are secured over the relevant Properties by way of a first-ranking standard security, being the only means of creating a fixed charge or security over heritable property (i.e. land and buildings thereon) in Scotland. In respect of Scottish Mortgages, references herein to a “**Mortgage**” and a “**mortgage**” are to be read as references to such a standard security and the heritable creditor thereunder, respectively.

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 the Standard Conditions by a “**Deed of Variations**”, the terms of which are in turn imported into each Scottish Mortgage. Mortgage Trust has executed a Deed of Variations with a view to assimilating the terms of its Scottish Mortgages to those secured over properties in England from an operational viewpoint (subject to such limitations as are inherent to the difference between Scots and English law).

The 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. Firstly, the lender may serve a “**calling up notice**” with which the Borrower has two months to comply, failing which 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 14 days of the date of service. In addition, the lender may in certain circumstances (e.g. the insolvency of the Borrower) 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, and the Servicer will in practice proceed with the remedy most likely to be effective in enforcing or protecting the security.

Until recently, on court application being made by the lender for the relevant enforcement remedies (once a default by the Borrower had been established by one of the methods detailed in the preceding paragraph) the Scottish courts were bound, except in very limited circumstances, to grant the enforcement remedies sought. This position has been altered, however, by the Mortgage Rights (Scotland) Act 2001, which was brought into force on 3rd December 2001. The principal effect of this Act is 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.

Pursuant to the Mortgage Sale Agreement, the transfer to the Issuer of the beneficial interest in the Scottish Mortgages and their collateral security will be effected by the declaration of the Scottish Trust (in relation to such of the Initial Mortgages as are Scottish Mortgages) or by further declarations of trust supplemental thereto (in relation to such Pre-Funded Mortgages and Substitute Mortgages as are Scottish Mortgages) by Mortgage Trust in favour of the Issuer with the consent of Arianty and, where appropriate, Mortgage Trust Services. Further Advances and Redraws relating to Scottish Mortgages will also be comprised within the said trusts except to the extent that these are not acquired by the Issuer in terms of the Documents.

Northern Irish Mortgages

Approximately 2.06% of the Mortgages in the Initial Mortgage Pool are Northern Irish Mortgages. The title to the relevant properties is registered either in the Land Registry of Northern Ireland or the Registry of Deeds, Belfast depending on whether the title to each property is registered or unregistered. These Mortgages are secured over the relevant properties by way of a first legal mortgage. The Northern Irish Mortgages will be transferred by way of an equitable assignment.

In cases of default by a Borrower requiring the issue of legal proceedings, those proceedings are virtually identical to English proceedings. After a possession order is obtained the judgement is enforced through the Enforcement of Judgements Office (rather than by bailiffs) and it has its own procedures for enforcement.

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

English Mortgages

Enforcement

In order to realise its security in respect of a property located in England or Wales, the relevant mortgagee (be it the legal owner (Mortgage Trust), the beneficial owner (Arianty or the Issuer), the Trustee or its appointee (if the Trustee

has taken enforcement action against the Issuer) will need to obtain possession. In relation to Investment Home Loans, the relevant mortgagee will have a right to possession of the Property on the expiry of the relevant lease provided there is no right to statutory security of tenure. In relation to an Owner-Occupied Loan there are two means of obtaining possession for this purpose: first, by taking physical possession (seldom done in practice), and secondly, by obtaining a court order.

Owner-Occupied Loans

If a mortgagee takes physical possession it will, as mortgagee in possession, have an obligation to account to the Borrower for the income obtained from the property, be liable for any damage to the property, have a limited liability to repair the property and, in certain circumstances, may be obliged to make improvements.

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

The Court has a very wide discretion and may adopt a sympathetic attitude towards a Borrower faced with eviction. If a possession order in favour of the relevant mortgagee is granted, it may be suspended to allow the Borrower more time to pay. Once possession of the property has been obtained, the relevant mortgagee has a duty to the Borrower to take reasonable care to obtain the best price reasonably obtainable at the time for the property. Any failure to do so will put the relevant mortgagee at risk of an action for breach of such duty by the Borrower, although it is for the Borrower to prove breach of such duty. There is also a risk that a Borrower may also take court action to force the relevant mortgagee to sell the property within a reasonable time.

Investment Home Loans

In relation to an Investment Home Loan where the relevant tenancy has not expired, any action for possession of a Property the subject of an Investment Home Loan would include a claim not only against any tenants but also against the Borrower to assist in defeating any subsequent attempt by the Borrower to assert a right of occupation. In broad terms, a mortgagee has the same (but no better) rights against a tenant (for example, to regain possession) as are enjoyed by the Borrower as landlord. Where the tenant is an individual, he will, as an assured shorthold tenant have a limited right to security of tenure in that although an order for possession must be made against the tenant (provided, in certain cases, prescribed notices have been served) it cannot take effect earlier than six months after the beginning of the tenancy in the case of a periodic tenancy, or, in the case of a fixed term tenancy, before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement. Where the tenant is other than an individual, an order for possession cannot take effect before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement. The net proceeds of sale of the Property (after payment of the costs and expenses of the sale) would be applied against the sums owing from the Borrower to the extent necessary to discharge the Mortgage.

Title to the Mortgage Pool

The Initial Mortgage Pool will consist of Mortgages originated by Mortgage Trust and governed by English, Scots or Northern Irish law, as the case may be. Legal title to each Mortgage in the Provisional Mortgage Pool is vested in Mortgage Trust. Immediately prior to the sale of the Mortgages to the Issuer, the beneficial interests in the Mortgages will reside with Arianty. Pursuant to the Mortgage Sale Agreement, Arianty will transfer all of its interest in each Mortgage to the Issuer.

The completion of the transfer, assignation or conveyance of the Mortgages (and where appropriate, their registration or recording) to the Issuer will, save in the limited circumstances referred to below, be deferred. Legal title to the Mortgages will therefore remain with Mortgage Trust. The Issuer will grant to the Trustee a charge over its equitable interest in the Mortgages and their collateral security (or in relation to Scottish Mortgages will grant fixed security over its beneficial interest in the Scottish Trust).

The Servicer is required by the Servicing Agreement to ensure the safe custody of the title deeds relating to the Mortgages and to provide the Trustee with access to them at all reasonable times.

Save as mentioned below, neither the Issuer nor the Trustee will be entitled to effect any registration or recording at H.M. Land Registry, the Central Land Charges Registry, the Land Registry of Northern Ireland, the Registry of Deeds in Belfast or the General Register of Sasines or the Land Register of Scotland (collectively, the “**Registers of Scotland**”) (as appropriate) to protect the sale of the Mortgages to the Issuer or the granting of security over them by the Issuer in favour of the Trustee nor, save as mentioned below, will they be entitled to obtain possession of the title deeds to the properties the subject of the Mortgages.

Notices of the equitable assignment and declaration of the Scottish Trust and each Scottish Supplemental Declaration of Trust to the Issuer and the security in favour of the Trustee will not, save as mentioned below, be given to the Borrowers. Notice of the interest of the Issuer and the Trustee will be given in respect of the Insurance Contracts.

Under the Mortgage Sale Agreement and the Deed of Charge, the Issuer and the Trustee will each be entitled to effect such registrations or recordings and give such notices as it considers necessary to protect its interests in the Mortgages, and to call for a legal assignment or assignation or transfer of the Mortgages and the collateral security in favour of the Issuer and a legal sub-mortgage or sub-standard security over such Mortgages and collateral security in favour of the Trustee, *inter alia*, where (i) it is obliged to do so by law, by court order or by a mandatory requirement of any regulatory authority, (ii) after an Enforcement Notice (as defined in the Deed of Charge) has been given, (iii) the Trustee considers in its reasonable opinion that the Charged Property (as defined in the Deed of Charge) or any part thereof is in jeopardy (including the possible insolvency of Arianty and/or Mortgage Trust (in respect of Mortgages originated by it) and/or Mortgage Trust Services (in respect of the representations and Warranties given by it in the Mortgage Sale Agreement) and that doing any of the foregoing acts or things would materially reduce such jeopardy, (iv) any action is taken for the winding-up, dissolution, administration or reorganisation of Arianty and/or Mortgage Trust (in respect of Mortgages originated by it) and/or Mortgage Trust Services or any other entity in which legal title to any Mortgage is vested or (v) Mortgage Trust Services has ceased to be Servicer pursuant to the Servicing Agreement and is not replaced by a substitute Servicer. Following such legal assignment or assignation or transfer and sub-mortgage or sub-standard security, the Issuer and the Trustee will each be entitled to take all necessary steps to protect legal title to its interests in the Mortgages and collateral security, including the carrying out of any necessary registrations and notifications. These rights are supported by irrevocable powers of attorney given by Mortgage Trust, Arianty and Mortgage Trust Services and will be similarly supported in respect of Substitute Mortgages.

As a consequence of neither the Issuer nor the Trustee obtaining legal title to the Mortgages, a *bona fide* purchaser from Mortgage Trust and/or Arianty and/or Mortgage Trust Services for value of any of such Mortgages without notice of any of the interests in the Mortgages of the Issuer or the Trustee might obtain a good title to any of such Mortgages free of any such interest. However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee in this way would be likely to be limited to circumstances arising from a breach by Mortgage Trust and/or Arianty and/or Mortgage Trust Services of its contractual obligations or fraud, negligence or mistake on the part of Mortgage Trust and/or Arianty and/or Mortgage Trust Services (and in such circumstances a right of action would exist against Mortgage Trust and/or Arianty and/or Mortgage Trust Services, as applicable) or the Issuer or their respective personnel or agents. Further, the rights of the Issuer and the Trustee may be or become subject to the direct rights of the Borrowers against Mortgage Trust. Such rights may include the rights of set-off existing prior to notification to the Borrowers of the sale of the Mortgages which arise in relation to the Borrower's right to make a Redraw and the rights of Borrowers to redeem their Mortgages by repaying the relevant loan directly to Mortgage Trust. These rights may result in the Issuer receiving less sums than anticipated from the Mortgages.

For so long as neither the Issuer nor the Trustee have obtained legal title to the Mortgages, Mortgage Trust, Mortgage Trust Services and Arianty will undertake in the Mortgage Sale Agreement for the benefit of the Issuer and the Trustee that they will lend their names to, as applicable, and take such other steps as may reasonably be required by the Issuer or the Trustee in relation to, any legal proceedings in respect of the Mortgages and their related security, subject to the requirements of Mortgage Trust Services' enforcement policy from time to time.

If on any Interest Payment Date, the aggregate amount of Redraws the right to repayment of which Mortgage Trust has available for sale exceeds the Maximum Redraw Amount on such Interest Payment Date, the Issuer will hold the benefit of the relevant Mortgage on trust for itself and Mortgage Trust, each party's interest being proportionate to the funding provided by it. Mortgage Trust will be entitled to be paid its *pro rata* share of the amounts received in respect of any such Mortgage as an Excluded Item.

Warranties and Repurchase

The Mortgage Sale Agreement will contain: (i) warranties given by Arianty as at the Issue Date in relation to the Mortgages (or, in the case of Pre-Funded Mortgages or Substitute Mortgages, as at the date such Mortgages are acquired by the Issuer); (ii) warranties given by Mortgage Trust Services in relation to those Mortgages sold by Mortgage Trust to Arianty under the First Origination Mortgage Sale Agreement as at the date of the sale of such Mortgages to Arianty; (iii) warranties given by Mortgage Trust Services in relation to those Mortgages sold by it to Arianty under the Second Origination Mortgage Sale Agreement as at the date of the sale of such Mortgages to Arianty; (iv) warranties given by Mortgage Trust Services in its capacity as administrator pursuant to an administration agreement dated 21st December 2000 as amended and restated on 14th November 2001 and on 30th September 2003 between Mortgage Trust, Mortgage Trust Services, Arianty and Citicorp Trustee Company Limited (the "**Origination Administration Agreement**") for the period between the date of sale of the Mortgages to Arianty pursuant to the First Origination Mortgage Sale Agreement or the Second Origination Mortgage Sale Agreement, as applicable, and the Issue Date (or, in the case of Pre-Funded or Substitute Mortgages, at the date such Mortgages are acquired by the Issuer) including in respect of the relevant period that Mortgage Trust acted as administrator under the Origination Administration Agreement. Initial Mortgages, the Substitute Mortgages (as defined below) and the Pre-Funded Mortgages are referred to as the "**Mortgages**".

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

If there is an unremedied breach of any of the Warranties then Arianty or Mortgage Trust Services as applicable, will be obliged to repurchase the relevant Mortgage and its collateral security for a consideration in cash equal to all sums due or owing thereunder (including accrued interest and arrears) as at the date of repurchase (after deducting the amount of any interest not then accrued but paid in advance by the relevant Borrower, which amount will be retained by the Issuer). Performance of such repurchase will be in full satisfaction of the liabilities of Arianty and/or Mortgage Trust Services in respect of the relevant breach. Alternatively, as consideration for such repurchase, Arianty or Mortgage Trust Services, as applicable, may elect to transfer or may procure that an affiliate of Mortgage Trust will transfer another mortgage originated by Mortgage Trust and complying with the eligibility criteria applicable to the Initial Mortgages (a “**Substitute Mortgage**”) with an Adjusted Balance equal to or greater than the amount of such cash consideration provided however that the Substitute Mortgage complies with certain conditions set out in the Mortgage Sale Agreement. “**Adjusted Balance**” means, in respect of any Substitute Mortgage, the original principal amount advanced to the Borrower thereunder plus any Redraw and Further Advance made thereon less any prepayment, repayment or payment of or in respect of any of the foregoing prior to the date on which it is proposed such Substitute Mortgage be transferred to the Issuer. Such obligations of Arianty and/or Mortgage Trust Services are without prejudice to any other remedies available to the Issuer and/or the Trustee if Arianty and/or Mortgage Trust Services fails to repurchase or procure the repurchase of, or substitute or procure the substitution of, a Mortgage when obliged to do so. Arianty and/or Mortgage Trust Services may not offer a Substitute Mortgage to the Issuer if the aggregate outstanding balances of the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the outstanding principal balance of the Substitute Mortgage offered plus the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the Substitute Mortgage offered does not exceed the sum of (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool and (ii) the aggregate Potential Redraw Amount with respect to such Mortgages, each as at the Determination Date immediately preceding the last Interest Payment Date.

Where a Mortgage triggers a Warranty breach by both Arianty and Mortgage Trust Services (the “**Warrantors**”), the Issuer may claim or, as the case may be, initiate claims against either or both of the Warrantors in respect of such breach.

The Warranties of Arianty and Mortgage Trust Services referred to above include statements to the following effect:

- (i) each Mortgage constitutes a valid and subsisting legal mortgage which is either (A) a first legal mortgage or (in relation to Scottish Mortgages) standard security or (in relation to Northern Irish Mortgages) fixed charge or mortgage; or (B) in relation to Further Advances where the Borrower Loan Limit is not increased, a second or subsequent legal mortgage or standard security or fixed charge or mortgage over which no mortgage or standard security or fixed charge or mortgage, which is not a Mortgage, has priority, in each case, over residential property situated in England, Wales, Scotland or Northern Ireland;
- (ii) each Mortgage constitutes a valid and binding obligation of the Borrower in accordance with its terms and secures the repayment of all advances (including Redraws), any Further Advances, interest, costs and expenses payable by the Borrower;
- (iii) prior to making an advance to the Borrower, the relevant property was valued by an independent qualified valuer approved by Mortgage Trust or Mortgage Trust Services;
- (iv) prior to making an advance in respect of each Investment Home Loan to a Borrower, a rental income estimate on the relevant property was obtained from an independent qualified valuer approved by Mortgage Trust or Mortgage Trust Services;
- (v) each Mortgage was originated by Mortgage Trust and complied with the Lending Policy applicable at the time of origination in all material respects;
- (vi) prior to the making of an advance to a Borrower, all investigations, searches and other actions which a prudent mortgage lender would normally make when advancing money to an individual on the security of residential property in England, Wales, Scotland or Northern Ireland (as appropriate) were taken by Mortgage Trust or Mortgage Trust Services or on their behalf in respect of each Mortgage;
- (vii) each property the subject of a Mortgage is insured (i) under a Buildings Policy, either in the joint names of the Borrower and Mortgage Trust or with the interest of Mortgage Trust (as mortgagee or heritable creditor) endorsed or otherwise noted thereon, or (ii) (in the case of leasehold property) under a landlord’s building’s insurance policy with, where possible, the interests of Mortgage Trust and the Borrower endorsed thereon, in each case with an insurance company approved by Mortgage Trust or Mortgage Trust Services against risks usually covered by mortgage lenders in England, Wales, Scotland or Northern Ireland (as appropriate) when advancing money on the security of residential property of the same nature to an amount not less than the full reinstatement value thereof as determined by Mortgage Trust Services’ valuer, or (iii) under an appropriate Building Contingency Policy;

- (viii) to the best of the knowledge of the relevant Warrantor, the Building Contingency Policy is in full force and effect;
- (ix) in relation to each Mortgage:
 - (a) if the property the subject of such Mortgage (not being a property in Scotland) is not registered, the Borrower has good and marketable title to the fee simple absolute in possession (in the case of freehold property) (or in the case of certain properties in Northern Ireland, to the fee farm interest) or a term of years absolute (in the case of leasehold property) of not less than 30 years beyond the term of the mortgage relating to such property and the relevant property is free (save for the Mortgage) from any encumbrance which would affect such title;
 - (b) if the property the subject of such Mortgage (not being a property in Scotland) is registered, it has been registered with title absolute or, in relation to Possessory Title Mortgages, with possessory title (in the case of freehold property) or absolute or good leasehold title of the requisite terms (in the case of leasehold property) or is in the process of being so registered; and
 - (c) if the property the subject of such Mortgage is situated in Scotland, the Borrower has a valid and marketable heritable or long leasehold title thereto (having in the case of leasehold property a remaining term of not less than 30 years beyond the term of the relevant Mortgage), duly registered or recorded in the Registers of Scotland (with, in the case of registered titles, no exclusions of indemnity) or in the process of being so registered or recorded, and the relevant property is free (save for the Mortgage) from any encumbrance which would affect such title;
- (x) in respect of each Investment Home Loan the relevant tenancy, if any, is (i) a valid assured shorthold tenancy within the meaning of the Housing Act 1988 or a short assured tenancy within the meaning of the Housing (Scotland) Act 1988 (an “**Assured Shorthold Tenancy**”) for a fixed term of not more than 12 months or the tenant does not otherwise have statutory security of tenure and (ii) the relevant Warrantor is not aware of any material breach of such agreement; and
- (xi) at least one payment of principal and/or interest has been made by the relevant Borrower under each Mortgage.

In addition, Mortgage Trust Services will also agree in the Mortgage Sale Agreement that, if a term of any Mortgage is at any time on or after the Issue Date found by a competent court, whether on application of a Borrower, the OFT or otherwise, to be an unfair term for the purposes of the Regulations or the Unfair Terms in Consumer Contracts Regulations 1994 or otherwise unenforceable, it shall purchase or procure the purchase of the relevant Mortgage from the Issuer.

Administration of the Mortgage Pool

The Servicer is required to administer the Mortgage Pool as the agent of the Issuer and the Trustee under and in accordance with the terms of the Servicing Agreement. The duties of the Servicer include:

- (i) setting the interest rate on the Standard Variable Mortgages from time to time;
- (ii) determining LIBOR in respect of the LIBOR Linked Mortgages and the Bank of England Base Rate in respect of the Base Rate Linked Mortgages;
- (iii) collecting payments on the Mortgages and discharging Mortgages and related security upon redemption;
- (iv) administering and/or facilitating Redraws under Flexible Mortgages;
- (v) monitoring and, where appropriate, pursuing arrears and enforcing the security;
- (vi) taking all reasonable steps to ensure safe custody of all title deeds and documents in respect of the Mortgages and their related security which are in its possession;
- (vii) making claims under the Insurance Contracts;
- (viii) administering the Issuer’s interests in any collateral security related to the Mortgages;
- (ix) managing the operation of the Bank Accounts;
- (x) calculating payments due under each item in the Priority of Payments;
- (xi) making the required entries in the Principal Deficiency Ledger;

- (xii) dealing with conversion of Mortgages and the making of Further Advances (see further “**Conversion of Mortgages**” and “**Further Advances**” below);
- (xiii) making arrangements for the payment by the Issuer of interest and principal in respect of the Notes subject to the terms thereof and to the availability of funds;
- (xiv) determining the Threshold Rate and the weighted average rate of interest applicable to the Mortgages; and
- (xv) ensuring the acquisition of Substitute Mortgages in accordance with the terms of the Transaction Documents.

For so long as the Servicer continues to be the Issuer’s and the Trustee’s agent for the administration of the Mortgage Pool, it will be authorised to operate the Bank Accounts for these purposes, subject to the constraints set out in the Servicing Agreement. Payments under the Mortgages are in the majority of cases collected from Borrowers under the direct debiting system.

The Servicer is entitled to delegate its functions under the Servicing Agreement subject to certain conditions. The Servicer remains liable to the Issuer for the performance of those functions notwithstanding such delegation.

The Servicer is entitled to charge a fee for its services under the Servicing Agreement. This fee will be divided into two parts. 0.10% per annum of the aggregate principal balance of the Mortgages on the last day of the immediately preceding Collection Period, inclusive of value added tax, (the “**Senior Servicing Fee**”) will be payable to the Servicer on each Interest Payment Date at item (iv) of the Priority of Payments. In addition, 0.20% per annum of the aggregate principal balance of the Mortgages on the last day of the immediately preceding Collection Period, inclusive of value added tax, (the “**Subordinated Servicing Fee**”) will be payable to the Servicer on each Interest Payment Date at item (xviii) of the Priority of Payments. To the extent that there are insufficient funds to pay the Subordinated Servicing Fee, such payment will be deferred until the Interest Payment Date on which such amounts are available.

The appointment of Mortgage Trust Services as Servicer may be terminated by the Trustee on the happening of certain events of default or insolvency on the part of Mortgage Trust Services or if the security for the Notes comprised in the Deed of Charge is enforced. Following any such termination, the Issuer and the Trustee may appoint a substitute servicer or the Standby Servicer. The Servicer will provide reasonable co-operation in order to facilitate the handover of its responsibilities. For a period of six months following such termination, the Issuer, the Trustee (or its agents) and any substitute servicer will be entitled to such non-exclusive licences and intellectual property that the Servicer is legally empowered to grant, the right to employ staff of the Servicer and access to the premises and equipment of the Servicer, as required to service the Mortgages, subject to certain reasonable limitations.

The registered office of the Servicer is located at St Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE.

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

GHL will be appointed as Standby Servicer pursuant to the Standby Servicing Agreement. In the event that the appointment of Mortgage Trust Services is terminated and the Issuer and the Trustee do not appoint any other servicer, the Standby Servicer has agreed to provide the equivalent services to the Issuer and the Trustee as set out in, and upon the terms and conditions of the Standby Servicing Agreement. The Standby Servicer will be entitled to claim a fee for acting as Standby Servicer. The amount of such fee shall be 0.0065% per annum of the aggregate principal balances of the Mortgages in the Mortgage Pool on the last day of the immediately preceding Collection Period, exclusive of value added tax and shall be payable in accordance with the Priority of Payments. The term “**Standby Servicer**” shall include any person who may be appointed as such from time to time pursuant to the Standby Servicing Agreement.

Enforcement Procedures

Mortgage Trust Services has established procedures for managing loans which are in arrears, including early contact with Borrowers in order to find a solution to any financial difficulties they may be experiencing. Such solutions may include offering the option to transfer to a long term arrangement. The procedures permit discretion to be exercised by the appropriate officer of Mortgage Trust Services in many circumstances. These same procedures, as from time to time varied with the consent of, *inter alios*, the Trustee, are required to be used by the Servicer in respect of arrears arising on the Mortgages (see also “**Scottish Mortgages**” above).

In the case of enforcement of Investment Home Loans, the procedure may include the appointment of a receiver of rent. Where appointed, a receiver of rent is deemed to be the agent of the Borrower and must collect any rents payable in respect of the relevant property and apply them (after payment of certain statutorily prescribed outgoings) in payment of any interest and arrears accruing under the Mortgage and thereafter any surplus shall either be applied in discharge of principal if required by the lender, or paid to the Borrower.

Further Advances

Mortgage Trust may make Further Advances to Borrowers secured on the relevant property against which the original advance was made at any time and sell such Further Advance to the Issuer subject to the conditions set out below for a consideration in cash equal to all sums due or owing thereunder (including accrued interest) at the date of such purchase (after deducting any interest not then accrued but paid in advance by the relevant Borrower, which amount will be retained by Mortgage Trust). In relation to a Flexible Mortgage, a Borrower may request a Further Advance and Mortgage Trust may, in response to such request, increase the Borrower's Loan Limit. In addition, a Borrower may request a Further Advance and Mortgage Trust or Mortgage Trust Services, may, in response to such request, provide such Further Advance on the security of a second or subsequent legal mortgage or standard security or fixed charge or mortgage over the relevant Property (provided always that no other mortgage or standard security or fixed charge or mortgage that is not a Mortgage has priority to such second or subsequent charge).

Further Advances may only be purchased by the Issuer on an Interest Payment Date and if, *inter alia*, the sum of (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date; (ii) the aggregate principal balances of the Further Advances to be purchased on such Interest Payment Date; and (iii) the aggregate Potential Redraw Amount with respect to both the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the Further Advances to be purchased on such Interest Payment Date does not equal or exceed the sum of: (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool on the Determination Date immediately preceding the last Interest Payment Date; (ii) the aggregate principal balances of the Further Advances purchased on the last Interest Payment Date; plus (iii) the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool on the Determination Date immediately preceding the last Interest Payment Date and the Further Advances purchased on the last Interest Payment Date.

A Further Advance shall be required (a) not to have a fixed rate or be subject to a variable rate of interest set by Mortgage Trust Services from time to time but which variable rate is subject to a maximum rate or a minimum rate unless the Issuer is able to enter into hedges to ensure that the Threshold Rate is met by the Issuer on each Interest Payment Date, (b) not to be linked to Bank of England Base Rate, unless the amount standing to the credit of the Base Rate Reserve is sufficient to cover such Further Advance in addition to the Base Rate Linked Mortgages already included in the Mortgage Pool and the rate of interest charged in respect of the advance is a rate of interest equal to or greater than the Bank of England Base Rate plus the relevant Threshold Margin plus 0.15 %, (c) not to be linked to LIBOR other than three month LIBOR which is fixed on the same day in respect of the following Interest Period as Note Sterling LIBOR and charges a rate of interest equal to or greater than the Threshold Rate, (d) not to carry a discounted rate, unless the amount standing to the credit of the Discount Reserve is sufficient to cover any Expected Differential relating to such Further Advance in addition to the Discounted Mortgages already included in the Mortgage Pool (and for the avoidance of doubt, these requirements will be met in respect of Further Advances comprising any of the interest rate types set out above which also carry a discounted rate if they meet the requirements of this paragraph (d) notwithstanding that the conditions relating to the minimum rate of interest for the respective interest rate type in paragraph (b) and (c) above may not be met) or the purchase of such Further Advance would not cause a downgrade of the current rating of the Notes and (e) not to extend the maturity date of the relevant Mortgage to beyond December 2033.

