

Finance for People (No.2) PLC

(Incorporated with limited liability in England and Wales with registered number 2336878)

£132,000,000

Class A Mortgage Backed Floating Rate Notes Due 2034

Class A1 £55,000,000 Class A2 £77,000,000

Issue price: 100%

£33,000,000

Class B Mortgage Backed Floating Rate Notes Due 2034

Issue price: 100%

£10,000,000

Class C Mortgage Backed Floating Rate Notes Due 2034

Issue price: 100%

The £132,000,000 Class A Mortgage Backed Floating Rate Notes Due 2034 of Finance for People (No.2) PLC (the "Issuer") will comprise £55,000,000 Class A1 Notes (the "Class A1 Notes") and £77,000,000 Class A2 Notes (the "Class A2 Notes") (together the "Class A Notes") and will be issued by the Issuer together with the £33,000,000 Class B Mortgage Backed Floating Rate Notes Due 2034 of the Issuer (the "Class B Notes") and the £10,000,000 Class C Mortgage Backed Floating Rate Notes Due 2034 of the Issuer (the "Class C Notes") (the Class A Notes, the Class B Notes and the Class C Notes together the "Notes" and the Class B Notes and the Class C Notes together the "Subordinated Notes").

Interest on the Notes will be payable in pounds sterling quarterly in arrear on the last business day falling in March, June, September and December (each an "Interest Payment Date") in each year, the first payment being made on the last business day in March 1998. Interest on the Class B Notes and the Class C Notes will be paid on an Interest Payment Date only to the extent that there are funds available to the Issuer on the Principal Determination Date (as defined herein) applicable to such Interest Payment Date to pay interest on such Notes, as more particularly described herein. To the extent that such funds are insufficient to pay the full amount of interest on the Class B Notes and/or the Class C Notes on such Interest Payment Date, payment of the shortfall will be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such shortfall to the extent of such available funds. Such deferred interest will accrue interest at the rate of interest accruing on the relevant Notes from time to time. The interest rates applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate ("LIBOR") for three-month sterling deposits (other than in respect of the first Interest Period – see "Description of the Class A Notes, the Global Class A Notes and the Security – Terms and Conditions", "Description of the Class B Notes, the Global Class B Notes and the Security – Terms and Conditions" and "Description of the Class C Notes, the Global Class C Notes and the Security – Terms and Conditions") plus a margin which will differ for each class of Notes. The margins applicable to each class of Notes, and the Interest Periods (as defined herein) for which such margins apply, will be as set out below:

- (i) Class A1 Notes: 0.10% per annum up to and including the Interest Period ending in March 2000 and thereafter 0.20% per annum;
- (ii) Class A2 Notes: 0.18% per annum up to and including the Interest Period ending in March 2004 and thereafter 0.45% per annum;
- (iii) Class B Notes: 0.40% per annum up to and including the Interest Period ending in March 2004 and thereafter 0.85% per annum; and
- (iv) Class C Notes: 0.92% per annum up to and including the Interest Period ending in March 2004 and thereafter 1.95% per annum.

The first Interest Period is expected to commence on (and include) 27th January 1998 and end on (but exclude) the last business day in March 1998. Interest payments on the Notes will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor.

The Notes will be subject to mandatory redemption in part from time to time on any Interest Payment Date, as more particularly described herein. In certain other circumstances, and at certain times, the Notes may be redeemed at the option of the Issuer at their principal amount outstanding together with accrued interest on any Interest Payment Date as more particularly described herein.

The Class B Notes and the Class C Notes will be secured by the same security that will secure the Class A Notes but in the event of the security being enforced the Class A Notes will rank in priority to the Class B Notes and the Class C Notes and the Class B Notes will rank in priority to the Class C Notes. All the Class A Notes (irrespective of class) will rank *pari passu* and rateably without any preference or priority among themselves except, until enforcement of the security, as to priority of payments of principal. The right to payment of interest on the Class B Notes and the Class C Notes will be subordinated and may be limited as described herein (see "Summary – Interest" below). As a result, no assurance is given as to the amount (if any) of interest on the Class B Notes or the Class C Notes which may actually be paid on any Interest Payment Date.

The Class A Notes are expected, on issue, to be assigned an Aaa rating by Moody's Investors Service Limited ("Moody's"). The Class B Notes are expected, on issue, to be assigned an A2 rating by Moody's. The Class C Notes are expected, on issue, to be assigned a Baa3 rating by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for the Notes to be admitted to the Official List. Copies of this Offering Circular, which comprises approved listing particulars with regard to the Issuer and the Notes in accordance with the listing rules made under Part IV of the Financial Services Act 1986, have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act.

The Notes of each class will be initially represented by a Temporary Global Note, without coupons or talons, which will be deposited with Morgan Guaranty Trust Company of New York, London office, as common depository (the "Common Depository") for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel Bank") at the closing of the issues of the Notes (which is expected to be on 27th January 1998). The Temporary Global Note relating to each class of Notes will be exchangeable 40 days after the closing of the issues of the Notes (provided that certification of non-U.S. beneficial ownership has been received) for interests in a Permanent Global Note relating to the same class which will also be deposited with the Common Depository. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

Simultaneously with the issues of the Notes, the Issuer will issue unlisted Convertible Cumulative Secured Subordinated Loan Stock 2034 (the "Loan Stock") in an amount sufficient to enable the Issuer to purchase the Mortgages and to satisfy the requirements of Moody's. The Loan Stock will be secured by the same security that will secure the Notes, although the Loan Stock will be subordinated to the Notes in point of payment of principal and interest, and the Notes will rank in priority to the Loan Stock in the event of the security being enforced (see "Summary – Priority of Payments" and "Summary – Security for the Notes" below).

Particular attention is drawn to the section herein entitled "Special Considerations".

Class A1 Notes Managers

HSBC Markets

Deutsche Morgan Grenfell

ING Barings

Goldman Sachs International

J.P. Morgan Securities Ltd.

Class A2, Class B and Class C Notes Manager

HSBC Markets

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

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

The Notes will be obligations of the Issuer, secured by the security described in this Offering Circular. The Notes will not be obligations or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations or the responsibility of, or be guaranteed by, PFPLC, PML, PGC (each as defined herein), any company in the same group of companies as PGC (other than the Issuer) or any other person other than the Issuer. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by PFPLC, PML, PGC, any company in the same group of companies as PGC (other than the Issuer) or any other person other than the Issuer.

None of the Managers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. Each potential purchaser of Notes should determine the relevance of the information contained in this Offering Circular and the purchase of Notes should be based upon such investigation as each purchaser deems necessary. None of the Managers undertakes to review the financial condition or affairs of the Issuer nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Managers.

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

No action has been taken by the Issuer or the Managers other than as set out in the seventh paragraph on the first page hereof that would permit a public offer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any offering circular, prospectus, form of application, advertisement or other offering material may be issued or distributed or published in any country or jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations and the Managers have represented that all offers and sales by them have been and will be made on such terms. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offers and sales of Notes and distribution of this Offering Circular, see “Subscription and Sale” below. For a description of the certification requirements as to non-U.S. beneficial ownership, see “Description of the Class A Notes, the Global Class A Notes and the Security”, “Description of the Class B Notes, the Global Class B Notes and the Security” and “Description of the Class C Notes, the Global Class C Notes and the Security” below.

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

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

In connection with the issue of the Notes, Midland Bank plc may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time. HSBC Markets Limited is the Appointed Representative of Midland Bank plc.

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SUMMARY

The information on the first page, page 2 and pages 4 to 21 relating to the Notes and the Mortgages is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular.

Issuer	Finance for People (No.2) PLC, a public company incorporated under the laws of England, registered number 2336878 and a wholly owned subsidiary of The Paragon Group of Companies PLC (“PGC”). The ordinary shares of PGC are listed on the London Stock Exchange.
Mortgage Administrator	Paragon Finance PLC (“PFPLC” or the “Administrator”), a public company incorporated under the laws of England and a wholly owned subsidiary of PGC.
Mortgage Originators	Save in respect of the local authority mortgages (as described in “The Mortgages” below) which were originated by certain local authorities (the “Local Authority Mortgages”), the Mortgages (as defined below) were originated by Paragon Mortgages Limited (“PML”), a wholly owned subsidiary of PGC, or PFPLC.
The Trustee	J.P. Morgan Trustee Ltd. (the “Trustee”).
The Notes	<p>£132,000,000 Class A Mortgage Backed Floating Rate Notes Due 2034 (comprising £55,000,000 Class A1 Notes and £77,000,000 Class A2 Notes), £33,000,000 Class B Mortgage Backed Floating Rate Notes Due 2034 and £10,000,000 Class C Mortgage Backed Floating Rate Notes Due 2034. All the Class A Notes (irrespective of class) will rank <i>pari passu</i> and rateably without any preference or priority except, until enforcement of the security for the Notes, as to payments of principal.</p> <p>The Notes will be obligations of the Issuer. The Notes will not be obligations or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations or the responsibility of, or guaranteed by, PFPLC, PML, PGC, any company in the same group of companies as PGC (other than the Issuer) or any other person other than the Issuer.</p> <p>No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by PFPLC, PML, PGC, any company in the same group of companies as PGC (other than the Issuer) or by any other person other than the Issuer.</p> <p>Payments in respect of the Class B Notes will only be made if and to the extent that there are sufficient funds after paying or providing for certain liabilities, including in respect of the Class A Notes. The Class B Notes rank after the Class A Notes in point of security.</p> <p>Payments in respect of the Class C Notes will only be made if and to the extent that there are sufficient funds after paying or providing for certain liabilities, including in respect of the Class A Notes and the Class B Notes. The Class C Notes rank after the Class A Notes and the Class B Notes in point of security.</p>
Interest	The interest rate applicable to the Notes from time to time will be determined by reference to LIBOR for three-month sterling deposits (other than in respect of the first Interest Period – see “Description of the Class A Notes, the Global Class A Notes and the Security – Terms and Conditions”, “Description of the Class B Notes, the Global Class B Notes and the Security – Terms and Conditions” and “Description of the Class C Notes, the Global Class C Notes and the Security – Terms and Conditions”) plus a margin which will differ for each class of Notes. The margins applicable to each class of Notes, and the Interest Periods for which such margins apply, will be as set out below:

Class A1 Notes: 0.10% per annum up to and including the Interest Period ending in March 2000 and thereafter 0.20% per annum;
Class A2 Notes: 0.18% per annum up to and including the Interest Period ending in March 2004 and thereafter 0.45% per annum;
Class B Notes: 0.40% per annum up to and including the Interest Period ending in March 2004 and thereafter 0.85% per annum; and
Class C Notes: 0.92% per annum up to and including the Interest Period ending in March 2004 and thereafter 1.95% per annum.

Interest payments on the Subordinated Notes will be subordinated to payments on the Class A Notes and interest payments on the Class C Notes will be subordinated to interest payments on the Class A Notes and the Class B Notes (see “Priority of Payments” below) so that Class B Noteholders and Class C Noteholders will not be entitled to receive any payment of interest unless and until all amounts of interest then due to Class A Noteholders have been paid in full and Class C Noteholders will not be entitled to receive any payment of interest unless and until all amounts of interest then due to Class A Noteholders and Class B Noteholders have been paid in full.

To the extent that funds are insufficient to pay the interest otherwise due on the Class B Notes and/or Class C Notes, the deficit will not then be paid but will only be paid on subsequent Interest Payment Dates if and when permitted by subsequent cash flow which is surplus to the Issuer’s liabilities of a higher priority (see “Priority of Payments” below) on the relevant Interest Payment Date. Such shortfall will accrue interest during the time it remains unpaid. To the extent that any such shortfall and interest thereon is not made good by subsequent surplus cash flow as aforesaid, then, at the final maturity or in certain other circumstances, the Issuer’s obligation in respect of any remaining shortfall and interest thereon will cease.

Interest is payable in respect of the Notes (provided certification of non-U.S. beneficial ownership by the Noteholders has been received) in pounds sterling quarterly in arrear on the last business day falling in March, June, September and December in each year, the first payment being made on the last business day in March 1998.

The first Interest Period will commence on (and include) the date of the closing of the issues of the Notes, which is expected to be 27th January 1998 or such later date as may be agreed between the Issuer and the Managers for each class of Notes (the “Closing Date”), and end on (but exclude) the last business day in March 1998. Each subsequent Interest Period applicable to the Notes will commence on (and include) an Interest Payment Date and end on (but exclude) the next succeeding Interest Payment Date. Interest payments will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor.

Security for the Notes

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

- (i) certain mortgages (or the beneficial interest therein) to be purchased by the Issuer (the “Mortgages”) and life assurance policies (if applicable) and mortgage guarantee indemnity insurance (if applicable) relating thereto;
- (ii) all other insurances in which the Issuer has an interest;
- (iii) the Issuer’s rights under the Mortgage Sale Agreement, the Administration Agreement, the PFPLC Subordinated Loan Agreement, the Fee Letter, the Swap Agreement, the PFPLC Collection Account Declaration of Trust, the PML Collection Account Declaration of Trust, the Caps and other hedging arrangements entered into by the Issuer (if any), the Substitute Administrator Agreement and the VAT Declaration of Trust (each as defined elsewhere in this Offering Circular); and

(iv) any investments in which the Issuer may place its cash resources and (subject to the reservation expressed in “Special Considerations” below) over payments from the Inland Revenue under the Mortgage Interest Relief at Source (MIRAS) Scheme; and

(v) the Issuer’s rights to all moneys standing to the credit of the bank account of the Issuer with National Westminster Bank PLC at its branch at 4 High Street, Solihull, West Midlands (or such other bank as the Issuer, subject to certain restrictions and with the consent of the Trustee, may from time to time select for such purpose) into and out of which all payments to and by the Issuer will be made (the “Transaction Account”) and any other bank accounts in which the Issuer has an interest.

These security interests will be fixed except in relation to certain investments and moneys standing to the credit of such bank accounts over which the security may be by way of floating charge (thus ranking behind claims of certain creditors preferred by law) and in relation to MIRAS payments, in respect of which the situation is described in “Special Considerations” below. In addition, subject as mentioned above, the Notes will be secured by a floating charge over all the assets and undertaking of the Issuer other than those covered by fixed security (but extending to all of the Issuer’s Scottish assets, including those covered by the fixed security).

The Class A Notes, the Class B Notes and the Class C Notes will be constituted by the same trust deed and will share the same security but in the event of the security being enforced the Class A Notes will rank in priority to the Subordinated Notes and the Class B Notes will rank in priority to the Class C Notes. All the Class A Notes (irrespective of class) will rank *pari passu* and rateably without any preference or priority among themselves upon enforcement of the security.

Certain other amounts, including the amounts owing to the Trustee and any receiver, the amounts owing for the time being to the holders of the Loan Stock (the “Stockholders”), any amounts payable to Barclays Bank PLC (“Barclays”) under the Substitute Administrator Agreement, any amounts payable to the Swap Counterparty (as defined below) under the Swap Agreement, the fees and expenses of, and commissions payable to, and all other amounts owing to, the Administrator and/or any substitute administrator and all amounts owing to PFPLC and PML under, *inter alia*, the Mortgage Sale Agreement, the Fee Letter and the Services Letter (as defined in “The Issuer” below) and amounts owing under the PFPLC Subordinated Loan Agreement referred to below, will also have the benefit of the security interests referred to above. The terms on which such security interests will be held will provide that, upon enforcement:—

(i) all amounts payable to any receiver and the Trustee, any amounts payable to Barclays under the Substitute Administrator Agreement, the fees, expenses and commissions payable to the Administrator and/or any substitute administrator and all amounts (if any) payable to the Swap Counterparty under the Swap Agreement will rank in priority to payments of interest or principal on the Notes;

(ii) amounts owing to the Class B Noteholders will rank in priority after all payments on the Class A Notes;

(iii) amounts owing to the Class C Noteholders will rank in priority after all payments on the Class A Notes and the Class B Notes; and

(iv) amounts owing to PFPLC and PML under the Mortgage Sale Agreement, the Fee Letter and the Services Letter and amounts owing

under the PFPLC Subordinated Loan Agreement and the Loan Stock will rank in priority after all payments on the Notes.

Priority of Payments

Moneys received by the Issuer from borrowers or recovered under the Mortgages (other than amounts of principal and amounts representing Pre-Closing Accruals and Arrears (as defined in “The Mortgages” below) purchased by the Issuer which will be dealt with in the manner described under “Mandatory Redemption in Part” below) and other net income of the Issuer will be applied from time to time in making payment of certain moneys which properly belong to third parties (such as overpayments by borrowers or by the Inland Revenue under the MIRAS Scheme) and of sums due to third parties under obligations incurred in the course of the Issuer’s business (save insofar as the intended recipient agrees otherwise) and in making certain provisions. Until enforcement of the security for the Notes, the following payments and provisions are required to be made on each Interest Payment Date in the following order of priority (in each case only if and to the extent that payments and provisions of a higher priority have been made in full):—

- (i) payment of amounts payable by the Issuer to the Trustee and amounts payable to Barclays pursuant to the Substitute Administrator Agreement (other than the commitment fee referred to therein);
- (ii) payment of all fees, costs, expenses and commissions payable to the Administrator and/or PML and/or any substitute administrator under the Administration Agreement and the commitment fee payable to Barclays pursuant to the Substitute Administrator Agreement;
- (iii) payment of all amounts payable to the Swap Counterparty under the Swap Agreement (if any);
- (iv) payment of interest due or overdue on the Class A Notes together with (if applicable) interest thereon;
- (v) payment of sums due to third parties under obligations incurred in the course of the Issuer’s business and provision for and payment of the Issuer’s liability (if any) to value added tax and to mainstream corporation tax (after deducting any available advance corporation tax credit on distributions made by the Issuer to the extent that such advance corporation tax has been accounted for to the Inland Revenue) and the balance, if any, of the VAT liability of the Paragon VAT Group following a demand being made by H.M. Customs & Excise on the Issuer where the VAT liability is not satisfied in full in accordance with the Deed of Charge and the VAT Declaration of Trust (see “The Paragon VAT Group” below);
- (vi) payment of interest due or overdue on the Class B Notes together with (if applicable) interest thereon;
- (vii) payment of interest due or overdue on the Class C Notes together with (if applicable) interest thereon;
- (viii) provision for an amount necessary to replenish the First Loss Fund (as defined below) to the relevant amount specified in “First Loss Fund” below;
- (ix) provision for an amount up to, and to that extent reducing, the provision (if any) in the Issuer’s accounts (the Principal Deficiency Ledger (to be defined in the Administration Agreement and as described in “Mortgage Administration – Arrears and Default Procedures” below)) against deficits suffered in recovering amounts of principal due from borrowers under the Mortgages or resulting from principal being applied in paying interest on the Class A Notes or in

refunding reclaimed direct debit payments; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds (as defined below) on the immediately following Principal Determination Date;

(x) provision for an amount up to, and to that extent reducing, the Spread Requirement (if any) as defined below; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds on the immediately following Principal Determination Date;

(xi) provision for any amounts then due or overdue to PFPLC or PML under the Fee Letter;

(xii) provision for, at the option of the Issuer, a reserve to fund any purchases of Caps (as defined in “Cap Agreements and Cap Providers” below) and/or other hedging arrangements and/or related guarantees in the next Interest Period;

(xiii) provision for interest due under the PFPLC Subordinated Loan Agreement;

(xiv) payment of interest which, by the terms and conditions of the Loan Stock, is due and payable except to the extent satisfied by the issue of additional Loan Stock by the Issuer in accordance with the Instrument (as defined below);

(xv) provision for payment to the Administrator or PFPLC of such fees as the Issuer and the Administrator or PFPLC, as the case may be, may agree in respect of facilities or services provided to the Issuer by the Administrator or PFPLC, as the case may be, other than fees provided for above; and

(xvi) provision for the amount of any distributions to be made by the Issuer plus any advance corporation tax in respect thereof;

all as set out in a deed of sub-charge and assignment to be entered into between the Issuer, the Trustee, PFPLC, PML, the Administrator, the Swap Counterparty and Barclays (the “Deed of Charge”). If and to the extent that the provisions specified in paragraphs (xi), (xiii), (xiv), (xv) and (xvi) are made on such Interest Payment Date, the relevant amounts shall be paid to the persons entitled thereto on or after the seventh day after such Interest Payment Date (save in the case of advance corporation tax which shall be paid on the due date for payment thereof) to the extent that the Issuer’s available revenue funds are sufficient for such purpose.

If on any Interest Payment Date, while any Class A Note remains outstanding, application in the order set out above would result in the sum of:—

(x) any debit balance on the Principal Deficiency Ledger; and

(y) the aggregate of the amounts specified in paragraphs (i) to (v) inclusive above to the extent that such amounts would not be paid or provided for in full following such application,

exceeding the sum of:—

(a) the then resulting current balance of the First Loss Fund; and

(b) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes (after deducting the amount of any Class B Available Redemption Funds on the Principal Determination Date relating to such Interest Payment Date); and

(c) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes (after deducting the amount of any Class C Available Redemption Funds on the Principal Determination Date relating to such Interest Payment Date),

then, to the extent of such excess the payments specified in paragraphs (vi) and (vii) shall be postponed and shall instead be paid after any provisions referred to in paragraphs (viii), (ix) and (x) (but prior to any provision referred to in paragraph (xi)).

With effect from the first day on which no Class A Note is outstanding the making of the provision specified in paragraph (viii) shall be postponed and instead such provision shall be made immediately after the making of the provision referred to in paragraph (x).

Save for the First Loss Fund and the Spread Requirement, the Issuer will not be required to accumulate surplus assets as security for any future payments on the Notes.

Any payments received after the Closing Date in respect of Mortgages purchased by the Issuer which are in arrears by an amount in excess of one current monthly payment at the Closing Date will be first applied towards Pre-Closing Accruals and Arrears and dealt with in the manner described under “Mandatory Redemption in Part” below.

Arrears of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) as at the Closing Date in any case in respect of the Mortgages purchased by the Issuer which are not in arrears by an amount in excess of one current monthly payment at the Closing Date will not be purchased by the Issuer and any payments received in respect of such Mortgages after the Closing Date will be applied first to those arrears, other amounts and accrued interest and will be accounted for to PFPLC or PML (as the case may be).

Mandatory Redemption in Part

Prior to enforcement, the Notes will be subject to mandatory redemption in part on each Interest Payment Date in an aggregate principal amount calculated by reference to the Available Redemption Funds as determined on the ninth day or, if earlier, the fifth business day prior to such Interest Payment Date (a “Principal Determination Date”).

Up to and including the Interest Payment Date on which the ratio of the aggregate Principal Amount Outstanding of the Subordinated Notes to the aggregate Principal Amounts Outstanding of the Notes is 86:175 or more (such circumstance constituting the “Determination Event”), all Available Redemption Funds will be applied in mandatory redemption of the Class A1 Notes until all the Class A1 Notes have been redeemed in full, and thereafter in mandatory redemption of the Class A2 Notes. After the occurrence of the Determination Event, on each Interest Payment Date, provided that on the immediately preceding Principal Determination Date (a) there is a balance of zero on the Principal Deficiency Ledger, (b) there are no Class A1 Notes then outstanding and (c) the then outstanding balance, including arrears of interest and all other sums due but unpaid (the “Current Balance”) of Mortgages which are more than three months in arrears represents less than 40% of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised within the 12 months immediately preceding such time), Available Redemption Funds will be applied in redemption of both the Class A2 Notes and the Subordinated Notes so as to achieve and then maintain the above ratio provided that:—

(i) if all Class A Notes have been redeemed, all Available Redemption Funds will be applied to redeem the Subordinated Notes; and

(ii) while any Class A Note remains outstanding the aggregate Principal Amount Outstanding of the Subordinated Notes may not be less than £4,000,000.

After the occurrence of a Determination Event, the whole of the Available Redemption Funds will be applied in redemption of the Class A1 Notes until all the Class A1 Notes have been redeemed in full and thereafter the balance of the Available Redemption Funds not applied in redemption of the Subordinated Notes will be applied in redemption of the Class A2 Notes.

Amounts to be applied in redemption of the Subordinated Notes will be applied *pro rata* between the Class B Notes and the Class C Notes according to their Principal Amount Outstanding on issue.

The Issuer will cause the Administrator to determine the Available Redemption Funds and the amount of principal payable on each Note on each Principal Determination Date.

“Available Redemption Funds” on any Principal Determination Date means:—

(a) the aggregate of:

(i) all principal and Pre-Closing Accruals and Arrears received or recovered in respect of Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest which does not represent Pre-Closing Accruals and Arrears) on repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents (as defined in “Description of the Class A Notes, the Global Class A Notes and the Security” below) but excluding any such principal which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer) during the period from (and including) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (but excluding) the Principal Determination Date in question (the “relevant Collection Period”);

(ii) in the case of the first Principal Determination Date, the amount (if any) by which the aggregate principal amount of the Notes on issue exceeds the aggregate of the amounts paid in cash and not by the issue of Loan Stock to acquire Mortgages in accordance with the Mortgage Sale Agreement;

(iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Notes on the Interest Payment Date relative thereto; and

(iv) any part of the amount deducted pursuant to (b)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances (each as defined below), in purchasing and cancelling Class A Notes or in paying interest on the Class A Notes, in each case on or prior to the preceding Interest Payment Date; less

(b) the aggregate of:

(i) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period);

(ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the PFPLC Subordinated

Loan Agreement (as described in “PFPLC Subordinated Loan Agreement” below);

(iii) the aggregate Principal Amount Outstanding of Class A Notes purchased and cancelled during the relevant Collection Period or (as a result of any commitment entered into during such relevant Collection Period) expected to be purchased and cancelled on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period;

(iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes on that Interest Payment Date, such estimate to be made on the assumption that the amount of interest due on that Interest Payment Date on each Mortgage on which the due amount was paid on the last business day of the preceding month will be paid in full, all as will be set out in the Administration Agreement; and

(v) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments,

in each such case (save for (a)(iii) and (iv) above) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date.

Optional Redemption of Class A Notes

All (but not some only) of the Class A Notes (irrespective of class) will be subject to redemption, at the option of the Issuer, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class A Notes or in the event of certain other United Kingdom taxation changes (although the Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction).

Furthermore, the Issuer will also be entitled, but not obliged, to redeem all (but not some only) of the Class A Notes of a particular class at their Principal Amount Outstanding together with accrued interest as follows:

(i) Class A1 Notes on any Interest Payment Date falling in or after March 2000; and

(ii) Class A2 Notes on any Interest Payment Date falling in or after March 2001 or, if earlier, falling on or after the date on which all the Class A1 Notes are redeemed in full.

No such optional redemption of any Class A2 Note may be made unless none of the Class A1 Notes are then outstanding or all (but not some only) of the Class A1 Notes are redeemed in full at the same time.

All (but not some only) of the Class A Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes then outstanding is less than £35,000,000.

Optional Redemption of Class B Notes

Provided that there are no Class A Notes then outstanding or all the Class A Notes (irrespective of class) are to be redeemed in full at the same time, all (but not some only) of the Class B Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any

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

Provided that there are no Class A Notes then outstanding and/or all the Class A Notes (irrespective of class) are to be redeemed in full at the same time, all (but not some only) of the Class B Notes may, at the option of the Issuer, be redeemed in full at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after March 2001 or, if earlier, falling on or after the date on which all the Class A Notes are redeemed in full.

Optional Redemption of Class C Notes

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

Provided that there are no Class A Notes or Class B Notes then outstanding and/or all the Class A Notes (irrespective of class) and/or the Class B Notes are to be redeemed in full at the same time, all (but not some only) of the Class C Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after March 2001 or, if earlier, falling on or after the date on which all the Class A Notes and Class B Notes are redeemed in full.

Purchase of Notes

Prior to the Determination Event, the Issuer may, at its option, apply principal moneys in the purchase of Class A Notes in the open market or otherwise at any price at or below their Principal Amount Outstanding (excluding accrued interest and expenses). Any Class A Notes so purchased will be cancelled. The Issuer may not purchase any Class A2 Note while any Class A1 Note remains outstanding. The Issuer may not purchase Class A Notes after the occurrence of the Determination Event. The Issuer may not purchase Class B Notes or Class C Notes at any time.

Final Redemption

To the extent not otherwise redeemed or purchased and cancelled, the Notes will be redeemed at their Principal Amount Outstanding (less, in the case of the Class C Notes and, to the extent that the applicable Principal Deficiency exceeds the then Principal Amount Outstanding of the Class C Notes, the Class B Notes, the applicable Principal Deficiency (as defined in “Description of the Class B Notes, the Global Class B Notes and the Security – Subordination” and “Description of the Class C Notes, the Global Class C Notes and the Security – Subordination”, respectively, below)) on the Interest Payment Date falling in December 2034.

Principal Amount Outstanding and Pool Factor

The Principal Amount Outstanding of a Note, irrespective of class, will be its initial principal amount of £10,000 less the aggregate amount of principal repayments that have been made or fallen due (whether or not paid) on that Note. The Pool Factor for each Note during an Interest Period will be determined by dividing the Principal Amount Outstanding of such Note on the first day of that Interest

Period (after deducting any principal repayment due on that day) by 10,000 and expressing the quotient to the sixth decimal place.

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

The Principal Amount Outstanding of Class A Notes of one class will from time to time be different from the Principal Amount Outstanding of Class A Notes of the other class.

The Mortgages

The Mortgages (or the beneficial interest therein) to be acquired by the Issuer on the Closing Date and which will form part of the security for the Notes (the "Mortgage Pool") will comprise mortgages originated by PFPLC, mortgages acquired by PFPLC and of which PFPLC is now the legal owner (the "PFPLC Mortgages") and mortgages originated by PML (the "PML Mortgages").

The Mortgages will be acquired by the Issuer pursuant to an agreement dated 23rd January 1998 between the Issuer, PFPLC, PML, the Trustee and certain other companies from whom PFPLC and PML, as the case may be, will re-acquire certain of the Mortgages on the Closing Date (being companies which have previously purchased such Mortgages in connection with securitisation transactions) (the "Mortgage Sale Agreement").

All the Mortgages are secured by charges (the "English Mortgages") over freehold or leasehold residential properties located in England or Wales (the "English Properties") or by standard securities (the "Scottish Mortgages") over feudal or long leasehold residential properties located in Scotland (the "Scottish Properties" and, together with the English Properties, the "Properties"). The Provisional Mortgage Pool (as defined in "The Provisional Mortgage Pool" below) includes mortgages in respect of which, as at the Provisional Pool Date (as defined in "The Provisional Mortgage Pool" below), payments due from borrowers were in arrears by an amount in excess of one current monthly payment (each such Mortgage being an "Arrears Mortgage" and any Mortgage in respect of which payments were not so in arrears on such date being a "Current Mortgage").

References herein to freehold property or interests therein and to leasehold property or interests therein shall, in respect of the Scottish Properties, be construed as being references to feudal property or interests therein and long leasehold property or interests therein respectively.

Arrears of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) in respect of any Mortgage which, as at the Closing Date is not in arrears by an amount in excess of one current monthly payment as at the Closing Date will not be purchased by the Issuer and any payments received in respect of such Mortgage after the Closing Date will be applied first to those arrears, other amounts and accrued interest and will be accounted for to PFPLC or PML (as the case may be). Arrears of interest, other amounts which have become due but remain unpaid and any interest accrued (but unpaid) in respect of any Mortgage which, as at the

Closing Date, is in arrears by an amount in excess of one current monthly payment at the Closing Date (“Pre-Closing Accruals and Arrears”) will be purchased by the Issuer and any payments received in respect of such Mortgage after the Closing Date will be first applied towards those arrears, other amounts and accrued interest and treated accordingly as Pre-Closing Accruals and Arrears for the purposes of, *inter alia*, being dealt with in the manner described in “Mandatory Redemption in Part” above.

The Mortgages in the Mortgage Pool will have had original maturities of up to 37 years. Principal payments may be made in whole or in part at any time during the term of a Mortgage at the option of a borrower. Any such payments received by the Issuer (whether or not scheduled) will form part of the moneys included in the calculation of Available Redemption Funds.

PFPLC Mortgages

The PFPLC Mortgages comprise Standard Mortgages, Blue Chip Mortgages, Local Authority Mortgages and Excluded Mortgages, all as described below (see “The Mortgages”). Save in respect of the Excluded Mortgages and the Local Authority Mortgages, all of the PFPLC Mortgages in the Mortgage Pool will consist of mortgages which met certain lending criteria (see “PFPLC Lending Guidelines” below) at the time of origination by PFPLC. The Issuer will have the benefit of warranties given by PFPLC in relation to the PFPLC Mortgages other than in respect of the Excluded Mortgages, the Local Authority Mortgages and the PFPLC Shared Ownership Mortgages including warranties in relation to the lending criteria applied in advancing the loans. Only certain warranties (see “The Provisional Mortgage Pool” below) will be given as to the Excluded Mortgages, the Local Authority Mortgages and the PFPLC Shared Ownership Mortgages (as described below in “The Mortgages”). PFPLC will be required to repurchase any PFPLC Mortgage sold by it in relation to which there is a material breach of warranty. The Mortgage Pool will contain a number of Mortgages which have certain characteristics as described in “The Provisional Mortgage Pool” below (the “Excluded Mortgages”). The Excluded Mortgages had a Provisional Balance as at the Provisional Pool Date of not more than £9,333,530.84 (see “The Provisional Mortgage Pool” below). The Local Authority Mortgages had a Provisional Balance as at the Provisional Pool Date of £395,658.02. The PFPLC Shared Ownership Mortgages had a Provisional Balance as at the Provisional Pool Date of £839,937.95 (see “The Provisional Mortgage Pool” below).

PML Mortgages

The PML Mortgages comprise Standard Mortgages, Fixed Rate Mortgages and LIBOR-Linked Mortgages (see “The Mortgages” below).

All the PML Mortgages in the Mortgage Pool will consist of mortgages which met certain lending criteria (see “PML Lending Guidelines” below) at the time of origination by PML. The Issuer will have the benefit of warranties given by PML in relation to the PML Mortgages. PML will be required to repurchase any PML Mortgage sold by it in relation to which there is a material breach of warranty.

Further Advances

Each further advance made (a) to fund deferred interest in respect of a Stabilised Rate Mortgage or (b) to complete any part of the original advance retained pending completion of construction or refurbishment

is referred to as a “Mandatory Further Advance”. Any further advance other than a Mandatory Further Advance is referred to as a “Discretionary Further Advance”. The Issuer may, subject to the satisfaction of certain conditions, make or fund Discretionary Further Advances on the Mortgages in the Mortgage Pool at any time, provided there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date and provided that Discretionary Further Advances in respect of such Mortgages (other than by way of capitalisation of arrears) are subject to an aggregate cumulative limit of £31,500,000.

Discretionary Further Advances may only be made on any Mortgage if the PML lending criteria as far as applicable are satisfied at the relevant time subject to such waivers as might be within the discretion of a reasonably prudent mortgage lender, all as will be provided in the Administration Agreement.

Selection of Mortgages

The Mortgages to be purchased by the Issuer on the Closing Date will have an aggregate principal amount of not less than £157,500,000. All the Mortgages expected to be purchased by the Issuer will be selected from a larger pool of mortgages to which the statistical and other information contained in this document relates (the “Provisional Mortgage Pool”). Included in the Mortgages so purchased will be Mortgages originated by PFPLC or PML and sold to others which are being re-acquired by PFPLC and PML on the Closing Date.

Conversion of Mortgages

Any Mortgage in the Mortgage Pool may, subject to certain conditions, be converted into a different type of mortgage (a “Converted Mortgage”). Accordingly, any Converted Mortgage may differ from the Mortgages described under “The Mortgages” below which are to be purchased by the Issuer.

If any Converted Mortgages comprise Fixed Rate Mortgages, the Issuer will on or before the date of conversion have entered into one or more interest rate swap, interest rate cap or other hedging agreements for such Converted Mortgages with any related guarantees if not to do so would adversely affect any of the then current ratings of the Notes (see “The Issuer – Cap Agreements and Cap Providers” below).

Receipt of Moneys

All direct debit payments made by borrowers under the PFPLC Mortgages and the PML Mortgages will be paid directly into the Transaction Account. All other moneys paid in respect of the Mortgages in the Mortgage Pool will generally be paid into PFPLC collection accounts (in relation to Mortgages purchased by the Issuer from PFPLC) or into a PML collection account (in relation to Mortgages purchased by the Issuer from PML) and will be transferred on the next following business day, or as soon as practicable thereafter, to the Transaction Account.