The sale of a Further Advance by Mortgage Trust to the Issuer will be subject, *inter alia*, to the following conditions (unless the Rating Agencies agree otherwise):

- (i) upon the making of any Further Advance, the relevant Borrower is not, so far as the Servicer is aware, in material breach of any of the conditions of the relevant Borrower's existing Mortgage;
- (ii) to the extent that the Servicer has reason to believe that the Further Advance to be made to a Borrower may result in a regulated agreement (as defined in the Consumer Credit Act 1974), the applicable provisions of the Consumer Credit Act 1974 relating to the regulated agreement will be complied with;
- (iii) any amount which has been debited to the Reserve Fund has been followed by the credit of a corresponding amount by such Interest Payment Date;
- (iv) each Further Advance is made on terms which are legal, valid and binding and the amount of such Further Advance (together with all related fees, costs and expenses) will have the benefit of the same security (whether under the same charge, standard security or under a second charge or standard security ranking immediately behind the relevant existing charge) as the principal amount outstanding under the relevant Mortgage immediately prior to the making of such Further Advance;
- (v) Mortgage Trust Services' procedures have been applied to the Further Advance and to the circumstances of the Borrower at the time the Further Advance was made;

- (vi) prior to making the Further Advance, any second charge, or other security created in favour of a third party, has been either expressly postponed to the charge, or other security securing such Further Advance, or redeemed out of the proceeds of the Further Advance, simultaneously with the making of the Further Advance;
- (vii) no Enforcement Notice (as defined in the Deed of Charge) has been given by the Trustee which remains in effect;
- (viii) the amount of the Further Advance when added to the amount of any Further Advances purchased by the Issuer since the last Interest Payment Date does not exceed 3% of the aggregate balances of the Mortgages in the Mortgage Pool as at the relevant Determination Date;
- (ix) the amount of the Further Advance, when added to the amount of any Further Advances previously made does not exceed 10% of the aggregate outstanding principal balances of the Initial Mortgages on the Issue Date;
- (x) no Rating Agency has notified the Issuer in writing that the sale or purchase of the Further Advance will cause the rating of the Notes to be downgraded;
- (xi) the product of the weighted average foreclosure frequency (“WAFF”) and the weighted average loss severity (“WALS”) calculation for the Initial Mortgage Pool (as determined by S&P’s substitution model) may not be exceeded by more than 0.25% after such Further Advance is purchased;
- (xii) the amount of interest arrears as a percentage of gross interest due on all Mortgages outstanding during the twelve months then ending shall not exceed 2%;
- (xiii) the weighted average LTV of the Mortgages following the purchase of Further Advances shall not exceed the weighted average LTV of the Initial Mortgage Pool by more than 2%;
- (xiv) the Principal Deficiency calculated on the Determination Date immediately preceding the Interest Payment Date on which such Further Advance is purchased does not exceed 0.1% of the aggregate principal amount outstanding of the Initial Mortgage Pool; and
- (xv) the Further Advance will not involve the Issuer carrying on a “regulated activity” for the purposes of the FSMA and the Regulated Activities Order.

In the limited circumstances in which the Issuer is unable to purchase a Further Advance as described above (and in those circumstances only), Mortgage Trust or Mortgage Trust Services at its option may repurchase the relevant Mortgage, provided it is fully performing, from the Issuer for a consideration in cash equal to all sums due or owing thereunder (including accrued interest) at the date of such repurchase (after deducting any interest not then accrued but paid in advance by the relevant mortgagor), which amount will be retained by the Issuer.

Pre-Funded Mortgages

The Issuer shall as soon as practicable purchase further mortgages from Arianty (the “**Pre-Funded Mortgages**”) at any time on or after the Issue Date but no later than the first Determination Date after the Issue Date. Such Pre-Funded Mortgages shall comply with the eligibility criteria applicable to the Initial Mortgages (as amended or varied with the prior written confirmation of the Rating Agencies that such amendment to or variation of such eligibility criteria will not cause the downgrade of the then current rating of the Notes).

Mortgages which qualify as Pre-Funded Mortgages (a) shall be originated by Mortgage Trust and comply with the Lending Policy followed by Mortgage Trust Services at the Issue Date; (b) may not be: (i) a Fixed Rate Mortgage or Collared Rate Mortgage unless such Fixed Rate Mortgage or Collared Rate Mortgage is hedged by the Issuer to ensure that the Threshold Rate is met by the Issuer on each Interest Payment Date, (ii) a Base Rate Linked Mortgage, unless the amount standing to the credit of the Base Rate Reserve is sufficient to cover such further Base Rate Linked Mortgage in addition to those already included in the Mortgage Pool and the rate of interest charged in respect of such Mortgage is equal to or greater than the Bank of England Base Rate plus the relevant Threshold Margin plus 0.15%, (iii) a LIBOR Linked Mortgage unless such LIBOR Linked Mortgage is linked to three month LIBOR which is fixed on the same day in respect of the following Interest Period as Note Sterling LIBOR and the rate of interest charged in respect of such Mortgage is equal to or greater than the Threshold Rate, (iv) a Discounted Mortgage, unless the amount standing to the credit of the Discount Reserve is sufficient to cover any Expected Differentials relating to such further Discounted Mortgage in addition to the ones already included in the Mortgage Pool and for the avoidance of doubt, mortgages comprising any of the interest rate types set out above which are also Discounted Mortgages will qualify as Pre-Funded Mortgages if they meet the requirements for Discounted Mortgages notwithstanding that the conditions relating to the minimum rate of interest for the respective interest rate type in paragraphs (ii) and (iii) above may not be met; (c) shall not have a final repayment date later than December 2033; (d) where such Pre-Funded Mortgage comprises a Flexible Mortgage, the Borrower under such Pre-Funded Mortgage is bound to pay a Commitment Fee of not less than 1% of the Excess Amount and the percentage of the Borrower Loan Limit used in determining the Excess Amount shall be no more than 20%; (e) shall not be purchased unless: (i) no Enforcement Notice has been given by the Trustee which remains in effect; (ii) the aggregate outstanding principal balance of the Mortgages, following the purchase of such Pre-Funded Mortgages and/or Further Advances,

in respect of which there are arrears of an amount greater than one monthly payment will not exceed 1% of the aggregate outstanding principal balance of the Mortgages comprising the Mortgage Pool; (iii) the amount of interest arrears as a percentage of gross interest due on all Mortgages, following the purchase of such Pre-Funded Mortgages and/or Further Advances, outstanding during the 12 months then ending will not exceed 2%; (iv) the aggregate outstanding principal balance of Mortgages where the relevant Property is located in London and the southeast of England, following the purchase of such Pre-Funded Mortgages and/or Further Advances, will not exceed 80% of the total aggregate outstanding principal balance of the Mortgages comprising the Mortgage Pool; (v) the weighted average LTV of the Mortgages, following the purchase of such Pre-Funded Mortgages and/or Further Advances, will not exceed the weighted average LTV of the Initial Mortgage Pool by more than 2%; (vi) no drawing has been made on the Reserve Fund; (vii) the product of the WAFF and WALs calculation for the initial Mortgage Pool will not be exceeded by more than 0.25% after such Pre-Funded Mortgages and/or Further Advances are purchased; (viii) Mortgage Trust Services or such other Servicer appointed pursuant to the Servicing Agreement continues to perform its obligations as Servicer and none of Arianty, Mortgage Trust or Mortgage Trust Services is insolvent; (ix) Rating Agency consent has been obtained; (x) in the case of Owner Occupied Loans where the Borrower is not self-employed, the Borrower's income has been independently verified; and (xi) none of them are a Staff Mortgage or Possessory Title Mortgage.

Conversion of Mortgages

The Servicer on behalf of the Issuer may agree to a request by a Borrower to convert his Mortgage (or, in the case of a default by a Borrower, may itself elect to convert such Borrower's Mortgage) by means of a variation agreement (subject to satisfaction of the following conditions) into an Endowment Mortgage, a Repayment Mortgage, an Interest Only Mortgage or a Pension Mortgage or a combination of one or more such types of Mortgage and/or into any other type of mortgage (a "**Converted Mortgage**") except (a) in the case of a conversion to a Fixed Rate Mortgage, or mortgages which are subject to a fixed rate of interest set by Mortgage Trust from time to time but which variable rate is subject to both a maximum rate and a minimum rate ("**Collared Rate Mortgages**") or mortgages which are subject to a variable rate of interest set by Mortgage Trust Services from time to time but which variable rate is subject to a maximum rate ("**Capped Rate Mortgages**") which may only be effected if the Issuer is able to enter into hedges to ensure that the Threshold Rate is met by the Issuer on each Interest Payment Date, (b) in the case of a conversion into a Base Rate Linked Mortgage, which may only be effected if the amount standing to the credit of the Base Rate Reserve is sufficient to cover such further Base Rate Linked Mortgage linked to Bank of England Base Rate in addition to those already included in the Mortgage Pool and the rate of interest charged in respect of such Mortgage is equal to or greater than the Bank of England Base Rate plus the relevant Threshold Rate plus 0.15%, (c) in the case of a conversion to a LIBOR Linked Mortgage, which may only be effected if such LIBOR Linked Mortgage is linked to three month LIBOR which is fixed on the same day in respect of the following Interest Period as Note Sterling LIBOR and the rate of interest charged in respect of such Mortgage is equal to or greater than the Threshold Rate and (d) in the case of a conversion into a Discounted Mortgage, which may only be effected if the amount standing to the credit of the Discount Reserve is sufficient to cover any Expected Differential relating to such further Discounted Mortgage in addition to those already included in the Mortgage Pool (and for the avoidance of doubt, a conversion to a mortgage comprising any of the interest rate types set out above which is also a Discounted Mortgage will be permitted if it meets the requirements of this paragraph (d) notwithstanding that the conditions relating to the minimum rate of interest for the respective interest rate type in paragraphs (b) and (c) above may not be met) or if the Rating Agencies have confirmed that conversion into a Discounted Mortgage would not cause a downgrade of the then current rating of the Notes.

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

- (i) no Enforcement Notice has been given by the Trustee which remains in effect at the date of the relevant conversion;
- (ii) the provisions of the Consumer Credit Act 1974 relating to regulated agreements and other applicable legislation will be complied with (to the extent they apply);
- (iii) the Converted Mortgage will be on the terms of the relevant standard documentation utilised by Mortgage Trust at the time of such conversion to document the terms of mortgages it is offering generally and which has not been varied in any material respect;
- (iv) the conversion of the applicable Mortgage is effected in writing;
- (v) the effect of the conversion would not be to extend the final maturity date of such Mortgage to beyond two years prior to the maturity date of the Notes;
- (vi) in the case of conversion to a Fixed Rate Mortgage, a Capped Rate Mortgage, Collared Rate Mortgage or Base Rate Linked Mortgage not linked to three month LIBOR, and any costs associated with purchasing the hedges required in order to ensure that the Threshold Rate is met by the Issuer on any Interest Payment Date are capable of being met under (xv) of the Priority of Payments; and

- (vii) no Rating Agency has notified the Issuer in writing that the conversion of the applicable Mortgage will cause the rating of the Notes to be downgraded.

In the limited circumstances in which the Issuer is unable to agree to a conversion request (as described above) and in those circumstances only, Mortgage Trust or Mortgage Trust Services may at its option repurchase the relevant Mortgage from the Issuer for a consideration in cash equal to all sums due or owing thereunder (including accrued interest) at the date of such repurchase (after deducting any interest not then accrued but paid in advance by the relevant mortgagor, which amount will be retained by the Issuer).

Insurance Contracts

The Issuer and the Trustee will have the benefit of a building contingency policy (the “**Buildings Contingency Policy**”) and the block mortgage indemnity guarantee policies providing an indemnity for all amounts advanced under a Mortgage exceeding the percentage of the value or purchase price of the relevant property prescribed by the Lending Policy in respect of such Mortgage with various insurance companies (including Royal & Sun Alliance Insurance plc at St Mark’s Court, Chartway, Horsham, West Sussex, England and Legal & General Insurance Limited at 3 Finsbury Square, London EC2A 1LL and GE Mortgage Insurance Limited, 6 Agar Street, London, WC2N 4HR) (the “**Mortgage Indemnity Guarantee Policies**”) and together with the Buildings Contingency Policy, the “**Insurance Contracts**”) to the extent of their respective interests in the Mortgages in the Mortgage Pool. Certain warranties will be given by Arianty and Mortgage Trust Services in relation to the various policies in the Mortgage Sale Agreement as described under “**Warranties and Repurchase**” above.

Estimated Average Lives of the Class A Notes and the Class M Notes

The average lives of the Class A Notes and the Class M Notes cannot be predicted, as the actual rate of Redemption and Prepayments under the Mortgages and a number of other relevant factors are unknown.

Calculations of the estimated average lives of the Class A Notes and the Class M Notes can be made based on certain assumptions. For example, based on the assumption that:

- (i) the Issuer exercises its rights to redeem the Notes on the Interest Payment Date falling in March 2009;
- (ii) the Mortgages are subject to repayments (net of Redraws) (“**Repayments**”) at annualised rates expressed as a percentage of the outstanding principal amount of the Mortgages assumed to fall into the range indicated below;
- (iii) there are no enforcements after the Issue Date;
- (iv) no Mortgage is sold by the Issuer;
- (v) no Notes are purchased by the Issuer;
- (vi) the Mortgages continue to be fully performing; and
- (vii) no Principal Deficiency arises.

Assumed rate of Repayment (net of Redraws) on the Mortgages (“ CPR ”)	5%	10%	15%	20.0%	25.0%	30.0%	35.0%
Estimated Average Life of Class A Notes (years)	4.47	3.92	3.43	2.99	2.61	2.27	1.96
Estimated Average Life of Class M Notes (years)	5.09	5.09	5.09	5.09	5.09	5.09	5.09

Assumption (i) reflects the current intention of the Issuer but no assurance can be given that redemption of the Class A Notes and the Class M Notes will occur as described.

Assumption (ii) states the average annualised Repayment, Redemption and Prepayment rates on the Mortgages. Each of these rates may substantially vary from one Interest Period to another. The average annualised Repayment, Redemption and Prepayment rates shown above are purely illustrative and do not represent the full range of possibilities for such Mortgages.

Assumptions (iii), (iv), (vi) and (vii) relate to circumstances which are not predictable.

Assumption (v) reflects the obligation of the Issuer as stated in Condition 5(h) of the Class A Notes and the Class M Notes.

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

Arianty No. 1 plc

Arianty was incorporated under the name Exchangeaction public limited company and registered in England and Wales under the Companies Act 1985 as a public limited company on 14th March 2000. On 26th September 2000 Arianty's name changed from Exchangeaction public limited company to Arianty No.1 plc.

Arianty carries on the business of acquiring, holding and selling pools of mortgages loans.

The issued share capital of Arianty comprises 50,000 shares, of which 49,999 are owned by Arianty Holdings Limited and 1 is owned by SPV Management Limited.

The registered office of Arianty is St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.

Mortgage Trust Limited

Mortgage Trust Limited (Company Number 2048895) ("**Mortgage Trust**") was incorporated under the name of Mortgage Trust Limited and registered in England and Wales under the Companies Act 1985 with private company limited liability status on 21st August 1986. On 30th June 2003, the entire share capital of Mortgage Trust was acquired by The Paragon Group of Companies PLC ("**Paragon**"), a public limited company incorporated in England and Wales with registered number 2336032, other than one share acquired by John Gemmell, the Company Secretary of Paragon, and held on trust for Paragon. Prior to 30th June 2003, Mortgage Trust was owned as to 60% by Britannic Assurance plc and as to 40% by First Active plc.

Mortgage Trust was re-registered as a public limited company and its name changed from Mortgage Trust Limited to First Active Financial plc on 4th September 1998 and then to Britannic Money plc on 16th February 2001 and then on 26th September 2003 was re-registered as a private limited company and renamed Mortgage Trust Limited.

Since incorporation, Mortgage Trust has become an established centralised lender operating in a variety of niche markets in the United Kingdom. The principal activity has been the origination and servicing of residential first mortgage loans on properties located across the United Kingdom. Growth strategy in recent years has been to continue to operate as a niche provider of mortgages, differentiating products by offering different features from those offered by other lenders, rather than competing on price.

In each of November 1999, May 2000, October 2000, July 2001 and May 2002, Mortgage Trust securitised flexible mortgage assets into securitisation issues (First Flexible No.1 plc, First Flexible No. 2 plc, First Flexible No. 3 plc, First Flexible No. 4 plc and First Flexible No.5 plc).

The registered office of Mortgage Trust is St Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE.

Mortgage Trust Services plc

Mortgage Trust Services plc (Company Number 3940202) ("**Mortgage Trust Services**") was incorporated under the name of Britannicmoney.com plc and registered in England and Wales under the Companies Act 1985 with public limited liability status on 1st March 2000, as a wholly-owned subsidiary of Mortgage Trust Limited. Britannicmoney.com plc changed its name to Mortgage Trust Services plc on 26th September 2003.

On 30th September 2003, the business, assets and operations of Mortgage Trust were transferred to Mortgage Trust Services. Further transfer of certain legal obligations and income rights from Mortgage Trust to Mortgage Trust Services may take place in the near future.

At 30th September 2003, Mortgage Trust had more than £2,474 million assets owned or under management (including those owned or managed by The Mortgage Corporation ("**TMC**"), another centralised lender acquired by First Active plc on 6th August 1996, its sister companies and First Active plc).

The Issuer

Introduction

The Issuer was incorporated and registered in England and Wales with registered number 4579581 under the Companies Act 1985 as a public limited company on 1st November 2002. The issued share capital of the Issuer comprises 26 class A ordinary shares of £1 each (“**A’ Ordinary Shares**”), paid up as to 25p each, all of which are held by SPV Management Limited (registered number 2548079) on trust for charitable purposes, 74 class B ordinary shares of £1 each (“**B’ Ordinary Shares**”), and 49,900 preference shares of £1 each (“**Preference Shares**”) all of which are paid up as to 25p each and held by Mortgage Trust. The Issuer has no subsidiaries.

Directors and Secretary

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

<i>Name</i>	<i>Business Address</i>	<i>Principal activities</i>
John Gemmell	St. Catherine’s Court Herbert Road Solihull West Midlands B91 3QE	Director of Financial Accounting and Secretary of Paragon and Director and Secretary of PFPLC (as defined in “ The Paragon VAT Group ” below)
Nicholas Keen	St. Catherine’s Court Herbert Road Solihull West Midlands B91 3QE	Finance Director of Paragon and PFPLC
Richard Shelton	St. Catherine’s Court Herbert Road Solihull West Midlands B91 3QE	Solicitor and Director of PFPLC
Adem Mehmet	30-34 Moorgate London EC2R 6PQ	Director of PFPLC
James Fairrie	Tower 42, Level 11 25 Old Broad Street London EC2N 1HQ	Director of SPV Management Limited

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

The Issuer has no employees.

Activities

On the Issue Date, the Issuer will acquire from Arianty a portfolio of residential mortgages originated by Mortgage Trust and sold to Arianty pursuant to the First Origination Mortgage Sale Agreement or the Second Origination Mortgage Sale Agreement, as applicable. All Mortgages acquired by the Issuer on such date will be financed by the proceeds of the issue of the Notes. The activities of the Issuer will be restricted by the Class A Conditions and the Class M Conditions and will be limited to the issue of the Notes, the ownership of the Mortgages and other assets referred to herein, the exercise of related rights and powers, and other activities referred to herein or reasonably incidental thereto. The Issuer is registered pursuant to the Data Protection Act 1998.

Substantially all of the above activities will be carried on by Mortgage Trust Services on an agency basis under the Servicing Agreement, subject to the rights of the Issuer or the Trustee to revoke the agency upon the occurrence of certain events of default or insolvency or similar events in relation to Mortgage Trust Services and/or Mortgage Trust or, in certain circumstances, following an Event of Default in relation to the Notes.

Tax Deed of Covenant

Pursuant to a tax deed of covenant (the “**Tax Deed of Covenant**”) to be entered into on the Issue Date between the Issuer and Paragon, Paragon will make representations and agree to certain covenants in relation to tax matters for the benefit of the Issuer. Paragon will make representations and covenants to the Issuer in relation to (amongst other things) the payment of tax by companies in its group, tax residency, group tax matters and secondary tax liabilities.

Capitalisation

The following table shows the unaudited capitalisation of the Issuer as at 27th January 2004, adjusted for the issue of the Notes:

<i>Share Capital</i>	(£)
<i>Authorised</i>	£100,000
50,000 Ordinary Shares of £1 each	
26 "A" Ordinary Shares of £1 each	
74 "B" Ordinary Shares of £1 each	
49,900 Preference Shares of £1 each	
<i>Issued</i>	
26 "A" Ordinary Shares of £1 each (all 25p paid)	£6.50
74 "B" Ordinary Shares of £1 each (all 25p paid)	£18.50
49,900 Preference Shares of £1 each (all 25p paid)	£12,475
	£12,500
<i>Borrowings</i>	
Mortgage Backed Floating Rate Notes Due 2035	£499,188,935.76 ¹
Start-Up Loan	up to £19,533,271.14
Total Capitalisation	<u>up to £518,722,206.90</u>

¹ Sterling (or sterling equivalent) calculated at the relevant Currency Swap Rate.

The Preference Shares carry the right to receive a non-cumulative preferential dividend at the rate of 5% per annum on the capital for the time being paid up on them. On a winding-up the Preference Shares carry the right to the repayment of the capital paid up on them. The Preference Shares also carry the right to receive notice of, to attend and to vote at any general meeting of the Issuer.

The "A" Ordinary Shares carry the right to receive, in priority to any dividend payable in respect of the "B" Ordinary Shares but subject to the preferential dividend referred to above, a dividend set by reference to LIBOR on the capital for the time being paid up on them. On a winding up the "A" Ordinary Shares carry the right to the repayment of the capital paid up on them. The "A" Ordinary Shares carry no right to receive notice of or to attend or to vote at any general meeting of the Issuer except in the case of any resolution affecting the rights of the "A" Ordinary Shares.

Subject to satisfaction in full of any dividend payable in respect of the Preference Shares and the "A" Ordinary Shares, the "B" Ordinary Shares carry the right to receive a dividend. On a winding up the "B" Ordinary Shares carry the right to the payment of the capital paid up on them and, subject to the payment in full of the capital paid up on all shares in the capital of the Issuer, to receive all surplus assets. The "B" Ordinary Shares carry the right to receive notice of, to attend and to vote at any general meeting of the Issuer.

Mortgage Trust beneficially holds all the "B" Ordinary Shares and all the Preference Shares. SPV Management Limited beneficially holds all the "A" Ordinary Shares on trust for charitable purposes.

On the Issue Date, the Issuer will enter into the Start-Up Loan (which is secured pursuant to the Deed of Charge and is unguaranteed) with Mortgage Trust Services whereby Mortgage Trust Services will provide an amount of up to £19,533,271.14 in respect of fees, costs and expenses of the issue and to fund the Reserve Fund, the Discount Reserve, the Base Rate Reserve and to enter into the Interest Rate Swap Agreements.

As at 27th January 2004, save as disclosed herein, the Issuer has no loan capital outstanding or created but unissued, no term loans outstanding and no other borrowings or indebtedness in the nature of borrowing nor any contingent liabilities or guarantees.

Accountants' Report

The following is the text of a report received by the Directors of the Issuer from KPMG Audit Plc, Chartered Accountants, the auditors of the Issuer.



KPMG Audit Plc
Canary Wharf (8th Floor)
1 Canada Square
London E14 5AG
United Kingdom

The Directors
First Flexible No. 6 plc (the "Company")
St Catherine's Court
Herbert Road
Solihull
West Midlands
B91 3QE

27 January 2004

Dear Sirs

First Flexible No. 6 plc (the "Company"): £270,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2035, €200,000,000 Class A2 Mortgage Backed Floating Rate Notes due 2035, \$75,000,000 Class A3 Mortgage Backed Floating Rate Notes due 2035, £40,000,000 Class M1 Mortgage Backed Floating Rate Notes due 2035 and €15,000,000 Class M2 Mortgage Backed Floating Rate Notes due 2035 (together, the "Notes").

First Flexible No. 6 plc

We report on the financial information set out in the paragraphs below. This financial information has been prepared for inclusion in the offering circular dated 27 January 2004 (the "**Offering Circular**") of the Company.

Basis of preparation

The financial information set out below is based on the financial statements of the Company from incorporation to 27 January 2004 prepared on the basis described in note 2.1 to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the directors of the Company.

The directors of the Company 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. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements 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.

Opinion

In our opinion, the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company as at 27 January 2004.

Yours faithfully

KPMG Audit Plc

1. Balance Sheet

Balance sheet as at 27 January 2004

<i>Current assets</i>	£
Cash at bank and in hand	12,500.00
<i>Capital</i>	
50,000 shares 25% paid	12,500.00

2. Notes

2.1 Accounting policies

The financial information has been prepared under the historical cost convention and in accordance with the accounting standards currently applicable in the United Kingdom.

2.2 Trading activity

The Company was incorporated on 1 November 2002. The Company has not yet commenced business, no audited financial statements have been made up and no dividends have been declared or paid since the date of incorporation.

2.3 Registration

During the period the Company has applied for and obtained registrations as follows:

- Data Protection Act 1998 – Register of Data Controllers – Register of Data Users And Computer Bureau, registration number Z7297698.

2.4 Share Capital

The Company was incorporated and registered as a public limited company on 1 November 2002, with the name of First Flexible No. 6 plc.

On incorporation, the authorised share capital of the Company was divided into 100,000 ordinary shares of £1 each.

On 1 November 2002 49,999 ordinary shares were issued by the Company to Arianty Holdings Limited and one quarter paid up for a total cash consideration of £12,499.75. On 1 November 2002 the Company issued one ordinary share to Arianty Services Limited and one quarter paid up for a total cash consideration of 25 pence.

On 24 October 2003, the 50,000 issued ordinary shares of £1 each of the Company were converted by special resolution into 49,900 preference shares of £1 each, 26 A class ordinary shares of £1 each and 74 B class ordinary shares of £1 each.

On 24 October 2003 26 A class ordinary shares of the Company were transferred from Arianty Holdings Limited to SPV Management Limited which are to be held on trust for charitable purposes, 74 B class ordinary shares and 49,900 preference shares of the Company were transferred from Arianty Services Limited to Mortgage Trust Limited.

2.5 Auditors

KPMG Audit Plc was appointed as auditor on 15 November 2003.

The Paragon VAT Group

The Issuer is a member of the “**Paragon VAT Group**” (consisting of Paragon Finance PLC (registered number 3917566) (“**PFPLC**”) and certain of its related companies). 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.

Citicorp Trustee Company Limited (as successor to Morgan Guaranty Trust Company of New York) is the trustee of the fund which currently amounts to approximately £132,000. The Issuer will on the Issue Date become one of the beneficiaries of the trust (the other beneficiaries being, at the date of this Offering Circular, other special purpose companies holding mortgage assets administered by a member of the Paragon VAT Group) created over the VAT Account, such trust being constituted by a declaration of trust dated 19th March 1993, as subsequently supplemented, amended and restated (the “**VAT Declaration of Trust**”).

Barclays Bank PLC

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered and head office at 54 Lombard Street, London EC3P 3AH. Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985 Barclays Bank PLC was re-registered as a public limited company and its name was changed from “**Barclays Bank International Limited**” to “**Barclays Bank PLC**”.

Barclays Bank PLC and its subsidiary undertakings (taken together, the “**Group**”) are a United Kingdom based financial services group engaged primarily in the banking, investment banking and asset management businesses. In terms of assets employed, it is one of the largest financial services groups in the United Kingdom. The Group also operates in many other countries around the world and is one of the leading providers of co-ordinated global services to multinational corporations and financial institutions in the world’s main financial centres. The whole of the issued ordinary share capital of Barclays Bank PLC is owned by Barclays PLC, which is the ultimate holding company of the Group.

The short term unsecured obligations of Barclays Bank PLC are rated A-1+ by S&P, P-1 by Moody’s and the long term obligations of Barclays Bank PLC are rated Aa1 by Moody’s and AA by S&P.

As at 30 June 2003, the Group had total assets of £446,731 million, total net loans and advances of £291,830 million, total deposits of £291,317 million and equity and shareholders funds of £16,064 million. The audited profit before taxation of the Group in respect of the year ended 30 June 2003 was £1,963 million after charging net provisions for bad and doubtful debts of £652 million. As at 31 December 2002, the Group had total assets of £403,066 million, total net loans and advances of £260,572 million, total deposits of £258,932 million and equity and shareholders’ funds of £15,205 million.

The information contained herein with respect to Barclays Bank PLC relates to and has been obtained from it. The delivery of this Offering Circular shall not create any implication that there has been no change in the affairs of Barclays Bank PLC since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

JPMorgan Chase Bank

JPMorgan Chase Bank is a wholly owned bank subsidiary of J.P. Morgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. JPMorgan Chase Bank 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. As of September 30, 2003, JPMorgan Chase Bank had total assets of \$638.1 billion, total net loans of \$202.4 billion, total deposits of \$313.4 billion, and total stockholder's equity of \$37.0 billion. As of December 31, 2002, JPMorgan Chase Bank had total assets of \$622.4 billion, total net loans of \$180.6 billion, total deposits of \$300.6 billion, and total stockholder's equity of \$35.5 billion.

Additional information, including the most recent Form 10-K for the year ended December 31, 2002 of J.P. Morgan Chase & Co., the 2002 Annual Report of J.P. Morgan Chase & Co. and additional annual, quarterly and current reports filed with the Securities and Exchange Commission by J.P. Morgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, J.P. Morgan Chase & Co., 270 Park Avenue, New York, New York 10017.

On January 14, 2004, J.P. Morgan Chase & Co. and Bank One Corporation announced that they have agreed to merge. The merger is subject to the approval of the shareholders of both institutions as well as U.S. federal and state and foreign regulatory authorities. Completion of the transaction is expected to occur in mid-2004. Information about J.P. Morgan Chase & Co. is available on the Internet at www.jpmorganchase.com. Information about Bank One Corporation is available on the Internet at www.bankone.com.