Under the PFPLC Collection Accounts Declaration of Trust and the PML Collection Account Declaration of Trust (each as defined in “Mortgage Administration – Payments from Borrowers” below), PFPLC and PML will, respectively, declare that all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Mortgages and certain other sums in respect of the Mortgages are held on trust for the Issuer until they are applied in the manner described above.

Mortgage Administration

Pursuant to an agreement to be entered into between PFPLC, PML, the Issuer and the Trustee (the “Administration Agreement”), PFPLC will administer the Mortgages on behalf of the Issuer, carrying out all administrative functions with the diligence and skill it would apply if it

were a reasonably prudent mortgage lender administering its own mortgages. The Administrator will set the rates of interest applicable to the Mortgages (where relevant). The Administrator will receive, in priority to payments of interest on the Notes, an annual fee of not more than 0.505% (inclusive of VAT) on the aggregate interest charging balance of the outstanding Mortgages, payable quarterly in arrear. Any substitute administrator appointed (other than as administrator of last resort) would receive a fee consistent with that commonly charged at that time for the provision of mortgage administration services. Pursuant to an agreement to be entered into on the Closing Date with Barclays (the "Substitute Administrator Agreement"), Barclays will agree to be administrator of last resort and, in the event that it became the administrator, an annual fee of 0.505% (exclusive of VAT) on the aggregate interest charging balance of the Mortgages payable quarterly in arrear on each Interest Payment Date would be payable.

Under the Administration Agreement, the Administrator is given the duty, on behalf of the Issuer and the Trustee, of taking all reasonable steps to recover sums due to the Issuer, including under the Mortgages and in respect of the Issuer's and the Trustee's rights in the insurance and assurance policies referred to below.

Insurances

With respect to each Mortgage in the Mortgage Pool, the mortgagee will, in addition to various buildings insurances, have originally held the benefit of security over one or more life assurance policies except in the case of a Repayment Mortgage or an Interest-only Mortgage (as defined in "The Mortgages" below) originated by PFPLC. Where a Repayment Mortgage or an Interest-only Mortgage has been originated by PML, PML recommends that borrowers arrange term life assurance but no security will be or has been taken over such assurance. Borrowers may not have been making payment in full or on time of the premiums due on any relevant policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder.

Some of the Mortgages in the Mortgage Pool will also have the benefit of a mortgage guarantee indemnity insurance policy written by, in the case of PFPLC Mortgages, either Sun Alliance and London Insurance plc ("Sun Alliance") or Legal and General Assurance Society Limited ("Legal & General") or, in the case of PML Mortgages, Lloyd's of London ("Lloyd's") which will be assigned by PFPLC or PML, as the case may be, to the Issuer and, where necessary, assigned by way of security by the Issuer for the benefit of the Trustee (see "Special Considerations" below).

The security for the Notes will include the relevant interests of the Issuer in respect of all such insurances and other miscellaneous insurances as described in "Insurance Coverage" below.

First Loss Fund

On the Closing Date the Issuer will draw down under the PFPLC Subordinated Loan Agreement an amount (the "2% amount") which equals 2% of the then Current Balance of all of the Mortgages purchased on such date for the purpose of establishing a fund (the "First Loss Fund"). The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of the amounts referred to in items (i) to (v) and, subject to the following paragraph, (vi) and (vii) inclusive in "Priority of Payments" above where the aggregate amount of the interest paid by the borrowers under the Mortgages, the net income from the investments in which the Issuer has placed its cash resources and certain other income of the Issuer and the amount available to the Issuer (if any) by reason of the

provisions made in any Shortfall Fund as described below, is insufficient to pay such amounts.

Notwithstanding the above, the First Loss Fund will not be applied towards payment of interest due or overdue on the Class B Notes or the Class C Notes to the extent that the priority of payment of such interest is postponed (as set out in “Priority of Payments” above).

The First Loss Fund may also be used to meet certain out-of-pocket expenses incurred by the Issuer and required to be paid otherwise than on an Interest Payment Date.

On each Interest Payment Date revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (vii) inclusive (or, to the extent that the priority of payment of interest due on the Class B Notes and the Class C Notes is postponed, as set out in “Priority of Payments” above, items (i) to (v) inclusive) in “Priority of Payments” above will be applied to replenish the First Loss Fund to the Required Amount (as defined in the next paragraph).

Subject as provided in the next paragraph, the Required Amount will be the amount of the First Loss Fund on the first Principal Determination Date unless otherwise reduced as described in this paragraph. If, on any Interest Payment Date, (a) there is a balance of zero on the Principal Deficiency Ledger and (b) the then Current Balances of Mortgages which are then more than three months in arrears aggregate less than 20% of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised within the 12 months immediately preceding such time) and (c) the amount which is 4% of the then Current Balances of the Mortgages (“the 4% amount”) is less than the amount of the First Loss Fund on the first Principal Determination Date or, as the case may be, any lower figure to which the Required Amount has been reduced on any previous Interest Payment Date as described in this paragraph, the Required Amount will be reduced on such Interest Payment Date to the 4% amount. If on any Interest Payment Date the conditions in (a), (b) and (c) above are not satisfied, the Required Amount will not be reduced but will remain at the Required Amount on the immediately preceding Interest Payment Date or, in the case of the first Interest Payment Date, the Required Amount on the first Principal Determination Date.

If at any time, as a result of the rate at which amounts are received in respect of Pre-Closing Accruals and Arrears, Moody’s notifies the Issuer that the then current Required Amount would have to be increased to a higher amount (the “Increased Required Amount”) in order to maintain the then current ratings of the Notes, the Required Amount shall be so increased with effect from the date on which Moody’s so notifies the Issuer and such Increased Required Amount (or any subsequent Increased Required Amount specified by Moody’s) shall continue to apply as the Required Amount until such time as Moody’s confirms to the Issuer that the Required Amount may be reduced to the amount which would otherwise have applied, or otherwise specifies a new Increased Required Amount.

If after application of any funds required to be applied from the First Loss Fund towards the items referred to above, there remains on any Interest Payment Date a surplus over the Required Amount in the

First Loss Fund, that surplus will be released from the First Loss Fund and applied in repayment of principal amounts outstanding under the PFPLC Subordinated Loan Agreement.

Spread Requirement

On each Interest Payment Date, revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (ix) inclusive (or, to the extent that the priority of payments of interest due on Class B Notes and Class C Notes is postponed as set out in "Priority of Payments" above, items (i) to (ix) inclusive, other than (vi) and (vii)) in "Priority of Payments" above will be set aside up to the then Spread Requirement and applied on the next Interest Payment Date in redeeming Notes. On the Closing Date the Spread Requirement shall be 1% of the Current Balances as at the Closing Date of all of the Mortgages in the Provisional Mortgage Pool which have not then been redeemed or otherwise discharged and on each succeeding Interest Payment Date the Spread Requirement will be the Spread Requirement on the immediately preceding Interest Payment Date less the amount applied on such immediately preceding Interest Payment Date in accordance with item (x) in "Priority of Payments" above.

Shortfall Fund

The Issuer may at any time with the prior consent of PFPLC draw down under the PFPLC Subordinated Loan Agreement for the purpose of establishing a shortfall fund (the "Shortfall Fund"). If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages is less than 1.5% until (and including) the Interest Payment Date falling in March 2004 and 2% thereafter in each case above the LIBOR applicable to the Notes at that time, then the Issuer may do so only if there is a sufficient credit balance in the Shortfall Fund in order to provide for the shortfall which would arise and the Issuer makes a provision in the Shortfall Fund equal to such shortfall.

Amounts standing to the credit of the Shortfall Fund (if any) may also be applied, on any Interest Payment Date, to the extent necessary to pay or provide for items (i) to (vii) inclusive in "Priority of Payments" above. The Issuer may at any time with the prior consent of PFPLC draw down under the PFPLC Subordinated Loan Agreement further sums to replenish or increase any Shortfall Fund which sums may be applied in the manner set out above.

Swap Agreement

On the Closing Date the Issuer will enter into a master interest rate exchange agreement (together with any confirmations for specific transactions, the "Swap Agreement") with Morgan Guaranty Trust Company of New York as Swap Counterparty (the "Swap Counterparty" or the "Swap Provider") under which the Issuer may, but shall not, subject as provided below, be obliged to, from time to time enter into one or more hedging arrangements. The Issuer will not be entitled to enter into any such hedging arrangements if to do so would adversely affect any of the then current ratings of the Notes.

In relation to Fixed Rate Mortgages arising upon conversion of any Mortgages which are not Fixed Rate Mortgages into Fixed Rate Mortgages, the Issuer will, however, be obliged to enter into hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes.

Termination of any such arrangements which are entered into may occur independently of an Event of Default (as defined below). This may give rise to a termination payment due either to or from the Issuer which, in the case of a payment due from the Issuer, will rank in priority to payments on the Notes as provided above.

**Cap Agreements and
Cap Providers**

If and to the extent that any Mortgages are converted into Fixed Rate Mortgages, such Fixed Rate Mortgages may be hedged by way of one or more interest rate caps (each a “Cap”) which will be made available to the Issuer by means of one or more Cap agreements entered into with a counterparty (a “Cap Provider”). The Issuer will not be obliged to enter into any Caps in such circumstances unless not to do so would adversely affect any of the then current ratings of the Notes and it may not enter into any such Caps if to do so would adversely affect any of the then current ratings of the Notes.

A Cap may be provided by any bank or financial institution provided that on the date on which it makes a Cap available to the Issuer, such bank or financial institution has a rating for its long-term or short-term debt obligations sufficient to maintain the then ratings of the Notes unless that Cap is guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes.

Reinvestment of Income

Cash in the Transaction Account must be invested in sterling denominated securities, bank accounts or other obligations of or rights against entities whose long-term debt is rated Aaa by Moody’s or whose short-term debt is rated P-1 by Moody’s (or in such other sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes, or, if there are no Class B Notes outstanding, the Class C Notes). Any investments made by the Issuer must also satisfy certain further criteria described in “Mortgage Administration – Reinvestment of Income” below.

Global Notes

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

While either Global Note of a particular class is outstanding, payments on the Notes of that class represented by either of such Global Notes will be made against presentation of the relevant Global Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Noteholders of that class has been received by Euroclear or Cedel Bank. Each of the persons appearing from time to time in the records of Euroclear or of Cedel Bank as the holder of a Note of a particular class will be entitled to receive any payment so made in respect of that Note in accordance with the rules and procedures of Euroclear or, as the case may be, Cedel Bank. Such persons shall have no claim directly

against the Issuer in respect of payments due on the Notes of any class for so long as either of the Global Notes of that class are outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Note of the relevant class for the Permanent Global Note of that class, which date shall be no earlier than the Exchange Date (as defined in the relevant Temporary Global Note) or (ii) the first Interest Payment Date in relation to the Notes, in order to obtain any payment due on the Notes.

Relationship between Noteholders and between classes of Class A Noteholders

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

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

For the relationship between classes of Class A Noteholders, see “Special Considerations” below.

Fee Letter

PFPLC has agreed to arrange the issues of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issues of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Managers. PML will pay, on behalf of the Issuer, or reimburse to the Issuer, the management and underwriting commissions and selling commissions due to the Managers referred to in “Subscription and Sale” below and any expenses payable by the Issuer in connection with the issues of the Notes. The Issuer has agreed under a fee letter dated 23rd January 1998 (the “Fee Letter”) that it will pay PFPLC an arrangement fee of

0.40% of the aggregate principal amount of the Notes and that it will repay PML such commissions and such expenses in quarterly instalments over a period of four years from the Closing Date. Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR payable quarterly in arrear.

Loan Stock

The Notes will be issued simultaneously with the Convertible Cumulative Secured Subordinated Loan Stock 2034 of the Issuer (the “Loan Stock”) the terms and conditions of which will be set out in an instrument to be dated the Closing Date (the “Instrument”). The initial tranche of Loan Stock (which will be issued in an amount sufficient to enable the Issuer to purchase the Mortgages and to satisfy the requirements of Moody’s) will be subscribed for by PFPLC and PML.

For further details of the Loan Stock, see “The Issuer – Loan Stock” below.

The Notes and the Loan Stock will share the same security, but the Loan Stock will be subordinated to the Notes in point of payment and the Notes will rank in priority to the Loan Stock in the event of the security being enforced. No offer of Loan Stock is made hereby.

PFPLC Subordinated Loan Agreement

PFPLC has made available to the Issuer under a subordinated loan agreement dated 23rd January 1998 (the “PFPLC Subordinated Loan Agreement”) a subordinated loan facility under which an amount or amounts will be drawn down by the Issuer on the Closing Date, to establish the First Loss Fund and under which PFPLC has also agreed to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make. Further drawings may be made by the Issuer under the PFPLC Subordinated Loan Agreement, with the prior consent of PFPLC, for the purpose of establishing or increasing the Shortfall Fund. The Issuer may from time to time borrow further sums from PFPLC or other lenders (“Subordinated Lenders”) on the terms of the PFPLC Subordinated Loan Agreement. On any Interest Payment Date, sums borrowed under the PFPLC Subordinated Loan Agreement will be repaid to the extent of any amounts released from the First Loss Fund (as described in “First Loss Fund” above). For further details of the PFPLC Subordinated Loan Agreement see “The Issuer – Subordinated Loan Facility from PFPLC” below.

SPECIAL CONSIDERATIONS

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

The Notes will be solely the obligations of the Issuer. The Notes will not be obligations or the responsibility of, or guaranteed by, PFPLC, PML or PGC, any company in the same group of companies as PGC (other than the Issuer) or any other person other than the Issuer. Furthermore, none of PFPLC, PML or PGC nor any person other than the Issuer will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes.

The ability of the Issuer to meet its obligations to pay principal of and interest on the Notes and its operating and administration expenses will be dependent on funds being received under, *inter alia*, the Mortgages in the Mortgage Pool, the Transaction Account deposit arrangements, any hedging arrangements entered into under the Swap Agreement, any Caps and any related guarantees, any permitted investments, the PFPLC Subordinated Loan Agreement and the insurances in which the Issuer has an interest.

The ability of the Issuer to pay interest due or overdue on the Notes and to meet certain other obligations is also dependent upon the Administrator having the ability to vary the rates of interest applicable to the Mortgages. However, in respect of Fixed Rate Mortgages, the Administrator is unable to vary the rate of interest during the fixed rate period set out in the relevant Mortgage Conditions; in respect of Local Authority Mortgages, the interest rate is set at 0.25% below the standard national rate declared by the Secretary of State pursuant to Schedule 16 of the Housing Act 1985; and, in respect of Blue Chip Mortgages and LIBOR-Linked Mortgages, the interest rate is set at a fixed margin over three-month LIBOR. As a result, the Issuer may be exposed to the risk of an adverse interest differential between the rate of interest receivable in respect of the Fixed Rate Mortgages, the Local Authority Mortgages, Blue Chip Mortgages and LIBOR-Linked Mortgages, on the one hand, and the rate of interest payable on the Notes on the other hand. If, and to the extent that, Mortgages are converted into Fixed Rate Mortgages, the Issuer will be required to enter into one or more Caps or other hedging arrangements on or before the date of conversion in respect of those Converted Mortgages but only if not to do so would adversely affect any of the then current ratings of the Notes.

The Provisional Mortgage Pool includes mortgages having a Provisional Balance of £84,503,120.58 in respect of which payments due from borrowers were in arrears, as at the Provisional Pool Date, by an amount in excess of one current monthly payment.

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 the First Loss Fund. The Issuer and the Trustee will have no recourse to either PFPLC or PML, other than as provided in the Mortgage Sale Agreement in respect of breach of warranty and of other obligations of PFPLC and PML in relation to the Mortgages (referred to in "The Mortgages" below).

The terms on which the security for the Notes will be held will provide that, upon enforcement, (a) certain payments (including all amounts payable to any receiver and the Trustee, any amounts payable to Barclays under the Substitute Administrator Agreement, certain fees, expenses and commissions payable to the Administrator and/or PML and amounts (if any) payable to the Swap Counterparty under the Swap Agreement) will be made in priority to payments in respect of interest on and principal of the Notes, (b) amounts payable on the Class A Notes will rank in priority to all amounts then owing to both the Class B Noteholders and to the Class C Noteholders, (c) amounts payable on the Class B Notes will rank in priority to all amounts then owing to the Class C Noteholders and (d) payments on the Notes will rank ahead of all amounts then owing to Stockholders, PFPLC and PML under, *inter alia*, the Loan Stock, the Mortgage Sale Agreement, the Fee Letter, the Services Letter (as defined in "The Issuer" below) and the PFPLC Subordinated Loan Agreement. In the event that the security for the Notes is enforced, no amounts will be paid to the Class B Noteholders or to the Class C Noteholders until all amounts owing to the Class A Noteholders have been paid in full and no amounts will be paid to Class C Noteholders until all amounts owing to the Class B Noteholders have been paid in full.

There is some doubt as to the legal effectiveness of any charge over entitlements under the MIRAS Scheme (which is currently established under sections 369-379 of the Income and Corporation Taxes Act 1988). However, the Inland Revenue have indicated in respect of previous similar transactions that they are

prepared to make payments under the MIRAS Scheme to bank accounts similar to the Transaction Account and they will be requested to operate this arrangement in the present case and to give the Trustee advance notice if they wish to change this arrangement.

The Directors of each of PFPLC and PML consider the relevant company of which they are directors to be solvent and it is a condition to the closing of the issues of the Notes that they certify (i) that, in their opinion, such company is not unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 and would not become unable to do so within the meaning of that section in consequence of entering into the Relevant Documents (as defined in Condition 3(A)(1)(b) of the Class A Notes below) to which such company is a party and the performance of its obligations under such Relevant Documents and (ii) that, in their opinion, there is no reason to believe the foregoing state of affairs will not continue thereafter.

Deloitte & Touche will conduct such a review of PFPLC's and PML's records as Deloitte & Touche consider necessary and will on the Closing Date confirm that such review has not disclosed any matters which would lead them to believe that the Directors of any such company were acting unreasonably in providing the certification referred to at (i) above.

If on any Interest Payment Date the Issuer has insufficient income to pay interest on the Class A Notes and amounts ranking in priority thereto, the Issuer may apply principal receipts from borrowers in the payment of such interest. In addition, the Issuer may receive an amount under a direct debit which subsequently has to be repaid to the bank making the payment if that bank is unable to recoup such amount itself from its customer's account. If the Issuer has insufficient revenue funds to make the repayment, such an amount may be repaid by applying principal amounts received. Either of these events may lead to the consequences set out in the following paragraph.

If, upon default by borrowers and the exercise by the Issuer or the Administrator of all available remedies under the Mortgages and the related collateral security and after all available claims under any relevant insurance or assurance policy have been made and settled, the Issuer does not receive the full amount due from those borrowers, or if principal receipts from borrowers are applied in paying interest on the Class A Notes on an Interest Payment Date or in refunding reclaimed direct debit payments (as set out in the preceding paragraph) and, in either case, if otherwise there would be insufficient funds available for these purposes, then the following consequences may ensue: first, the Issuer's interest and other net income may not be sufficient, after making the payments to be made in priority thereto, to pay, in full or at all, interest due on the Class B Notes and/or the Class C Notes; secondly, the Class C Notes and, to the extent that the debit provision in the Principal Deficiency Ledger exceeds the Principal Amount Outstanding of the Class C Notes, the Class B Notes will be redeemed at less than their face value unless prior to their final maturity date the Issuer's interest and other net income is sufficient, after making other payments to be made in priority thereto, to reduce to nil the debit provision in the Principal Deficiency Ledger against such deficits suffered in recovering sums due from borrowers under the Mortgages or which result from the application of principal receipts in paying interest on the Class A Notes or in refunding reclaimed direct debit payments; thirdly, if the aggregate provision against such deficits (even to the extent reduced as aforesaid) should exceed the aggregate face value of the Class B Notes and the Class C Notes, Class A Noteholders may receive by way of principal repayment less than the face value of their Class A Notes; and, fourthly, the Issuer may be unable to pay, in full or at all, interest due on the Class A Notes.

The Administrator will, on behalf of the Issuer and the Trustee, set the rates of interest applicable to the Mortgages (where relevant). The Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages is not less than 1.5% until and including the Interest Payment Date falling in March 2004 and 2% thereafter above LIBOR applicable to the Notes at that time. The Administrator may set or maintain a lower average mortgage interest rate if and to the extent that the resultant shortfall can be provided for out of an available credit balance in any Shortfall Fund.

In limited circumstances the Trustee or the Issuer or any substitute administrator appointed by the Trustee or Barclays when acting in its capacity as administrator of last resort will be entitled to set the rates of interest applicable to the Mortgages. These circumstances include a breach by the Administrator of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders. In such circumstances, the Trustee may terminate the Administrator's authority to set the rates of interest applicable to the Mortgages and/or terminate the appointment of the Administrator.

In view of the arrangements for setting Mortgage rates and in view of the First Loss and Shortfall Funds, the terms and conditions of the Class A Notes, the Class B Notes and the Class C Notes will

provide that a Trustee's certificate, to the effect that the Issuer had sufficient funds available for the purpose, will be necessary to constitute an event of default if one or more interest payments on the Class A Notes, the Class B Notes or the Class C Notes is or are missed or not paid in full (see "Description of the Class A Notes, the Global Class A Notes and the Security – Events of Default", "Description of the Class B Notes, the Global Class B Notes and the Security – Events of Default" and "Description of the Class C Notes, the Global Class C Notes and the Security – Events of Default", below).

PFPLC (in respect of Mortgages sold by it) and PML (in respect of Mortgages sold by it) has warranted to the Issuer and the Trustee in the Mortgage Sale Agreement in respect of the Mortgage Pool, *inter alia*, that, prior to it making the initial advance to a borrower under a Mortgage, PFPLC or PML carried out, save in respect of certain of the Excluded Mortgages and the Local Authority Mortgages, all investigations, searches and other actions as would a reasonably prudent lender and nothing which would cause such a lender to decline to proceed with the advance on the proposed terms was disclosed. Except as described under "The Mortgages – Acquisition of Mortgages" below, neither the Issuer nor the Trustee has undertaken or will undertake any such investigations, searches or other actions and each will rely instead on the warranties given in the Mortgage Sale Agreement by PFPLC in respect of the Mortgages sold by it and by PML in respect of the Mortgages sold by it. The Issuer's and the Trustee's sole remedy against PFPLC and PML in respect of breach of warranty shall be to require PFPLC or PML (as the case may be) to repurchase any relevant Mortgage provided that this shall not limit any other remedies available to the Issuer and/or the Trustee if PFPLC or PML fails to repurchase a Mortgage when obliged to do so.

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

Like other U.K. mortgage lenders, PFPLC has experienced delays in achieving successful settlement of claims made by it under mortgage guarantee indemnity insurance policies relating to mortgages originated by it and there can be no guarantee that such delays will not affect those PFPLC Mortgages in respect of which mortgage guarantee indemnity insurance has been taken out. As with PFPLC, there can be no guarantee that claim delays could not affect those PML Mortgages in respect of which mortgage indemnity insurance has been taken out. Consequently, in order to expedite the settlement of claims under the relevant mortgage guarantee indemnity insurance policies or policy relating to the Mortgages, the Administrator may make arrangements with insurers pursuant to which the insurers shall be entitled to settle disputed claims under the relevant mortgage guarantee indemnity insurance policies or policy relating to the Mortgages at a discount to the face amount of such claims provided that payment of the settlement amount is made within an agreed period from the date of each claim. These arrangements are intended to have the effect of accelerating receipt from the insurers of the proceeds of claims made under the relevant mortgage guarantee indemnity insurance policies or policy and may entitle the insurers to discount claims.

In the event of the termination of the appointment of the Administrator by reason of default by the Administrator or its insolvency it would be necessary for the Trustee to appoint a substitute administrator. There is no guarantee that an administrator could be found who would be willing to administer the Mortgages and the Issuer's business on the terms of the Administration Agreement and the Deed of Charge (even though they provide for the fees payable to a substitute administrator to be consistent with those commonly charged at that time for the provision of mortgage administration services), in which case, and pursuant to the Substitute Administrator Agreement, Barclays would be required to assume responsibility for the provision of the administration services required to be performed under the Administration Agreement for the Mortgages and the Issuer's business. The ability of a substitute administrator or Barclays fully to perform such services would depend on the information and records then available to it and it is possible that there could be an interruption in the administration during the course of the transition. Such person would not become bound by PFPLC's obligations under the PFPLC Subordinated Loan Agreement or by PFPLC's or PML's obligations under the Mortgage Sale Agreement (including the warranties given therein). The fees and expenses of Barclays or a substitute administrator performing services in this way would be payable under paragraphs (i) and (ii) respectively of "Summary – Priority of Payments" above.

Third party rights (for example, rights of occupation or rights of a subsequent mortgagee or security holder) may arise subsequent to the completion of the initial advance to a borrower. Neither PFPLC nor

PML nor the Issuer nor the Trustee has undertaken or will undertake any investigation or search of any kind prior to the making of a Mandatory Further Advance to a borrower or, in some circumstances, the making of a Discretionary Further Advance.

At the Closing Date, PFPLC and PML may not possess all the title numbers of the individual Mortgages over registered properties. PFPLC and PML have each given an undertaking to use all reasonable efforts to obtain the title numbers as soon as practicable and in any event within six months of the date of sale. If the Trustee were required to enforce the security, there might be some delay in its being able to do so since it would first have to register its interest at H.M. Land Registry or register or record its interest at the Registers of Scotland in respect of the Scottish Properties and to do so it would first have to obtain any outstanding title numbers.

Certain of the Mortgages included within the Provisional Mortgage Pool and which are to be acquired by the Issuer from PFPLC and PML pursuant to the Mortgage Sale Agreement will be re-acquired by PFPLC and PML on the Closing Date having been previously sold by PFPLC or PML to other wholly-owned subsidiaries of PGC in connection with securitisation transactions. Such Mortgages are currently subject to existing security arrangements but such arrangements will be discharged on or prior to the Closing Date. Each of PFPLC and PML will include in its warranties a warranty as to the validity of the unencumbered title transferred by it to the Issuer.

On the basis of criteria generally applied by mortgage lenders in the United Kingdom, the amount payable upon maturity (excluding any terminal bonus) of the relevant endowment life assurance policy or policies, which were originally collateral security for repayment by each relevant borrower of his endowment Mortgage in the Mortgage Pool on the expiry of the term thereof, was (when the Mortgage was originated) expected, on prudent assumptions, to be not less than the principal amount advanced pursuant to the relevant Mortgage (excluding certain further advances, fees, costs and expenses). Prior to the maturity of the endowment life assurance policy or policies, there is no expectation that, other than on the death of the life assured, the amount so payable would be equal to or greater than this amount. The amount payable under the policy is particularly uncertain where the borrower has failed to make all payments thereon when due.

In the case of a pension-linked Mortgage, the lump sum available to a borrower on maturity of the relevant pension policy was (when the Mortgage was originated) expected, on prudent assumptions, to be not less than the amount advanced pursuant to the relevant Mortgage (excluding certain further advances, fees, costs and expenses). However, on maturity of the pension policy a borrower may elect not to take any amount of his entitlement by way of lump sum payment, and neither the Issuer nor the Trustee may take any security over a pension policy. The pension provider will not necessarily notify the mortgagee if a borrower fails to pay premium(s) due in respect of a pension policy.

In the case of a Repayment Mortgage or an Interest-only Mortgage in the Mortgage Pool, the borrower is not generally required to take out a life assurance policy or pension policy or other form of security for repayment of the Mortgage (for example in the event of his death during the mortgage term).

Borrowers may not have been making payment in full or on time of the premiums due on any relevant life assurance or pension policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder. In certain cases, the policy may have been surrendered but not necessarily in return for a cash payment and any cash received by the borrower may not have been applied in paying amounts due under the borrower's Mortgage.

The Administrator may, on behalf of the Issuer, and as part of its arrears and default procedures, convert a Mortgage in the Mortgage Pool from one type of Mortgage to another, as more particularly described in "Mortgage Administration – Conversion of Mortgages" below.

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

Following the giving of an Enforcement Notice all interest, principal and other amounts due to the Class A Noteholders will be paid to them *pro rata* irrespective of the class of Class A Notes which they hold. Circumstances could potentially arise in which the interests of the holders of the Class A1 Notes and the Class A2 Notes as to whether an Enforcement Notice should be given, or whether the Trustee should take or refrain from taking any other action, could differ. The Trust Deed and the Terms and Conditions of the Class A Notes will, however, provide that any directions given to the Trustee by the holders of any specified percentage of the Class A Notes will not differentiate between the Class A1 Notes and the Class A2 Notes. The Trust Deed will also provide that, except in the case of a Basic Terms Modification (see “Description of the Class A Notes, the Global Class A Notes and the Security – Meetings of Class A Noteholders; Modifications; Consents; Waiver” below) prior to the giving of an Enforcement Notice, any matter to be considered by or resolved at any meeting of the Class A Noteholders will not be required to be passed at separate meetings of the holders of the Class A1 Notes and the Class A2 Notes, and that at any meeting of the Class A Noteholders the same voting rights will attach to both classes of the Class A Notes. The Trust Deed will also provide that the Trustee will at all times regard the Class A Notes as a single class and will not (except as aforesaid) consider the consequences of any action taken or refrained from being taken by it as between the Class A1 Notes and the Class A2 Notes. It should be noted that by virtue of the priority of application of Available Redemption Funds to Class A1 Notes and then to Class A2 Notes, the proportion of the Principal Amount Outstanding of Class A1 Notes to the Principal Amount Outstanding of Class A2 Notes is not expected to be maintained at that proportion subsisting at the Closing Date.

Under the terms of the Mortgage Conditions applicable to Stabilised Rate Mortgages contained in the Mortgage Pool, Mandatory Further Advances are required to be made to borrowers. The Issuer expects to fund such Mandatory Further Advances for any given period from the moneys referred to in paragraph (A) of the definition of “Available Redemption Funds” (see “Description of the Class A Notes, the Global Class A Notes and the Security – Redemption and Purchase”, “Description of the Class B Notes, the Global Class B Notes and the Security – Redemption and Purchase” and “Description of the Class C Notes, the Global Class C Notes and the Security – Redemption and Purchase” below). The Issuer may not receive sufficient amounts of principal to meet the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set-off the amounts of any Mandatory Further Advances which the Issuer has failed to make against amounts owing by those borrowers and/or to sue the Issuer for damages for breach of contract. Accordingly, if and to the extent that, the Issuer does not have sufficient funds to make any such Mandatory Further Advances, the Issuer will be entitled to borrow further amounts from PFPLC under the PFPLC Subordinated Loan Agreement and PFPLC will be under an obligation to make any such amounts available to the Issuer.

Legal title to the PFPLC Mortgages and the PML Mortgages in the Mortgage Pool over registered land in England and Wales or any land in Scotland has, since origination, remained, and will remain, with PFPLC or PML (other than in the case of the Local Authority Mortgages, where legal title has been transferred to and will remain with PFPLC) and the sale by PFPLC and PML to the Issuer of PFPLC Mortgages or PML Mortgages over such land (or titles requiring registration at H.M. Land Registry or the Registers of Scotland) will take effect in equity (or, in the case of Scottish Mortgages, by means of trust) only since, save in the circumstances set out below, no application will be made to H.M. Land Registry or the Registers of Scotland to register or record the Issuer as legal owner of such Mortgages.

Neither the Issuer nor the Trustee will apply to H.M. Land Registry, the Central Land Charges Registry or the Registers of Scotland to register or record their interests in any of the Mortgages or give notice to any insurer of the assignment to the Issuer of the charge over (or of the interests acquired by the Issuer in) any life policies except in the limited circumstances referred to below.

As a consequence of neither the Issuer nor the Trustee obtaining legal title to any of the Mortgages over land which is registered at H.M. Land Registry or over land in Scotland by not registering or recording their respective interests at H.M. Land Registry or the Registers of Scotland (where applicable), a bona fide purchaser from PFPLC or PML for value of any of such Mortgages without notice of any of the interests of the Issuer or the Trustee (and certain similar third parties) might obtain a good title free of any such interest. For so long as neither the Issuer nor the Trustee have obtained legal title, they must join PFPLC or PML (as the case may be) as a party to any legal proceedings which they may wish to take against any borrower or in relation to the enforcement of any Mortgage. In this regard, each of PFPLC and PML will undertake for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required by the Issuer or the Trustee in relation to, any legal proceedings in respect

of the Mortgages. Further, the rights of the Issuer and the Trustee may be or become subject to equities (for example, rights of set-off as between the relevant borrowers or insurance companies and PFPLC or PML). However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee would be likely to be limited to circumstances arising from a breach by PFPLC or PML of its contractual obligations to the Issuer or fraud, negligence or mistake on the part of PFPLC or PML or the Issuer or their respective personnel or agents.

Upon the occurrence of any of (i) the valid service of an Enforcement Notice or a Protection Notice (each as defined in the Deed of Charge) or (ii) the termination of PFPLC's role as administrator under the Administration Agreement or (iii) PFPLC or PML being required, by an order of a court of competent jurisdiction, or by a regulatory authority of which PFPLC or PML (as the case may be) is a member or with whose instructions it is customary for PFPLC or PML (as the case may be) to comply, to perfect the transfer of legal title to the Mortgages or (iv) any change occurring in the law after 23rd January 1998 rendering it necessary by law to take any of such actions or (v) the security under the Deed of Charge or any material part of such security being in jeopardy and the Trustee deciding to take such action to reduce materially such jeopardy, the Issuer and the Trustee will have the right to perfect legal title to the Mortgages and Life Policies (as defined in "Insurance Coverage – Endowment Life Policies and Term Life Policies" below) by effecting the necessary registrations and notifications. The right of the Issuer and the Trustee to exercise the powers of the registered proprietor of the Mortgages pending registration will be secured by an irrevocable power of attorney granted by each of PFPLC and PML in favour of the Issuer and the Trustee.

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

The issue of the Class A Notes is and will be authorised by resolution of the Board of Directors of the Issuer passed on 23rd January and 27th January 1998. The Class A Notes will be constituted by a trust deed (the "Trust Deed") expected to be dated 27th January 1998 between the Issuer and J.P. Morgan Trustee Ltd. (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class A Notes (the "Class A Noteholders") and the holders for the time being of the Class B Notes (the "Class B Noteholders") and the holders for the time being of the Class C Notes (the "Class C Noteholders"). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to PFPLC and PML of the purchase price for the Mortgages to be purchased under a mortgage sale agreement dated 23rd January 1998 (the "Mortgage Sale Agreement").

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PFPLC, PML, the Administrator, Barclays and the Swap Provider (the "Deed of Charge"). The Trust Deed will include the form of the Global Class A Notes and the definitive Class A Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the "Agency Agreement") expected to be dated 27th January 1998 between the Issuer, the Trustee and Morgan Guaranty Trust Company of New York as principal paying agent (the "Principal Paying Agent", which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the "Reference Agent", which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the "Paying Agents", which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class A Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class A Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof 60 Victoria Embankment, London EC4Y 0JP, and at the specified offices for the time being of the Paying Agents.

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

Global Class A Notes

Each class of the Class A Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class A Note in bearer form, without coupons or talons, in the principal amount of £55,000,000 for the Class A1 Notes and £77,000,000 for the Class A2 Notes. Each Temporary Global Class A Note will be deposited on behalf of the subscribers of the relevant class of the Class A Notes with Morgan Guaranty Trust Company of New York, London office, as common depositary for Euroclear and Cedel Bank (the "Common Depositary") on the Closing Date. Upon deposit of the Temporary Global Class A Note, Euroclear or Cedel Bank will credit each subscriber of Class A Notes with the principal amount of Class A Notes of the relevant class for which it has subscribed and paid. Interests in the Temporary Global Class A Notes will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class A Noteholders of the relevant class has been received) for interests in the Permanent Global Class A Note relating to such class, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class A Note of such class (the expression "Global Class A Notes" and "Global Class A Note" meaning, respectively, (i) all of the Temporary Global Class A Notes and the Permanent Global Class A Notes or the Temporary Global Class A Note and the Permanent Global Class A Note of a particular class or (ii) any of the Temporary Global Class A Notes or Permanent Global Class A Notes, as the context may require). On the

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

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

For so long as the Class A Notes of any class are represented by a Global Class A Note, each person who is for the time being shown in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear or of Cedel Bank as the holder of a particular principal amount of Class A Notes of that class will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Class A Notes of that class and the expression "Class A Noteholder" shall be construed accordingly, but without prejudice to the entitlement of the bearer of the Global Class A Note to be paid principal and interest thereon in accordance with its terms.