The information set forth above relates to and has been obtained from JPMorgan Chase Bank. This data has been taken from the Consolidated Reports of Condition and Income filed with the Board of Governors of the U.S. Federal Reserve System compiled in accordance with regulatory accounting principles. The delivery of this document shall not create any implication that there has been no change in the affairs of JPMorgan Chase Bank since the date hereof, or that the information contained or referred to above is correct as of any time subsequent to its date.

Regulation of the UK Residential Mortgage Market

Introduction

The UK residential mortgage market currently is not specifically regulated by statute although certain consumer protection is provided under the Unfair Terms in Consumer Contracts Regulations 1994 and 1999 and the advertising of certain mortgages is subject to the Consumer Credit (Advertisements) Regulations 1989. The following summary of certain regulatory considerations does not discuss all aspects of applicable legislation and other authorities which may be important to prospective investors.

The Mortgage Code

Self-regulation within the market is under the Mortgage Code (the “**CML Code**”) issued by the Council of Mortgage Lenders (the “**CML**”) and to which the majority of mortgage lenders subscribe. Mortgage Trust and Mortgage Trust Services are associate members of the CML and subscribe to the CML Code. There is no legal requirement for a lender in the UK residential mortgage market to be a member of the CML and compliance with the CML Code is therefore voluntary.

The CML Code sets out minimum standards of good mortgage lending practice for lenders subscribing to the CML Code in respect of all aspects of their mortgage lending business, from initial marketing of mortgage products to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30th April 1998, lenders that subscribe to the CML Code may not accept mortgage business introduced by intermediaries who are not registered with (before 1st November 2000) the Mortgage Code Register of Intermediaries or (on and after 1st November 2000) the Mortgage Code Compliance Board.

The Financial Services and Markets Act 2000

For the purposes of the Regulated Activities Order (as described in more detail above in “**Certain Special Considerations – Regulatory Considerations**”), a contract is a “regulated mortgage contract” and therefore subject to regulation by the FSA if, at the time it is entered into, (i) the contract is one under which the lender provides credit to an individual or to trustees, (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage (or, in Scotland, a first ranking standard security) on land (other than timeshare accommodation) in the United Kingdom and (iii) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person. Based on this definition, corporate mortgages, where credit is provided to limited liability companies incorporated in England and Wales or Scotland and not to an individual or to trustees, and buy-to-let mortgages, where the relevant property is not to be used, and is not intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is the beneficiary of the trust or by a related person, should not be regulated mortgage contracts for these purposes.

From the date that Article 61 of the Regulated Activities Order comes into force (for more detail in respect of which see above in “**Certain Special Considerations – Regulatory Considerations**”), detailed FSA Conduct of Business Rules will also come into effect. It is expected that these will cover the activities of authorised persons, dealing with such aspects as financial promotions and other pre-application and pre-completion information, responsible lending, charges (including early repayment and arrears charges), arrears and possessions, and record keeping.

Article 61 also stipulates that administering a regulated mortgage contract is a regulated activity. “Administering” means either or both of: (a) notifying the borrower of changes in the interest rates or payment due under the contract, or of other matters of which the contract requires him to be notified; and (b) taking any necessary steps for the purposes of collecting or recovering payments due under the contract from the borrower. A person is not to be treated as administering a regulated mortgage contract merely because he has, or exercises, a right to take action for the purposes of enforcing the contract (or to require that such action is or is not taken).

The Regulated Activities Order has been amended on a number of occasions, the latest being, in June 2003. Article 25A specifies that arranging a regulated mortgage contract and advising on a regulated mortgage contract is a regulated activity.

The target date for the implementation of all such regulation is 31st October 2004.

One of the principal effects of such regulation will be that, if agreements are made by a person in breach of the authorisation provisions of the FSA, the loan could be unenforceable against the relevant Borrower except with the approval of the court. Failure to comply is also a criminal offence.

It is likely that the Issuer's business and the Trustee's business would not constitute a regulated activity, if the Issuer and Trustee arranged for mortgage administration to be carried out by an administrator having the required permission. If such arrangement terminates, however, the Issuer and Trustee will have a period of no more than a month in which to arrange for mortgage administration to be carried out by any replacement administrator having the required permission.

Description of the Class A Notes

General

£270,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A1 Notes**”), €200,000,000 Class A2 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A2 Notes**”) and \$75,000,000 Class A3 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A3 Notes**”) and together with the Class A1 Notes and the Class A2 Notes the “**Class A Notes**”) of First Flexible No. 6 plc (the “**Issuer**”) are the subject of a trust deed (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified including the Master Definitions Schedule (as defined under Class A Condition 2(d)) incorporated in the Trust Deed) to be entered into on 29th January 2004 (the “**Issue Date**”) and made between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression includes any further or other trustee of the Trust Deed) as trustee for, *inter alios*, the holders for the time being of the Class A Notes (the “**Class A Noteholders**”) and the holders for the time being of the interest coupons relating thereto (the “**Class A Coupons**”) which expression includes the talons (the “**Class A Talons**”) attached to the Class A Notes except where the context otherwise requires) (the “**Class A Couponholders**”). £40,000,000 Class M1 Mortgage Backed Floating Rate Notes due 2035 (the “**Class M1 Notes**”) and the €15,000,000 Class M2 Mortgage Backed Floating Rate Notes due 2035 (the “**Class M2 Notes**”, and together with the Class M1 Notes, the “**Class M Notes**”) and together with the Class A Notes, the “**Notes**”) will be issued pursuant to the Trust Deed contemporaneously with the issue of the Class A Notes. The security for the Class A Notes and the Class M Notes is created pursuant to, and on the terms set out in, a deed of sub-charge and assignment (the “**Deed of Charge**”, which expression includes such deed of sub-charge and assignment as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time modified) to be dated the Issue Date and made between, *inter alios*, the Issuer, Arianty No.1 plc (“**Arianty**”), Mortgage Trust Limited (“**Mortgage Trust**”) and the Trustee. By an agency agreement (the “**Agency Agreement**”, which expression includes such Agency Agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) to be dated the Issue Date and made between the Issuer, the Trustee, Citibank, N.A. as agent bank (the “**Agent Bank**” which expression includes any other agent bank appointed in respect of the Class A Notes) and Citibank, N.A., as principal paying agent (the “**Principal Paying Agent**”) and together with any further or other paying agents for the time being appointed in respect of the Class A Notes, the “**Paying Agents**”) provision is made for the payment of principal and interest in respect of the Class A Notes. The statements in these Class A Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the Deed of Charge.

Copies of the Trust Deed, the Agency Agreement, the Deed of Charge and the other Documents (as defined below) are available for inspection at the principal office for the time being of the Trustee, being at the date hereof at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the specified offices of the Paying Agents. The Class A Noteholders and the Class A Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and are deemed to have notice of all the provisions of the Agency Agreement.

The issue of the Class A Notes was authorised by resolution of the Board of Directors of the Issuer passed on 20th January 2004.

The Global Class A Notes

Temporary Global Class A Notes and Permanent Global Class A Notes

The principal amount outstanding in respect of the Class A1 Notes will be represented initially by a temporary global note in bearer form (the “**Temporary Global Class A1 Note**”) without Class A Coupons or Class A Talons which shall be issued on the Issue Date in the principal amount of £270,000,000.

The principal amount outstanding in respect of the Class A2 Notes will be represented initially by a temporary global note in bearer form (the “**Temporary Global Class A2 Note**”) without Class A Coupons or Class A Talons which shall be issued on the Issue Date in the principal amount of €200,000,000.

The principal amount outstanding in respect of the Class A3 Notes will be represented initially by a temporary global note in bearer form (the “**Temporary Global Class A3 Note**”) without Class A Coupons or Class A Talons which shall be issued on the Issue Date in the principal amount of \$75,000,000.

The Temporary Global Class A1 Note, the Temporary Global Class A2 Note and the Temporary Global Class A3 Note are together the “**Temporary Global Class A Notes**”.

The Temporary Global Class A1 Note, the Temporary Global Class A2 Note and the Temporary Global Class A3 Note will be deposited on behalf of the subscribers of the Class A1 Notes, the Class A2 Notes and the Class A3 Notes respectively, with a common depository (the “**Common Depository**”) for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) on the Issue Date. Upon deposit of the Temporary Global Class A Notes, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class A Notes represented by such Temporary Global Class A Note with the principal amount of the Class A Notes for which it has subscribed and paid. Interests in the Temporary Global Class A1 Note, the Temporary Global Class A2 Note and the Temporary Global Class A3 Note will be exchangeable not earlier than 40 days after the Issue Date (the “**Exchange Date**”), provided certification of non-US beneficial ownership by the relevant Class A Noteholders has been received, for interests in a permanent global Class A1 Note in bearer form (the “**Permanent Global Class A1 Note**”), a permanent global Class A2 Note in bearer form (the “**Permanent Global Class A2 Note**”) and a permanent global Class A3 Note in bearer form (the “**Permanent Global Class A3 Note**”) respectively. The Permanent Global Class A1 Note, the Permanent Global Class A2 Note and the Permanent Global Class A3 Note are together, “**Permanent Global Class A Notes**”. The Temporary Global Class A Notes and the Permanent Global Class A Notes are together, the “**Global Class A Notes**”. The Permanent Global Class A Notes shall be issued without Class A Coupons or Class A Talons. On the exchange of the Temporary Global Class A Notes for the Permanent Global Class A Notes, the Permanent Global Class A Notes will remain deposited with the Common Depository.

Transfers

Title to the Global Class A Notes will pass by delivery. The Permanent Global Class A Notes will only be exchangeable for definitive Class A Notes in the limited circumstances described below. Each of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of a 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 Clearstream, Luxembourg, as appropriate. For so long as any 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 Clearstream, Luxembourg, as appropriate.

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 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 the holder of such principal amount of Class A Notes. The expression “**Class A Noteholders**” may be construed accordingly, but without prejudice to the entitlement of the bearer of a Global Class A Note.

Payments

No payment will be made on the Temporary Global Class A Notes unless exchange for an interest in the Permanent Global Class A Notes or the Class A Notes in definitive form is improperly withheld or refused. Principal and interest on a Global Class A Note will be payable against presentation of that Global Class A Note at the specified office of any Paying Agent provided certification of non-US beneficial ownership by the Class A Noteholders has been received by Euroclear or Clearstream, Luxembourg. 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 that Global Class A Note by the Paying Agents (or the Paying Agent shall procure that such endorsement be made) and such record shall be *prima facie* evidence that the payment in question has been made.

Issue of Class A Notes in Definitive Form

If (i) the Class A Notes become due and repayable pursuant to Class A Condition 9(a) 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 or administration of such laws or regulations which becomes effective on or after the Issue Date, the Issuer is, or any of the Paying Agents are 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 its sole cost and expense, issue Class A Notes in definitive form in exchange for the whole outstanding interest in the Permanent Global Class A Notes within 30 days of the occurrence of the relevant event.

Any notice to Class A Noteholders in respect of Class A Notes represented by a Global Class A Note shall be deemed to have been duly given if sent to Euroclear and/or Clearstream, Luxembourg (as applicable) and shall be deemed to have been given on the date on which such notice was so sent.

Terms and Conditions of the Class A Notes

If Class A Notes in definitive form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Class A Note would be as set out below (the “**Class A Conditions**”). While the Class A Notes remain in global form, the same terms and conditions govern such Class A Notes, except to the extent that they are appropriate only to Class A Notes in definitive form.

1. Form, Denomination and Title

- (a) The £270,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A1 Notes**”), the €200,000,000 Class A2 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A2 Notes**”) and the \$75,000,000 Class A3 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A3 Notes**”) and together with the Class A1 Notes and the Class A2 Notes, the “**Class A Notes**”) issued by First Flexible No. 6 plc (the “**Issuer**”) are serially numbered and are issued in bearer form in the denominations of £10,000 (in respect of the Class A1 Notes), €500,000 (in respect of the Class A2 Notes) and \$10,000 (in respect of the Class A3 Notes) each with coupons (“**Class A Coupons**”) and talons (“**Class A Talons**”) attached and a grid endorsed thereon for the recording of all payments of principal in accordance with the provisions of Class A Condition 5.
- (b) Title to the Class A Notes, Class A Coupons and Class A Talons shall pass by delivery. The holder of any Class A Note (each a “**Class A Noteholder**”) and the holder of any Class A Coupon (each a “**Class A Couponholder**”) may (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Class A Note or Class A Coupon, as the case may be, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon.
- (c) The holder of each Class A Coupon (whether or not the Class A Coupon is attached to the relevant Class A Note) and each Class A Talon in his capacity as such shall be subject to all the provisions contained in the relevant Class A Note.

2. Status, Security and Priority

Status

- (a) The Class A Notes and the Class A Coupons constitute direct, secured and unconditional obligations of the Issuer and rank (subject to the provisions of Class A Condition 5) *pari passu* without preference or priority amongst themselves.
- (b) The £40,000,000 Class M1 Mortgage Backed Floating Rate Notes due 2035 (the “**Class M1 Notes**”) and the €15,000,000 Class M2 Mortgage Backed Floating Rate Notes due 2035 (the “**Class M2 Notes**”) and together with the Class M1 Notes, the “**Class M Notes**”) and together with the Class A Notes, the “**Notes**”) issued by the Issuer on or about 29th January 2004 (the “**Issue Date**”) are subject to a trust deed dated on or about 29th January 2004 between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”) (the “**Trust Deed**”) and are secured by the same security which secures the Class A Notes. The Class A Notes rank *pari passu* without preference or priority amongst themselves, the Class M Notes rank *pari passu* without preference or priority amongst themselves, but the Class A Notes will rank in priority to the Class M Notes in the event of the Security (as defined below in Class A Condition 2(d)) being enforced.
- (c) The Trust Deed and the Deed of Charge (as defined below) contain provisions requiring the Trustee to have regard to the interests of the Class A 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 (i) (for so long as there are any Class A Notes outstanding) the interests of the holders of Class A Notes if, in the Trustee’s opinion, there is a conflict between the interests of (A) the holders of Class A Notes and (B) the holders of Class M Notes and/or any other Secured Creditors (as defined below) or (ii) (if there are no Class A Notes outstanding) the interests of the holders of Class M Notes if, in the Trustee’s opinion, there is a conflict between the interests of the holders of Class M Notes and/or any other Secured Creditors (as defined below).

Security

- (d) As security for the payment of all moneys payable in respect of the Class A Notes and otherwise under the Trust Deed (including the remuneration, expenses and any other claims of the Trustee and any Receiver (as defined below) appointed under the Deed of Charge) and in respect of certain amounts payable to Mortgage Trust Services plc (“**Mortgage Trust Services**”) or its successor acting as servicer of the mortgages to be purchased by the Issuer on the Issue Date (the “**Initial Mortgages**”), such mortgages transferred to the Issuer pursuant to the Transaction Documents (as defined below) after the Issue Date (each a “**Substitute**”

Mortgage) and such mortgages purchased by the Issuer from Arianty No. 1 plc (**"Arianty"**) at any time on or after the Issue Date but no later than the first Determination Date (as defined in Class A Condition 5(b)) (the **"Pre-Funded Mortgages"** and together with the Initial Mortgages and the Substitute Mortgages, the **"Mortgages"**), and to certain other beneficiaries from time to time, the Issuer will enter into a deed of sub-charge and assignment (the **"Deed of Charge"**) creating the following security (the **"Security"**) in favour of the Trustee for itself and on trust for the other persons expressed to be secured parties thereunder:

- (i) a first fixed equitable charge or mortgage or (in relation to Mortgages secured on properties in Scotland (**"Scottish Mortgages"**)) assignment in security in favour of the Trustee over the Issuer's right, title, interest and benefit present and future in the Mortgages and other collateral security relating to the Mortgages;
- (ii) an equitable assignment by way of first fixed security in favour of the Trustee of the Issuer's interest in certain buildings policies, contingency policies and mortgage indemnity policies (the **"Insurance Contracts"**) to the extent that they relate to the Mortgages;
- (iii) an assignment by way of first fixed security in favour of the Trustee of the benefit of the servicing agreement to be entered into between Mortgage Trust Services as servicer (the **"Servicer"**), the Issuer, Mortgage Trust Limited (**"Mortgage Trust"**) and the Trustee (the **"Servicing Agreement"**), the standby servicing agreement to be entered into between the Issuer, the Servicer, GHL Mortgage Services Limited as standby servicer (the **"Standby Servicer"**) and the Trustee (the **"Standby Servicing Agreement"**), the mortgage sale agreement to be entered into between Mortgage Trust Services, Mortgage Trust, Arianty, the Issuer and the Trustee (the **"Mortgage Sale Agreement"**), the declaration of trust by Mortgage Trust in favour of the Issuer in relation to Scottish Mortgages (the **"Scottish Trust"**), the guaranteed investment contract to be entered into between the Issuer, the Trustee and Barclays Bank PLC (**"Barclays"**) (the **"Guaranteed Investment Contract"**), the redraw facility agreement to be entered into between the Issuer, Mortgage Trust Services, the Trustee and Barclays (in such capacity, the **"Redraw Facility Provider"**) (the **"Redraw Facility Agreement"**), the declaration of trust to be entered into and made by Mortgage Trust in relation to the RBS Trust Accounts (as defined below) (the **"MTL Declaration of Trust"**), the declaration of trust to be entered into and made by Mortgage Trust Services in relation to the MTS Trust Accounts (the **"MTS Declaration of Trust"**) and together with the MTL Declaration of Trust, the **"Declarations of Trust"**), the VAT declaration of trust executed by Citicorp Trustee Company Limited (as successor to Morgan Guaranty Trust Company of New York) and dated 19th March 1993, as subsequently supplemented, amended and restated (the **"VAT Declaration of Trust"**), the agency agreement to be entered into and made between the Issuer, Citibank, N.A. in its capacity as principal paying agent (the **"Principal Paying Agent"**), the Trustee and Citibank, N.A. in its capacity as agent bank (the **"Agent Bank"**) (the **"Agency Agreement"**), the tax deed of covenant to be entered into between the Issuer and Paragon (the **"Tax Deed of Covenant"**), the loan agreement to be entered into and made between the Issuer, the Trustee and Mortgage Trust Services (the **"Start-Up Loan"**), the bank agreement to be entered into between Mortgage Trust, Mortgage Trust Services, the Trustee, the Issuer, Barclays and The Royal Bank of Scotland plc (**"RBS"**) (the **"Bank Agreement"**), each interest rate swap agreement (each an **"Interest Rate Swap Agreement"**) and together the **"Interest Rate Swap Agreements"**) to be entered into and made between the Issuer and JPMorgan Chase Bank, Barclays or any other entity which has a rating of at least P-1 by Moody's and A-1+ by S&P in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each an **"Interest Rate Swap Counterparty"** and together, the **"Interest Rate Swap Counterparties"**), each currency swap agreement (each a **"Currency Swap Agreement"** and together, the **"Currency Swap Agreements"**) to be entered into and made between the Issuer and JPMorgan Chase Bank (the **"Currency Swap Counterparty"**), the master definitions schedule to be signed by Lovells and Weil, Gotshal & Manges for identification purposes (the **"Master Definitions Schedule"**), and such other documents as are expressed to be subject to the charges under the Deed of Charge (all such documents together the **"Transaction Documents"**);
- (iv) a first fixed equitable charge in favour of the Trustee over the Issuer's beneficial interest in the Trust Accounts, the Transaction Account, the GIC Account, the VAT Account and the Issuer's Investments (each as defined below) and any other bank account of the Issuer from time to time; and
- (v) a first floating charge in favour of the Trustee (ranking after the security referred to in (i) to (iv) above) over the whole of the undertaking, property, assets and rights of the Issuer.

Priority of Payments Prior to Enforcement

- (e) On each Interest Payment Date, the monies standing to the credit of the Transaction Account (save for any cash representing collateral posted by the Currency Swap Counterparty or any Interest Rate Swap Counterparty to the extent that such cash has not been released to the Issuer pursuant to the terms of the relevant Currency Swap Agreement or Interest Rate Swap Agreement and any interest earned thereon) including, for the avoidance of

doubt, all available monies representing a credit balance in the Reserve Ledger (as defined below) (save that such monies may only be applied to meet items (i) to (vi) below), all available monies representing a credit balance in the Liquidity Reserve Ledger (as defined below) (save that such monies may only be applied to meet items (i) to (vi) below), all available monies advanced under the Redraw Facility or monies released from the Redraw Ledger (as defined below) in the preceding Interest Period (save that such monies may only be applied to purchase the right to repayment of Redraws under item (ix) below or to rollover existing advances under the Redraw Facility), any Threshold Amount Deposit (as defined below) made on the immediately preceding Determination Date, all amounts received from the Interest Rate Swap Counterparties under any Interest Rate Swap Agreement in the preceding Interest Period, all monies released from the Base Rate Reserve (as defined below) in the preceding Interest Period (save that such monies may only be used to cover any shortfall on Base Rate Linked Mortgages (as defined below) resulting from the Bank of England Base Rate (as defined below) being set at a level more than 0.15% below Note Sterling LIBOR (as defined below) in respect of any Interest Period (as defined in Condition 4(b) below) and all monies released from the Discount Reserve (as defined below) in the preceding Interest Period (save that such monies may only be used to cover shortfalls on Discounted Mortgages (as defined below) up to the amount of the Pool Expected Differential (as defined below) in the immediately preceding Interest Period) will, after making payment of or providing for Excluded Items (as defined below), until enforcement of the Security for the Notes, be applied (save as the payee may otherwise agree) in making the following payments or provisions in the following order of priority (the “**Priority of Payments**”):

- (i) to pay or provide for *pari passu* and *pro rata* (a) the remuneration payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents and (b) amounts due and payable to the Standby Servicer under the Standby Servicing Agreement;
- (ii) to pay or provide for amounts due and payable and/or which will become due and payable prior to the next Interest Payment Date to the Paying Agents and Agent Bank under the Agency Agreement;
- (iii) to pay or provide for *pari passu* and *pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer on or after such Interest Payment Date by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere; (b) the Issuer’s liability or possible liability for corporation tax and (c) the balance, if any, of the value added tax liability of the Paragon VAT Group (as defined below) following a demand being made by H.M. Customs & Excise on the Issuer where the value added tax liability is not satisfied in full in accordance with the Deed of Charge, the Servicing Agreement and the VAT Declaration of Trust;
- (iv) to pay the Senior Servicing Fee (as defined below) due and payable to the Servicer on such Interest Payment Date together with costs and expenses which are payable or expected to become payable by the Servicer under the Servicing Agreement prior to the next Interest Payment Date;
- (v) to pay *pro rata* and *pari passu*:
 - (a) all amounts payable by the Issuer to the Interest Rate Swap Counterparties pursuant to the Interest Rate Swap Agreements (other than (i) any Interest Rate Swap Counterparty Default Payments (as defined below) and (ii) any Withholding Compensation Amounts;
 - (b) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class A2 Currency Swap Agreement and the Class A3 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payments and (ii) any Withholding Compensation Amounts (as defined below);
 - (c) all amounts payable under the Redraw Facility other than in respect of principal; and
 - (d) all amounts payable in respect of the Class A Notes other than in respect of principal on the Class A Notes;
- (vi) subject to an M Note Trigger Event not having occurred on that Interest Payment Date, to pay *pari passu* and *pro rata*:
 - (a) all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes; and
 - (b) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class M2 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment and (ii) any Withholding Compensation Amounts;

- (vii) to credit all amounts, other than Principal Collections (as defined in Class A Condition 5(b)), to the Reserve Fund up to the Reserve Fund Required Amount;
- (viii) if a Liquidity Trigger Event has occurred and is continuing on the immediately preceding Determination Date, to credit the Liquidity Reserve up to the Liquidity Reserve Required Amount unless, upon the Issuer's request, the Rating Agencies have confirmed that failure to make such credit will not adversely affect the then current rating of the Notes;
- (ix) to pay for the purchase by the Issuer of the right to repayment of Redraws;
- (x) to repay all principal amounts outstanding under the Redraw Facility;
- (xi) to fund the purchase by the Issuer of Further Advances up to an amount equal to the lower of (a) the Potential Redemption Amount (as defined in Class A Condition 5(b)) less amounts applied in accordance with item (x) above and (b) the aggregate amount of Redemptions received during the immediately preceding Collection Period less amounts applied in accordance with item (x) above;
- (xii) to allocate an amount to be applied in redeeming the Notes equal to the greater of (a) zero and (b) the Potential Redemption Amount less the sum of the amounts applied under items (x) and (xi) above;
- (xiii) if an M Note Trigger Event occurs on such Interest Payment Date to pay *pari passu* and *pro rata*:
 - (a) all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes; and
 - (b) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class M2 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment and (ii) any Withholding Compensation Amounts;
- (xiv) to credit the Base Rate Reserve up to the Base Rate Reserve Required Amount;
- (xv) to fund the purchase by the Issuer of hedges that may be required in order to preserve a rate at least equal to the Threshold Rate in respect of Pre-Funded Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
- (xvi) to credit the Discount Reserve in an amount equal to the aggregate Loan Expected Differentials arising from Discounts on Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
- (xvii) *pari passu* and *pro rata* (a) to pay (i) any Withholding Compensation Amounts to be paid *pro rata* to such amounts due under the relevant Interest Rate Swap Agreement and (ii) any Interest Rate Swap Counterparty Default Payments payable to any Interest Rate Swap Counterparty to be paid *pro rata* to such amounts due under the relevant Interest Rate Swap Agreement; and (b) to pay (i) any Withholding Compensation Amounts payable to the Currency Swap Counterparty to be paid *pro rata* to such amounts due under the relevant Currency Swap Agreement and (ii) any Currency Swap Counterparty Default Payments payable to the Currency Swap Counterparty to be paid *pro rata* to such amounts due under the relevant Currency Swap Agreement;

and provided that there is no Principal Deficiency (as defined in Class A Condition 5(b)) on such Interest Payment Date and that no Event of Default (as defined in Class A Condition 9(a)) has occurred:

- (xviii) to pay the Subordinated Servicing Fee (as defined below) due and payable to the Servicer on such Interest Payment Date;
- (xix) to pay amounts repayable to the Servicer in respect of any Threshold Amount Deposit which the Servicer elects to release;
- (xx) to pay amounts payable in respect of the Start-Up Loan other than in respect of principal on the Start-Up Loan;
- (xxi) to pay amounts payable in respect of principal under the Start-Up Loan;
- (xxii) to pay *pari passu* and *pro rata* (a) sums due to Arianty as Arianty Deferred Purchase Consideration and (b) sums due to Mortgage Trust as Mortgage Trust Deferred Purchase Consideration; and
- (xxiii) to make dividend payments to shareholders of the Issuer.

In the event that any payment is to be made by the Issuer under this Condition and there are insufficient funds in the relevant currency available in which such payment is to be made, the Issuer shall, if the relevant Currency Swap Agreement has terminated, convert any remaining amounts available into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

All amounts payable on each Interest Payment Date by the Currency Swap Counterparty to the Issuer following application of amounts available under the Priority of Payments, under the terms of (i) the Euro Currency Swap Agreements shall be paid by the Currency Swap Counterparty to the relevant Paying Agent for payment to the holders of the Euro Notes and (ii) the Class A3 Currency Swap Agreement shall be paid by the Currency Swap Counterparty to the relevant Paying Agent for payment to the holders of the USD Notes, in each case in satisfaction of the Issuer's interest and/or principal payment obligations under the Euro Notes and the USD Notes respectively on such Interest Payment Date.

For the purposes of these Class A Conditions:

“Additional Amounts” means an amount equal to any withholding or deduction required to be made by the Currency Swap Counterparty or an Interest Rate Swap Counterparty to any payment under a Currency Swap Agreement or Interest Rate Swap Agreement for or on account of tax which is paid by the Currency Swap Counterparty or an Interest Rate Swap Counterparty to the Issuer to ensure that the Issuer receives the full amount it would otherwise have received but for such withholding or deduction.

“Arianty Deferred Purchase Consideration” means such sums as are paid to Arianty on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of the Initial Mortgages.

“Arrears Event” means an event where more than 3% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool on the immediately preceding Determination Date comprises Mortgages in respect of which there are arrears equal to or greater than an amount equal to the then current scheduled monthly payment due under the relevant Mortgages multiplied by two.

“Available Facility” means, in relation to the Redraw Facility, on each Interest Payment Date, an amount calculated as the difference between the Redraw Facility Limit and the aggregate amount of advances outstanding under the Redraw Facility which will not be repaid on such Interest Payment Date.

“Bank Accounts” means the Trust Accounts and the Transaction Account and **“Bank Account”** means each one of them.

“Bank of England Base Rate” means the Bank of England repo rate set from time to time by the Monetary Policy Committee of the Bank of England.