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

If (i) the principal amount of the Class A Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Cedel Bank is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 23rd January 1998, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class A Notes which would not be required were the Class A Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class A Notes relating to the class of Class A Notes represented by each Permanent Global Class A Note in exchange for the whole outstanding interest in the Permanent Global Class A Note of that class within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

Security

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

- (1) a sub-charge over the English Mortgages and an assignation in security of the Issuer's interest in the Scottish Mortgages purchased by the Issuer from PFPLC and PML under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment of the benefit of the guarantee;

- (2) an assignment and an assignation of the Issuer's interest in the security created over the life assurance policies as collateral security for the obligations of borrowers under, and, where applicable, guarantors with respect to, certain Mortgages;
- (3) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (4) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the PFPLC Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust (as defined in "The Paragon VAT Group" below), under the PFPLC Collection Account Declaration of Trust, under the PML Collection Account Declaration of Trust (each as defined in "Mortgage Administration – Payments from Borrowers" below), under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (5) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at NatWest (the "Transaction Account") and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (6) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors);
- (7) as far as possible, a charge over the Issuer's entitlement to receive payments from the Inland Revenue under the Mortgage Interest Relief at Source Scheme (the "MIRAS Scheme"); and
- (8) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class A Notes, are referred to as the "Security". The Security will also stand as security for any amounts payable by the Issuer to the Class B Noteholders and the Class C Noteholders and to any Receiver, the Trustee, Barclays, the Administrator, the Stockholder, PML, PFPLC, any Subordinated Lender and the Swap Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the Services Letter, the PFPLC Subordinated Loan Agreement, the Instrument and the Swap Agreement. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After service of an Enforcement Notice, amounts payable to any Receiver and the Trustee, amounts payable to Barclays, fees, third party enforcement expenses and commissions payable to the Administrator and amounts payable to the Swap Provider (if any) will rank in priority to payments on the Class A Notes.

Terms and Conditions

If Class A Notes in definitive bearer form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Class A Note of each class would be as set out below (the "Class A Conditions"). While the Class A Notes of a class or some of them remain in global form, the same terms and conditions govern them, except to the extent that they are appropriate only to Class A Notes of that class in definitive form.

1. Form, Denomination and Title

The £132,000,000 Class A Mortgage Backed Floating Rate Notes Due 2034 of the Issuer comprising £55,000,000 Class A1 Notes (the "Class A1 Notes") and £77,000,000 Class A2 Notes (the "Class A2 Notes") (together, the "Class A Notes") are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons ("Interest Coupons") and principal coupons ("Principal Coupons") (severally or together "Coupons") and talons ("Talons") attached. Title to the Class A Notes, the Coupons and the Talons shall pass by delivery.

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

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents (as defined in a trust deed (the “Trust Deed”) dated 27th January 1998 between the Issuer and J.P. Morgan Trustee Ltd. (the “Trustee”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the time being of the holders of the Class A Notes (the “Class A Noteholders”), the holders for the time being of the Class B Notes (as defined below) (the “Class B Noteholders”) and the holders for the time being of the Class C Notes (as defined below) (the “Class C Noteholders”) may treat the holder of any Class A Note, Coupon or Talon as the absolute owner thereof (whether or not such Class A Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

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

The Class A Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “Deed of Charge”) dated 27th January 1998 between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, Barclays Bank PLC and the Swap Provider) of the Issuer and (irrespective of class) rank *pari passu* and rateably without any preference or priority among themselves, except, until enforcement of the security for the Class A Notes, as to priority of payments of principal.

If, in the Trustee’s opinion, there is a conflict between the interests of the holders of the Class A1 Notes and/or the interests of the holders of the Class A2 Notes, the Trust Deed contains provisions that the Trustee shall be entitled to act or refrain from acting upon directions given by a specified percentage of Class A Noteholders irrespective of class.

The £33,000,000 Class B Mortgage Backed Floating Rate Notes Due 2034 of the Issuer (the “Class B Notes”) and the £10,000,000 Class C Mortgage Backed Floating Rate Notes Due 2034 of the Issuer (the “Class C Notes”) are constituted by the Trust Deed and are secured by the same security as secures the Class A Notes but the Class A Notes will rank in priority to the Class B Notes and the Class C Notes in the event of the security being enforced. The Trust Deed and Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders, the Class C Noteholders or the other persons entitled to the benefit of the Security (as defined in the Trust Deed).

3. Covenants of the Issuer

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

- (1) carry on any business other than as described in the Offering Circular dated 23rd January 1998 relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
 - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances and making purchases of Class A Notes prior to the occurrence of the Determination Event;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class A Notes, the Coupons and Talons, the Class B Notes and the Class C Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Agency Agreement, the Trust Deed, the Loan Stock and the Instrument, the Administration Agreement, the Substitute Administrator Agreement,

the Fee Letter, the PFPLC Subordinated Loan Agreement, the Transfers, the Mortgages, the Charges, the Deed of Charge, the PFPLC Collection Accounts Declaration of Trust, the PML Collection Account Declaration of Trust, the Swap Agreement, any Caps, the Assignment of Charges, the Deed of Assignment, the VAT Declaration of Trust, the Services Letter, the Assignment of Insurances and the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declarations of Trust, the Scottish Sub-Securities, the Assignment of Charges and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Trust Deed, the Deed of Charge or the Mortgage Sale Agreement) (together the “Relevant Documents”);

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

- (5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
- (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
- (7) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust), the PFPLC Collection Accounts and the PML Collection Account (each as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it.

(B) So long as any of the Class A Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the “Administrator”). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales and Scotland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, Barclays Bank PLC (“Barclays”) will act as administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the PFPLC Subordinated Loan Agreement or the Mortgage Sale Agreement.

4. Interest

(a) Interest Payment Dates

Each Class A Note bears interest on its Principal Amount Outstanding (as defined in Class A Condition 5(b)) from and including 27th January 1998 or such later date as may be agreed between the Issuer and the Managers for the issue of the Class A Notes (the “Closing Date”). Provided certification of non-U.S. beneficial ownership has been received with respect to Class A Notes of a particular class, interest in respect of such Class A Notes is payable quarterly in arrear on the last Business Day falling in March 1998 and, thereafter, on the last Business Day falling in June, September, December and March in each year (each, including the last Business Day falling in March 1998, an “Interest Payment Date”). To the extent that the funds available to the Issuer to pay interest on the Class A Notes on an Interest Payment Date are insufficient to pay the full amount of such interest, the shortfall (“Accrued Interest”) will be borne by each Class A Note, irrespective of class, in a proportion equal to the proportion that the Principal Amount Outstanding of that Class A Note bears to the aggregate Principal Amount Outstanding of the Class A Notes (in each case as determined on the Interest Payment Date on which such Accrued Interest arises). As used in these Class A Conditions except Class A Condition 6, “Business Day” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an “Interest Period”. Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the last Business Day falling in March 1998 in respect of the period from (and including) the Closing Date to (but excluding) the last Business Day falling in March 1998.

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

(b) Coupons and Talons

On issue, Coupons and Talons applicable to Class A Notes of a particular class in definitive form are attached to the Class A Notes of that class. A Talon may be exchanged for further Coupons and, if applicable, a further Talon on or after the Interest Payment Date for the final Coupon on the relevant

Coupon sheet by surrendering such Talon at the specified office of any Paying Agent. Interest payments on the Class A Notes will be made against presentation and surrender of the appropriate Coupons in accordance with Class A Condition 6, except as provided therein.

(c) *Rate of Interest*

The rate of interest applicable from time to time to each class of the Class A Notes (the “Rate of Interest”) will be determined by Morgan Guaranty Trust Company of New York acting as reference agent (the “Reference Agent”, which expression shall include its successors as Reference Agent under the Agency Agreement) on the basis of the following provisions:

- (i) On the Closing Date (an “Interest Determination Date”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on the linear interpolation between sterling deposits for a period of two months and sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “Interest Determination Date”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable to the Class A Notes of a particular class for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin as set out below for Class A Notes of that class:

Class A1 Notes: 0.10% per annum up to and including the Interest Period ending in March 2000 and thereafter 0.20% per annum;

Class A2 Notes: 0.18% per annum up to and including the Interest Period ending in March 2004 and thereafter 0.45% per annum.

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

for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.

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

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

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

(e) Publication of Rate of Interest and Interest Payments

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to each class of Class A Notes for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as the Class A Notes are listed on the Official List of the London Stock Exchange Limited (the "London Stock Exchange"), the London Stock Exchange, and will cause the same to be published in accordance with Class A Condition 12 on or as soon as possible after the date of commencement of the relevant Interest Period. The Interest Payment and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a shortening of the Interest Period.

(f) Determination or Calculation by Trustee

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

(g) Reference Banks and Reference Agent

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

5. Redemption and Purchase

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

The Class A Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Principal Determination Date (as defined below) relating thereto there are any Available Redemption Funds (as defined below). The principal amount so redeemable in respect of each Class A Note prior to the service of an Enforcement Notice (each a "Principal Payment") on any Interest Payment Date shall be the amount of the Class A Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date divided by the number of Class A Notes then outstanding (as defined in the Trust Deed) (rounded down to the nearest pound sterling); provided always that (x) no Principal Payment may exceed the Principal Amount Outstanding of the relevant Class A Note, (y) while any Class A1 Note is, and will after the Interest Payment Date in question remain, outstanding, the Class A Notes referred to above as due for mandatory redemption and as being the divisor in

calculating the Principal Payment pursuant to this Condition 5(a) shall only be Class A1 Notes then outstanding, (z) if, on the Interest Payment Date in question, the Principal Amount Outstanding of all Class A1 Notes is, or is reduced to, nil (having taken into account the aggregate Principal Amount Outstanding of the Class A Notes expected to be repurchased on, and cancelled with effect from, the Interest Payment Date immediately succeeding the relative Principal Determination Date), the whole or the balance (if any) as the case may be, of the aggregate of the Class A Available Redemption Funds applied to redeem Class A Notes on the Principal Determination Date relating to the Interest Payment Date in question remaining after application towards redemption of the Class A1 Notes shall be applied on such Interest Payment Date towards redemption (to the extent of the lesser of such amount remaining and the Principal Amount Outstanding of all Class A2 Notes) of Class A2 Notes.

The Principal Determination Date relating to an Interest Payment Date means the ninth day or, if earlier, the fifth Business Day prior to such Interest Payment Date.

“Available Redemption Funds” on any Principal Determination Date means:

(A) the aggregate of:

- (i) all principal and Pre-Closing Accruals and Arrears (as defined in the Trust Deed) received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest which does not represent Pre-Closing Accruals and Arrears) on repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents but excluding any such principal which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer) during the period from (and including) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (but excluding) the Principal Determination Date in question (the “relevant Collection Period”);
- (ii) in the case of the first Principal Determination Date, the amount (if any) by which the aggregate principal amount of the Class A Notes, the Class B Notes and the Class C Notes on issue exceeds the aggregate of the amounts paid in cash and not by the issue of Loan Stock to acquire the Mortgages in accordance with the Mortgage Sale Agreement;
- (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes, Class B Notes or Class C Notes on the Interest Payment Date relative thereto; and
- (iv) any part of the amount deducted pursuant to (B)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances, in purchasing and cancelling Class A Notes or paying interest on the Class A Notes, in each case on or prior to the preceding Interest Payment Date; less

(B) the aggregate of:

- (i) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period);
- (ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the PFPLC Subordinated Loan Agreement;
- (iii) the aggregate Principal Amount Outstanding of Class A Notes purchased and cancelled during the relevant Collection Period or (as a result of any commitment entered into during such relevant Collection Period) expected to be purchased and

cancelled on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period;

- (iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes on that Interest Payment Date, such estimate to be made on the assumption that the amount of interest due on that Interest Payment Date on each Mortgage on which the due amount was paid on the last Business Day of the preceding month will be paid in full, all as set out in the Administration Agreement; and
- (v) the aggregate amount of principal applied during the relevant Collection Period in refunding direct debit payments,

in each such case (save for (A)(iii) and (iv) above) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date.

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the first Interest Payment Date on which the ratio of (I) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes is 86:175 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

The Subordinated Available Redemption Funds shall equal:

- (i) where such Principal Determination Date falls prior to the occurrence of the Determination Event or (thereafter) if on such Principal Determination Date (a) there is any balance on the Principal Deficiency Ledger or (b) the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 40% or more of the then Current Balances of all of the Mortgages or (c) there are any Class A1 Notes then outstanding, nil; and
- (ii) on any other Principal Determination Date, provided (a) there is a balance of zero on the Principal Deficiency Ledger, (b) the then Current Balances of Mortgages which are more than three months in arrears represent less than 40% of the then Current Balances of all of the Mortgages and (c) no Class A1 Notes are then outstanding, that amount of the Available Redemption Funds determined as at such date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 86:175; provided that the sum of the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B

Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £4,000,000.

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

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

(i) On (or as soon as practicable after) each Principal Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment in respect of each Class A Note of a particular class due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class A Note of a particular class on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class A Note of that class on the next Interest Payment Date) and (z) the fraction in respect of each Class A Note of a particular class 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 of that particular class (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class A Note of any class and the Pool Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The "Principal Amount Outstanding" of a Class A Note on any date shall be the principal amount of that Class A Note upon issue less the aggregate amount of all Principal Payments in respect of that Class A Note that have become due and payable (whether or not paid) prior to such date.

(ii) The Issuer will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class A Notes are listed on the London Stock Exchange) the London Stock Exchange and will immediately cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class A Condition 12 by not later than the first Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date. If no Principal Payment is due to be made on the Class A Notes of a particular class on any Interest Payment Date a notice to this effect will be given to the Class A Noteholders.

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

(c) Redemption for Taxation or Other Reasons

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class A Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class A Condition 12 redeem all, but not some only, of the Class A Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date.

(d) *Optional Redemption in Full*

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class A Noteholders of the relevant class, and provided no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes of the relevant class and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes of that class, the Issuer may redeem all (but not some only) of the Class A Notes of a particular class at their Principal Amount Outstanding together with accrued interest as follows:

- (i) Class A1 Notes on any Interest Payment Date falling in or after March 2000; and
- (ii) Class A2 Notes on any Interest Payment Date falling in or after March 2001 or, if earlier, falling on or after the date on which all the Class A1 Notes are redeemed in full.

No such optional redemption of any Class A2 Note may be made unless none of the Class A1 Notes are then outstanding or all (but not some only) of the Class A Notes are redeemed in full at the same time.

All (but not some only) of the Class A Notes, irrespective of class, may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the sum of (1) the aggregate of the Principal Amount Outstanding of the Class A Notes, irrespective of class, (2) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and (3) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes is less than £35,000,000.

(e) *Redemption on Maturity*

If not otherwise redeemed or purchased and cancelled, the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in December 2034.

(f) *Purchases*

Prior to the occurrence of the Determination Event, the Issuer may purchase Class A Notes at any time in the open market or otherwise at any price at or below their Principal Amount Outstanding (excluding accrued interest and expenses) provided that all unmatured and unused Coupons and Talons are surrendered with such Class A Notes. The Issuer may not purchase any Class A2 Notes pursuant to this Condition 5(f) while any Class A1 Note remains outstanding. The Issuer may not purchase Class A Notes after the occurrence of the Determination Event.

(g) *Cancellation*

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

(h) *Certification*

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

6. **Payments**

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

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

The initial Principal Paying Agent is Morgan Guaranty Trust Company of New York at its office at 60 Victoria Embankment, London EC4Y 0JP.

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

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

If the due date for payment of any amount of principal or interest in respect of any Class A Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay. In this Class A Condition 6 the expression "Business Day" means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class A Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class A Note of any class for definitive Class A Notes of such class, on which both Euroclear and Cedel Bank are open for business.

If interest is not paid in respect of a Class A Note of any class on the date when due and payable (other than because the due date is not a Business Day), such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to the Class A Notes of that class until such interest and interest thereon is available for payment and notice thereof has been duly given in accordance with Class A Condition 12.

7. Taxation

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

8. Prescription

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

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

9. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class A Notes outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders (subject, in each case, to being indemnified to its satisfaction) shall (but, in the case of the happening of any of the events mentioned in (ii) to (v) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Class A Notes, only if the Trustee shall have certified in writing that the Issuer had, on the due date for payment of the amount of interest in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such interest (after payment of all sums which it is permitted under the Deed of Charge to pay in priority thereto or *pari passu* therewith)) give notice (an “Enforcement Notice”) to the Issuer that the Class A Notes are, and each Class A Note shall accordingly forthwith become, immediately due and repayable at its Principal Amount Outstanding, together with accrued interest as provided in the Trust Deed, if any of the following events (each an “Event of Default”) shall occur:

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

After the Class A Notes have become immediately due and payable following service of an Enforcement Notice, all payments of principal, interest and other amounts due in respect of the Class A Notes shall be made pro rata according to the respective amounts due in respect thereof without any priority as between the Class A1 Notes and the Class A2 Notes.

10. Enforcement

At any time after the Class A Notes become due and repayable at their Principal Amount Outstanding, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the security for the Class A Notes and Coupons and to

enforce repayment of the Class A Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or so requested in writing by Class A Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing, if the Class A Notes have become due and repayable pursuant to Class A Condition 9 otherwise than by reason of a default in payment of any amount due on the Class A Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class A Noteholders and the Couponholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class A Noteholders and the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class A Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

11. Replacements of Class A Notes, Coupons and Talons

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

12. Notices

All notices, other than notices given in accordance with the next following paragraph, to Class A Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the Financial Times) or, if this is not practicable, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above.

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

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

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

The Trust Deed contains provisions for convening meetings of Class A Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class A Noteholders of a modification of the Class A Notes (including these Class A Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class A Notes, or a modification which would have the effect of postponing any day for payment of interest in respect of any class of Class A Notes, reducing or cancelling the amount of principal payable in respect of any class of Class A Notes or the rate of interest applicable to any class of Class A Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of any class of the Class A Notes or the Coupons or any alteration of the date or priority of redemption of the Class A Notes of any class (any such modification being referred to below as a "Basic Terms Modification") shall be effective except that, if the Trustee is of the opinion that such a

Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class A Noteholders as described below. The quorum at any meeting of Class A Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50% of the aggregate Principal Amount Outstanding of the Class A Notes (irrespective of class) then outstanding or, at any adjourned meeting, two or more persons being or representing Class A Noteholders whatever the aggregate Principal Amount Outstanding of the Class A Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing 75%, or at any adjourned such meeting 25%, or more of the aggregate Principal Amount Outstanding of the Class A Notes (irrespective of class) then outstanding. In the case of a Basic Terms Modification, an Extraordinary Resolution of a meeting of each class of Class A Noteholders affected by such Basic Terms Modification will also be required. In any other case, no such separate meetings will be required unless an Enforcement Notice has been served (and the rules relating to meetings of Class A Noteholders, including matters relating to quorums and resolutions, shall apply *mutatis mutandis* to any meeting of any class of Class A Noteholders). The Trust Deed contains provisions limiting the powers of the Class B Noteholders and the Class C Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders and the Class C Noteholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class A Noteholders shall be binding on all Class A Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution.

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

14. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to realise the Security and to obtain repayment of the Class A Notes unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other party to the Relevant Documents without accounting for any profit resulting from such transactions. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

15. Notifications and Other Matters to be Final

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

16. Governing Law

The Class A Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof relating to the Scottish Mortgages and their collateral security as are particular to Scots law, which are governed by and shall be construed in accordance with Scots law.

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

The issue of the Class B Notes is and will be authorised by resolution of the Board of Directors of the Issuer passed on 23rd January and 27th January 1998. The Class B Notes will be constituted by a trust deed (the "Trust Deed") expected to be dated 27th January 1998 between the Issuer and J.P. Morgan Trustee Ltd. (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class B Notes (the "Class B Noteholders") and the holders for the time being of the Class A Notes (the "Class A Noteholders") and the holders for the time being of the Class C Notes (the "Class C Noteholders"). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to PFPLC and PML of the purchase price for the Mortgages to be purchased under a mortgage sale agreement dated 23rd January 1998 (the "Mortgage Sale Agreement").

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PFPLC, PML, the Administrator, Barclays and the Swap Provider (the "Deed of Charge"). The Trust Deed will include the form of the Global Class B Notes and the definitive Class B Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the "Agency Agreement") expected to be dated 27th January 1998 between the Issuer, the Trustee and Morgan Guaranty Trust Company of New York as principal paying agent (the "Principal Paying Agent", which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the "Reference Agent", which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the "Paying Agents", which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class B Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class B Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof 60 Victoria Embankment, London EC4Y 0JP, and at the specified offices for the time being of the Paying Agents.

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

Global Class B Notes

The Class B Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class B Note in bearer form, without coupons or talons, in the principal amount of £33,000,000. The Temporary Global Class B Note will be deposited on behalf of the subscribers of the Class B Notes with Morgan Guaranty Trust Company of New York, London office, as common depositary for Euroclear and Cedel Bank (the "Common Depositary") on the Closing Date. Upon deposit of the Temporary Global Class B Note, Euroclear or Cedel Bank will credit each subscriber of Class B Notes with the principal amount of Class B Notes for which it has subscribed and paid. Interests in the Temporary Global Class B Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received) for interests in the Permanent Global Class B Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class B Note (the expression "Global Class B Notes" and "Global Class B Note" meaning, respectively, (i) both of the Temporary Global Class B Note and the Permanent Global Class B Note or (ii) either of the Temporary Global Class B Note or Permanent Global Class B Note, as the context may require). On the exchange of the Temporary Global Class B Note for the Permanent Global Class B Note, the Permanent Global Class B Note will also be deposited with the Common Depositary. The Global Class B Notes will be transferable by delivery. The Permanent Global Class B Note will be exchangeable for

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

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

For so long as the Class B Notes are represented by a Global Class B Note, each person who is for the time being shown in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear or of Cedel Bank as the holder of a particular principal amount of Class B Notes will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Class B Notes and the expression "Class B Noteholder" shall be construed accordingly, but without prejudice to the entitlement of the bearer of the Global Class B Note to be paid principal and interest thereon in accordance with its terms.

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

If (i) the principal amount of the Class B Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Cedel Bank is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 23rd January 1998, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class B Notes which would not be required were the Class B Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class B Notes represented by the Permanent Global Class B Note in exchange for the whole outstanding interest in the Permanent Global Class B Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

Security

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

- (1) a sub-charge over the English Mortgages and an assignation in security of the Issuer's interest in the Scottish Mortgages purchased by the Issuer from PFPLC and PML under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment of the benefit of the guarantee;
- (2) an assignment and an assignation of the Issuer's interest in the security created over the life assurance policies as collateral security for the obligations of borrowers under, and, where applicable, guarantors with respect to, certain Mortgages;
- (3) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;

- (4) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the PFPLC Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust (as defined in "The Paragon VAT Group" below), under the PFPLC Collection Account Declaration of Trust, under the PML Collection Account Declaration of Trust (each as defined in "Mortgage Administration – Payments from Borrowers" below), under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (5) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at NatWest (the "Transaction Account"), and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (6) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors);
- (7) as far as possible, a charge over the Issuer's entitlement to receive payments from the Inland Revenue under the Mortgage Interest Relief at Source Scheme (the "MIRAS Scheme"); and
- (8) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class B Notes, are referred to as the "Security". The Security will also stand as security for any amounts payable by the Issuer to the Class A Noteholders and the Class C Noteholders and to any Receiver, the Trustee, Barclays, the Administrator, the Stockholder, PML, PFPLC, any Subordinated Lender and the Swap Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the Services Letter, the PFPLC Subordinated Loan Agreement, the Instrument and the Swap Agreement. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After service of an Enforcement Notice, amounts payable to any Receiver and the Trustee, amounts payable to Barclays and fees, third party enforcement expenses, commissions payable to the Administrator, amounts payable to the Swap Provider (if any) and amounts due and payable to Class A Noteholders will rank in priority to payments on the Class B Notes.

Terms and Conditions

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

1. Form, Denomination and Title

The £33,000,000 Class B Mortgage Backed Floating Rate Notes Due 2034 of the Issuer (the "Class B Notes") are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons ("Interest Coupons") and principal coupons ("Principal Coupons") (severally or together "Coupons") and talons ("Talons") attached. Title to the Class B Notes, the Coupons and the Talons shall pass by delivery.

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

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents (as defined in a trust deed (the "Trust Deed") dated 27th January 1998 between the Issuer and J.P. Morgan Trustee Ltd. (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the time being of the holders of the Class A Notes (as defined below) (the "Class A Noteholders"), the holders for the time being of the Class B Notes (the "Class B Noteholders") and the holders for the time being of the Class C Notes (as defined below) (the "Class C Noteholders") may treat the holder of any Class B Note, Coupon or Talon as the absolute owner thereof (whether or not such Class B Note, Coupon

or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

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

The Class B Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “Deed of Charge”) dated 27th January 1998 between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, Barclays Bank PLC and the Swap Provider) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

Payments of principal and interest on the Class B Notes are subordinated to, *inter alia*, payments of principal and interest on the £132,000,000 Class A Mortgage Backed Floating Rate Notes Due 2034 of the Issuer (the “Class A Notes”) in accordance with the provisions of Class B Condition 7, the Trust Deed and the Deed of Charge.

The Class B Notes are secured by the same security that secures the Class A Notes and the £10,000,000 Class C Mortgage Backed Floating Rate Notes Due 2034 of the Issuer (the “Class C Notes”) but the Class A Notes and certain other obligations of the Issuer will rank in point of security in priority to the Class B Notes in the event of the security being enforced whereas the Class B Notes will rank in point of security in priority to the Class C Notes.

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

3. Covenants of the Issuer

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

- (1) carry on any business other than as described in the Offering Circular dated 23rd January 1998 relating to the issues of the the Class A Notes, the Class B Notes or the Class C Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
 - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances and making purchases of Class A Notes prior to the occurrence of the Determination Event;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class B Notes, the Coupons and Talons, the Class A Notes and the Class C Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Agency Agreement, the Trust Deed, the Loan Stock and the Instrument, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the PFPLC Subordinated Loan Agreement, the Transfers, the Mortgages, the Charges, the Deed of Charge, the PFPLC Collection Accounts Declaration of Trust, the PML Collection Account Declaration of Trust, the Swap Agreement, any Caps, the Assignment of Charges, the Deed of Assignment, the VAT

Declaration of Trust, the Services Letter, the Assignment of Insurances and the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declarations of Trust, the Scottish Sub-Securities, the Assignment of Charges and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Trust Deed, the Deed of Charge or in the Mortgage Sale Agreement) (together the “Relevant Documents”);

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

permit any person whose obligations form part of the Security to be released from such obligations;

- (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
- (7) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust), the PFPLC Collection Accounts and the PML Collection Account (each as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it.

(B) So long as any of the Class B Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the "Administrator"). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales and Scotland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class A Notes and Class B Notes have been redeemed in full, the Class C Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, Barclays Bank PLC ("Barclays") will act as administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the PFPLC Subordinated Loan Agreement or the Mortgage Sale Agreement.

4. Interest

(a) Interest Payment Dates

Each Class B Note bears interest on its Principal Amount Outstanding (as defined in Condition 5(b)) from and including 27th January 1998 or such later date as may be agreed between the Issuer and the Manager for the issue of the Class B Notes (the "Closing Date"). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class B Notes, interest in respect of the Class B Notes is (subject to Class B Condition 7) payable quarterly in arrear on the last Business Day falling in March 1998 and, thereafter, on the last Business Day falling in June, September, December and March in each year (each, including the last Business Day falling in March 1998, an "Interest Payment Date"). To the extent that the funds available to the Issuer to pay interest on the Class B Notes on an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall ("Deferred Interest") which will be borne by each Class B Note, in a proportion equal to the proportion that the Principal Amount Outstanding of that Class B Note bears to the aggregate Principal Amount Outstanding of the Class B Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not then fall due but will instead, subject to Class B Condition 7, be deferred until the first Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available (after allowing for the Issuer's liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. Such Deferred Interest will accrue interest ("Additional Interest") at the rate of interest applicable from time to time to the Class B Notes and, subject to Class B Condition 7, payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest to the extent of such available funds. To the extent that any such Deferred or Additional Interest is not subsequently paid, the Issuer's obligation to the Class B Noteholders in respect of any such Deferred Interest and/or Additional Interest will be subject to Class B Condition 7. As used in these Class B Conditions except Class B Condition 6, "Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an "Interest Period". Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the last Business Day falling in March 1998 in respect of the period from (and including) the Closing Date to (but excluding) the last Business Day falling in March 1998.

Interest shall cease to accrue on any part of the Principal Amount Outstanding of a Class B Note as from (and including) the due date for redemption of such part unless, upon due presentation of the

relevant Principal Coupon, payment of principal due is improperly withheld or refused, whereupon interest shall continue to accrue on such principal at the rate from time to time applicable to the Class B Notes until the moneys in respect thereof have been received by the Trustee or the Principal Paying Agent (as defined in the Trust Deed) and notice to that effect is given in accordance with Class B Condition 13.

(b) Coupons and Talons

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

(c) Rate of interest

The rate of interest applicable from time to time to the Class B Notes (the "Rate of Interest") will be determined by Morgan Guaranty Trust Company of New York acting as reference agent (the "Reference Agent", which expression shall include its successors as Reference Agent under the Agency Agreement) on the basis of the following provisions:

- (i) On the Closing Date (an "Interest Determination Date") in respect of the first Interest Period, the Reference Agent will determine the interest rate on the linear interpolation between sterling deposits for a period of two months and sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an "Interest Determination Date") in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.40% per annum up to and including the Interest Period ending in March 2004 and thereafter 0.85% per annum.
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds Bank Plc, Midland Bank plc and National Westminster Bank PLC or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the "Reference Banks") to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for two-month and three-month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the

offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.

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

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

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

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

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

(f) Determination or Calculation by Trustee

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

(g) *Reference Banks and Reference Agent*

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

5. Redemption and Purchase

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

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

The Principal Determination Date relating to an Interest Payment Date means the ninth day or, if earlier, the fifth Business Day prior to such Interest Payment Date.

“Available Redemption Funds” on any Principal Determination Date means:

(A) the aggregate of:

- (i) all principal and Pre-Closing Accruals and Arrears (as defined in the Trust Deed) received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest which does not represent Pre-Closing Accruals and Arrears) on repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents but excluding any such principal which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer) during the period from (and including) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (but excluding) the Principal Determination Date in question (the “relevant Collection Period”);
- (ii) in the case of the first Principal Determination Date, the amount (if any) by which the aggregate principal amount of the Class A Notes, the Class B Notes and the Class C Notes on issue exceeds the aggregate of the amounts paid in cash and not by the issue of Loan Stock to acquire the Mortgages in accordance with the Mortgage Sale Agreement;
- (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes, Class B Notes or Class C Notes on the Interest Payment Date relative thereto; and
- (iv) any part of the amount deducted pursuant to (B)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances, in purchasing and cancelling Class A Notes or in paying interest on the Class A Notes, in each case on or prior to the preceding Interest Payment Date; less

(B) the aggregate of:

- (i) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period);

- (ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the PFPLC Subordinated Loan Agreement;
- (iii) the aggregate Principal Amount Outstanding of Class A Notes purchased and cancelled during the relevant Collection Period or (as a result of any commitment entered into during such relevant Collection Period) expected to be purchased and cancelled on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period;
- (iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes on that Interest Payment Date, such estimate to be made on the assumption that the amount of interest due on that Interest Payment Date on each Mortgage on which the due amount was paid on the last Business Day of the preceding month will be paid in full, all as set out in the Administration Agreement; and
- (v) the aggregate amount of principal applied during the relevant Collection Period in refunding direct debit payments,

in each such case (save for (A) (iii) and (iv) above) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date.

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the first Interest Payment Date on which the ratio of (I) the sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes is 86:175 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

The Subordinated Available Redemption Funds shall equal:

- (i) where such Principal Determination Date falls prior to the occurrence of the Determination Event or (thereafter) if on such Principal Determination Date (a) there is any balance on the Principal Deficiency Ledger or (b) the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 40% or more of the then Current Balances of all of the Mortgages or (c) there are any of the Class A1 Notes of the Issuer then outstanding, nil; and
- (ii) on any other Principal Determination Date, provided (a) there is a balance of zero on the Principal Deficiency Ledger, (b) the then Current Balances of Mortgages which are more than three months in arrears represent less than 40% of the then Current Balances of all of the Mortgages and (c) no Class A1 Notes are then outstanding, that amount of the Available Redemption Funds determined as at such date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount

Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 86:175; provided that the sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £4,000,000.

The Class B Available Redemption Funds on any Principal Determination Date shall be determined in accordance with the following formula:

$$\text{BARF} = \text{SARF} \times \frac{33}{43}$$

Where:

- (i) “BARF” means the Class B Available Redemption Funds on such Principal Determination Date; and
- (ii) “SARF” means the Subordinated Available Redemption Funds on such Principal Determination Date.

The Class C Available Redemption Funds on any Principal Determination Date shall be determined in accordance with the following formula:

$$\text{CARF} = \text{SARF} \times \frac{10}{43}$$

Where:

- (i) “CARF” means the Class C Available Redemption Funds on such Principal Determination Date; and
- (ii) “SARF” has the meaning given to that term above.

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

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

- (i) On (or as soon as practicable after) each Principal Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment in respect of each Class B Note due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class B Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class B Note on the next Interest Payment Date) and (z) the fraction in respect of each Class B Note expressed as a decimal to the sixth point (the “Pool Factor”), of which the numerator is the Principal Amount Outstanding of a Class B Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class B Note and the Pool Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The “Principal Amount Outstanding” of a Class B Note on any date shall be the principal amount of that Class B Note upon issue less the aggregate amount of all Principal Payments in respect of that Class B Note that have become due and payable (whether or not paid) prior to such date.
- (ii) The Issuer will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Principal Paying

Agent, the Reference Agent and (for so long as the Class B Notes are listed on the London Stock Exchange) the London Stock Exchange and will immediately cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class B Condition 13 by not later than the first Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date. If no Principal Payment is due to be made on the Class B Notes on any Interest Payment Date a notice to this effect will be given to the Class B Noteholders.

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

(c) Redemption for Taxation or Other Reasons

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

(d) Optional Redemption in Full

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class B Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class B Condition 7(a)) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes or the Trustee is otherwise directed by Extraordinary Resolution of the Class B Noteholders, the Issuer may, on any Interest Payment Date falling in or after March 2001 or, if earlier, falling on or after the date on which all the Class A Notes are redeemed in full, redeem all (but not some only) of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption, subject, in the case of a redemption pursuant to such an Extraordinary Resolution, to Class B Condition 7.

(e) Redemption on Maturity

If not otherwise redeemed, the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in December 2034, subject to Class B Condition 7.

(f) Purchases

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

(g) *Cancellation*

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

(h) *Certification*

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

6. Payments

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

The initial Principal Paying Agent is Morgan Guaranty Trust Company of New York at its office at 60 Victoria Embankment, London EC4Y 0JP.

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

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

If the due date for payment of any amount of principal or interest in respect of any Class B Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay. In this Class B Condition 6 the expression "Business Day" means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class B Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class B Note for definitive Class B Notes, on which both Euroclear and Cedel Bank are open for business.

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

7. Subordination

(a) *Interest*

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

In the event that the aggregate funds, if any, (computed in accordance with the provisions of the Deed of Charge), available to the Issuer on any Interest Payment Date for application in or towards the

payment of interest which is, subject to this Class B Condition, due on the Class B Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class B Condition as the “Residual Amount”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Class B Condition, due on the Class B Notes on such Interest Payment Date, there shall be payable on such Interest Payment Date, by way of interest on each Class B Note, a *pro rata* share of the Residual Amount on such Interest Payment Date.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class B Notes on any Interest Payment Date in accordance with this Class B Condition falls short of the aggregate amount of interest payable on the Class B Notes on that date pursuant to Class B Condition 4. Such shortfall shall accrue interest in accordance with the provisions of Class B Condition 4.