“Base Rate Linked Mortgages” means Mortgages which are subject to a variable rate of interest set by Mortgage Trust Services from time to time, which is linked to the Bank of England Base Rate.

“Base Rate Reserve” means the amount recorded in a ledger (the **“Base Rate Reserve Ledger”**) and represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer's Investments.

“Base Rate Reserve Required Amount” means on the Issue Date and each Interest Payment Date thereafter an amount equal to 0.15% of the aggregate outstanding principal balances (including drawn and undrawn balances) of all Base Rate Linked Mortgages.

“Borrower Loan Limit” means the principal amount of a Borrower's loan which would have been outstanding at any time if the Borrower had only made the minimum monthly payment agreed with Mortgage Trust or Mortgage Trust Services (the **“Minimum Monthly Payment”**) and had not made any Overpayments.

“Borrower Mortgage Account” means each mortgage account held, from time to time, by a Borrower with Mortgage Trust Services.

“Class A2 Currency Swap Agreement” means the currency swap agreement between the Issuer and the Currency Swap Counterparty dated 29th January 2004 in respect of the Class A2 Notes.

“Class A3 Currency Swap Agreement” means the currency swap agreement between the Issuer and the Currency Swap Counterparty dated 29th January 2004 in respect of the Class A3 Notes.

“Class M2 Currency Swap Agreement” means the currency swap agreement between the Issuer and the Currency Swap Counterparty dated 29th January 2004 in respect of the Class M2 Notes.

“Currency Swap Counterparty Default Payment” means in relation to a Currency Swap Agreement, amounts payable to the Currency Swap Counterparty in connection with a termination of that Currency Swap Agreement where such termination has arisen as a result of an Event of Default where the Currency Swap Counterparty is the Defaulting Party or as a result of a Termination Event where the Currency Swap Counterparty is the Affected Party (and in this definition Event of Default, Defaulting Party, Termination Event and Affected Party have the meanings indicated in that Currency Swap Agreement);

“Discount” means the discount below the Reference Rate applicable to a Discounted Mortgage at the relevant time.

“Discount Reserve” means the amount recorded in a ledger (the **“Discount Reserve Ledger”**) and represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer’s Investments.

“Discounted Mortgages” means Mortgages which are at the relevant time subject to a discounted rate of interest for a specified period.

“Effective Interest Margin” means, in relation to Discounted Mortgages in the Mortgage Pool an amount determined as follows:

- (a) for each Standard Variable Rate Mortgage, the Threshold Margin less the Discount;
- (b) for each Base Rate Linked Mortgage, the margin of that Mortgage over Bank of England Base Rate less 0.15% less the Discount;
- (c) for each LIBOR Linked Mortgage, the margin of that Mortgage over LIBOR less the Discount;
- (d) for each Fixed Rate Mortgage which has been swapped to the Threshold Rate, the Threshold Margin less the Discount.

“Expected Differential” means an amount calculated in respect of each Discounted Mortgage and each Interest Period (as defined in Class A Condition 4(b)) as the difference between the Threshold Margin and the Effective Interest Margin on such Discounted Mortgage, to the extent such difference is positive, multiplied by the outstanding principal balance in respect of such Discounted Mortgage as of the Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the succeeding Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year).

“Fixed Rate Mortgage” means a mortgage which is subject to a fixed rate of interest set by reference to a pre-determined rate or series of rates for a fixed period or periods.

“Further Advances” means the additional funds advanced to a Borrower by Mortgage Trust on the security of his/her Mortgage subject to the satisfaction of certain conditions.

“GIC Account” means an account in the name of the Issuer at the Account Bank to which amounts invested in accordance with the Guaranteed Investment Contract will be transferred from time to time.

“GIC Provider” means Barclays.

“Interest Determination Date” means in the case of the Class A3 Notes a day which is two London Business Days before the first day of the Interest Period to which the Rate of Interest shall apply, in the case of the Class A1 Notes the first day of the Interest Period to which the Rate of Interest shall apply, and in the case of the Class A2 Notes a day which is two TARGET Business Days before the first day of the Interest Period to which the Rate of Interest shall apply.

“Interest Rate Swap Counterparty Default Payment” means in relation to an Interest Rate Swap Agreement, amounts payable to the relevant Interest Rate Swap Counterparty in connection with a termination of that Interest Rate Swap Agreement where such termination has arisen as a result of an Event of Default where the Interest Rate Swap Counterparty is the Defaulting Party or as a result of a Termination Event where the Interest Rate Swap Counterparty is the Affected Party (and in this definition Event of Default, Defaulting Party, Termination Event and Affected Party have the meanings indicated in that Interest Rate Swap Agreement).

“Investment Home Loans” means loans made to a Borrower to be used to remortgage or acquire properties to let to tenants or hold as an investment.

“Issuer’s Investments” means the Guaranteed Investment Contract and the Permitted Investments.

“LIBOR” means the London Interbank Offered Rate.

“LIBOR Linked Mortgage” means a mortgage which is subject to a variable rate of interest set by Mortgage Trust Services from time to time, which is linked to LIBOR.

“Liquidity Reserve” means the amount recorded in a ledger (the **“Liquidity Reserve Ledger”**) and represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer’s Investments.

“Liquidity Reserve Required Amount” means, on any Interest Payment Date following a Liquidity Trigger Event, the amount (if any) which is 3% of the aggregate Principal Amount Outstanding of the Notes minus the amount held as a credit balance in the Reserve Fund at such time.

“Liquidity Trigger Event” means the occurrence of an event where more than 15% of the aggregate principal balance of the Mortgages comprised in the Mortgage Pool on the immediately preceding Determination Date comprise Mortgages in respect of which there are arrears equal to or greater than an amount equal to the then current scheduled monthly payment due under the relevant Mortgage multiplied by three.

“Loan Expected Differential” means the aggregate of all Expected Differentials applying to Interest Periods that fall during the discount period for such Mortgage.

“London Business Day” means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for business in the City of London.

“M Note Trigger Event” means the determination by the Servicer as at any Interest Payment Date on which Class A Notes are outstanding that, on the assumption that an M Note Trigger Event does not occur, the application of funds in accordance with the Priority of Payments will give rise to a Principal Deficiency (as defined in Class A Condition 5(b)) which exceeds the aggregate Principal Amount Outstanding of the Class M Notes on such Interest Payment Date.

“Moody’s” means Moody’s Investors Service Limited.

“Mortgage Pool” means the Initial Mortgages, any Pre-Funded Mortgages and Substitute Mortgages acquired by the Issuer under the Mortgage Sale Agreement together with any Further Advances and Redraws.

“Mortgage Trust Deferred Purchase Consideration” means such sums as are paid to Mortgage Trust on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of Further Advances.

“MTS Trust Accounts” means the accounts in the name of Mortgage Trust Services held at Barclays into which payments are made in respect of amounts due and amounts received under the Mortgages.

“Note Sterling LIBOR” means Interest payable on the Class A1 Notes at an annual rate equal to the sum of LIBOR for three month sterling deposits (or, in the case of the first Interest Period, at an annual rate obtained by linear interpolation of LIBOR for four month sterling deposits and LIBOR for five month sterling deposits) and a margin.

“Overpayment” means the amount by which a payment made by a Borrower into his/her Borrower Mortgage Account exceeds the Minimum Monthly Payment.

“Owner Occupied Loans” means loans made to a Borrower to acquire property to be used as their primary place of residence.

“Paragon VAT Group” means the group of companies (including the Issuer and Paragon Finance PLC) in respect of which there arises under current value added tax legislation in force as at the date of this document, a joint and several liability in respect of VAT due to H.M. Customs & Excise.

“Payment Holiday” means a Borrower’s monthly payments being met by applying Overpayments not previously redrawn by way of capitalisation of such monthly payments.

“Permitted Investments” means investments in which the Servicer is entitled to invest from time to time under the terms of the Servicing Agreement.

“Pool Expected Differential” means in relation to an Interest Period, the aggregate of the Expected Differentials in relation to such Interest Period of all Discounted Mortgages in the Mortgage Pool.

“Potential Redraw Amount” means the amount which is capable of being redrawn by a Borrower under a Mortgage.

“Pre-Funded Ledger” means the ledger so entitled and held in the Transaction Account.

“Prepayments” means part principal repayments under a Mortgage where the Borrower Loan Limit does not change following repayment ahead of the repayment plan administered by Mortgage Trust Services to provide a baseline for the repayment of the Mortgage. For the avoidance of doubt, Prepayments do not include scheduled principal repayments.

“Principal Amount Outstanding” has the meaning given to it in Condition 5(c) of the Class A Conditions.

“Rating Agencies” means S&P and Moody’s and **“Rating Agency”** means either of them.

“RBS Trust Accounts” means the accounts in the name of Mortgage Trust held at RBS into which payments are made in respect of amounts due and amounts received under the Mortgages.

“Receiver” means a receiver appointed by the Trustee under clause 10 of the Deed of Charge.

“**Redraw**” means in respect of a Mortgage, a Payment Holiday or a redraw by the relevant Borrower of a portion of the principal of his/her Mortgage if and to the extent that such Borrower has previously made Prepayments on his/her Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments and provided that the amount of such Redraw is limited to ensure that the outstanding balance of the Mortgage after such Redraw is no greater than the Borrower Loan Limit.

“**Redraw Facility**” means the sterling revolving credit facility made between the Issuer, the Redraw Facility Provider, Mortgage Trust Services and the Trustee.

“**Redraw Facility Limit**” means, unless otherwise agreed between the Issuer, the Trustee, the Redraw Facility Provider and the Servicer and with the prior written confirmation of the Rating Agencies that the then current rating of the Notes will not be adversely affected, initially £24,959,447 and then, on any Interest Payment Date where the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool is less than 7.5% of the aggregate Principal Amount Outstanding of the Notes, the greater of (i) 5% of the aggregate Principal Amount Outstanding of the Notes at the immediately preceding Interest Payment Date and (ii) £14,975,668.

“**Reference Rate**” means:

- (a) for each Standard Variable Rate Mortgage, Mortgage Trust Services’ standard variable rate;
- (b) for each LIBOR Linked Mortgage, LIBOR plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower;
- (c) for each Base Rate Linked Mortgage, Bank of England Base Rate, plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower; and
- (d) for each Fixed Rate Mortgage, the rate set out in the mortgage documentation entered into with the relevant Borrower.

“**Required Redraw Facility Provider Rating**” means a short term unsecured, unguaranteed and unsubordinated debt rating of P-1 by Moody’s and A-1+ by S&P.

“**Reserve Fund**” means the amount recorded in a ledger (the “**Reserve Ledger**”) and represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer’s Investments provided that whilst there are Class A Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class M Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than the lower of (1) £2,995,134 and (2) the Principal Amount Outstanding of the Class A Notes (plus any amounts to be paid in priority thereto).

“**Reserve Fund Required Amount**” means (A) from and including the Issue Date to and including the Coupon Step Up Date on each Interest Payment Date, (1) if an Arrears Event is not occurring, £14,476,479 or (2) if an Arrears Event is occurring, £16,972,424; and (B) from and excluding the Coupon Step Up Date, on each Interest Payment Date, (1) if an Arrears Event is not occurring, the greater of (i) 5.80% multiplied by the aggregate Principal Amount Outstanding of the Class A Notes and the Class M Notes and (ii) the Reserve Fund Requirement Floor or (2) if an Arrears Event is occurring, £16,972,424.

“**Reserve Fund Requirement Floor**” is equal to the greater of (a) £2,000,000, (b) two times the aggregate principal balance of the largest Mortgage or two times the aggregate principal balance of the largest group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date, (c) the aggregate principal balance of the five largest Mortgages or the aggregate principal balance of the five largest groups of Mortgages in the names of single Borrowers as at the immediately preceding Determination Date and (d) two times the aggregate of (1) amounts to be applied to meet items (i) to (iv) of the Priority of Payments on that Interest Payment Date, (2) all amounts payable under the Redraw Facility other than in respect of principal on that Interest Payment Date and (3) the amount of interest payable on the Class A Notes and the Class M Notes on that Interest Payment Date in respect of the immediately preceding Interest Period.

“**S&P**” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies Inc.

“**Secured Creditors**” means each of the Trustee, the Noteholders, the Couponholders, the Servicer, the Standby Servicer, the Redraw Facility Provider, the Start-Up Loan Provider, the GIC Provider, the Account Bank, the Interest Rate Swap Counterparties, the Currency Swap Counterparty and the Principal Paying Agent.

“**Senior Servicing Fee**” means 0.10% per annum of the aggregate principal balance of the Mortgages on the last day of the immediately preceding Collection Period, inclusive of value added tax.

“**Standard Variable Mortgage**” means a mortgage which is subject to a standard variable rate of interest set by Mortgage Trust Services from time to time.

“**Start-Up Loan Provider**” means Mortgage Trust Services.

“**Subordinated Servicing Fee**” means 0.20% per annum of the aggregate principal balance of the Mortgages on the last day of the immediately preceding Collection Period, inclusive of value added tax.

“**Threshold Amount Deposit**” means a deposit which may be paid into the Transaction Account on an Interest Payment Date which is equal to the amount by which the amount produced by multiplying the Threshold Rate with the aggregate outstanding balances of the Mortgages in the Mortgage Pool on such Interest Payment Date and the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year) exceeds the sum of:

- (a) the aggregate of the annual rate of interest applicable on such Interest Payment Date to each Mortgage in the Mortgage Pool multiplied by the principal balance outstanding of such Mortgage on such Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year); plus
- (b) any amount expected to be released from the Base Rate Reserve for application in accordance with the Priority of Payments on the next following Interest Payment Date; plus
- (c) any amount expected to be released from the Discount Reserve for application in accordance with the Priority of Payments on the next following Interest Payment Date; plus
- (d) any amounts received in respect of Interest Rate Swap Agreements; plus
- (e) any income received in respect of any Bank Account or Permitted Investment,

such amount not to be less than zero.

“**Threshold Margin**” means (i) up to (but excluding) the Coupon Step Up Date, the figure expressed as a percentage resulting from the addition of (a) the average total principal balance of Owner Occupied Loans during the relevant Interest Period multiplied by 1.0% plus (b) the average total principal balance of Investment Home Loans during the relevant Interest Period multiplied by 1.4%, all divided by the average total principal balance outstanding of all Mortgages during that Interest Period and (ii) from and including the Coupon Step Up Date, 1.9%. The average total principal balance outstanding in any category of loan for the purposes of the above calculation shall be calculated by reference to the total principal balance outstanding of such category of loan on each day during the relevant Interest Period.

“**Threshold Rate**” means in respect of an Interest Period an annual rate of LIBOR as determined in relation to the Notes for such Interest Period plus the Threshold Margin.

“**Transaction Account**” means account number 30924563 in the name of the Issuer at Barclays.

“**Trust Accounts**” means the MTL Trust Accounts and the RBS Trust Accounts.

“**Withheld Amount**” means an amount equal to any withholding or deduction required to be made by the Issuer to any payment under a Currency Swap Agreement or an Interest Rate Swap Agreement for or on account of United Kingdom tax.

“**Withholding Compensation Amounts**” means an amount or amounts equal to (i) any Additional Amounts paid by the Currency Swap Counterparty or an Interest Rate Swap Counterparty to the Issuer on the relevant Interest Payment Date together with, to the extent not paid by the Issuer on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the Currency Swap Counterparty or an Interest Rate Swap Counterparty on any previous Interest Payment Date and (ii) an amount or amounts equal to any Withheld Amount on such Interest Payment Date, together with, to the extent not paid by the Issuer on any previous Interest Payment Date, an amount equal to any Withheld Amount applicable to any previous Interest Payment Date.

“**VAT Account**” means an account held at National Westminster Bank Plc in relation to which the Paragon VAT Group’s VAT fund is held and payments made to the extent that the member of the Paragon VAT Group primarily responsible for a VAT payment fails to pay the relevant amount and over which the VAT Declaration of Trust is granted.

Priority of Payments Post-Enforcement

- (f) On enforcement of the Security, the Trustee is required, after making payment of or providing for Excluded Items, to apply moneys available for distribution in or towards the satisfaction of the following amounts in the following order of priority:
 - (i) to pay the remuneration then due and payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by the Trustee or any receiver appointed by the Trustee under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;

- (ii) to pay the remuneration then due and payable to the Agent Bank and the Paying Agents and any fees, costs, charges, liabilities and expenses incurred by them or by the Account Bank under the Bank Agreement and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
- (iii) to pay or provide for *pari passu* and *pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere; (b) the Issuer's liability or possible liability for corporation tax and (c) the balance, if any, of the value added tax liability of the Paragon VAT Group following a demand being made by HM Customs & Excise on the Issuer where the value added tax liability is not satisfied in full in accordance with the Deed of Charge, the Servicing Agreement and the VAT Declaration of Trust;
- (iv) to pay *pari passu* and *pro rata* (a) in or towards satisfaction of any fees, other than the Subordinated Servicing Fee, due and payable to the Servicer and any costs, charges, expenses and liabilities incurred by the Servicer and (b) all amounts due and payable to the Standby Servicer under the Standby Servicing Agreement;
- (v) to pay *pari passu* and *pro rata* (a) all amounts due under the Interest Rate Swap Agreements and all amounts due to the Currency Swap Counterparty in respect of the Class A2 Currency Swap Agreement and the Class A3 Currency Swap Agreement to be applied *pro rata* to such amounts due under the relevant Interest Rate Swap Agreement or Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment, (ii) any Interest Rate Swap Counterparty Default Payment and (iii) any Withholding Compensation Amounts; (b) all amounts due under the Redraw Facility and (c) interest and principal and all other amounts due and payable in respect of the Class A Notes;
- (vi) to pay *pari passu* and *pro rata*:
 - (a) interest due and payable in respect of the Class M Notes and then principal and all other amounts due and payable in respect of the Class M Notes; and
 - (b) all amounts due to the Currency Swap Counterparty in respect of the Class M2 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment and (ii) any Withholding Compensation Amounts;
- (vii) to pay (a) to the Currency Swap Counterparty each amount of Currency Swap Counterparty Default Payments; (b) to the Interest Rate Swap Counterparties each amount of Interest Rate Swap Counterparty Default Payments and (c) any Withholding Compensation Amounts due and payable to the Interest Rate Swap Counterparties and the Currency Swap Counterparty, in each case to be paid *pro rata* to such amounts due under the relevant Currency Swap Agreement or Interest Rate Swap Agreement;
- (viii) to pay any Subordinated Servicing Fee due and payable to the Servicer;
- (ix) to pay any interest and principal amounts due and payable under the Start-Up Loan Agreement;
- (x) to pay *pro rata* and *pari passu* (a) sums due to Arianty as Arianty Deferred Purchase Consideration and (b) sums due to Mortgage Trust as Mortgage Trust Deferred Purchase Consideration; and
- (xi) to pay the surplus (if any) to the shareholders of the Issuer by way of dividends.

The Trustee cannot, while any of the Class A Notes are outstanding and there is no subsisting Event of Default under Class A Condition 9, enforce the Security on behalf of the holders of the Class M Notes or any other Secured Creditor (whether or not requested to do so by the holders of the Class M Notes or such other Secured Creditor) under the Deed of Charge.

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

In the event that any payment is to be made by the Issuer under this Condition and there are insufficient funds in the relevant currency available in which such payment is to be made, the Issuer shall, if the relevant Currency Swap Agreement has terminated, convert any remaining amounts available into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

All amounts payable from the Currency Swap Counterparty to the Issuer under the terms of (i) the Euro Note Currency Swap Agreements shall be paid by the Currency Swap Counterparty to the relevant Paying Agent for payment to the holders of the Euro Notes and (ii) the Class A3 Currency Swap Agreement shall be paid by the Currency Swap Counterparty to the relevant Paying Agent for payment to the holders of the USD Notes, in each case in satisfaction of the Issuer's interest and/or principal payment obligations under the Euro Notes and the USD Notes respectively.

3. Covenants

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

(a) Negative Pledge

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

(b) Restrictions on Activities

- (i) engage in any activity which is not incidental to any of the activities which the Documents provide or envisage that the Issuer will engage in; or
- (ii) have any subsidiaries or employees or premises;

(c) Disposal of Assets

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

(d) Equitable Interest

permit any person other than the Issuer, the Trustee, Mortgage Trust Services and Mortgage Trust in relation to any Redraws or Further Advances funded by any of them to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;

(e) Bank Accounts

have an interest in any bank account, other than the Trust Accounts and the bank accounts maintained pursuant to the Bank Agreement, the Guaranteed Investment Contract or the VAT Declaration of Trust;

(f) Dividends or Distributions

pay any dividend or make any other distribution to its shareholders or issue any further shares other than pursuant to the Priority of Payments;

(g) Borrowings

incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any obligation of any person;

(h) Merger

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

(i) Surrender of Group Relief

offer or consent to surrender to any company any amounts which are available for surrender by way of group relief within Chapter IV of Part X of the Income and Corporation Taxes Act 1988 unless the Issuer first receives by way of consideration for such surrender the payment of an amount calculated by applying to the amount surrendered the rate of corporation tax applicable to the Issuer at the time of surrender;

(j) *US Taxation*

engage or permit any of its affiliates to engage, in any activities in the United States (directly or through agents), derive or permit any of its affiliates to derive, any income from sources within the United States as determined under United States federal income tax principles, or hold, or permit any of its affiliates to hold, any mortgaged property that would cause it or any of its affiliates to be engaged or deemed to be engaged in a trade or business within the United States as determined by United States federal income tax laws;

(k) *Other*

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

In giving any consent to the foregoing, the Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Documents or may impose such other conditions or requirements as the Trustee may deem expedient (in its absolute discretion) in the interests of the Class A Noteholders and the Class M Noteholders.

4. Interest

(a) *Period of Accrual*

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

Whenever it is necessary to compute an amount of interest in respect of any Class A Note for any period (including any Interest Period (as defined below)), such interest shall be calculated on the basis of actual days elapsed in a (i) 365 day year (or a 366 day year if the last day of such period falls in a leap year) (in the case of the Class A1 Notes) or (ii) 360 day year (in the case of the Class A2 Notes and the Class A3 Notes).

(b) *Interest Payment Dates and Interest Periods*

Interest on the Class A Notes is payable (in sterling in relation to the Class A1 Notes, in euro in relation to the Class A2 Notes and in dollars in relation to the Class A3 Notes) quarterly in arrear on the first day of March, June, September and December in each year (or, if such day is not a Business Day, the immediately succeeding Business Day) (each such day an “**Interest Payment Date**”) save for the first payment of interest which will be made in respect of the period commencing on (and including) the Issue Date and ending on (but excluding) the Interest Payment Date falling on 1st June 2004. The period from (and including) an Interest Payment Date (or the Issue Date in respect of the first Interest Payment Date) to (but excluding) the next following (or first) Interest Payment Date is called an “**Interest Period**” in these Class A Conditions and “**Business Day**” shall in these Class A Conditions mean a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for business in the City of London and New York and a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System (or any successor thereto) is open (a “**TARGET Business Day**”).

(c) *Rate of Interest*

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

- (i) on each Interest Determination Date, the Agent Bank will determine the offered quotation to leading banks in the London Interbank market for three month sterling deposits (in the case of the Class A1 Notes), in the Eurozone Interbank market for three month euro deposits (in the case of the Class A2 Notes) or in the London Interbank market for three month dollar deposits (in the case of the Class A3 Notes) (or, in the case of the first Interest Period, such rate shall be obtained by linear interpolation of the rate for four month and five month sterling deposits in the London Interbank market (in the case of the Class A1 Notes), the rate for four month

and five month euro deposits in the Eurozone Interbank market (in the case of the Class A2 Notes) and the rate for four month and five month dollar deposits in the London Interbank market (in the case of the Class A3 Notes) by reference to the display designated as the British Bankers Association's Interest Settlement Rate as quoted on the Moneyline Telerate Screen No. 3750 (in the case of the Class A1 Notes and the Class A3 Notes) and the Moneyline Telerate Screen No. 248 (in the case of the Class A2 Notes) (or (aa) such other page as may replace Telerate Screen No. 3750 or Telerate Screen No. 248, as the case may be, on that service for the purpose of displaying such information or (bb) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace the Moneyline Telerate Monitor) as at or about 11:00 a.m. (London time) or, in relation to the Class A2 Notes, 11.00 a.m. (Brussels time) on that date (the "**Screen Rate**"). If the Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks (as defined in paragraph (h) below) to provide the Agent Bank with its offered quotation as at or about 11:00 a.m. (London time) or, in relation to the Class A2 Notes, 11.00 am (Brussels time) on that date to leading banks for three month sterling deposits (in the case of the Class A1 Notes), for three month euro deposits (in the case of the Class A2 Notes) or for three month dollar deposits (in the case of the Class A3 Notes) (and in the case of the first Interest Period, four and five month sterling, euro or dollar deposits, as the case may be). The Rate of Interest for such Interest Period shall, subject as provided below, be the Relevant Margin (as defined below) above the Screen Rate or, as the case may be, above the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the quotations of three out of five quoting Reference Banks (excluding, if all five quotations are not the same, the Reference Bank (as defined in Class A Condition 4(h)) with the highest and the Reference Bank with the lowest such quotations) but, if more than one of either or both, only one of the Reference Banks with the highest and/or, as the case may be, only one of the Reference Banks with the lowest such quotations;

- (ii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only four of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of two out of the four quoting Reference Banks (excluding two on the basis set out in (i) above);
- (iii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only two or three of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of the quotations of all the quoting Reference Banks (without any exclusion as referred to in (i) above);
- (iv) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only one or none of the Reference Banks provides such a quotation, then the Rate of Interest for the relevant Interest Period shall be the Reserve Interest Rate. The "**Reserve Interest Rate**" shall be the rate per annum which the Agent Bank determines to be either (aa) the Relevant Margin above the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the sterling lending rates (in the case of the Class A1 Notes), of the euro lending rates (in the case of the Class A2 Notes) or of the dollar lending rates (in the case of the Class A3 Notes) which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting, as at or about 11:00 a.m. (London time) or, in relation to the Class A2 Notes, 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, for the relevant Interest Period to the Reference Banks or those of them (being at least two in number) to which such quotations are in the sole opinion of the Agent Bank being so made or (bb) if the Agent Bank certifies that it cannot determine such arithmetic mean, the Relevant Margin above the lowest of the sterling lending rates (in the case of the Class A1 Notes), of the euro lending rates (in the case of the Class A2 Notes) or of the dollar lending rates (in the case of the Class A3 Notes) which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting on the relevant Interest Determination Date, to the leading banks which have their head offices in London for the relevant Interest Period, provided that if the Agent Bank certifies as aforesaid and further certifies that none of the banks selected as provided in (bb) above is quoting to leading banks as aforesaid, then the Reserve Interest Rate shall be the Rate of Interest in effect for the Interest Period ending on the relevant Interest Determination Date.

For the purpose of the Class A Conditions, the "**Relevant Margin**" shall be 0.28% per annum for the Class A1 Notes, 0.28% per annum for the Class A2 Notes and 0.28% per annum for the Class A3 Notes for each Interest Period up to and including the Interest Payment Date falling in March 2009 (the "**Coupon Step Up Date**") and thereafter 0.56% per annum for the Class A1 Notes, 0.56% per annum for the Class A2 Notes and 0.56% per annum for the Class A3 Notes.

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

The Agent Bank shall, on each Interest Determination Date, determine and notify the Issuer, the Servicer, the Trustee and the Paying Agents of (i) the Rate of Interest applicable to the Interest Period beginning on and including such Interest Determination Date in respect of the Class A1 Notes, the Class A2 Notes and the Class A3 Notes and (ii) the sterling amount, the euro amount or the dollar amount, as the case may be, (the "**Interest Amount**") payable in respect of such Interest Period in respect of the Principal Amount Outstanding (as defined in Class A Condition 5(c)).

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

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

(f) Determination or Calculation by Trustee

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

(g) Notifications to be Final

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

(h) Reference Banks and Agent Bank

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

5. Redemption and Cancellation

(a) Final Redemption

Unless previously redeemed as provided in this Class A Condition 5, the Issuer:

- (i) shall redeem the Class A1 Notes at their Principal Amount Outstanding (as defined below) on the Interest Payment Date falling in December 2035;
- (ii) shall redeem Class A2 Notes at their Principal Amount Outstanding (as defined below) on the Interest Payment Date falling in December 2035; and
- (iii) shall redeem the Class A3 Notes at their Principal Amount Outstanding (as defined below) on the Interest Payment Date falling in December 2035,

each such date being the “**Final Redemption Date**”.

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

(b) Mandatory Redemption in Part

Subject as provided below, the principal amount redeemable in respect of each Class A Note on an Interest Payment Date (the “**Actual Redemption Amount**”) shall be the Class A Redemption Amount on such Interest Payment Date and shall be applied in making the following payments:

- (i) in the event that the Actual Redemption Amount is greater than zero, to pay (in each case to the extent indicated below) *pari passu*:

- (1) the principal on the Class A1 Notes, until the Interest Payment Date on which the Class A1 Notes have been redeemed in full;
- (2) the principal on the Class A2 Notes, until the Interest Payment Date on which the Class A2 Notes have been redeemed in full;
- (3) the principal on the Class A3 Notes, until the Interest Payment Date on which the Class A3 Notes have been redeemed in full;
- (4) amounts due in respect of principal to the Currency Swap Counterparty under the Class A2 Currency Swap Agreement to the extent that such amounts are in exchange for the amounts payable by the Currency Swap Counterparty to the Issuer to fund the amounts payable under (2) above; and
- (5) amounts due in respect of principal to the Currency Swap Counterparty under the Class A3 Currency Swap Agreement to the extent that such amounts are in exchange for the amounts payable by the Currency Swap Counterparty to the Issuer to fund the amounts payable under (3) above.

The amounts payable under this item (i) shall be calculated by first apportioning the Actual Redemption Amount *pro rata* between the Principal Amount Outstanding of the Class A1 Notes, the Sterling Equivalent Principal Amount Outstanding of the Class A2 Notes and the Sterling Equivalent Principal Amount Outstanding of the Class A3 Notes (the amount so apportioned in respect of the Class A1 Notes being the “**A1 Sterling Amount**”, the amount so apportioned in respect of the Class A2 Notes being the “**A2 Sterling Amount**”, and the amount so apportioned in respect of the Class A3 Notes being the “**A3 Sterling Amount**”) and then:

- (i) the amount payable in respect of paragraph (1) above shall be the A1 Sterling Amount;
- (ii) the amount payable in respect of paragraph (2) above shall be the euro equivalent of the A2 Sterling Amount using the euro/sterling exchange rate specified in the Class A2 Currency Swap Agreement or, if the Class A2 Currency Swap Agreement has terminated, the applicable spot rate;
- (iii) the amount payable in respect of paragraph (3) above shall be the dollar equivalent of the A3 Sterling Amount using the dollar/sterling exchange rate specified in the Class A3 Currency Swap Agreement or, if the Class A3 Currency Swap Agreement has terminated, the applicable spot rate;
- (iv) the amount payable in respect of paragraph (4) above shall be the A2 Sterling Amount; and
- (v) the amount payable in respect of paragraph (5) above shall be the A3 Sterling Amount.

For the purposes of these Class A Conditions:

“**Collection Period**” means the period beginning on (and including) a Determination Date (save for the first Collection Period which shall begin on (and include) the Issue Date) and ending on the day immediately preceding the next following Determination Date.

“**Couponholders**” means together the Class A Couponholders and the holders of the coupons attached to the Class M Notes.

“**Determination Date**” means the day which is eight Business Days prior to an Interest Payment Date.

“**Excluded Items**” means

- (a) certain moneys which properly belong to third parties (such as monies owing to any party in respect of reimbursement for direct debit recalls);
- (b) on the Interest Payment Date following the Issue Date, amounts payable to Arianty under the Mortgage Sale Agreement in respect of reconciliations of the amounts paid in respect of the purchase of the Mortgages on the Issue Date; and
- (c) where the Issuer is unable to purchase the right to repayment of Redraws and/or Further Advances made with respect to one or more Mortgages on any Interest Payment Date (such Redraws and/or Further Advances continuing to be funded by Mortgage Trust on the basis that the Issuer holds each relevant Mortgage on trust for itself and Mortgage Trust, each party’s interest being proportionate to the funding provided by it), the aggregate of Mortgage Trust’s *pro rata* share of amounts received in respect of each such Mortgage during the immediately preceding Collection Period.

“**Noteholders**” means together the Class A Noteholders and the holders of the Class M Notes.

“**Potential Redemption Amount**” will be determined on each Determination Date as follows:

- (a) the aggregate amount of Redemptions, Prepayments, enforcement proceeds, recoveries and insurance proceeds (to the extent they relate to principal) received during the immediately preceding Collection Period in respect of the Mortgages (“**Principal Collections**”); plus
- (b) principal losses realised upon completion of the enforcement and recovery process in relation to the Mortgages during the immediately preceding Collection Period; plus
- (c) an amount equal to the Principal Deficiency recorded on the previous Determination Date; less
- (d) the aggregate principal amount of Redraws the right to repayment of which are to be purchased by the Issuer using Principal Collections on the immediately succeeding Interest Payment Date,

provided that the Potential Redemption Amount shall never be less than zero.

“**Prepayments**” means part principal repayments under a Mortgage where the Borrower Loan Limit does not change following prepayment ahead of the repayment plan administered by Mortgage Trust Services to provide a baseline for the repayment of the Mortgage. For the avoidance of doubt, Prepayments do not include scheduled principal repayments.

“**Redemptions**” means scheduled principal payments plus full and part principal repayments (including enforcement and insurance proceeds) under a Mortgage where the Borrower Loan Limit irrevocably reduces as a result of repayment ahead of the repayment plan administered by Mortgage Trust Services to provide a baseline for the repayment of the Mortgage.

“**Relevant Exchange Rate**” means in relation to a Class A2 Note or a Class A3 Note the exchange rate specified in the relevant Currency Swap Agreement relating to such Class A2 Note or Class A3 Note or, if that Currency Swap Agreement has terminated, the applicable spot rate.

“**Sterling Equivalent Principal Amount Outstanding**” means (a) in relation to a Class A2 Note or a Class A3 Note, the sterling equivalent of the Principal Amount Outstanding of such Class A2 Note or Class A3 Note ascertained using the Relevant Exchange Rate relating to such Notes, and (b) in relation to any Class A1 Note the Principal Amount Outstanding of such Class A1 Note.

The amount allocated for redemption of the Notes under item (xii) of the Priority of Payments (the “**Redemption Amount**”) will be divided into a “**Class A Redemption Amount**” and a “**Class M Redemption Amount**”. During a Class M Principal Lock Out, the Class A Redemption Amount will equal the lesser of the Redemption Amount and the aggregate principal amount of the Class A Notes then outstanding and the Class M Redemption Amount will be zero (except that if the Redemption Amount is greater than the aggregate principal amount of the Class A Notes then outstanding, then the excess will be allocated to the Class M Redemption Amount (after the payment of any shortfall in item (xiii) of the Priority of Payments) up to the aggregate principal amount of the Class M Notes then outstanding).

A “**Class M Principal Lock Out**” shall occur on any Interest Payment Date provided that there are Class A Notes outstanding (i) during the period up to (and including) the Interest Payment Date falling five years after the Issue Date (the “**Class M Principal Lock Out Period**”), (ii) where on such Interest Payment Date the sum of the Reserve Fund and the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class M Conditions) of the Class M Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes and the Class M Notes is not at least twice that same percentage as at the Issue Date, (iii) where a Principal Deficiency exists on such Interest Payment Date, (iv) where the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than 2.5% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, in each case as at the immediately preceding Determination Date, or (v) where the sum of the Principal Amount Outstanding of the Class M Notes on such Interest Payment Date is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date.

If no Class M Principal Lock Out applies on an Interest Payment Date and there are Class A Notes outstanding, the Redemption Amount will be divided between the Class A Redemption Amount and the Class M Redemption Amount in such amounts as would maintain the then current ratio of Class A Notes to Class M Notes. If on any Interest Payment Date there are no Class A Notes outstanding, the Redemption Amount will be equal to the Class M Redemption Amount.

In the event that any payment is to be made from Redemption Amounts by the Issuer under this Condition and there are insufficient funds in the relevant currency available in which such payment is to be made, the Issuer shall, if the relevant Currency Swap Agreement has terminated, convert such of those Redemption Amounts into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

“**Principal Deficiency**” means the amount calculated on each Determination Date by deducting from the “**Liabilities**” expected to exist as at close of business on the immediately succeeding Interest Payment Date the “**Assets**” expected to exist as at close of business on the immediately succeeding Interest Payment Date (after having made all payments in accordance with the Priority of Payments),

where “**Liabilities**” means:

- (a) the aggregate Principal Amount Outstanding of the Notes on the last day of the immediately preceding Collection Period; less
- (b) the amount allocated in the Priority of Payments to redemption of the Notes under item (xii) on the immediately succeeding Interest Payment Date; plus
- (c) the aggregate principal amount outstanding under the Redraw Facility on the last day of the immediately preceding Collection Period; plus
- (d) the amount by which the aggregate principal amount outstanding under the Redraw Facility is expected to increase on the immediately succeeding Interest Payment Date as a result of the purchase of the right to repayment of Redraws; less
- (e) the amount allocated in the Priority of Payments to repayment of principal amounts outstanding under the Redraw Facility under item (x) on the immediately succeeding Interest Payment Date; and

“**Assets**” means:

- (a) the aggregate outstanding principal balances of the Mortgages (including amounts receivable in respect of claims under property related insurance policies) on the last day of the immediately preceding Collection Period; plus
- (b) the aggregate principal amount of the Redraws the right to repayment of which are to be purchased on the immediately succeeding Interest Payment Date; plus
- (c) the amount, if any, allocated in the Priority of Payments to credit the Liquidity Reserve up to the Liquidity Reserve Required Amount under item (viii) on the immediately succeeding Interest Payment Date plus the amount already standing to the credit of the Liquidity Reserve on such date; plus
- (d) the amount allocated in the Priority of Payments to purchase Further Advances under item (xi) on the immediately succeeding Interest Payment Date; plus
- (e) the amount standing to the credit of the Pre-Funded Ledger,

provided that the Principal Deficiency shall never be less than zero.

In connection with such redemption, the Servicer will on each Determination Date, pursuant to the Servicing Agreement, determine the Potential Redemption Amount, the Class A Redemption Amount and the Class M Redemption Amount.

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

On each Determination Date (or in any event not later than the next Business Day following such Determination Date), the Issuer shall determine (or cause the Servicer to determine) (i) the amount of any Actual Redemption Amount due in respect of each Class A Note on the Interest Payment Date next following such Determination Date, (ii) the principal amount outstanding of each Class A Note on the Interest Payment Date next following such Determination Date (after deducting any Actual Redemption Amount due to be made in respect of that Class A Note on that Interest Payment Date) (the “**Principal Amount Outstanding**”) and (iii) the fraction expressed as a decimal to the sixth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Class A Note (as referred to in (ii) above) and the denominator is £10,000 (if such Note is the Class A1 Note), €500,000 (if such Note is the Class A2 Note) and \$10,000 (if such Note is the Class A3 Note). Each determination by or on behalf of the Issuer of any Actual Redemption Amount of a Class A Note, the Principal Amount Outstanding of a Class A Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Principal Amount Outstanding of a Class A Note on any date shall be £10,000 (in respect of the Class A1 Notes), €500,000 (in respect of the Class A2 Notes) and \$10,000 (in respect of the Class A3 Notes) less the aggregate amount of all Actual Redemption Amounts in respect of such Class A Note that have become due and payable since the Issue Date on or prior to such date (whether or not paid).

With respect to the Class A Notes, the Issuer will cause each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Paying Agents, the Agent Bank and (for so long as the Class A Notes are admitted to trading on the London Stock Exchange's market for listed securities) the London Stock Exchange plc, and will immediately cause notice of each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be given in accordance with Class A Condition 14 by not later than two Business Days prior to the relevant Interest Payment Date. If no Actual Redemption Amount is due to be made on the Class A Notes on any Interest Payment Date a notice to this effect will be given by or on behalf of the Issuer to the Class A Noteholders in accordance with Class A Condition 14.

If the Issuer does not at any time for any reason determine (or cause the Servicer to determine) with respect to the Class A Notes an Actual Redemption Amount, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Actual Redemption Amount, Principal Amount Outstanding and Pool Factor may be determined by the Trustee in accordance with this paragraph and each such determination or calculation shall be deemed to have been made by the Issuer. Any such determination shall be binding on the Issuer, the Servicer, the Class A Noteholders and the Class A Couponholders.

(d) Optional Redemption

On the Interest Payment Date falling in March 2008 or on any Interest Payment Date falling thereafter and upon giving not more than 60 nor less than 20 days' notice to the Trustee and the Class A Noteholders in accordance with Class A Condition 14, the Issuer may redeem all (but not some only of) the Notes at their Principal Amount Outstanding together with interest accrued thereon provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Notes as aforesaid.

On any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10% of the aggregate principal amount of such Notes at the time such Notes were issued, and upon giving not more than 60 nor less than 20 days' notice to the Trustee and the Class A Noteholders, the Issuer may redeem all (but not some only of) the Notes at their Principal Amount Outstanding together with accrued interest provided that prior to giving any such notice, the Issuer shall have provided the Trustee with a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Notes as aforesaid.

(e) Optional Redemption for Tax Reasons

If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to below that (i) on the next Interest Payment Date the Issuer or any Paying Agent would be required to deduct or withhold from any payment of principal or interest on the Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature and wherever imposed, levied, collected, withheld or assessed, or (ii) in the event that the Issuer, under any applicable law of the United Kingdom, or the Currency Swap Counterparty or Interest Rate Swap Counterparty, under any applicable law, is or will be obliged to make any withholding or deduction from amounts payable by it under any Currency Swap Agreement or Interest Rate Swap Agreement; or (iii) the total amount payable in respect of interest in relation to any of the Mortgages during an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, or (iv) the Issuer would, by virtue of a change in the law (or the application or officially published interpretation thereof) not be entitled to relief for United Kingdom tax purposes for any material amount which is currently relievable and which it is obliged to pay under the Transaction Documents, then the Issuer may, having given not more than 60 nor less than 20 days' notice to the Trustee and the Class A Noteholders in accordance with Class A Condition 14, redeem all (but not some only) of the Notes on any Interest Payment Date at their Principal Amount Outstanding together with interest accrued thereon provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee: (a) a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the Notes as aforesaid and (b) a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in England (approved in writing by the Trustee) opining on the relevant event. Any certificate and legal opinion given by or on behalf of the Issuer may be relied on by the Trustee and shall be conclusive and binding on the Class A Noteholders and Class A Couponholders.

(f) Other Reasons

The Issuer may, at its option, upon giving not more than 60 nor less than 20 days' notice to the Trustee and the Class A Noteholders redeem all of the Notes at their Principal Amount Outstanding together with interest accrued thereon on the second Interest Payment Date after any Determination Date on which it is determined that the aggregate amount

of Redraws made by Borrowers during the Collection Period then ending exceeds the sum of (a) the Principal Collections available for the purpose of purchasing the right to repayment of Redraws in accordance with the Priority of Payments and (b) the lower of (i) the Available Facility under the Redraw Facility and (ii) the aggregate Principal Amount Outstanding of the Notes.

(g) Notice of Redemption

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

(h) Purchase

The Issuer shall not purchase any Class A Notes or Class A Coupons.

(i) Cancellation

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

(j) Principal Deficiencies

If on the Interest Payment Date falling in December 2035 or any prior date on which the assets of the Issuer have been exhausted there is a debit balance on the Principal Deficiency Ledger (as defined above) (after taking account of any entries required to be made thereon on such Interest Payment Date and any credit balance in the Transaction Account (the “**Adjusted Principal Deficiency**”)), then provided that there are Class A Notes outstanding and the Adjusted Principal Deficiency exceeds the aggregate of the Principal Amount Outstanding of the Class M Notes, notwithstanding any other provision of these Class A Conditions, the principal amount payable on redemption of each Class A Note shall be its Principal Amount Outstanding on that date, less the amount applicable to that Class A Note by which the Adjusted Principal Deficiency exceeds the then Principal Amount Outstanding of Class M Notes.

6. Payments

- (a) Payments of principal in respect of the Class A Notes will be made against presentation of the Class A Notes at the specified office of any Paying Agent. Payments of interest in respect of the Class A Notes will (subject as provided in paragraphs (c) and (d) below) be made only against presentation and surrender of the Class A Coupons at the specified office of any Paying Agent. Payments will be made in sterling in respect of the Class A1 Notes at the specified office of any Paying Agent by sterling cheque drawn on, or, at the option of the holder, by transfer to a sterling account maintained by the payee with, a branch of a bank in London. Payments in respect of the Class A2 Notes will be made in euro at the specified office of any Paying Agent by euro cheque drawn on, or, at the option of the holder, by transfer to a euro account maintained by the payee with a euro clearing bank. Payments in respect of the Class A3 Notes will be made in a dollars by dollar cheque drawn on, or, at the option of the holder, by transfer to a dollar account maintained by the payee with a US dollar clearing bank.
- (b) Payments of principal and interest in respect of the Class A Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.
- (c) Upon the date on which any Class A Note becomes due and payable in full, unmatured Class A Coupons appertaining thereto (whether or not attached to such Class A Note) shall become void and no payment or, as the case may be, exchange shall be made in respect thereof. If the due date for redemption of any Class A Note is not an Interest Payment Date, accrued interest will be paid only against presentation and surrender of such Class A Note.
- (d) If payment of principal is improperly withheld or refused on or in respect of any Class A Note or part thereof, the interest which continues to accrue in respect of such Class A Note in accordance with Class A Condition 4(a) will be paid against presentation of such Class A Note at the specified office of any Paying Agent.
- (e) The initial Principal Paying Agent and its initial specified office is listed at the end of these Class A Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent and to appoint additional or other Paying Agents. The Issuer will at all times maintain a paying agent with a specified office in London and a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to EU Council Directive 2003/48/EC, which was adopted by the Council of the European Union on 3rd June 2003. The Issuer will cause at least 30 days’ notice of any change in or addition to the Paying Agents or their specified offices to be given in accordance with Class A Condition 14.

- (f) If any Class A Coupon or Class A Note is presented for payment on a day which is not a Business Day, no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Class A Coupon or, as the case may be, such Class A Note.
- (g) On or after the Interest Payment Date for the final Coupon forming part of any Coupon sheet, the Class A Talon forming part of such Coupon sheet may be surrendered at any specified office of the Paying Agent in exchange for a further Coupon sheet (including a further talon but excluding any Coupons which shall have become void).
- (h) If a Paying Agent makes a partial payment in respect of any Class A Note presented to it for payment, such Paying Agent will endorse on the grid endorsed on such Class A Note (in respect of payments of principal) a statement indicating the amount and date of such payment.

7. Prescription

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

8. Taxation

All payments in respect of the Class A Notes and Class A Coupons will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or the relevant Paying Agent (as applicable) is required by applicable law to make any payment in respect of the Class A Notes or Class A Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer or the relevant Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Paying Agents nor the Issuer will be obliged to make any additional payments to holders of Class A Notes or Class A Coupons in respect of such withholding or deduction.

9. Events of Default

- (a) The Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25% in aggregate of the Principal Amount Outstanding of the Class A Notes or if so directed by or pursuant to an Extraordinary Resolution (as defined in the Trust Deed) of the Class A Noteholders (subject, in each case, to being indemnified to its satisfaction) shall give notice to the Issuer declaring the Class A Notes to be due and repayable at any time after the happening of any of the following events (each an “**Event of Default**”):
 - (i) default being made for a period of 5 Business Days in the payment of the principal or a period of 3 Business Days in the payment of any interest on any Class A Note when and as the same is due and payable in accordance with these Class A Conditions; or
 - (ii) any Interest Rate Swap Agreement being terminated by reason of default in payment on the part of the Issuer for a period of 10 Business Days; or
 - (iii) the Issuer failing duly to perform or observe any other obligation binding upon it under the Class A Notes, the Trust Deed, the Servicing Agreement, the Deed of Charge, or any of the other Transaction Documents and, in any such case (except where the Trustee certifies that, in its opinion, such failure is incapable of remedy when no notice will be required) such failure is continuing for a period of 30 days following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
 - (iv) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in sub-paragraph (v) below, ceasing or, through an official action of the Board of Directors of the Issuer, threatening to cease to carry on business or being unable to pay its debts as and when they fall due or otherwise becomes insolvent; or
 - (v) an order being made or an effective resolution being passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Class A Noteholders; or

- (vi) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, application or pending application for an administration order or appointment of a liquidator or administrator) or an administration order being granted or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress or execution or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 14 days, or the Issuer initiating or consenting to proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally;

provided that, in the case of each of the events described in sub-paragraph (iii) of this paragraph (a), the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders.

- (b) Upon any declaration being made by the Trustee in accordance with paragraph (a) above that the Class A Notes are due and repayable, the Class A Notes shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Trust Deed.

10. Enforcement of Class A Notes

- (a) At any time after the Class A Notes have become due and repayable and without prejudice to its rights of enforcement in relation to the Security, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce payment of the Class A Notes at their Principal Amount Outstanding together with accrued interest, but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or so requested in writing by the holders of at least 25% in aggregate of the Principal Amount Outstanding of the Class A Notes; and (b) it shall have been indemnified to its satisfaction. No Class A Noteholder or Class A Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing. The Trustee cannot, while any of the Class A Notes are outstanding, be required to enforce the Security on behalf of the Class M Noteholders (whether or not requested to do so by such Class M Noteholders) or any other Secured Creditor under the Deed of Charge.
- (b) Notwithstanding the foregoing and so long as any of the Class A Notes remain outstanding, 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, the Class A Couponholders and the other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion 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, the Class A Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith.

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

- (a) 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 such Class A Noteholders of a modification of these Class A Conditions as they relate to the Class A Notes or the provisions of any of the Documents or any other documents the rights and benefits in respect of which are comprised in the Security (“**Other Relevant Documents**”). The quorum at any meeting of Class A Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing in aggregate not less than 75% in 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 as they relate to the Class A Notes whatever the 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 modification which would, *inter alia*, have the effect of altering the date of maturity of the Class A Notes or the day for payment of interest or principal thereon, or the amount of principal or the rate of interest payable in respect of the Class A Notes or the currency of payment (other than pursuant to a redenomination approved by the Trustee pursuant to Class A Condition 15) of the Class A Notes or related Class A Coupons or the Priority of Payments or the quorum or majority required in relation to this exception (a “**Basic Terms Modification**”), the necessary quorum for passing an Extraordinary Resolution

shall be two or more persons holding or representing in aggregate not less than 75%, or, at any adjourned such meeting, 25% of the Principal Amount Outstanding of the Class A Notes then outstanding. 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 Class A Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that resolution.

The Trust Deed contains provisions limiting the powers of the holders of Class M Notes, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in the circumstances set out in (b) below, 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 M Noteholders and the Class M Couponholders, irrespective of the effect on their interests.

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

12. Indemnification and Exoneration of The Trustee

The Trust Deed contains provisions governing the responsibility (and relief from responsibility) of the Trustee and providing for its indemnification in certain circumstances, including provisions relieving it from taking enforcement proceedings or enforcing the Security unless indemnified to its satisfaction. The Trustee and its related companies are entitled to enter into business transactions with the Issuer, Arianty, Mortgage Trust, Mortgage Trust Services, the Servicer and/or the related companies of any of them without accounting for any profit resulting therefrom. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets

comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Servicer or any agent or related company of the Servicer or by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Trustee.

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

13. Replacement of Definitive Class A Notes, Class A Coupons and Class A Talons

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

14. Notice to Class A Noteholders

Any notice to the Class A Noteholders shall be validly given if published in the *Financial Times* or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in Europe; provided that if, at any time, the Issuer procures that information concerned in such notice specifying an Interest Payment Date, Principal Amount Outstanding or Rate of Interest shall appear on a page of the Reuters screen or Bloomberg or any other medium for electronic display of data as may be previously approved in writing by the Trustee (in each case a “**Relevant Screen**”), publication in the *Financial Times* shall not be required with respect to such information. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen on which) publication is required.

The Trustee shall be at liberty to sanction some other method of giving notice to the Class A Noteholders or any category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Class A Noteholders in such manner as the Trustee shall require. The Class A 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.

15. Redenomination

Pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union (as amended, the “**Treaty**”), the third stage of European economic and monetary union commenced on 1st January 1999 and the value of the euro as against the currencies of the member states participating in the third stage of European economic and monetary union was irrevocably fixed and the euro became a currency in its own right. The United Kingdom may at some future date participate in the third stage of European economic and monetary union or otherwise participate in European economic and monetary union in a manner with similar effect to such third stage. On an Interest Payment Date falling on or after such date, the Issuer may, on giving notice to the holders of the Class A1 Notes and the Class A3 Notes, and with the prior written consent of the Trustee, redenominate all of the Class A1 Notes and the Class A3 Notes into euros.

16. Governing Law

The Documents, the Class A Notes and the Class A Coupons are governed by, and shall be construed in accordance with, English law.

17. Third Party Rights

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

Description of the Class M Notes

General

£40,000,000 Class M1 Mortgage Backed Floating Rate Notes due 2035 (the “**Class M1 Notes**”) and the €15,000,000 Class M2 Mortgage Backed Floating Rate Notes due 2035 (the “**Class M2 Notes**”) and together with the Class M1 Notes, the “**Class M Notes**”) of First Flexible No. 6 plc (the “**Issuer**”) are the subject of a trust deed (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified including the Master Definitions Schedule (as defined under Class M Condition 2(d)) incorporated in the Trust Deed) to be entered into on 29th January 2004 (the “**Issue Date**”) and made between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression includes any further or other trustee of the Trust Deed) as trustee for, *inter alios*, the holders for the time being of the Class M Notes (the “**Class M Noteholders**”) and the holders for the time being of the interest coupons relating thereto (the “**Class M Coupons**” which expression includes the talons (“**Class M Talons**”) attached to the Class M Notes except where the context otherwise requires), (the “**Class M Couponholders**”). £270,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A1 Notes**”), the €200,000,000 Class A2 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A2 Notes**”) and the \$75,000,000 Class A3 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A3 Notes**”), and together with the Class A2 Notes and the Class A1 Notes, the “**Class A Notes**” and together with the Class M Notes, the “**Notes**”) will be issued pursuant to the Trust Deed contemporaneously with the issue of the Class M Notes. The security for the Class A Notes and the Class M Notes is created pursuant to, and on the terms set out in, a deed of sub-charge and assignment (the “**Deed of Charge**”, which expression includes such deed of sub-charge and assignment as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time modified) to be dated the Issue Date and made between, *inter alios*, the Issuer, Arianty No.1 plc (“**Arianty**”), Mortgage Trust Limited (“**Mortgage Trust**”) and the Trustee. By an agency agreement (the “**Agency Agreement**” which expression includes such Agency Agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) to be dated the Issue Date and made between the Issuer, the Trustee, Citibank, N.A. as agent bank (the “**Agent Bank**” which expression includes any other agent bank appointed in respect of the Class M Notes) and Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**” and together with any further or other paying agents for the time being appointed in respect of the Class M Notes, the “**Paying Agents**”) provision is made for the payment of principal and interest in respect of the Class M Notes. The statements in these Class M Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the Deed of Charge.

Copies of the Trust Deed, the Agency Agreement, the Deed of Charge and the other Documents (as defined below) are available for inspection at the principal office for the time being of the Trustee, being at the date hereof at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the specified offices of the Paying Agents. The Class M Noteholders and the Class M Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and are deemed to have notice of all the provisions of the Agency Agreement.

The issue of the Class M Notes was authorised by resolution of the Board of Directors of the Issuer passed on 20th January 2004.

The Global Class M Notes

Temporary Global Class M Notes and Permanent Global Class M Notes

The principal amount outstanding in respect of the Class M1 Notes will be represented initially by a temporary global note in bearer form (the “**Temporary Global Class M1 Note**”) without Class M Coupons or Class M Talons which shall be issued on the Issue Date in the principal amount of £40,000,000.

The principal amount outstanding in respect of the Class M2 Notes will be represented initially by a temporary global note in bearer form (the “**Temporary Global Class M2 Note**”) without Class M Coupons or Class M Talons which shall be issued on the Issue Date in the principal amount of €15,000,000.

The Temporary Global Class M1 Note and the Temporary Global Class M2 Note are together the “**Temporary Global Class M Notes**”.