(b) *Principal*

The Class B Noteholders will not be entitled to any repayment of principal in respect of the Class B Notes prior to the occurrence of the Determination Event or at any time if there are any Class A1 Notes then outstanding. If, on any Interest Payment Date on which Class B Notes are to be redeemed in full pursuant to Class B Conditions 5(e) or 10 or pursuant to an Extraordinary Resolution as contemplated by Class B Condition 5(c) or 5(d), there is any debit balance on the Principal Deficiency Ledger (as defined in the Administration Agreement), then notwithstanding any other provisions of these Conditions the principal amount payable on such redemption of each Class B Note shall be its Principal Amount Outstanding less the amount if any (divided by the number of Class B Notes outstanding on such redemption) by which the then Principal Deficiency exceeds the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes and the balance of the First Loss Fund on such redemption. “Principal Deficiency” means the debit balance on the Principal Deficiency Ledger. None of the foregoing shall prejudice the obligation of the Issuer to pay Class B Available Redemption Funds in redemption in whole or in part of the Class B Notes in accordance with Class B Condition 5(a).

(c) *General*

In the event that the security for the Class B Notes and Coupons is enforced and the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to or *pari passu* with the Class B Notes and Coupons under the Deed of Charge, to pay in full all principal and interest (including interest on interest) and other amounts whatsoever due in respect of the Class B Notes, then the Class B Noteholders and Couponholders shall have no further claim against the Issuer in respect of any such unpaid amounts.

8. Taxation

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

9. Prescription

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

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

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class B Notes outstanding or if so directed by an Extraordinary Resolution of the Class B Noteholders (subject, in each case, to being indemnified to its satisfaction and to restrictions contained in the Trust Deed to protect the interests of the Class A Noteholders) shall, (but, in the case of the happening of any of the events mentioned in (ii) to (v) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders while any Class A Notes are outstanding or, if there are no Class A Notes outstanding, to the interests of the Class B Noteholders and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Class B Notes, only if the Trustee shall have certified in writing that the Issuer had, on the due date for payment of the amount of interest in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such interest (after payment of all sums which it is permitted under the Deed of Charge to pay in priority thereto or *pari passu* therewith)), give notice (an "Enforcement Notice") to the Issuer that the Class B Notes are, and each Class B Note shall, if notice is, or has already been, given that the Class A Notes are due and payable pursuant to the terms and conditions of the Class A Notes, or if there are no Class A Notes then outstanding, accordingly forthwith become, immediately due and repayable subject to Class B Condition 7 at its Principal Amount Outstanding, together with accrued interest (including any Deferred Interest and Additional Interest) as provided in the Trust Deed, if any of the following events (each an "Event of Default") shall occur:

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

11. Enforcement

At any time after the Class B Notes become due and repayable at their Principal Amount Outstanding, subject to Class B Condition 7, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the security for the Class B Notes and Coupons and to enforce repayment of the Class B Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class B Noteholders or so requested in writing by Class B Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing but provided that all of the Class A Notes have been redeemed in full so long as any of the Class B Notes remains outstanding, if the Class B Notes have become due and payable pursuant to the Class B Conditions otherwise than by reason of a default in payment of any amount due on the Class B Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class B Noteholders and the Couponholders and to other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class B Noteholders and the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class B Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

12. Replacements of Notes, Coupons and Talons

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

13. Notices

All notices, other than notices given in accordance with the next following paragraph, to Class B Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be The Financial Times) or, if this is not practicable, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above.

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

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

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

The Trust Deed contains provisions for convening meetings of Class B Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class B Noteholders of a modification of the Class B Notes (including these Class B Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class B Notes, or a modification which would have the effect of postponing any day

for payment of interest on the Class B Notes, reducing or cancelling the amount of principal payable in respect of the Class B Notes or the rate of interest applicable to the Class B Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Class B Notes or the Coupons or any alteration of the date or priority of redemption of the Class B Notes (any such modification being referred to below as a “Basic Terms Modification”) shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class B Noteholders as described below. The quorum at any meeting of Class B Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50% of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class B Noteholders whatever the aggregate Principal Amount Outstanding of the Class B Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing 75%, or at any adjourned such meeting 25%, or more of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding. The Trust Deed contains provisions limiting the powers of the Class B Noteholders and the Class C Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders and the Class C Noteholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class B Noteholders shall not be effective for any purpose unless either (i) the Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders or (ii) it is sanctioned by an Extraordinary Resolution of the Class A Noteholders but, subject thereto, it shall be binding on all Class B Noteholders and Class C Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution. An Extraordinary Resolution passed at any meeting of the Class A Noteholders (or any particular class of Class A Noteholders) shall be binding on all Class B Noteholders and Couponholders, irrespective of its effect upon such holders or their interests.

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

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to realise the Security and to obtain repayment of the Class B Notes unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other party to the Relevant Documents without accounting for any profit resulting from such transactions. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

16. Notifications and Other Matters to be Final

Notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Class B Notes and the Coupons, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the

Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Reference Agent, the Trustee, the Administrator, the Principal Paying Agent, the other Paying Agents (if any) and all Class B Noteholders and Couponholders and (subject as aforesaid) no liability to the Issuer, the Administrator or the Class B Noteholders or Couponholders shall attach to the Reference Banks, the Reference Agent, the Issuer, the Administrator or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

17. Governing Law

The Class B Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof relating to the Scottish Mortgages and their collateral security as are particular to Scots law, which are governed by and shall be construed in accordance with Scots law.

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

The issue of the Class C Notes is and will be authorised by resolution of the Board of Directors of the Issuer passed on 23rd January and 27th January 1998. The Class C Notes will be constituted by a trust deed (the "Trust Deed") expected to be dated 27th January 1998 between the Issuer and J.P. Morgan Trustee Ltd. (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class C Notes (the "Class C Noteholders") and the holders for the time being of the Class A Notes (the "Class A Noteholders") and the holders for the time being of the Class B Notes ("Class B Noteholders"). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to PFPLC and PML of the purchase price for the Mortgages to be purchased under a mortgage sale agreement dated 23rd January 1998 (the "Mortgage Sale Agreement").

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PFPLC, PML, the Administrator, Barclays and the Swap Provider (the "Deed of Charge"). The Trust Deed will include the form of the Global Class C Notes and the definitive Class C Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the "Agency Agreement") expected to be dated 27th January 1998 between the Issuer, the Trustee and Morgan Guaranty Trust Company of New York as principal paying agent (the "Principal Paying Agent", which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the "Reference Agent", which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the "Paying Agents", which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class C Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class C Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof 60 Victoria Embankment, London EC4Y 0JP, and at the specified offices for the time being of the Paying Agents.

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

Global Class C Notes

The Class C Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class C Note in bearer form, without coupons or talons, in the principal amount of £10,000,000. The Temporary Global Class C Note will be deposited on behalf of the subscribers of the Class C Notes with Morgan Guaranty Trust Company of New York, London office, as common depositary for Euroclear and Cedel Bank (the "Common Depositary") on the Closing Date. Upon deposit of the Temporary Global Class C Note, Euroclear or Cedel Bank will credit each subscriber of Class C Notes with the principal amount of Class C Notes for which it has subscribed and paid. Interests in the Temporary Global Class C Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class C Noteholders has been received) for interests in the Permanent Global Class C Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class C Note (the expression "Global Class C Notes" and "Global Class C Note" meaning, respectively, (i) both of the Temporary Global Class C Note and the Permanent Global Class C Note or (ii) either of the Temporary Global Class C Note or Permanent Global Class C Note, as the context may require). On the exchange of the Temporary Global Class C Note for the Permanent Global Class C Note, the Permanent Global Class C Note will also be deposited with the Common Depositary. The Global Class C Notes will be transferable by delivery. The Permanent Global Class C Note will be

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

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

For so long as the Class C Notes are represented by a Global Class C Note, each person who is for the time being shown in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear or of Cedel Bank as the holder of a particular principal amount of Class C Notes will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Class C Notes and the expression "Class C Noteholder" shall be construed accordingly, but without prejudice to the entitlement of the bearer of the Global Class C Note to be paid principal and interest thereon in accordance with its terms.

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

If (i) the principal amount of the Class C Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Cedel Bank is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 23rd January 1998, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class C Notes which would not be required were the Class C Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class C Notes represented by the Permanent Global Class C Note in exchange for the whole outstanding interest in the Permanent Global Class C Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

Security

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

- (1) a sub-charge over the English Mortgages and an assignation in security of the Issuer's interest in the Scottish Mortgages purchased by the Issuer from PFPLC and PML under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment of the benefit of the guarantee;
- (2) an assignment and an assignation of the Issuer's interest in the security created over the life assurance policies as collateral security for the obligations of borrowers under, and, where applicable, guarantors with respect to, certain Mortgages;

- (3) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (4) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the PFPLC Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust (as defined in "The Paragon VAT Group" below), under the PFPLC Collection Account Declaration of Trust, under the PML Collection Account Declaration of Trust (each as defined in "Mortgage Administration – Payments from Borrowers" below), under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (5) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at NatWest (the "Transaction Account"), and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (6) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors);
- (7) as far as possible, a charge over the Issuer's entitlement to receive payments from the Inland Revenue under the Mortgage Interest Relief at Source Scheme (the "MIRAS Scheme"); and
- (8) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class C Notes, are referred to as the "Security". The Security will also stand as security for any amounts payable by the Issuer to the Class A Noteholders and the Class B Noteholders and to any Receiver, the Trustee, Barclays, the Administrator, the Stockholder, PML, PFPLC, any Subordinated Lender and the Swap Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the Services Letter, the PFPLC Subordinated Loan Agreement, the Instrument and the Swap Agreement. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After service of an Enforcement Notice, amounts payable to any Receiver and the Trustee, amounts payable to Barclays and fees, third party enforcement expenses, commissions payable to the Administrator, amounts payable to the Swap Provider (if any) and amounts due and payable to Class A Noteholders and the Class B Noteholders will rank in priority to payments on the Class C Notes.

Terms and Conditions

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

1. Form, Denomination and Title

The £10,000,000 Class C Mortgage Backed Floating Rate Notes Due 2034 of the Issuer (the "Class C Notes") are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons ("Interest Coupons") and principal coupons ("Principal Coupons") (severally or together "Coupons") and talons ("Talons") attached. Title to the Class C Notes, the Coupons and the Talons shall pass by delivery.

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

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents (as defined in a trust deed (the "Trust Deed") dated 27th January 1998 between the Issuer and J.P. Morgan Trustee Ltd. (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the time being of the holders of the Class C Notes (the "Class C Noteholders"), the holders for the time

being of the Class A Notes (as defined below) (“the “Class A Noteholders”) and the holders for the time being of the Class B Notes (as defined below) (the “Class B Noteholders”) may treat the holder of any Class C Note, Coupon or Talon as the absolute owner thereof (whether or not such Class C Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

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

The Class C Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “Deed of Charge”) dated 27th January 1998 between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, Barclays Bank PLC and the Swap Provider) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

Payments of principal and interest on the Class C Notes are subordinated to, *inter alia*, payments of principal and interest on the £132,000,000 Class A Mortgage Backed Floating Rate Notes Due 2034 of the Issuer (the “Class A Notes”) and payments of principal and interest on the £33,000,000 Class B Mortgage Backed Floating Rate Notes Due 2034 of the Issuer (the “Class B Notes”) in accordance with the provisions of Class C Condition 7, the Trust Deed and the Deed of Charge.

The Class C Notes are secured by the same security that secures the Class A Notes and the Class B Notes but the Class A Notes, the Class B Notes and certain other obligations of the Issuer will rank in point of security in priority to the Class C Notes in the event of the security being enforced.

The Trust Deed and Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class C Noteholders, the Class B Noteholders and 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 the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders and the Class C Noteholders and other persons entitled to the benefit of the Security (as defined in the Trust Deed) and to have regard only to the interests of the Class B Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class B Noteholders and the Class C Noteholders and the other persons entitled to the benefit of the Security.

3. Covenants of the Issuer

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

- (1) carry on any business other than as described in the Offering Circular dated 23rd January 1998 relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes respectively (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
 - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances and making purchases of Class A Notes prior to the occurrence of the Determination Event;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class C Notes, the Coupons and Talons, the Class A Notes and the Class B Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes, the Class B Notes and the Class C Notes, and the other agreements relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Agency Agreement, the Trust Deed, the Loan Stock and the Instrument, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the PFPLC Subordinated Loan Agreement, the Transfers, the Mortgages, the Charges, the Deed of Charge, the PFPLC Collection Accounts

Declaration of Trust, the PML Collection Account Declaration of Trust, the Swap Agreement, any Caps, the Assignment of Charges, the Deed of Assignment, the VAT Declaration of Trust, the Services Letter, the Assignment of Insurances and the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declarations of Trust, the Scottish Sub-Securities, the Assignment of Charges and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Trust Deed, the Deed of Charge or in the Mortgage Sale Agreement) (together the “Relevant Documents”);

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

- (5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
- (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
- (7) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust), the PFPLC Collection Accounts and the PML Collection Account (each as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it.

(B) So long as any of the Class C Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the "Administrator"). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales and Scotland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders, or, if the Class B Notes have been redeemed in full, the Class C Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, Barclays Bank PLC ("Barclays") will act as administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the PFPLC Subordinated Loan Agreement or the Mortgage Sale Agreement.

4. Interest

(a) Interest Payment Dates

Each Class C Note bears interest on its Principal Amount Outstanding (as defined in Condition 5(b)) from and including 27th January 1998 or such later date as may be agreed between the Issuer and the Manager for the issue of the Class C Notes (the "Closing Date"). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class C Notes, interest in respect of the Class C Notes is (subject to Class C Condition 7) payable quarterly in arrear on the last Business Day falling in March 1998 and, thereafter, on the last Business Day falling in June, September, December and March in each year (each, including the last Business Day falling in March 1998, an "Interest Payment Date"). To the extent that the funds available to the Issuer to pay interest on the Class C Notes on an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall ("Deferred Interest") which will be borne by each Class C Note, in a proportion equal to the proportion that the Principal Amount Outstanding of that Class C Note bears to the aggregate Principal Amount Outstanding of the Class C Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not then fall due but will instead, subject to Class C Condition 7, be deferred until the first Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available (after allowing for the Issuer's liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. Such Deferred Interest will accrue interest ("Additional Interest") at the rate of interest applicable from time to time to the Class C Notes and, subject to Class C Condition 7, payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest to the extent of such available funds. To the extent that any such Deferred or Additional Interest is not subsequently paid, the Issuer's obligation to the Class C Noteholders in respect of any such Deferred Interest and/or Additional Interest will be subject to Class C Condition 7. As used in these Class C Conditions except Class C Condition 6, "Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an "Interest Period". Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the last Business Day falling in March 1998 in respect of the period from (and including) the Closing Date to (but excluding) the last Business Day falling in March 1998.

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

(b) Coupons and Talons

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

(c) Rate of interest

The rate of interest applicable from time to time to the Class C Notes (the "Rate of Interest") will be determined by Morgan Guaranty Trust Company of New York acting as reference agent (the "Reference Agent", which expression shall include its successors as Reference Agent under the Agency Agreement) on the basis of the following provisions:

- (i) On the Closing Date (an "Interest Determination Date") in respect of the first Interest Period, the Reference Agent will determine the interest rate on the linear interpolation between sterling deposits for a period of two months and sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an "Interest Determination Date") in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.92% per annum up to and including the Interest Period ending in March 2004 and thereafter 1.95% per annum.
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds Bank Plc, Midland Bank plc and National Westminster Bank PLC or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the "Reference Banks") to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for two-month and three-month sterling deposits of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and

the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.

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

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

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

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

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

(f) Determination or Calculation by Trustee

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

(g) *Reference Banks and Reference Agent*

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

5. Redemption and Purchase

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

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

The Principal Determination Date relating to an Interest Payment Date means the ninth day or, if earlier, the fifth Business Day prior to such Interest Payment Date.

"Available Redemption Funds" on any Principal Determination Date means:

(A) the aggregate of:

- (i) all principal and Pre-Closing Accruals and Arrears (as defined in the Trust Deed) received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest which does not represent Pre-Closing Accruals and Arrears) on repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents but excluding any such principal which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer) during the period from (and including) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (but excluding) the Principal Determination Date in question (the "relevant Collection Period");
- (ii) in the case of the first Principal Determination Date, the amount (if any) by which the aggregate principal amount of the Class A Notes, the Class B Notes and the Class C Notes on issue exceeds the aggregate of the amounts paid in cash and not by the issue of Loan Stock to acquire the Mortgages in accordance with the Mortgage Sale Agreement;
- (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes, Class B Notes or Class C Notes on the Interest Payment Date relative thereto; and
- (iv) any part of the amount deducted pursuant to (B)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances, in purchasing and cancelling Class A Notes or in paying interest on the Class A Notes, in each case on or prior to the preceding Interest Payment Date; less

(B) the aggregate of:

- (i) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period);

- (ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the PFPLC Subordinated Loan Agreement;
- (iii) the aggregate Principal Amount Outstanding of Class A Notes purchased and cancelled during the relevant Collection Period or (as a result of any commitment entered into during such relevant Collection Period) expected to be purchased and cancelled on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period;
- (iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes on that Interest Payment Date, such estimate to be made on the assumption that the amount of interest due on that Interest Payment Date on each Mortgage on which the due amount was paid on the last Business Day of the preceding month will be paid in full, all as set out in the Administration Agreement; and
- (v) the aggregate amount of principal applied during the relevant Collection Period in refunding direct debit payments,

in each such case (save for (A) (iii) and (iv) above) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date.

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the first Interest Payment Date on which the ratio of (I) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes is 86:175 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

The Subordinated Available Redemption Funds shall equal:

- (i) where such Principal Determination Date falls prior to the occurrence of the Determination Event or (thereafter) if on such Principal Determination Date (a) there is any balance on the Principal Deficiency Ledger or (b) the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 40% or more of the then Current Balances of all of the Mortgages or (c) there are any of the Class A1 Notes of the Issuer then outstanding, nil; and
- (ii) on any other Principal Determination Date, provided (a) there is a balance of zero on the Principal Deficiency Ledger, (b) the then Current Balances of Mortgages which are more than three months in arrears represent less than 40% of the then Current Balances of all of the Mortgages and (c) no Class A1 Notes are then outstanding, that amount of the Available Redemption Funds determined as at such date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes)

of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 86:175; provided that the sum of the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £4,000,000.

The Class B Available Redemption Funds on any Principal Determination Date shall be determined in accordance with the following formula:

$$\text{BARF} = \text{SARF} \times \frac{33}{43}$$

Where:

- (i) “BARF” means the Class B Available Redemption Funds on such Principal Determination Date; and
- (ii) “SARF” means the Subordinated Available Redemption Funds on such Principal Determination Date.