The Temporary Global Class M1 Note and the Temporary Global Class M2 Note will be deposited on behalf of the subscribers of the Class M1 Notes and the Class M2 Notes, respectively, with a common depository (the “**Common Depository**”) for Euroclear Bank S.A/N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) on the Issue Date. Upon deposit of the Temporary Global Class M Notes, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class M Notes represented by such Temporary Global Class M Notes with the principal amount of the Class M Notes for which it has subscribed and paid. Interests in the Temporary Global Class M1 Note and the Temporary Global Class M2 Note

will be exchangeable not earlier than 40 days after the Issue Date (the “**Exchange Date**”), provided certification of non-US beneficial ownership by the relevant Class M Noteholders has been received, for interests in a permanent global Class M1 Note in bearer form (the “**Permanent Global Class M1 Note**”) and a permanent global Class M2 Note in bearer form (the “**Permanent Global Class M2 Note**”) respectively. The Permanent Global Class M1 Note and the Permanent Global Class M2 Note are together the “**Permanent Global Class M Notes**”. The Temporary Global Class M Notes and the Permanent Global Class M Notes are together the “**Global Class M Notes**”. The Permanent Global Class M Notes shall be issued without Class M Coupons or Class M Talons. On the exchange of the Temporary Global Class M Notes for the Permanent Global Class M Notes, the Permanent Global Class M Notes will remain deposited with the Common Depository.

Transfers

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

For so long as the Class M Notes are represented by a Global Class M Note, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Class M Notes will be entitled to be treated by the Issuer and the Trustee as the holder of such principal amount of Class M Notes. The expression “**Class M Noteholders**” may be construed accordingly, but without prejudice to the entitlement of the bearer of a Global Class M Note.

Payments

No payment will be made on the Temporary Global Class M Notes unless exchange for an interest in the Permanent Global Class M Notes or the Class M Notes in definitive form is improperly withheld or refused. Principal and interest on a Global Class M Note will be payable against presentation of that Global Class M Note at the specified office of any Paying Agent provided certification of non-US beneficial ownership by the Class M Noteholders has been received by Euroclear or Clearstream, Luxembourg. A record of each payment made on a Global Class M Note, distinguishing between any payment of principal and payment of interest, will be endorsed on that Global Class M Note by the Paying Agents (or the Paying Agent shall procure that such endorsement be made) and such record shall be *prima facie* evidence that the payment in question has been made.

Issue of Class M Notes in Definitive Form

If (i) the Class M Notes become due and repayable pursuant to Class M Condition 9(a) 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 or administration of such laws or regulations which becomes effective on or after the Issue Date, the Issuer is, or any of the Paying Agents are or will be, required to make any deduction or withholding from any payment in respect of the Class M Notes which would not be required were the Class M Notes in definitive form, then the Issuer will, at its sole cost and expense, issue Class M Notes in definitive form in exchange for the whole outstanding interest in the Permanent Global Class M Notes within 30 days of the occurrence of the relevant event.

Any notice to Class M Noteholders in respect of Class M Notes represented by a Global Class M Note shall be deemed to have been duly given if sent to Euroclear and/or Clearstream, Luxembourg (as applicable) and shall be deemed to have been given on the date on which such notice was so sent.

Terms and Conditions of the Class M Notes

If Class M Notes in definitive form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Class M Note would be as set out below (the “**Class M Conditions**”). While the Class M Notes remain in global form, the same terms and conditions govern such Class M Notes, except to the extent that they are appropriate only to Class M Notes in definitive form.

1. Form, Denomination and Title

- (a) The £40,000,000 Class M1 Mortgage Backed Floating Rate Notes due 2035 (the “**Class M1 Notes**”) and the €15,000,000 Class M2 Mortgage Backed Floating Rate Notes due 2035 (the “**Class M2 Notes**”, and together with the Class M1 Notes, the “**Class M Notes**”) issued by First Flexible No. 6 plc (the “**Issuer**”) are serially numbered and are issued in bearer form in the denominations of £10,000 (in respect of the Class M1 Notes) and €500,000 (in respect of the Class M2 Notes) each with coupons (“**Class M Coupons**”) and talons (“**Class M Talons**”) attached and a grid endorsed thereon for the recording of all payments of principal in accordance with the provisions of Class M Condition 5.
- (b) Title to the Class M Notes, Class M Coupons and Class M Talons shall pass by delivery. The holder of any Class M Note (each a “**Class M Noteholder**”) and the holder of any Class M Coupon (each a “**Class M Couponholder**”) may (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Class M Note or Class M Coupon, as the case may be, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon.
- (c) The holder of each Class M Coupon (whether or not the Class M Coupon is attached to the relevant Class M Note) and each Class M Talon in his capacity as such shall be subject to all the provisions contained in the relevant Class M Note.

2. Status, Security and Priority

Status

- (a) The Class M Notes and the Class M Coupons constitute direct, secured and unconditional obligations of the Issuer and rank (subject to the provisions of Class M Condition 5) *pari passu* without preference or priority amongst themselves.
- (b) The £270,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A1 Notes**”), the €200,000,000 Class A2 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A2 Notes**”) and the \$75,000,000 Class A3 Mortgage Backed Floating Rate Notes due 2035 (the “**Class A3 Notes**”) and together with the Class A1 Notes and the Class A2 Notes, the “**Class A Notes**” and together with the Class M Notes, the “**Notes**”) issued by the Issuer on or about 29th January 2004 (the “**Issue Date**”) are subject to a trust deed dated on or about 29th January 2004 between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”) (the “**Trust Deed**”) and are secured by the same security which secures the Class M Notes. The Class A Notes rank *pari passu* without preference or priority amongst themselves, the Class M Notes rank *pari passu* without preference or priority amongst themselves, but the Class A Notes will rank in priority to the Class M Notes in the event of the Security (as defined below in Class M Condition 2(d)) being enforced.
- (c) The Trust Deed and the Deed of Charge (as defined below) contain provisions requiring the Trustee to have regard to the interests of the Class M 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 (i) (for so long as there are any Class A Notes outstanding) the interests of the holders of Class A Notes if, in the Trustee’s opinion, there is a conflict between the interests of (A) the holders of Class A Notes and (B) the holders of Class M Notes and/or any other Secured Creditors (as defined below) or (ii) (if there are no Class A Notes outstanding) the interests of the holders of Class M Notes if, in the Trustee’s opinion, there is a conflict between the interests of the holders of Class M Notes and/or any other Secured Creditors (as defined below).

Security

- (d) As security for the payment of all moneys payable in respect of the Class M Notes and otherwise under the Trust Deed (including the remuneration, expenses and any other claims of the Trustee and any Receiver (as defined below) appointed under the Deed of Charge) and in respect of certain amounts payable to Mortgage Trust Services plc (“**Mortgage Trust Services**”) or its successor acting as servicer of the mortgages to be purchased by the Issuer on the Issue Date (the “**Initial Mortgages**”), such mortgages transferred to the Issuer

pursuant to the Transaction Documents (as defined below) after the Issue Date (each a “**Substitute Mortgage**”) and such mortgages purchased by the Issuer from Arianty No. 1 plc (“**Arianty**”) at any time on or after the Issue Date but no later than the first Determination Date (as defined in Class M Condition 5(b)) (the “**Pre-Funded Mortgages**”) and together with the Initial Mortgages and the Substitute Mortgages, the “**Mortgages**”), and to certain other beneficiaries from time to time, the Issuer will enter into a deed of sub-charge and assignment (the “**Deed of Charge**”) creating the following security (the “**Security**”) in favour of the Trustee for itself and on trust for the other persons expressed to be secured parties thereunder:

- (i) a first fixed equitable charge or mortgage or (in relation to Mortgages secured on properties in Scotland (“**Scottish Mortgages**”)) assignment in security in favour of the Trustee over the Issuer’s right, title, interest and benefit present and future in the Mortgages and other collateral security relating to the Mortgages;
- (ii) an equitable assignment by way of first fixed security in favour of the Trustee of the Issuer’s interest in certain buildings policies, contingency policies and mortgage indemnity policies (the “**Insurance Contracts**”) to the extent that they relate to the Mortgages;
- (iii) an assignment by way of first fixed security in favour of the Trustee of the benefit of the servicing agreement to be entered into between Mortgage Trust Services as servicer (the “**Servicer**”), the Issuer, Mortgage Trust Limited (“**Mortgage Trust**”) and the Trustee (the “**Servicing Agreement**”), the standby servicing agreement to be entered into between the Issuer, the Servicer, GHL Mortgage Services Limited as standby servicer (the “**Standby Servicer**”) and the Trustee (the “**Standby Servicing Agreement**”), the mortgage sale agreement to be entered into between Mortgage Trust Services, Mortgage Trust, Arianty, the Issuer and the Trustee (the “**Mortgage Sale Agreement**”), the declaration of trust by Mortgage Trust in favour of the Issuer in relation to Scottish Mortgages (the “**Scottish Trust**”), the guaranteed investment contract to be entered into between the Issuer, the Trustee and Barclays Bank PLC (“**Barclays**”) (the “**Guaranteed Investment Contract**”), the redraw facility agreement to be entered into between the Issuer, Mortgage Trust Services, the Trustee and Barclays (in such capacity, the “**Redraw Facility Provider**”) (the “**Redraw Facility Agreement**”), the declaration of trust to be entered into and made by Mortgage Trust in relation to the RBS Trust Accounts (as defined below) (the “**MTL Declaration of Trust**”), the declaration of trust to be entered into and made by Mortgage Trust Services in relation to the MTS Trust Accounts (the “**MTS Declaration of Trust**”) and together with the MTL Declaration of Trust, the “**Declarations of Trust**”), the VAT declaration of trust executed by Citicorp Trustee Company Limited (as successor to Morgan Guaranty Trust Company of New York) and dated 19th March 1993, as subsequently supplemented, amended and restated (the “**VAT Declaration of Trust**”), the agency agreement to be entered into and made between the Issuer, Citibank, N.A. in its capacity as principal paying agent (the “**Principal Paying Agent**”), the Trustee and Citibank, N.A. in its capacity as agent bank (the “**Agent Bank**”) (the “**Agency Agreement**”), the tax deed of covenant to be entered into between the Issuer and Paragon (the “**Tax Deed of Covenant**”), the loan agreement to be entered into and made between the Issuer, the Trustee and Mortgage Trust Services (the “**Start-Up Loan**”), the bank agreement to be entered into between, Mortgage Trust, Mortgage Trust Services, the Trustee, the Issuer, Barclays and The Royal Bank of Scotland plc (“**RBS**”) (the “**Bank Agreement**”), each interest rate swap agreement (each an “**Interest Rate Swap Agreement**”) and together the “**Interest Rate Swap Agreements**”) to be entered into and made between the Issuer and JPMorgan Chase Bank, Barclays or any other entity which has a rating of at least P-1 by Moody’s and A-1+ by S&P in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each an “**Interest Rate Swap Counterparty**”) and together, the “**Interest Rate Swap Counterparties**”), each currency swap agreement (each a “**Currency Swap Agreement**”) and together, the “**Currency Swap Agreements**”) to be entered into and made between the Issuer and JPMorgan Chase Bank (the “**Currency Swap Counterparty**”), the master definitions schedule to be signed by Lovells and Weil, Gotshal & Manges for identification purposes (the “**Master Definitions Schedule**”), and such other documents as are expressed to be subject to the charges under the Deed of Charge (all such documents together the “**Transaction Documents**”);
- (iv) a first fixed equitable charge in favour of the Trustee over the Issuer’s beneficial interest in the Trust Accounts, the Transaction Account, the GIC Account, the VAT Account and the Issuer’s Investments (each as defined below) and any other bank account of the Issuer from time to time; and
- (v) a first floating charge in favour of the Trustee (ranking after the security referred to in (i) to (iv) above) over the whole of the undertaking, property, assets and rights of the Issuer.

Priority of Payments Prior to Enforcement

- (e) On each Interest Payment Date, the monies standing to the credit of the Transaction Account (save for any cash representing collateral posted by the Currency Swap Counterparty or any Interest Rate Swap Counterparty to the extent that such cash has not been released to the Issuer pursuant to the terms of the relevant Currency Swap

Agreement or Interest Rate Swap Agreement and any interest earned thereon) including, for the avoidance of doubt, all available monies representing a credit balance in the Reserve Ledger (as defined below) (save that such monies may only be applied to meet items (i) to (vi) below), all available monies representing a credit balance in the Liquidity Reserve Ledger (as defined below) (save that such monies may only be applied to meet items (i) to (vi) below), all available monies advanced under the Redraw Facility or released from the Redraw Ledger (as defined below) in the preceding Interest Period (save that such monies may only be applied to purchase the right to repayment of Redraws under item (ix) below or to rollover existing advances under the Redraw Facility), any Threshold Amount Deposit (as defined below) made on the immediately preceding Determination Date, all amounts received from the Interest Rate Swap Counterparties under any Interest Rate Swap Agreement in the preceding Interest Period, all monies released from the Base Rate Reserve (as defined below) in the preceding Interest Period (save that such monies may only be used to cover any shortfall on Base Rate Linked Mortgages (as defined below) resulting from the Bank of England Base Rate (as defined below) being set at a level more than 0.15% below Note Sterling LIBOR (as defined below) in respect of any Interest Period (as defined in Condition 4(b) below) and all monies released from the Discount Reserve (as defined below) in the preceding Interest Period (save that such monies may only be used to cover shortfalls on Discounted Mortgages (as defined below) up to the amount of the Pool Expected Differential (as defined below) in the immediately preceding Interest Period) will, after making payment of or providing for Excluded Items (as defined below), until enforcement of the Security for the Notes, be applied (save as the payee may otherwise agree) in making the following payments or provisions in the following order of priority (the “**Priority of Payments**”):

- (i) to pay or provide for *pari passu* and *pro rata* (a) the remuneration payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents and (b) amounts due and payable to the Standby Servicer under the Standby Servicing Agreement;
- (ii) to pay or provide for amounts due and payable and/or which will become due and payable prior to the next Interest Payment Date to the Paying Agents and Agent Bank under the Agency Agreement;
- (iii) to pay or provide for *pari passu* and *pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer on or after such Interest Payment Date by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere; (b) the Issuer’s liability or possible liability for corporation tax and (c) the balance, if any, of the value added tax liability of the Paragon VAT Group (as defined below) following a demand being made by HM Customs & Excise on the Issuer where the value added tax liability is not satisfied in full in accordance with the Deed of Charge, the Servicing Agreement and the VAT Declaration of Trust;
- (iv) to pay the Senior Servicing Fee (as defined below) due and payable to the Servicer on such Interest Payment Date together with costs and expenses which are payable or expected to become payable by the Servicer under the Servicing Agreement prior to the next Interest Payment Date;
- (v) to pay *pro rata* and *pari passu*:
 - (a) all amounts payable by the Issuer to the Interest Rate Swap Counterparties pursuant to the Interest Rate Swap Agreements (other than (i) any Interest Rate Swap Counterparty Default Payments (as defined below) and (ii) any Withholding Compensation Amounts);
 - (b) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class A2 Currency Swap Agreement and the Class A3 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payments and (ii) any Withholding Compensation Amounts (as defined below);
 - (c) all amounts payable under the Redraw Facility other than in respect of principal; and
 - (d) all amounts payable in respect of the Class A Notes other than in respect of principal on the Class A Notes;
- (vi) subject to an M Note Trigger Event not having occurred on that Interest Payment Date, to pay *pro rata* and *pari passu*:
 - (a) all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes; and

- (b) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class M2 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment and (ii) any Withholding Compensation Amounts;
 - (vii) to credit all amounts, other than Principal Collections (as defined in Class M Condition 5(b)), to the Reserve Fund up to the Reserve Fund Required Amount;
 - (viii) if a Liquidity Trigger Event has occurred and is continuing on the immediately preceding Determination Date, to credit the Liquidity Reserve up to the Liquidity Reserve Required Amount unless, upon the Issuer's request, the Rating Agencies have confirmed that failure to make such credit will not adversely affect the then current rating of the Notes;
 - (ix) to pay for the purchase by the Issuer of the right to repayment of Redraws;
 - (x) to repay all principal amounts outstanding under the Redraw Facility;
 - (xi) to fund the purchase by the Issuer of Further Advances up to an amount equal to the lower of (a) the Potential Redemption Amount (as defined in Class M Condition 5(b)) less amounts applied in accordance with item (x) above and (b) the aggregate amount of Redemptions received during the immediately preceding Collection Period less amounts applied in accordance with item (x) above;
 - (xii) to allocate an amount to be applied in redeeming the Notes equal to the greater of (a) zero and (b) the Potential Redemption Amount less the sum of the amounts applied under items (x) and (xi) above;
 - (xiii) if an M Note Trigger Event occurs on such Interest Payment Date, to pay *pro rata* and *pari passu*:
 - (a) all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes; and
 - (b) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class M2 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment and (ii) any Withholding Compensation Amounts;
 - (xiv) to credit the Base Rate Reserve up to the Base Rate Reserve Required Amount;
 - (xv) to fund the purchase by the Issuer of hedges that may be required in order to preserve a rate at least equal to the Threshold Rate in respect of Pre-Funded Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
 - (xvi) to credit the Discount Reserve in an amount equal to the aggregate Loan Expected Differentials arising from Discounts on Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
 - (xvii) *pari passu* and *pro rata* (a) to pay (i) any Withholding Compensation Amounts to be paid *pro rata* to such amounts due under the relevant Interest Rate Swap Agreement and (ii) any Interest Rate Swap Counterparty Default Payments payable to any Interest Rate Swap Counterparty to be paid *pro rata* to such amounts due under the relevant Interest Rate Swap Agreement; and (b) to pay (i) any Withholding Compensation Amounts payable to the Currency Swap Counterparty to be paid *pro rata* to such amounts due under the relevant Currency Swap Agreement and (ii) any Currency Swap Counterparty Default Payments payable to the Currency Swap Counterparty to be paid *pro rata* to such amounts due under the relevant Currency Swap Agreement;
- and provided that there is no Principal Deficiency (as defined in Class M Condition 5(b)) on such Interest Payment Date and that no Event of Default (as defined in Class M Condition 9(a)) has occurred:
- (xviii) to pay the Subordinated Servicing Fee (as defined below) due and payable to the Servicer on such Interest Payment Date;
 - (xix) to pay amounts repayable to the Servicer in respect of any Threshold Amount Deposit which the Servicer elects to release;
 - (xx) to pay amounts payable in respect of the Start-Up Loan other than in respect of principal on the Start-Up Loan;
 - (xxi) to pay amounts payable in respect of principal under the Start-Up Loan;
 - (xxii) to pay *pari passu* and *pro rata* (a) sums due to Arianty as Arianty Deferred Purchase Consideration and (b) sums due to Mortgage Trust as Mortgage Trust Deferred Purchase Consideration; and
 - (xxiii) to make dividend payments to shareholders of the Issuer.

In the event that any payment is to be made by the Issuer under this Condition and there are insufficient funds in the relevant currency available in which such payment is to be made, the Issuer shall, if the relevant Currency Swap Agreement has terminated, convert any remaining amounts available into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

All amounts payable on each Interest Payment Date by the Currency Swap Counterparty to the Issuer following application of amounts available under the Priority of Payments, under the terms of (i) the Euro Currency Swap Agreements shall be paid by the Currency Swap Counterparty to the relevant Paying Agent for payment to the holders of the Euro Notes and (ii) the Class A3 Currency Swap Agreement shall be paid by the Currency Swap Counterparty to the relevant Paying Agent for payment to the holders of the USD Notes, in each case in satisfaction of the Issuer's interest and/or principal payment obligations under the Euro Notes and the USD Notes respectively on such Interest Payment Date.

For the purposes of these Class M Conditions:

“Additional Amounts” means an amount equal to any withholding or deduction required to be made by the Currency Swap Counterparty or an Interest Rate Swap Counterparty to any payment under a Currency Swap Agreement or Interest Rate Swap Agreement for or on account of tax which is paid by the Currency Swap Counterparty or an Interest Rate Swap Counterparty to the Issuer to ensure that the Issuer receives the full amount it would otherwise have received but for such withholding or deduction.

“Arianty Deferred Purchase Consideration” means such sums as are paid to Arianty on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of the Initial Mortgages.

“Arrears Event” means an event where more than 3% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool on the immediately preceding Determination Date comprises Mortgages in respect of which there are arrears equal to or greater than an amount equal to the then current scheduled monthly payment due under the relevant Mortgages multiplied by two.

“Available Facility” means, in relation to the Redraw Facility, on each Interest Payment Date, an amount calculated as the difference between the Redraw Facility Limit and the aggregate amount of advances outstanding under the Redraw Facility which will not be repaid on such Interest Payment Date.

“Bank Accounts” means the Trust Accounts and the Transaction Account and **“Bank Account”** means each one of them.

“Bank of England Base Rate” means the Bank of England repo rate set from time to time by the Monetary Policy Committee of the Bank of England.

“Base Rate Linked Mortgages” means Mortgages which are subject to a variable rate of interest set by Mortgage Trust Services from time to time, which is linked to the Bank of England Base Rate.

“Base Rate Reserve” means the amount recorded in a ledger (the **“Base Rate Reserve Ledger”**) and represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer's Investments.

“Base Rate Reserve Required Amount” means on the Issue Date and each Interest Payment Date thereafter an amount equal to 0.15% of the aggregate outstanding principal balances (including drawn and undrawn balances) of all Base Rate Linked Mortgages.

“Borrower Loan Limit” means the principal amount of a Borrower's loan which would have been outstanding at any time if the Borrower had only made the minimum monthly payment agreed with Mortgage Trust or Mortgage Trust Services (the **“Minimum Monthly Payment”**) and had not made any Overpayments.

“Borrower Mortgage Account” means each mortgage account held, from time to time, by a Borrower with Mortgage Trust Services.

“Class A2 Currency Swap Agreement” means the currency swap agreement between the Issuer and the Currency Swap Counterparty dated 29th January 2004 in respect of the Class A2 Notes.

“Class A3 Currency Swap Agreement” means the currency swap agreement between the Issuer and the Currency Swap Counterparty dated 29th January 2004 in respect of the Class A3 Notes.

“Class M2 Currency Swap Agreement” means the currency swap agreement between the Issuer and the Currency Swap Counterparty dated 29th January 2004 in respect of the Class M2 Notes.

“**Currency Swap Counterparty Default Payment**” means in relation to a Currency Swap Agreement, amounts payable to the Currency Swap Counterparty in connection with a termination of that Currency Swap Agreement where such termination has arisen as a result of an Event of Default where the Currency Swap Counterparty is the Defaulting Party or as a result of a Termination Event where the Currency Swap Counterparty is the Affected Party (and in this definition Event of Default, Defaulting Party, Termination Event and Affected Party have the meanings indicated in that Currency Swap Agreement).

“**Discount**” means the discount below the Reference Rate applicable to a Discounted Mortgage at the relevant time.

“**Discount Reserve**” means the amount recorded in a ledger (the “**Discount Reserve Ledger**”) and represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer’s Investments.

“**Discounted Mortgages**” means Mortgages which are at the relevant time subject to a discounted rate of interest for a specified period.

“**Effective Interest Margin**” means, in relation to Discounted Mortgages in the Mortgage Pool an amount determined as follows:

- (a) for each Standard Variable Rate Mortgage, the Threshold Margin less the Discount;
- (b) for each Base Rate Linked Mortgage, the margin of that Mortgage over Bank of England Base Rate less 0.15% less the Discount;
- (c) for each LIBOR Linked Mortgage, the margin of that Mortgage over LIBOR less the Discount;
- (d) for each Fixed Rate Mortgage which has been swapped to the Threshold Rate, the Threshold Margin less the Discount.

“**Expected Differential**” means an amount calculated in respect of each Discounted Mortgage and each Interest Period (as defined in Class M Condition 4(b)) as the difference between the Threshold Margin and the Effective Interest Margin on such Discounted Mortgage, to the extent such difference is positive, multiplied by the outstanding principal balance in respect of such Discounted Mortgage as of the Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the succeeding Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year).

“**Fixed Rate Mortgage**” means a mortgage which is subject to a fixed rate of interest set by reference to a pre-determined rate or series of rates for a fixed period or periods.

“**Further Advances**” means the additional funds advanced to a Borrower by Mortgage Trust on the security of his/her Mortgage subject to the satisfaction of certain conditions.

“**GIC Provider**” means Barclays.

“**GIC Account**” means an account in the name of the Issuer at the Account Bank to which amounts invested in accordance with the Guaranteed Investment Contract will be transferred from time to time.

“**Interest Determination Date**” means in the case of the Class M1 Notes the first day of the Interest Period to which the Rate of Interest shall apply, and in the case of the Class M2 Notes a day which is two TARGET Business Days before the first day of the Interest Period to which the Rate of Interest shall apply.

“**Interest Rate Swap Counterparty Default Payment**” means in relation to an Interest Rate Swap Agreement, amounts payable to the relevant Interest Rate Swap Counterparty in connection with a termination of that Interest Rate Swap Agreement where such termination has arisen as a result of an Event of Default where the Interest Rate Swap Counterparty is the Defaulting Party or as a result of a Termination Event where the Interest Rate Swap Counterparty is the Affected Party (and in this definition Event of Default, Defaulting Party, Termination Event and Affected Party have the meanings indicated in that Interest Rate Swap Agreement).

“**Investment Home Loans**” means loans made to a Borrower to be used to remortgage or acquire properties to let to tenants or hold as an investment.

“**Issuer’s Investments**” means the Guaranteed Investment Contract and the Permitted Investments.

“**LIBOR**” means the London Interbank Offered Rate.

“**LIBOR Linked Mortgage**” means a mortgage which is subject to a variable rate of interest set by Mortgage Trust Services from time to time, which is linked to LIBOR.

“**Liquidity Reserve**” means the amount recorded in a ledger (the “**Liquidity Reserve Ledger**”) and represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer’s Investments.

“**Liquidity Reserve Required Amount**” means, on any Interest Payment Date following a Liquidity Trigger Event, the amount (if any) which is 3% of the aggregate Principal Amount Outstanding of the Notes minus the amount held as a credit balance in the Reserve Fund at such time.

“Liquidity Trigger Event” means the occurrence of an event where more than 15% of the aggregate principal balance of the Mortgages comprised in the Mortgage Pool on the immediately preceding Determination Date comprise Mortgages in respect of which there are arrears equal to or greater than an amount equal to the then current scheduled monthly payment due under the relevant Mortgage multiplied by three.

“Loan Expected Differential” means the aggregate of all Expected Differentials applying to Interest Periods that fall during the discount period for such Mortgage.

“M Note Trigger Event” means the determination by the Servicer as at any Interest Payment Date on which Class A Notes are outstanding that, on the assumption that an M Note Trigger Event does not occur, the application of funds in accordance with the Priority of Payments will give rise to a Principal Deficiency (as defined in Class M Condition 5(b)) which exceeds the aggregate Principal Amount Outstanding of the Class M Notes on such Interest Payment Date.

“Moody’s” means Moody’s Investors Service Limited.

“Mortgage Pool” means the Initial Mortgages, any Pre-Funded Mortgages and Substitute Mortgages acquired by the Issuer under the Mortgage Sale Agreement together with any Further Advances and Redraws.

“Mortgage Trust Deferred Purchase Consideration” means such sums as are paid to Mortgage Trust on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of Further Advances.

“MTS Trust Accounts” means the accounts in the name of Mortgage Trust Services held at Barclays into which payments are made in respect of amounts due and amounts received under the Mortgages.

“Note Sterling LIBOR” means Interest payable on the Class M1 Notes at an annual rate equal to the sum of LIBOR for three month sterling deposits (or, in the case of the first Interest Period, at an annual rate obtained by linear interpolation of LIBOR for four month sterling deposits and LIBOR for five month sterling deposits) and a margin.

“Overpayment” means the amount by which a payment made by a Borrower into his/her Borrower Mortgage Account exceeds the Minimum Monthly Payment.

“Owner Occupied Loans” means loans made to a Borrower to acquire property to be used as their primary place of residence.

“Paragon VAT Group” means the group of companies (including the Issuer and Paragon Finance PLC) in respect of which there arises under current value added tax legislation in force as at the date of this document, a joint and several liability in respect of VAT due to H.M. Customs & Excise.

“Payment Holiday” means a Borrower’s monthly payments being met by applying Overpayments not previously redrawn by way of capitalisation of such monthly payments.

“Permitted Investments” means investments in which the Servicer is entitled to invest from time to time under the terms of the Servicing Agreement.

“Pool Expected Differential” means in relation to an Interest Period, the aggregate of the Expected Differentials in relation to such Interest Period of all Discounted Mortgages in the Mortgage Pool.

“Potential Redraw Amount” means the amount which is capable of being redrawn by a Borrower under a Mortgage.

“Pre-Funded Ledger” means the ledger so entitled and held in the Transaction Account.

“Prepayments” means part principal repayments under a Mortgage where the Borrower Loan Limit does not change following repayment ahead of the repayment plan administered by Mortgage Trust Services to provide a baseline for the repayment of the Mortgage. For the avoidance of doubt, Prepayments do not include scheduled principal repayments.

“Principal Amount Outstanding” has the meaning given to it in Condition 5(c) of the Class M Conditions.

“Rating Agencies” means S&P and Moody’s and **“Rating Agency”** means either of them.

“RBS Trust Accounts” means the accounts in the name of Mortgage Trust held at RBS into which payments are made in respect of amounts due and amounts received under the Mortgages.

“Receiver” means a receiver appointed by the Trustee under clause 10 of the Deed of Charge.

“Redraw” means in respect of a Mortgage, a Payment Holiday or a redraw by the relevant Borrower of a portion of the principal of his/her Mortgage if and to the extent that such Borrower has previously made Prepayments on his/her

Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments and provided that the amount of such Redraw is limited to ensure that the outstanding balance of the Mortgage after such Redraw is no greater than the Borrower Loan Limit.

“**Redraw Facility**” means the sterling revolving credit facility made between the Issuer, the Redraw Facility Provider, Mortgage Trust Services and the Trustee.

“**Redraw Facility Limit**” means, unless otherwise agreed between the Issuer, the Trustee, the Redraw Facility Provider and the Servicer and with the prior written confirmation of the Rating Agencies that the then current rating of the Notes will not be adversely affected, initially £24,959,447 and then, on any Interest Payment Date where the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool is less than 7.5% of the aggregate Principal Amount Outstanding of the Notes, the greater of (i) 5% of the aggregate Principal Amount Outstanding of the Notes at the immediately preceding Interest Payment Date and (ii) £14,975,668.

“**Reference Rate**” means:

- (a) for each Standard Variable Rate Mortgage, Mortgage Trust Services’ standard variable rate;
- (b) for each LIBOR Linked Mortgage, LIBOR plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower;
- (c) for each Base Rate Linked Mortgage, Bank of England Base Rate, plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower; and
- (d) for each Fixed Rate Mortgage, the rate set out in the mortgage documentation entered into with the relevant Borrower.

“**Required Redraw Facility Provider Rating**” means a short term unsecured, unguaranteed and unsubordinated debt rating of P-1 by Moody’s and A-1+ by S&P.

“**Reserve Fund**” means the amount recorded in a ledger (the “**Reserve Ledger**”) and represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer’s Investments provided that whilst there are Class A Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class M Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than the lower of (1) £2,995,134 and (2) the Principal Amount Outstanding of the Class A Notes (plus any amounts to be paid in priority thereto).

“**Reserve Fund Required Amount**” means (A) from and including the Issue Date to and including the Coupon Step Up Date, on each Interest Payment Date, (1) if an Arrears Event is not occurring, £14,476,479 or (2) if an Arrears Event is occurring, £16,972,424; and (B) from and excluding the Coupon Step Up Date, on each Interest Payment Date, (1) if an Arrears Event is not occurring, the greater of (i) 5.80% multiplied by the aggregate Principal Amount Outstanding of the Class A Notes and the Class M Notes and (ii) the Reserve Fund Requirement Floor or (2) if an Arrears Event is occurring, £16,972,424.

“**Reserve Fund Requirement Floor**” is equal to the greater of (a) £2,000,000, (b) two times the aggregate principal balance of the largest Mortgage or two times the aggregate principal balance of the largest group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date, (c) the aggregate principal balance of the five largest Mortgages or the aggregate principal balance of the five largest groups of Mortgages in the names of single Borrowers as at the immediately preceding Determination Date and (d) two times the aggregate of (1) amounts to be applied to meet items (i) to (iv) of the Priority of Payments on that Interest Payment Date, (2) all amounts payable under the Redraw Facility other than in respect of principal on that Interest Payment Date and (3) the amount of interest payable on the Class A Notes and the Class M Notes on that Interest Payment Date in respect of the immediately preceding Interest Period.

“**S&P**” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies Inc.

“**Secured Creditors**” means each of the Trustee, the Noteholders, the Couponholders, the Servicer, the Standby Servicer, the Redraw Facility Provider, the Start-Up Loan Provider, the GIC Provider, the Account Bank, the Interest Rate Swap Counterparties, the Currency Swap Counterparty and the Principal Paying Agent.

“**Senior Servicing Fee**” means 0.10% per annum of the aggregate principal balance of the Mortgages on the last day of the immediately preceding Collection Period, inclusive of value added tax.

“**Standard Variable Mortgage**” means a mortgage which is subject to a standard variable rate of interest set by Mortgage Trust Services from time to time.

“**Start-Up Loan Provider**” means Mortgage Trust Services.

“**Subordinated Servicing Fee**” means 0.20% per annum of the aggregate principal balance of the Mortgages on the last day of the immediately preceding Collection Period, inclusive of value added tax.

“**Threshold Amount Deposit**” means a deposit which may be paid into the Transaction Account on an Interest Payment Date which is equal to the amount by which the amount produced by multiplying the Threshold Rate with the aggregate outstanding balances of the Mortgages in the Mortgage Pool on such Interest Payment Date and the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year) exceeds the sum of:

- (a) the aggregate of the annual rate of interest applicable on such Interest Payment Date to each Mortgage in the Mortgage Pool multiplied by the principal balance outstanding of such Mortgage on such Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year); plus
- (b) any amount expected to be released from the Base Rate Reserve for application in accordance with the Priority of Payments on the next following Interest Payment Date; plus
- (c) any amount expected to be released from the Discount Reserve for application in accordance with the Priority of Payments on the next following Interest Payment Date; plus
- (d) any amounts received in respect of Interest Rate Swap Agreements; plus
- (e) any income received in respect of any Bank Account or Permitted Investment,

such amount not to be less than zero.

“**Threshold Margin**” means (i) up to (but excluding) the Coupon Step Up Date, the figure expressed as a percentage resulting from the addition of (a) the average total principal balance of Owner Occupied Loans during the relevant Interest Period multiplied by 1.0% plus (b) the average total principal balance of Investment Home Loans during the relevant Interest Period multiplied by 1.4%, all divided by the average total principal balance outstanding of all Mortgages during that Interest Period and (ii) from and including the Coupon Step Up Date, 1.9%. The average total principal balance outstanding in any category of loan for the purposes of the above calculation shall be calculated by reference to the total principal balance outstanding of such category of loan on each day during the relevant Interest Period.

“**Threshold Rate**” means in respect of an Interest Period an annual rate of LIBOR as determined in relation to the Notes for such Interest Period plus the Threshold Margin.

“**Transaction Account**” means account number 30924563 in the name of the Issuer at Barclays.

“**Trust Accounts**” means the MTS Trust Accounts and the RBS Trust Accounts.

“**Withheld Amount**” means an amount equal to any withholding or deduction required to be made by the Issuer to any payment under a Currency Swap Agreement or an Interest Rate Swap Agreement for or on account of United Kingdom tax.

“**Withholding Compensation Amounts**” means an amount or amounts equal to (i) any Additional Amounts paid by the Currency Swap Counterparty or an Interest Rate Swap Counterparty to the Issuer on the relevant Interest Payment Date together with, to the extent not paid by the Issuer on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the Currency Swap Counterparty or an Interest Rate Swap Counterparty on any previous Interest Payment Date, and (ii) an amount or amounts equal to any Withheld Amount on such Interest Payment Date, together with, to the extent not paid by the Issuer on any previous Interest Payment Date, an amount equal to any Withheld Amount applicable to any previous Interest Payment Date.

“**VAT Account**” means an account held at National Westminster Bank Plc in relation to which the Paragon VAT Group’s VAT fund is held and payments made to the extent that the member of the Paragon VAT Group primarily responsible for a VAT payment fails to pay the relevant amount and over which the VAT Declaration of Trust is granted.

Priority of Payments Post-Enforcement

- (f) On enforcement of the Security, the Trustee is required, after making payment of or providing for Excluded Items, to apply moneys available for distribution in or towards the satisfaction of the following amounts in the following order of priority:
 - (i) to pay the remuneration then due and payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by the Trustee or any receiver appointed by the Trustee under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;

- (ii) to pay the remuneration then due and payable to the Agent Bank and the Paying Agents and any fees, costs, charges, liabilities and expenses incurred by them or by the Account Bank under the Bank Agreement and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
- (iii) to pay or provide for *pari passu* and *pro rata* (a) amounts including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere; (b) the Issuer's liability or possible liability for corporation tax and (c) the balance, if any, of the value added tax liability of the Paragon VAT Group following a demand being made by HM Customs & Excise on the Issuer where the value added tax liability is not satisfied in full in accordance with the Deed of Charge, the Servicing Agreement and the VAT Declaration of Trust;
- (iv) to pay *pari passu* and *pro rata* (a) in or towards satisfaction of any fees, other than the Subordinated Servicing Fee, due and payable to the Servicer and any costs, charges, expenses and liabilities incurred by the Servicer and (b) all amounts due and payable to the Standby Servicer under the Standby Servicing Agreement;
- (v) to pay *pari passu* and *pro rata* (a) all amounts due under the Interest Rate Swap Agreements and all amounts due to the Currency Swap Counterparty in respect of the Class A2 Currency Swap Agreement and the Class A3 Currency Swap Agreement to be applied *pro rata* to such amounts due under the relevant Interest Rate Swap Agreement or Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment, (ii) any Interest Rate Swap Counterparty Default Payment and (iii) any Withholding Compensation Amounts; (b) all amounts due under the Redraw Facility and (c) interest and principal and all other amounts due and payable in respect of the Class A Notes;
- (vi) to pay *pari passu* and *pro rata*:
 - (a) interest due and payable in respect of the Class M Notes and then principal and all other amounts due and payable in respect of the Class M Notes; and
 - (b) all amounts due to the Currency Swap Counterparty in respect of the Class M2 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment and (ii) any Withholding Compensation Amounts;
- (vii) to pay (a) to the Currency Swap Counterparty each amount of Currency Swap Counterparty Default Payments; (b) to the Interest Rate Swap Counterparties each amount of Interest Rate Swap Counterparty Default Payments and (c) any Withholding Compensation Amounts due and payable to the Interest Rate Swap Counterparties and the Currency Swap Counterparty, in each case to be paid *pro rata* to such amounts due under the relevant Currency Swap Agreement or Interest Rate Swap Agreement;
- (viii) to pay any Subordinated Servicing Fee due and payable to the Servicer;
- (ix) to pay any interest and principal amounts due and payable under the Start-Up Loan Agreement;
- (x) to pay *pro rata* and *pari passu* (a) sums due to Arianty as Arianty Deferred Purchase Consideration and (b) sums due to Mortgage Trust as Mortgage Trust Deferred Purchase Consideration; and
- (xi) to pay the surplus (if any) to the shareholders of the Issuer by way of dividends.

The Trustee cannot, while any of the Class A Notes are outstanding and there is no subsisting Event of Default under Class M Condition 9, enforce the Security on behalf of the holders of the Class M Notes or any other Secured Creditor (whether or not requested to do so by the holders of the Class M Notes or such other Secured Creditor) under the Deed of Charge.

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

In the event that any payment is to be made by the Issuer under this Condition and there are insufficient funds in the relevant currency available in which such payment is to be made, the Issuer shall, if the relevant Currency Swap Agreement has terminated, convert any remaining amounts available into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

All amounts payable from the Currency Swap Counterparty to the Issuer under the terms of (i) the Euro Note Currency Swap Agreements shall be paid by the Currency Swap Counterparty to the relevant Paying Agent for payment to the holders of the Euro Notes and (ii) the Class A3 Currency Swap Agreement shall be paid by the Currency Swap Counterparty to the relevant Paying Agent for payment to the holders of the USD Notes, in each case in satisfaction of the Issuer's interest and/or principal payment obligations under the Euro Notes and the USD Notes respectively.

3. Covenants

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

(a) *Negative Pledge*

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

(b) *Restrictions on Activities*

(i) engage in any activity which is not incidental to any of the activities which the Documents provide or envisage that the Issuer will engage in; or

(ii) have any subsidiaries or employees or premises;

(c) *Disposal of Assets*

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

(d) *Equitable Interest*

permit any person other than the Issuer, the Trustee, Mortgage Trust Services and Mortgage Trust in relation to any Redraws or Further Advances funded by any of them to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;

(e) *Bank Accounts*

have an interest in any bank account, other than the Trust Accounts and the bank accounts maintained pursuant to the Bank Agreement, the Guaranteed Investment Contract or the VAT Declaration of Trust;

(f) *Dividends or Distributions*

pay any dividend or make any other distribution to its shareholders or issue any further shares other than pursuant to the Priority of Payments;

(g) *Borrowings*

incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any obligation of any person;

(h) *Merger*

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

(i) *Surrender of Group Relief*

offer or consent to surrender to any company any amounts which are available for surrender by way of group relief within Chapter IV of Part X of the Income and Corporation Taxes Act 1988 unless the Issuer first

receives by way of consideration for such surrender the payment of an amount calculated by applying to the amount surrendered the rate of corporation tax applicable to the Issuer at the time of surrender;

(j) *US Taxation*

engage or permit any of its affiliates to engage, in any activities in the United States (directly or through agents), derive, or permit any of its affiliates to derive, any income from sources within the United States as determined under United States federal income tax principles, or hold, or permit any of its affiliates to hold, any mortgaged property that would cause it or any of its affiliates to be engaged or deemed to be engaged in a trade or business within the United States as determined by United States federal income tax laws;

(k) *Other*

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

In giving any consent to the foregoing, the Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Documents or may impose such other conditions or requirements as the Trustee may deem expedient (in its absolute discretion) in the interests of the Class A Noteholders and the Class M Noteholders.

4. Interest

(a) *Period of Accrual*

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

Whenever it is necessary to compute an amount of interest in respect of any Class M Note for any period (including any Interest Period (as defined below)), such interest shall be calculated on the basis of actual days elapsed in a (i) 365 day year (or a 366 day year if the last day of such period falls in a leap year (in the case of the Class M1 Notes) or (ii) 360 day year (in the case of the Class M2 Notes).

(b) *Interest Payment Dates and Interest Periods*

Interest on the Class M Notes is payable (in sterling in relation to the Class M1 Notes, in euro in relation to the Class M2 Notes) quarterly in arrear on the first day of March, June, September and December in each year (or, if such day is not a Business Day, the immediately succeeding Business Day) (each such day an “**Interest Payment Date**”) save for the first payment of interest which will be made in respect of the period commencing on (and including) the Issue Date and ending on (but excluding) the Interest Payment Date falling on 1st June 2004. The period from (and including) an Interest Payment Date (or the Issue Date in respect of the first Interest Payment Date) to (but excluding) the next following (or first) Interest Payment Date is called an “**Interest Period**” in these Class M Conditions and “**Business Day**” shall in these Class M Conditions mean a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for business in the City of London and New York and a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System (or any successor thereto) is open (a “**TARGET Business Day**”).

(c) *Rate of Interest*

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

- (i) on each Interest Determination Date, the Agent Bank will determine the offered quotation to leading banks in the London Interbank market for three month sterling deposits (in the case of the Class M1 Notes) or the Eurozone Interbank market for three month euro deposits (in the case of the Class M2 Notes) (or, in the case of

the first Interest Period, such rate shall be obtained by linear interpolation of the rate for four month and five month sterling deposits in the London Interbank market (in the case of the Class M1 Notes) and the rate for four month and five month euro deposits in the Eurozone Interbank market (in the case of the Class M2 Notes) by reference to the display designated as the British Bankers Association's Interest Settlement Rate as quoted on the Moneyline Telerate Screen No. 3750 (in the case of the M1 Notes) and the Moneyline Telerate Screen No. 248 (in the case of the Class M2 Notes) (or (aa) such other page as may replace Telerate Screen No. 3750 or Telerate Screen No. 248, as the case may be, on that service for the purpose of displaying such information or (bb) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace the Moneyline Telerate Monitor) as at or about 11:00 a.m. (London time) or, in relation to the Class M2 Notes, 11.00 a.m. (Brussels time) on that date (the "**Screen Rate**"). If the Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks (as defined in paragraph (h) below) to provide the Agent Bank with its offered quotation as at or about 11:00 a.m. (London time) or, in relation to the Class M2 Notes, 11.00 a.m. (Brussels time) on that date to leading banks for three month sterling deposits (in the case of the Class M1 Notes), for three month euro deposits (in the case of the Class M2 Notes) (and in the case of the first Interest Period, four and five month sterling or euro deposits, as the case may be). The Rate of Interest for such Interest Period shall, subject as provided below, be the Relevant Margin (as defined below) above the Screen Rate or, as the case may be, above the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the quotations of three out of five quoting Reference Banks (excluding, if all five quotations are not the same, the Reference Bank (as defined in Class M Condition 4(h)) with the highest and the Reference Bank with the lowest such quotations) but, if more than one of either or both, only one of the Reference Banks with the highest and/or, as the case may be, only one of the Reference Banks with the lowest such quotations;

- (ii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only four of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of two out of the four quoting Reference Banks (excluding two on the basis set out in (i) above);
- (iii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only two or three of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of the quotations of all the quoting Reference Banks (without any exclusion as referred to in (i) above);
- (iv) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only one or none of the Reference Banks provides such a quotation, then the Rate of Interest for the relevant Interest Period shall be the Reserve Interest Rate. The "**Reserve Interest Rate**" shall be the rate per annum which the Agent Bank determines to be either (aa) the Relevant Margin above the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the sterling lending rates (in the case of the Class M1 Notes) or of the euro lending rates (in the case of the Class M2 Notes) which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting, as at or about 11:00 a.m. (London time) or, in relation to the Class M2 Notes, 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, for the relevant Interest Period to the Reference Banks or those of them (being at least two in number) to which such quotations are in the sole opinion of the Agent Bank being so made or (bb) if the Agent Bank certifies that it cannot determine such arithmetic mean, the Relevant Margin above the lowest of the sterling lending rates (in the case of the Class M1 Notes) or the euro lending rates (in the case of the Class M2 Notes) which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting on the relevant Interest Determination Date, to the leading banks which have their head offices in London for the relevant Interest Period provided that if the Agent Bank certifies as aforesaid and further certifies that none of the banks selected as provided in (bb) above is quoting to leading banks as aforesaid, then the Reserve Interest Rate shall be the Rate of Interest in effect for the Interest Period ending on the relevant Interest Determination Date.

For the purpose of the Class M Conditions, the "**Relevant Margin**" shall be 1.10% per annum for the Class M1 Notes and 1.10% per annum for the Class M2 Notes for each Interest Period up to and including the Interest Payment Date falling in March 2009 (the "**Coupon Step Up Date**") and thereafter 2.10% per annum for the Class M1 Notes and 2.10% per annum for the Class M2 Notes.

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

The Agent Bank shall, on each Interest Determination Date, determine and notify the Issuer, the Servicer, the Trustee and the Paying Agents of (i) the Rate of Interest applicable to the Interest Period beginning on and including such Interest Determination Date in respect of the Class M1 Notes and the Class M2 Notes and (ii) the sterling amount or the euro amount, as the case may be (the "**Interest Amount**") payable in respect of such Interest Period in respect of the Principal Amount Outstanding (as defined in Class M Condition 5(c)).

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

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

(f) Determination or Calculation by Trustee

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

(g) Notifications to be Final

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

(h) Reference Banks and Agent Bank

The Issuer shall ensure that, so long as any of the Class M Notes remains outstanding, there shall at all times be five reference banks (the “**Reference Banks**”) and an Agent Bank. The initial Agent Bank shall be Citibank, N.A. In the event of the principal London office of any such bank being unable or unwilling to continue to act as a Reference Bank or in the event of Citibank, N.A. being unwilling to act as the Agent Bank, the Issuer shall appoint such other bank as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved by the Trustee has been appointed.

5. Redemption and Cancellation

(a) Final Redemption

Unless previously redeemed as provided in this Class M Condition 5, the Issuer:

- (i) shall redeem the Class M1 Notes at their Principal Amount Outstanding (as defined below) on the Interest Payment Date falling in December 2035; and
- (ii) shall redeem the Class M2 Notes at their Principal Amount Outstanding (as defined below) on the Interest Payment Date falling in December 2035,

each such date being the “**Final Redemption Date**”.

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

(b) Mandatory Redemption in Part

Subject as provided below, the principal amount redeemable in respect of each Class M Note on an Interest Payment Date (the “**Actual Redemption Amount**”) shall be the Class M Redemption Amount on such Interest Payment Date and shall be applied in making the following payments;

- (i) in the event that the Actual Redemption Amount is greater than zero, to pay (in each case to the extent indicated below) *pari passu*:
 - (1) the principal on the Class M1 Notes, until the Interest Payment Date on which the Class M1 Notes have been redeemed in full;

- (2) the principal on the Class M2 Notes, until the Interest Payment Date on which the Class M2 Notes have been redeemed in full; and
- (3) amounts due in respect of principal to the Currency Swap Counterparty under the Class M2 Currency Swap Agreement to the extent that such amounts are in exchange for the amounts payable by the Currency Swap Counterparty to the Issuer to fund the amounts payable under (2) above.

The amounts payable under this item (i) shall be calculated by first apportioning the Actual Redemption Amount *pro rata* between the Principal Amount Outstanding of the Class M1 Notes and the Sterling Equivalent Principal Amount Outstanding of the Class M2 Notes (the amount so apportioned in respect of the Class M1 Notes being the “**M1 Sterling Amount**” and the amount so apportioned in respect of the Class M2 Notes being the “**M2 Sterling Amount**”) and then:

- (i) the amount payable in respect of paragraph (1) above shall be the M1 Sterling Amount;
- (ii) the amount payable in respect of paragraph (2) above shall be the euro equivalent of the M2 Sterling Amount using the euro/sterling exchange rate specified in the Class M2 Currency Swap Agreement or, if the Class M2 Currency Swap Agreement has terminated, the applicable spot rate; and
- (iii) the amount payable in respect of paragraph (3) above shall be the M2 Sterling Amount.

For the purposes of these Class M Conditions:

“**Collection Period**” means the period beginning on (and including) a Determination Date (save for the first Collection Period which shall begin on (and include) the Issue Date) and ending on the day immediately preceding the next following Determination Date.

“**Couponholders**” means together the Class M Couponholders, the holders of the coupons attached to the Class A Notes.

“**Determination Date**” means the day which is eight Business Days prior to an Interest Payment Date.

“**Excluded Items**” means

- (a) certain moneys which properly belong to third parties (such as monies owing to any party in respect of reimbursement for direct debit recalls);
- (b) on the Interest Payment Date following the Issue Date, amounts payable to Arianty under the Mortgage Sale Agreement in respect of reconciliations of the amounts paid in respect of the purchase of the Mortgages on the Issue Date; and
- (c) where the Issuer is unable to purchase the right to repayment of Redraws and/or Further Advances made with respect to one or more Mortgages on any Interest Payment Date (such Redraws and/or Further Advances continuing to be funded by Mortgage Trust on the basis that the Issuer holds each relevant Mortgage on trust for itself and Mortgage Trust, each party’s interest being proportionate to the funding provided by it), the aggregate of Mortgage Trust’s *pro rata* share of amounts received in respect of each such Mortgage during the immediately preceding Collection Period.

“**Noteholders**” means together the Class M Noteholders and the holders of the Class A Notes.

“**Potential Redemption Amount**” will be determined on each Determination Date as follows:

- (a) the aggregate amount of Redemptions, Prepayments, enforcement proceeds, recoveries and insurance proceeds (to the extent they relate to principal) received during the immediately preceding Collection Period in respect of the Mortgages (“**Principal Collections**”); plus
- (b) principal losses realised upon completion of the enforcement and recovery process in relation to the Mortgages during the immediately preceding Collection Period; plus
- (c) an amount equal to the Principal Deficiency recorded on the previous Determination Date; less
- (d) the aggregate principal amount of Redraws the right to repayment of which are to be purchased by the Issuer using Principal Collections on the immediately succeeding Interest Payment Date,

provided that the Potential Redemption Amount shall never be less than zero.

“**Prepayments**” means part principal repayments under a Mortgage where the Borrower Loan Limit does not change following prepayment ahead of the repayment plan used by Mortgage Trust Services to provide a baseline for the repayment of the Mortgage.

“**Redemptions**” means scheduled principal payments plus full and part principal repayments (including enforcement and insurance proceeds) under a Mortgage where the Borrower Loan Limit irrevocably reduces as a result of repayment ahead of the repayment plan used by Mortgage Trust Services to provide a baseline for the repayment of the Mortgage.

“**Relevant Exchange Rate**” means in relation to a Class M2 Note the exchange rate specified in the relevant Currency Swap Agreement relating to such Class M2 Note or, if that Currency Swap Agreement has terminated, the applicable spot rate.

“**Sterling Equivalent Principal Amount Outstanding**” means (a) in relation to a Class M2 Note, the sterling equivalent of the Principal Amount Outstanding of such Class M2 Note ascertained using the Relevant Exchange Rate relating to such Class M2 Notes, and (b) in relation to any Class M1 Note, the Principal Amount Outstanding of such Class M1 Note.

The amount allocated for redemption of the Notes under item (xii) of the Priority of Payments (the “**Redemption Amount**”) will be divided into a “**Class A Redemption Amount**” and a “**Class M Redemption Amount**”. During a Class M Principal Lock Out, the Class A Redemption Amount will equal the lesser of the Redemption Amount and the aggregate principal amount of the Class A Notes then outstanding and the Class M Redemption Amount will be zero (except that if the Redemption Amount is greater than the aggregate principal amount of the Class A Notes then outstanding, then the excess will be allocated to the Class M Redemption Amount (after the payment of any shortfall in item (xiii) of the Priority of Payments) up to the aggregate principal amount of the Class M Notes then outstanding).

A “**Class M Principal Lock Out**” shall occur on any Interest Payment Date provided that there are Class A Notes outstanding (i) during the period up to (and including) the Interest Payment Date falling five years after the Issue Date (the “**Class M Principal Lock Out Period**”), (ii) where on such Interest Payment Date the sum of the Reserve Fund and the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class M Conditions) of the Class M Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes and the Class M Notes is not at least twice that same percentage as at the Issue Date, (iii) where a Principal Deficiency exists on such Interest Payment Date, (iv) where the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than 2.5% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, in each case as at the immediately preceding Determination Date, or (v) where the sum of the Principal Amount Outstanding of the Class M Notes on such Interest Payment Date is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date.

If no Class M Principal Lock Out applies on an Interest Payment Date and there are Class A Notes outstanding, the Redemption Amount will be divided between the Class A Redemption Amount and the Class M Redemption Amount in such amounts as would maintain the then current ratio of Class A Notes to Class M Notes. If on any Interest Payment Date there are no Class A Notes outstanding, the Redemption Amount will be equal to the Class M Redemption Amount.

In the event that any payment is to be made from Redemption Amounts by the Issuer under this Condition and there are insufficient funds in the relevant currency available in which such payment is to be made, the Issuer shall, if the relevant Currency Swap Agreement has terminated, convert such of those Redemption Amounts into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

“**Principal Deficiency**” means the amount calculated on each Determination Date by deducting from the “**Liabilities**” expected to exist as at close of business on the immediately succeeding Interest Payment Date the “**Assets**” expected to exist as at close of business on the immediately succeeding Interest Payment Date (after having made all payments in accordance with the Priority of Payments),

where “**Liabilities**” means:

- (a) the aggregate Principal Amount Outstanding of the Notes on the last day of the immediately preceding Collection Period; less
- (b) the amount allocated in the Priority of Payments to redemption of the Notes under item (xii) on the immediately succeeding Interest Payment Date; plus
- (c) the aggregate principal amount outstanding under the Redraw Facility on the last day of the immediately preceding Collection Period; plus

- (d) the amount by which the aggregate principal amount outstanding under the Redraw Facility is expected to increase on the immediately succeeding Interest Payment Date as a result of the purchase of the right to repayment of Redraws; less
- (e) the amount allocated in the Priority of Payments to repayment of principal amounts outstanding under the Redraw Facility under item (x) on the immediately succeeding Interest Payment Date; and

“**Assets**” means:

- (a) the aggregate outstanding principal balances of the Mortgages (including amounts receivable in respect of claims under property related insurance policies) on the last day of the immediately preceding Collection Period; plus
- (b) the aggregate principal amount of the Redraws the right to repayment of which are to be purchased on the immediately succeeding Interest Payment Date; plus
- (c) the amount, if any, allocated in the Priority of Payments to credit the Liquidity Reserve up to the Liquidity Reserve Required Amount under item (viii) on the immediately succeeding Interest Payment Date plus the amount already standing to the credit of the Liquidity Reserve on such date; plus
- (d) the amount allocated in the Priority of Payments to purchase Further Advances under item (xi) on the immediately succeeding Interest Payment Date; plus
- (e) the amount standing to the credit of the Pre-Funded Ledger, provided that the Principal Deficiency shall never be less than zero.

In connection with such redemption, the Servicer will on each Determination Date, pursuant to the Servicing Agreement, determine the Potential Redemption Amount, the Class A Redemption Amount and the Class M Redemption Amount.

No Class M Note may be redeemed in whole or in part until the Class A Notes have been redeemed in full.

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

On each Determination Date (or in any event not later than the next Business Day following such Determination Date), the Issuer shall determine (or cause the Servicer to determine) (i) the amount of any Actual Redemption Amount due in respect of each Class M Note on the Interest Payment Date next following such Determination Date, (ii) the principal amount outstanding of each Class M Note on the Interest Payment Date next following such Determination Date (after deducting any Actual Redemption Amount due to be made in respect of that Class M Note on that Interest Payment Date) (the “**Principal Amount Outstanding**”) and (iii) the fraction expressed as a decimal to the sixth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Class M Note (as referred to in (ii) above) and the denominator is £10,000 (if such Note is the Class M1 Note) and €500,000 (if such Note is the Class M2 Note). Each determination by or on behalf of the Issuer of any Actual Redemption Amount of a Class M Note, the Principal Amount Outstanding of a Class M Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Principal Amount Outstanding of a Class M Note on any date shall be £10,000 (in respect of the Class M1 Notes) and €500,000 (in respect of the Class M2 Notes) less the aggregate amount of all Actual Redemption Amounts in respect of such Class M Note that have become due and payable since the Issue Date on or prior to such date (whether or not paid).

With respect to the Class M Notes, the Issuer will cause each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Paying Agents, the Agent Bank and (for so long as the Class M Notes are admitted to trading on the London Stock Exchange’s market for listed securities) the London Stock Exchange plc, and will immediately cause notice of each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be given in accordance with Class M Condition 14 by not later than two Business Days prior to the relevant Interest Payment Date. If no Actual Redemption Amount is due to be made on the Class M Notes on any Interest Payment Date a notice to this effect will be given by or on behalf of the Issuer to the Class M Noteholders in accordance with Class M Condition 14.

If the Issuer does not at any time for any reason determine (or cause the Servicer to determine) with respect to the Class M Notes an Actual Redemption Amount, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Actual Redemption Amount, Principal Amount Outstanding and Pool Factor may be determined by the Trustee in accordance with this paragraph and each such determination or calculation shall be deemed to have been made by the Issuer. Any such determination shall be binding on the Issuer, the Servicer, the Class M Noteholders and the Class M Couponholders.

(d) Optional Redemption

On the Interest Payment Date falling in March 2008 or on any Interest Payment Date falling thereafter and upon giving not more than 60 nor less than 20 days' notice to the Trustee and the Class M Noteholders in accordance with Class M Condition 14, the Issuer may redeem all (but not some only of) the Notes at their Principal Amount Outstanding together with interest accrued thereon provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Notes as aforesaid.

On any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10% of the aggregate principal amount of such Notes at the time such Notes were issued, and upon giving not more than 60 nor less than 20 days' notice to the Trustee and the Class M Noteholders, the Issuer may redeem all (but not some only of) the Notes at their Principal Amount Outstanding together with accrued interest provided that prior to giving any such notice, the Issuer shall have provided the Trustee with a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Notes as aforesaid.

(e) Optional Redemption for Tax Reasons

If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to below that (i) on the next Interest Payment Date the Issuer or any Paying Agent would be required to deduct or withhold from any payment of principal or interest on the Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature and wherever imposed, levied, collected, withheld or assessed or (ii) in the event that the Issuer, under any applicable law of the United Kingdom, or the Currency Swap Counterparty or Interest Rate Swap Counterparty, under any applicable law, is or will be obliged to make any withholding or deduction from amounts payable by it under any Currency Swap Agreement or Interest Rate Swap Agreement, or (iii) the total amount payable in respect of interest in relation to any of the Mortgages during an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, or (iv) the Issuer would, by virtue of a change in the law (or the application or officially published interpretation thereof) not be entitled to relief for United Kingdom tax purposes for any material amount which is currently relievable and which it is obliged to pay under the Transaction Documents, then the Issuer may, having given not more than 60 nor less than 20 days' notice to the Trustee and the Class M Noteholders in accordance with Class M Condition 14, redeem all (but not some only) of the Notes on any Interest Payment Date at their Principal Amount Outstanding together with interest accrued thereon provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee: (a) a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the Notes as aforesaid and (b) a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in England (approved in writing by the Trustee) opining on the relevant event. Any certificate and legal opinion given by or on behalf of the Issuer may be relied on by the Trustee and shall be conclusive and binding on the Class M Noteholders and Class M Couponholders.

(f) Other Reasons

The Issuer may, at its option, upon giving not more than 60 nor less than 20 days' notice to the Trustee and the Class M Noteholders redeem all of the Class M Notes (provided that all Class A Notes have been redeemed in full) at their Principal Amount Outstanding together with interest accrued thereon on the second Interest Payment Date after any Determination Date on which it is determined that the aggregate amount of Redraws made by Borrowers during the Collection Period then ending exceeds the sum of (a) the Principal Collections available for the purpose of purchasing the right to repayment of Redraws in accordance with the Priority of Payments and (b) the lower of (i) the Available Facility under the Redraw Facility and (ii) the aggregate Principal Amount Outstanding of the Notes.

(g) Notice of Redemption

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

(h) Purchase

The Issuer shall not purchase any Class M Notes or Class M Coupons.

(i) Cancellation

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

(j) *Principal Deficiencies*

If on the Interest Payment Date falling in December 2035 or any prior date which the assets of the Issuer have been exhausted there is a debit balance on the Principal Deficiency Ledger (as defined above) (after taking account of any entries required to be made thereon on such Interest Payment Date and any credit balance in the Transaction Account (the “**Adjusted Principal Deficiency**”)), then notwithstanding any other provision of these Class M Conditions the principal amount payable on redemption of each Class M Note shall be its Principal Amount Outstanding on that date, less the Adjusted Principal Deficiency applicable to that Class M Note on that date on payment of which the obligations of the Issuer under the relevant Class M Note shall be discharged in full.

6. Payments

- (a) Payments of principal in respect of the Class M Notes will be made against presentation of the Class M Notes at the specified office of any Paying Agent. Payments of interest in respect of the Class M Notes will (subject as provided in paragraphs (c) and (d) below) be made only against presentation and surrender of the Class M Coupons at the specified office of any Paying Agent. Payments will be made in sterling in respect of the Class M1 Notes at the specified office of any Paying Agent by sterling cheque drawn on, or, at the option of the holder, by transfer to a sterling account maintained by the payee with, a branch of a bank in London. Payments in respect of the Class M2 Notes will be made in euro at the specified office of any Paying Agent by euro cheque drawn on, or, at the option of the holder, by transfer to a euro account maintained by the payee with a euro clearing bank.
- (b) Payments of principal and interest in respect of the Class M Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.
- (c) Upon the date on which any Class M Note becomes due and payable in full, unmatured Class M Coupons appertaining thereto (whether or not attached to such Class M Note) shall become void and no payment or, as the case may be, exchange shall be made in respect thereof. If the due date for redemption of any Class M Note is not an Interest Payment Date, accrued interest will be paid only against presentation and surrender of such Class M Note.
- (d) If payment of principal is improperly withheld or refused on or in respect of any Class M Note or part thereof, the interest which continues to accrue in respect of such Class M Note in accordance with Class M Condition 4(a) will be paid against presentation of such Class M Note at the specified office of any Paying Agent.
- (e) The initial Principal Paying Agent and its initial specified office is listed at the end of these Class M Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent and to appoint additional or other Paying Agents. The Issuer will at all times maintain a paying agent with a specified office in London and a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to EU Council Directive 2003/48/EC, which was adopted by the Council of the European Union on 3rd June 2003. The Issuer will cause at least 30 days’ notice of any change in or addition to the Paying Agents or their specified offices to be given in accordance with Class M Condition 14.
- (f) If any Class M Coupon or Class M Note is presented for payment on a day which is not a Business Day, no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Class M Coupon or, as the case may be, such Class M Note.
- (g) On or after the Interest Payment Date for the final Coupon forming part of any Coupon sheet, the Class M Talon forming part of such Coupon sheet may be surrendered at any specified office of the Paying Agent in exchange for a further Coupon sheet (including a further talon but excluding any Coupons which shall have become void).
- (h) If a Paying Agent makes a partial payment in respect of any Class M Note presented to it for payment, such Paying Agent will endorse on the grid endorsed on such Class M Note (in respect of payments of principal) a statement indicating the amount and date of such payment.
- (i) If on any Interest Payment Date (other than the Final Redemption Date) the aggregate funds (if any) available to the Issuer for application in or towards the payment of interest due on the Class M Notes are not sufficient to satisfy in full the aggregate amount of interest which would, but for this paragraph (i) otherwise be payable on the Class M Notes on such Interest Payment Date, then notwithstanding any other provision of these Conditions, there shall be payable on the Class M Notes on such Interest Payment Date, by way of interest on each Class M Note a *pro rata* share of such aggregate funds calculated by reference to the ratio borne by the then Principal Amount Outstanding of such Class M Note to the then Principal Amount Outstanding of all Class M Notes and the amount of the shortfall will not be regarded as due until the earliest Interest Payment Date thereafter in respect of which funds are available to the Issuer to pay such amounts.

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

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

7. Prescription

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

8. Taxation

All payments in respect of the Class M Notes and Class M Coupons will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or the relevant Paying Agent (as applicable) is required by applicable law to make any payment in respect of the Class M Notes or Class M Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer or the relevant Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Paying Agents nor the Issuer will be obliged to make any additional payments to holders of Class M Notes or Class M Coupons in respect of such withholding or deduction.

9. Events of Default

- (a) The Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25% in aggregate of the Principal Amount Outstanding of the Class M Notes or if so directed by or pursuant to an Extraordinary Resolution (as defined in the Trust Deed) of the Class M Noteholders (subject, in each case, to being indemnified to its satisfaction) shall give notice to the Issuer declaring the Class M Notes to be due and repayable at any time after the happening of any of the following events (each an “**Event of Default**”):
 - (i) default being made for a period of 5 Business Days in the payment of the principal or a period of 3 Business Days in the payment of any interest on any Class M Note when and as the same is due and payable in accordance with these Class M Conditions, provided that a deferral of interest in accordance with Condition 6(i) shall not constitute a default in payment of such interest for the purposes of this Condition 9; or
 - (ii) any Interest Rate Swap Agreement being terminated by reason of default in payment on the part of the Issuer for a period of 10 Business Days; or
 - (iii) the Issuer failing duly to perform or observe any other obligation binding upon it under the Class M Notes, the Trust Deed, the Servicing Agreement, the Deed of Charge or any of the other Transaction Documents and, in any such case (except where the Trustee certifies that, in its opinion, such failure is incapable of remedy when no notice will be required) such failure is continuing for a period of 30 days following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
 - (iv) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in sub-paragraph (v) below, ceasing or, through an official action of the Board of Directors of the Issuer, threatening to cease to carry on business or being unable to pay its debts as and when they fall due or otherwise becomes insolvent; or
 - (v) an order being made or an effective resolution being passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which

have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Class M Noteholders; or

- (vi) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, application or pending application for an administration order or appointment of a liquidator or administrator) or an administration order being granted or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress or execution or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 14 days, or the Issuer initiating or consenting to proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally;

provided that, in the case of each of the events described in sub-paragraph (iii) of this paragraph (a), the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class M Noteholders.

- (b) Upon any declaration being made by the Trustee in accordance with paragraph (a) above that the Class M Notes are due and repayable, the Class M Notes shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Trust Deed.

10. Enforcement of Class M Notes

- (a) At any time after the Class M Notes have become due and repayable and without prejudice to its rights of enforcement in relation to the Security, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce payment of the Class M Notes at their Principal Amount Outstanding together with accrued interest, but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Class M Noteholders or so requested in writing by the holders of at least 25% in aggregate of the Principal Amount Outstanding of the Class M Notes and (b) it shall have been indemnified to its satisfaction. No Class M Noteholder or Class M Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing. The Trustee cannot, while any of the Class A Notes are outstanding, be required to enforce the Security on behalf of the Class M Noteholders (whether or not requested to do so by such Class M Noteholders) or any other Secured Creditor under the Deed of Charge.
- (b) Notwithstanding the foregoing and so long as any of the Class M Notes remain outstanding, if the Class M Notes have become due and repayable pursuant to Class M Condition 9 otherwise than by reason of a default in payment of any amount due on the Class M 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 M Noteholders, the Class M Couponholders and the other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion 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 M Noteholders, the Class M Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith.

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

- (a) The Trust Deed contains provisions for convening meetings of Class M Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of such Class M Noteholders of a modification of these Class M Conditions as they relate to the Class M Notes or the provisions of any of the Documents or any other documents the rights and benefits in respect of which are comprised in the Security (“**Other Relevant Documents**”). The quorum at any meeting of Class M Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing in aggregate not less than 75% in Principal Amount Outstanding of the Class M Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class M Noteholders as they relate to the Class M Notes whatever the Principal Amount Outstanding of the Class M Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a modification which would, *inter alia*, have the effect of altering the date of maturity of the Class M Notes or the day for payment of interest or principal thereon, or the amount of principal or the rate of interest payable in respect of the Class M Notes or the currency of payment (other than pursuant to a redenomination approved by the Trustee pursuant to Class M Condition 15) of the Class M Notes or related Class M Coupons or the Priority of Payments or the quorum or majority required in relation to

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

The Trust Deed contains provisions limiting the powers of the holders of Class M Notes, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in the circumstances set out in (b) below, 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 M Noteholders and the Class M Couponholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class M Noteholders shall not be effective for any purposes unless either (i) the Trustee is of the opinion that it would not be materially prejudicial to 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 M Noteholders, whether or not they are present at the meeting, and on all Class M Couponholders.

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

12. Indemnification and Exoneration of The Trustee

The Trust Deed contains provisions governing the responsibility (and relief from responsibility) of the Trustee and providing for its indemnification in certain circumstances, including provisions relieving it from taking enforcement proceedings or enforcing the Security unless indemnified to its satisfaction. The Trustee and its related companies are

entitled to enter into business transactions with the Issuer, Arianty, Mortgage Trust, Mortgage Trust Services, the Servicer and/or the related companies of any of them without accounting for any profit resulting therefrom. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Servicer or any agent or related company of the Servicer or by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Trustee.

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

13. Replacement of Definitive Class M Notes, Class M Coupons and Class M Talons

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

14. Notice to Class M Noteholders

Any notice to the Class M Noteholders shall be validly given if published in the *Financial Times* or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in Europe; provided that if, at any time, the Issuer procures that information concerned in such notice specifying an Interest Payment Date, Principal Amount Outstanding or Rate of Interest shall appear on a page of the Reuters screen or Bloomberg or any other medium for electronic display of data as may be previously approved in writing by the Trustee (in each case a “**Relevant Screen**”), publication in the *Financial Times* shall not be required with respect to such information. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen on which) publication is required.

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

15. Redenomination

Pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union (as amended, the “**Treaty**”), the third stage of European economic and monetary union commenced on 1st January 1999 and the value of the euro as against the currencies of the member states participating in the third stage of European economic and monetary union was irrevocably fixed and the euro became a currency in its own right. The United Kingdom may at some future date participate in the third stage of European economic and monetary union or otherwise participate in European economic and monetary union in a manner with similar effect to such third stage. On an Interest Payment Date falling on or after such date, the Issuer may on giving notice to the holders of the Class M1 Notes and with the written consent of the Trustee, redenominate all of the Class M1 Notes into euros.

16. Governing Law

The Documents, the Class M Notes and the Class M Coupons are governed by, and shall be construed in accordance with, English law.

17. Third Party Rights

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

Use of Proceeds

The net proceeds of the issue of the Notes will amount to approximately £499,188,935.76 (after exchanging (a) the dollar proceeds of the USD Notes for sterling proceeds calculated by reference to the relevant Currency Swap Rate and (b) the euro proceeds of the Euro Notes for sterling proceeds each calculated by reference to the relevant Currency Swap Rate) and will be applied in the purchase of the Mortgages from Arianty on the Issue Date as set out in “**The Mortgage Pool – Introduction**” with any remainder to be credited to the Transaction Account to be:

- (a) invested in Permitted Investments; and/or
- (b) applied in the purchase of Pre-Funded Mortgages.

Subscription and Sale

Deutsche Bank AG London and J.P. Morgan Securities Ltd. (collectively, the “**Lead Managers**” and each a “**Lead Manager**”) and Barclays Bank PLC, HSBC Bank plc, ING Belgium SA, The Royal Bank of Scotland plc and Société Générale (together with the Lead Managers, the “**Class A Managers**”) have, pursuant to a subscription agreement dated on or about 27th January 2004 (the “**Class A Subscription Agreement**”), jointly and severally agreed, subject to certain conditions, to subscribe for (i) the Class A1 Notes at the issue price of 100% of their principal amount, (ii) the Class A2 Notes at the issue price of 100% of their principal amount and (iii) the Class A3 Notes at the issue price of 100% of their principal amount. The Issuer has agreed to pay the Class A Managers a combined selling, management and underwriting commission of 0.125% of the aggregate principal amount of the Class A Notes. The Issuer has agreed to reimburse the Class A Managers for certain of their expenses in connection with the issue of the Class A Notes. The Class A Subscription Agreement entitles the Class A Managers to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A Managers against certain liabilities in connection with the offer and the sale of the Class A Notes.

Deutsche Bank AG London and J.P. Morgan Securities Ltd. (collectively, the “**Class M Managers**” and each a “**Class M Manager**”) have, pursuant to a subscription agreement dated on or about 27th January 2004 (the “**Class M Subscription Agreement**”), jointly and severally agreed, subject to certain conditions, to subscribe for (i) the Class M1 Notes at the issue price of 100% of their principal amount and (ii) the Class M2 Notes at the issue price of 100% of their principal amount. The Issuer has agreed to pay the Class M Managers a combined selling, management and underwriting commission of 0.125% of the aggregate principal amount of the Class M Notes. The Issuer has agreed to reimburse the Class M Managers for certain of its expenses in connection with the issue of the Class M Notes. The Class M Subscription Agreement entitles the Class M Managers to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class M Managers against certain liabilities in connection with the offer and sale of the Class M Notes.

The Class A Subscription Agreement and the Class M Subscription Agreement are together referred to in this document as the “**Subscription Agreements**”. The Class A Managers and the Class M Managers are together referred to in this document as the “**Managers**”.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are in bearer form and are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by US Internal Revenue Code and regulations thereunder.

Each Class A Manager, in respect of the Class A Notes and each Class M Manager, in respect of the Class M Notes, has agreed that, except as permitted by the Subscription Agreements, 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 and the Issue Date within the United States or to, or for the account of, US persons, and it will have sent to each distributor, dealer or other person to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the requirements of the Securities Act.

United Kingdom

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

Italy

Each Class A Manager in respect of the Class A Notes and each Class M Manager in respect of the Class M Notes severally acknowledges that the Notes may not be placed, offered or distributed to Italian investors.

Spain

Each Class A Manager in respect of the Class A Notes and each Class M Manager in respect of the Class M Notes severally acknowledges that the Notes may not be offered or sold in Spain by means of a public offer as defined and construed by Spanish law unless such public offer is made in compliance with the requirements of Law 24/1988 of 28th July (as amended by Law 37/1988 of 16th November), on the Spanish Securities Market and the Royal Decree 291/1992 of 27th March (as amended by Royal Decree 2590/1998 of 7th December and Royal Decree 705/2002 of 19th July), on issues and public offers of the sale of securities.

The sale of the Notes to which this Offering Circular refers, by the Managers on behalf of the Issuer, does not form part of any public offer of such Notes in Spain. Each sale of Notes is an individual transaction and has been negotiated and/or agreed with the relevant Managers in respect of the Class A Notes and the Class M Notes. Each investor in respect of the Notes acknowledges that they have not received any advertising or marketing material from the relevant Managers regarding this Offering Circular. Any subsequent transaction they execute regarding the Notes to which this Offering Circular refers, including requesting the relevant Manager to transfer the Notes to any entity managed or controlled by them, will be executed on their own behalf only and not on behalf of or for the account of the relevant Manager.

These Notes may not be directly/indirectly sold, transferred or delivered in any manner, at any time other than to institutional investors in Spain (defined under Spanish Law to include only pension funds, collective investment schemes, insurance companies, banks, saving banks and securities companies).

Netherlands

The Issuer has verified in accordance with Section 2 of the Policy Rule on Key Concepts of Market Access and Enforcement of the Act on the Supervision of the Credit System 1992 (*Beleidsregel kernbegrippen markttoeteding en handhaving Wtk 1992*) (the “**Policy Rule**”) that each Class A Manager and Class M Manager is a professional market party as defined in Section 1(e) of the Exemption Regulation pursuant to the Act of the Supervision of the Credit System 1992 (*Vrijstellingsregeling Wet toezicht kredietwezen 1992*) (a “**PMP**”). Each Class A Manager, in respect of Class A Notes and each Class M Manager in respect of Class M Notes has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, as part of the initial distribution or at any time thereafter, any Notes (which term shall include rights representing an interest in a Global Note) to any person in the Netherlands other than the Euro Notes which (i) ultimately will be held by noteholders the identity of which cannot reasonably be known to the Issuer on or before the Issue Date; (ii) which have a minimum denomination of Euro 500,000 and (iii) are upon issue cleared through a clearing system that is established in a European Economic Area member state, the United States, Japan, Australia, Canada or Switzerland with respect to which securities can only be held through a licensed bank or securities firm, so that any offering or sale of Notes in the Netherlands by the Class A Managers and Class M Managers will be deemed to be an offering or sale to a PMP.

United Kingdom Taxation

The following is a general description of current United Kingdom law and practice relating to taxation of the Notes, and is limited to a general consideration of the United Kingdom tax position of investors who are the absolute beneficial owners of the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes and so should be treated with appropriate caution. Some aspects do not apply to certain classes of taxpayer (such as dealers) or to Noteholders where the object, or one of the main objects, of acquiring or holding the Notes was or is the securing, whether for the Noteholder or any other person, of a tax advantage.

Prospective Noteholders who are in doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

A. United Kingdom withholding tax

Interest payments on the Notes (whether in global or Definitive form) will be payable without withholding or deduction for or on account of United Kingdom income tax provided that the Notes are and remain listed on a “**recognised stock exchange**” within the meaning of Section 841 of the Income and Corporation Taxes Act 1988. The London Stock Exchange is a recognised stock exchange for these purposes, and this proviso will be satisfied if the Notes are admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange.

Any paying agent or other person through whom interest is paid to, or by whom interest is received on behalf of, an individual (whether resident in the United Kingdom or elsewhere) may be required to provide information in relation to the payment (including the amount of the interest) and the individual concerned (including their name and address) to the United Kingdom Inland Revenue. In certain circumstances, the Inland Revenue may communicate this information to the tax authorities of certain other jurisdictions.

B. Direct assessment of non-United Kingdom resident Noteholders

Interest on the Notes constitutes United Kingdom source income for United Kingdom tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding or deduction for or on account of United Kingdom income tax except in the hands of a Noteholder who is exempt from United Kingdom income tax under the terms of an applicable double taxation treaty or otherwise.

However, interest with a United Kingdom source which is received without deduction or withholding on account of United Kingdom tax is not normally chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom, unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency or, for companies in accounting periods beginning after 31st December 2002, a permanent establishment, in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain specified categories of agent (such as some brokers and investment managers).

C. Accrued Income Scheme – individual Noteholders

The Notes will be regarded by the Inland Revenue as variable rate securities for the purposes of provisions known as the “**Accrued Income Scheme**”. Accordingly, a transfer of a Note by a Noteholder not within the charge to United Kingdom corporation tax who is resident or ordinarily resident in the United Kingdom or a Noteholder who carries on a trade in the United Kingdom through a branch or agency to which the Note is attributable, may give rise to a charge to United Kingdom income tax in respect of an amount representing accrued interest on the Note since the preceding interest payment date in such an amount as the Inland Revenue deem just and reasonable. A transferee of Notes with accrued interest will not be entitled to any corresponding relief under the Accrued Income Scheme.

D. Taxation of chargeable gains – individual Noteholders

As certain of the Notes are denominated in a currency other than sterling and the Notes denominated in sterling contain provisions for redenomination into euros, the Notes will not be treated by the United Kingdom Inland Revenue as “**qualifying corporate bonds**” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal (including a redemption) of Notes by an individual Noteholder may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains, depending on the individual circumstances of the Noteholder. In calculating any gain or loss on disposal of a Note, sterling values are compared at acquisition and disposal.

E. United Kingdom – corporation tax payers

Noteholders within the charge to United Kingdom corporation tax will not be subject to the methods of taxation set out in paragraphs C or D above. Instead, generally, any profits, gains and losses (including any foreign exchange gains and losses), measured and recognised broadly in accordance with an authorised accounting method, are taxed

or relieved as income. Noteholders within the charge to United Kingdom corporation tax are generally charged to tax in each accounting period by reference to interest accrued in that period and other profits recognised in that period in accordance with such Noteholders' authorised accounting methods.

F. Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Notes or on a transfer of the Notes by delivery.

G. EU Directive on the taxation of savings income in the form of interest payments

On 3rd June 2003 the Council of the European Union adopted a new directive regarding the taxation of savings income in the form of interest payments (Council Directive 2003/48/EC (the "**Directive**")). The Directive is scheduled to be applied by member states of the European Union ("**Member States**") from 1st January 2005, provided that certain other territories adopt similar measures from the same date. Under the Directive, each 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, except that Belgium, Luxembourg and Austria will instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the Directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-European Union countries to the exchange of information relating to such payments.

General Information

- A. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Codes and ISIN for the Notes are:

Notes	Common Code	ISIN
Class A1 Notes	018365375	XS0183653756
Class A2 Notes	018365413	XS0183654135
Class A3 Notes	018365464	XS0183654648
Class M1 Notes	018365537	XS0183655371
Class M2 Notes	018365553	XS0183655538

- B. The issue of the Notes has been authorised by resolution of the Board of Directors of the Issuer passed on 20th January 2004.
- C. The listing of the Notes on the Official List will be expressed in sterling as a percentage of their principal amount. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction. It is expected that listing of the Notes by the UK Listing Authority and admission to trading on the London Stock Exchange will be granted on or around 29th January 2004, subject only to issue of the Temporary Global Notes. Prior to official listing, however, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules.
- D. The accounts of the Issuer in this Offering Circular constitute non-statutory accounts as defined by section 240(5) of the Companies Act 1985 and have been audited by KPMG Audit Plc, Chartered Accountants. The accounting reference date of the Issuer is 31st December. No statutory accounts of the Issuer have been required to be produced and, save as aforesaid, no audited accounts of the Issuer have been prepared since its date of incorporation.
- E. The Issuer is not and has not been involved in any legal or arbitration proceedings which may have or have had since its date of incorporation a significant effect on its financial position nor is the Issuer aware that any such proceedings are pending or threatened.
- F. KPMG Audit Plc has given and not withdrawn its written consent to the inclusion herein of its report and has authorised the contents of that part of the listing particulars for the purposes of Regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.
- G. Since 1st November 2002, being the date of incorporation of the Issuer, there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or financial position of the Issuer.
- H. The Notes will contain 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**”.
- I. Copies of the following documents may be inspected during usual business hours at the offices of Lovells for 14 days from the date of this Offering Circular:
- (i) the Memorandum and Articles of Association of the Issuer;
 - (ii) the balance sheet of the Issuer as at 27th January 2004 and the Auditor’s report thereon;
 - (iii) the consent referred to in paragraph F above;
 - (iv) the Subscription Agreements referred to under “**Subscription and Sale**” above;
 - (v) drafts (subject to minor modifications) of the following documents (which are all material to the issue of Notes):
 - (a) the Agency Agreement;
 - (b) the Trust Deed (including the terms of the Global Class A Notes, the definitive Class A Notes, the Class A Coupons, the Class A Talons, the Global Class M Notes, the definitive Class M Notes, the Class M Coupons and the Class M Talons);
 - (c) the Deed of Charge;
 - (d) the Mortgage Sale Agreement;
 - (e) the Servicing Agreement;

- (f) the Standby Servicing Agreement;
- (g) the Guaranteed Investment Contract;
- (h) the Redraw Facility Agreement;
- (i) the MTL Declaration of Trust;
- (j) the MTS Declaration of Trust;
- (k) the Bank Agreement;
- (l) the Start-Up Loan Agreement;
- (m) the Master Definitions Schedule;
- (n) the Interest Rate Swap Agreements;
- (o) the Currency Swap Agreements;
- (p) the Tax Deed of Covenant;
- (q) the VAT Declaration of Trust; and
- (r) the Deed of Amendment and Restatement relating to Cross-default and Cross-collateralisation Rights.

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