The Class C Available Redemption Funds on any Principal Determination Date shall be determined in accordance with the following formula:

$$\text{CARF} = \text{SARF} \times \frac{10}{43}$$

Where:

- (i) “CARF” means the Class C Available Redemption Funds on such Principal Determination Date; and
- (ii) “SARF” has the meaning given to that term above.

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

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

(i) On (or as soon as practicable after) each Principal Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment in respect of each Class C Note due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class C Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class C Note on the next Interest Payment Date) and (z) the fraction in respect of each Class C Note expressed as a decimal to the sixth point (the “Pool Factor”), of which the numerator is the Principal Amount Outstanding of a Class C Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class C Note and the Pool Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The “Principal Amount Outstanding” of a Class C Note on any date shall be the principal amount of that Class C Note upon issue less the aggregate amount of all Principal Payments in respect of that Class C Note that have become due and payable (whether or not paid) prior to such date.

(ii) The Issuer will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class C Notes are listed on the London Stock Exchange) the London Stock Exchange and will immediately cause details of each determination of a Principal Payment, Principal

Amount Outstanding and Pool Factor to be published in accordance with Class C Condition 13 by not later than the first Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date. If no Principal Payment is due to be made on the Class C Notes on any Interest Payment Date a notice to this effect will be given to the Class C Noteholders.

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

(c) Redemption for Taxation or Other Reasons

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

(d) Optional Redemption in Full

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class C Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes or Class B Notes outstanding or the Issuer redeems in full all of the Class A Notes and Class B Notes outstanding in accordance with the terms and conditions thereof and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class C Notes (including the full amount of interest payable on the Class C Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class C Condition 7(a)) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class C Notes or the Trustee is otherwise directed by Extraordinary Resolution of the Class C Noteholders, the Issuer may, on any Interest Payment Date falling in or after March 2001 or, if earlier, falling on or after the date on which all the Class A Notes and Class B Notes are redeemed in full, redeem all (but not some only) of the Class C Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption, subject, in the case of a redemption pursuant to such an Extraordinary Resolution, to Class C Condition 7.

(e) Redemption on Maturity

If not otherwise redeemed, the Class C Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in December 2034, subject to Class C Condition 7.

(f) Purchases

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

(g) *Cancellation*

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

(h) *Certification*

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

6. Payments

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

The initial Principal Paying Agent is Morgan Guaranty Trust Company of New York at its office at 60 Victoria Embankment, London EC4Y 0JP.

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

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

If the due date for payment of any amount of principal or interest in respect of any Class C Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay. In this Class C Condition 6 the expression "Business Day" means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class C Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class C Note for definitive Class C Notes, on which both Euroclear and Cedel Bank are open for business.

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

7. Subordination

(a) *Interest*

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

In the event that the aggregate funds, if any, (computed in accordance with the provisions of the Deed of Charge), available to the Issuer on any Interest Payment Date for application in or towards the

payment of interest which is, subject to this Class C Condition, due on the Class C Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class C Condition as the “Residual Amount”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Class C Condition, due on the Class C Notes on such Interest Payment Date, there shall be payable on such Interest Payment Date, by way of interest on each Class C Note, a *pro rata* share of the Residual Amount on such Interest Payment Date.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class C Notes on any Interest Payment Date in accordance with this Class C Condition falls short of the aggregate amount of interest payable on the Class C Notes on that date pursuant to Class C Condition 4. Such shortfall shall accrue interest in accordance with the provisions of Class C Condition 4.

(b) Principal

The Class C Noteholders will not be entitled to any repayment of principal in respect of the Class C Notes prior to the occurrence of the Determination Event or at any time if there are any Class A1 Notes then outstanding. If, on any Interest Payment Date on which Class C Notes are to be redeemed in full pursuant to Class C Conditions 5(e) or 10 or pursuant to an Extraordinary Resolution as contemplated by Class C Condition 5(c) or 5(d), there is any debit balance on the Principal Deficiency Ledger (as defined in the Administration Agreement), then notwithstanding any other provisions of these Conditions the principal amount payable on such redemption of each Class C Note shall be its Principal Amount Outstanding less the then Principal Deficiency (after adding the balance of the First Loss Fund on such redemption to the extent that the same has not been applied in paying amounts due and payable to creditors ranking in priority to the Class C Noteholders) divided by the number of Class C Notes outstanding on such redemption. “Principal Deficiency” means the debit balance on the Principal Deficiency Ledger. None of the foregoing shall prejudice the obligation of the Issuer to pay Class C Available Redemption Funds in redemption in whole or in part of the Class C Notes in accordance with Class C Condition 5(a).

(c) General

In the event that the security for the Class C Notes and Coupons is enforced and the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to or *pari passu* with the Class C Notes and Coupons under the Deed of Charge, to pay in full all principal and interest (including interest on interest) and other amounts whatsoever due in respect of the Class C Notes, then the Class C Noteholders and Couponholders shall have no further claim against the Issuer in respect of any such unpaid amounts.

8. Taxation

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

9. Prescription

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

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

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class C Notes outstanding or if so directed by an Extraordinary Resolution of the Class C Noteholders (subject, in each case, to being indemnified to its satisfaction and to restrictions contained in the Trust Deed to protect the interests of the Class A Noteholders and the Class B Noteholders) shall, (but, in the case of the happening of any of the events mentioned in (ii) to (v) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders while any Class A Notes are outstanding or, if there are no Class A Notes outstanding, to the interests of the Class B Noteholders while any Class B Notes are outstanding or, if there are no Class B Notes outstanding, to the interests of the Class C Noteholders and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Class C Notes, only if the Trustee shall have certified in writing that the Issuer had, on the due date for payment of the amount of interest in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such interest (after payment of all sums which it is permitted under the Deed of Charge to pay in priority thereto or *pari passu* therewith)), give notice (an “Enforcement Notice”) to the Issuer that the Class C Notes are, and each Class C Note shall, if notice is, or has already been given, that the Class A Notes are due and payable pursuant to the terms and conditions of the Class A Notes, or if there are no Class A Notes then outstanding, if notice is, or has already been given, that the Class B Notes are due and payable pursuant to the terms and conditions of the Class B Notes, or if there are no Class B Notes then outstanding, accordingly forthwith become, immediately due and repayable subject to Class C Condition 7 at its Principal Amount Outstanding, together with accrued interest (including any Deferred Interest and Additional Interest) as provided in the Trust Deed, if any of the following events (each an “Event of Default”) shall occur:

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

- (vi) notice is given to the Issuer pursuant to the Trust Deed that the Class A Notes or the Class B Notes are immediately due and repayable.

11. Enforcement

At any time after the Class C Notes become due and repayable at their Principal Amount Outstanding, subject to Class C Condition 7, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the security for the Class C Notes and Coupons and to enforce repayment of the Class C Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class C Noteholders or so requested in writing by Class C Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class C Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing but provided that all of the Class A Notes and all of the Class B Notes have been redeemed in full so long as any of the Class C Notes remains outstanding, if the Class C Notes have become due and payable pursuant to the Class C Conditions otherwise than by reason of a default in payment of any amount due on the Class C Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class C Noteholders and the Couponholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class C Noteholders and the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class C Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

12. Replacements of Notes, Coupons and Talons

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

13. Notices

All notices, other than notices given in accordance with the next following paragraph, to Class C Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be The Financial Times) or, if this is not practicable, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above.

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

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

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

The Trust Deed contains provisions for convening meetings of Class C Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class C Noteholders of a modification of the Class C Notes (including these Class C Conditions) or the provisions

of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class C Notes, or a modification which would have the effect of postponing any day for payment of interest on the Class C Notes, reducing or cancelling the amount of principal payable in respect of the Class C Notes or the rate of interest applicable to the Class C Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Class C Notes or the Coupons or any alteration of the date or priority of redemption of the Class C Notes (any such modification being referred to below as a “Basic Terms Modification”) shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class C Noteholders as described below. The quorum at any meeting of Class C Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50% of the aggregate Principal Amount Outstanding of the Class C Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class C Noteholders whatever the aggregate Principal Amount Outstanding of the Class C Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing 75%, or at any adjourned such meeting 25%, or more of the aggregate Principal Amount Outstanding of the Class C Notes then outstanding. The Trust Deed contains provisions limiting the powers of the Class C Noteholders and the Class B Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Class C Noteholders and the Class B Noteholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class C Noteholders shall not be effective for any purpose unless either (i) the Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders or the interests of the Class B Noteholders or (ii) it is sanctioned by an Extraordinary Resolution of the Class A Noteholders and an Extraordinary Resolution of the Class B Noteholders but, subject thereto, it shall be binding on all Class C Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution. An Extraordinary Resolution passed at any meeting of the Class A Noteholders (or any particular class of Class A Noteholders) or at any meeting of the Class B Noteholders shall be binding on all Class C Noteholders and Couponholders, irrespective of its effect upon such holders or their interests.

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

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to realise the Security and to obtain repayment of the Class C Notes unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other party to the Relevant Documents without accounting for any profit resulting from such transactions. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

16. Notifications and Other Matters to be Final

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

17. Governing Law

The Class C Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof relating to the Scottish Mortgages and their collateral security as are particular to Scots law, which are governed by and shall be construed in accordance with Scots law.

USE OF PROCEEDS

The gross proceeds from the issue of the Class A Notes will be £132,000,000, those from the issue of the Class B Notes will be £33,000,000 and those from the issue of the Class C Notes will be £10,000,000. Commissions of 0.075% of the principal amount of the Class A1 Notes, of 0.15% of the principal amount of the Class A2 Notes, of 0.30% of the principal amount of the Class B Notes and of 0.45% of the principal amount of the Class C Notes will be payable on the issues of the Notes. These commissions, together with certain other expenses of the issues, will be paid on behalf of or reimbursed to the Issuer by PML as described in “The Issuer – Fee Letter” below. The net proceeds from the issue of the Notes, which will be approximately £174,699,250, and the sums paid by PML to the Issuer in respect of such commissions on the Closing Date will be applied towards payment to PFPLC and PML of the purchase price for the Mortgages to be purchased pursuant to the Mortgage Sale Agreement.

RATINGS

The Class A Notes are expected on issue to be assigned an Aaa rating by Moody’s. The Class B Notes are expected on issue to be assigned an A2 rating by Moody’s. The Class C Notes are expected on issue to be assigned a Baa3 rating by Moody’s. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

THE ISSUER

Introduction

The Issuer was incorporated in England (registered number 2336878) as a private limited company under the Companies Act 1985 on 19th January 1989 under the name Finance for Home Loans (23) Limited. It changed its name to Corporate Transfers Limited on 1st March 1991, to Paragon Credit Management Limited on 5th November 1997 and then to Finance for People (No.2) PLC on 16th January 1998. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The Issuer is a wholly owned subsidiary of PGC, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The ordinary share capital of PGC is listed on the London Stock Exchange.

The principal objects of the Issuer are to raise or borrow money and to grant security over its assets for such purposes, to lend money, to invest in and acquire mortgage loans and other similar investments and to manage or administer mortgage loans, and are set out in clause 4 of its Memorandum of Association.

The Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its registration and re-registration as a public company under the Companies Act 1985, the authorisation and issues of the Notes, the agreement to purchase the Mortgages and the matters contemplated in this document, obtaining approval as a qualifying lender under the provisions of the Income and Corporation Taxes Act 1988 relating to the MIRAS Scheme, obtaining a standard licence under the Consumer Credit Act 1974, registering under the Data Protection Act 1984, applying to join the Paragon VAT Group and the authorisation and execution of the other documents referred to in this document to which it is a party.

Directors and Secretary

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

Name	Business Address	Principal activities
Nicholas Keen	28 King Street London EC2V 8EH	Finance Director of PGC and PFPLC
Richard Shelton	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Solicitor and Company Director of PFPLC
John Gemmell	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Director of Financial Accounting and Group Company Secretary
Anthony Raikes	Cannon Centre 78 Cannon Street London EC4P 5LN	Managing Director of SPV Management Limited
John Saffery	46 Amesbury Road Moseley Birmingham B13 8LE	Chartered Accountant

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

The Issuer has no employees.

Management and Activities

Pursuant to the Administration Agreement and a letter agreement from the Issuer to PFPLC dated 23rd January 1998 (the "Services Letter"), PFPLC will, unless and until certain events occur, undertake the day to day management and administration of the business of the Issuer.

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

Fee Letter

PFPLC has agreed to arrange the issues of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issues of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Managers. PML will pay, on behalf of the Issuer, or reimburse to the Issuer, the management and underwriting commissions and selling commissions due to the Managers referred to in “Subscription and Sale” below and any expenses payable by the Issuer in connection with the issues of the Notes. The Issuer has agreed under the Fee Letter dated 23rd January 1998 that it will pay PFPLC an arrangement fee of 0.40% of the aggregate principal amount of the Notes and that it will repay PML such commissions and such expenses in quarterly instalments over a period of four years from the date of issue of the Notes. Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR payable quarterly in arrear. Amounts owing to PFPLC and PML under the Fee Letter will be subordinated in the manner described in “Summary – Priority of Payments” above.

Subordinated Loan Facility from PFPLC

By the PFPLC Subordinated Loan Agreement (which is made between PFPLC, the Issuer and the Trustee and dated 23rd January 1998) PFPLC has agreed to make available to the Issuer a loan facility, under which an amount or amounts will be drawn down by the Issuer on the Closing Date, to establish the First Loss Fund. Under the terms of the PFPLC Subordinated Loan Agreement, PFPLC has also agreed to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make. Further drawings may be made under the PFPLC Subordinated Loan Agreement, with the prior consent of PFPLC, by the Issuer for the purpose of establishing or increasing the Shortfall Fund. PFPLC may lend further sums to the Issuer under the PFPLC Subordinated Loan Agreement to be used by the Issuer to purchase Caps or other hedging arrangements and related guarantees (where required) in respect of Converted Mortgages. The Issuer may from time to time borrow further sums from PFPLC or others on the terms of the PFPLC Subordinated Loan Agreement. Amounts owing to PFPLC and any Subordinated Lenders under the PFPLC Subordinated Loan Agreement will be subordinated in the manner described in “Summary – Priority of Payments” above.

Interest under the PFPLC Subordinated Loan Agreement is payable by the Issuer quarterly on or after the seventh day after each Interest Payment Date commencing with the Interest Payment Date falling in March 1998 on the amount of the loan at the rate of 4% per annum above LIBOR. Principal will be repayable on the earlier of (i) the day following the last Interest Payment Date falling in December 2034 and (ii) the first day on which there are no Notes outstanding except that on any Interest Payment Date sums borrowed under the PFPLC Subordinated Loan Agreement will be repaid to the extent of any amount released from the First Loss Fund (as described in “Summary – First Loss Fund” above). Payments of interest under the PFPLC Subordinated Loan Agreement may only be made by the Issuer if, after applying its net income (other than principal receipts in respect of the Mortgages) in making a number of other payments or provisions, the Issuer still has sufficient funds for the purpose as more particularly described in “Summary – Priority of Payments” above.

Loan Stock

The Notes will be issued simultaneously with the Convertible Cumulative Secured Subordinated Loan Stock 2034 of the Issuer (the “Loan Stock”) the terms and conditions of which will be set out in an instrument to be dated the Closing Date (the “Instrument”). The initial tranche of Loan Stock (which will be issued in an amount sufficient to enable the Issuer to purchase the Mortgages and to satisfy the requirements of Moody’s) will be subscribed for by PFPLC and PML. The Loan Stock will bear interest at a rate of 4% per annum above LIBOR, payable with effect from the Closing Date, quarterly in arrear.

No payment in cash of principal in respect of, or purchase by the Issuer of, the Loan Stock will be made while any Note remains outstanding. The Loan Stock will be convertible into ordinary shares of the Issuer at any time at the option of the Issuer, and at any time when no Note is outstanding at the option of the Stockholder, at a conversion rate of one ordinary share for each £1 nominal amount of Loan Stock converted and the Loan Stock will automatically be converted as aforesaid if an Enforcement Notice is validly served. The Issuer may elect to defer the whole or any part of the interest which would otherwise be due on the Loan Stock on any Interest Payment Date (without any interest accruing thereon) until any later Interest Payment Date and may elect to satisfy its obligation to pay interest due and payable on the Loan Stock by the issue of additional Loan Stock credited as fully paid.

The Notes and the Loan Stock will share the same security, but the Loan Stock will be subordinated to the Notes in point of payment and the Notes will rank in priority to the Loan Stock in the event of the security being enforced.

Swap Agreement

On the Closing Date the Issuer will enter into the Swap Agreement with the Swap Counterparty under which the Issuer may, but shall not, unless, in relation to Fixed Rate Mortgages arising upon conversion of any Mortgages which are not Fixed Rate Mortgages into Fixed Rate Mortgages, not to do so would adversely affect any of the then current ratings of the Notes, be obliged to, from time to time enter into one or more hedging arrangements. The Issuer will not be entitled to enter into any such hedging arrangements if to do so would adversely affect any of the then current ratings of the Notes.

Termination of any such arrangements which are entered into may occur independently of an Event of Default. This may give rise to a termination payment due either to or from the Issuer which, in the case of a payment due from the Issuer, will rank in priority to payments on the Notes as provided above.

Cap Agreements and Cap Providers

If and to the extent that any Mortgages are converted into Fixed Rate Mortgages, such Fixed Rate Mortgages may be hedged by way of one or more Caps which will be made available to the Issuer by means of one or more Cap agreements entered into with a Cap Provider. The Issuer will not be obliged to enter into any Caps unless not to do so would adversely affect any of the then current ratings of the Notes and it may not enter into any such Caps if to do so would adversely affect any of the then current ratings of the Notes.

A Cap may be provided by any bank or financial institution provided that on the date on which it makes a Cap available to the Issuer such bank or financial institution has a rating for its long term or short term debt obligations sufficient to maintain the then ratings of the Notes unless that Cap is guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes. After payment of or provision for items (i) to (xi) in “Summary – Priority of Payments” above, the Issuer may reserve funds on a Principal Determination Date to enable it to purchase Caps or other hedging arrangements (and related guarantees) in the succeeding Interest Period.

Except as mentioned in the previous paragraph, under no circumstances will the Issuer be liable to make any payment to the provider of any Cap.

Capitalisation

The capitalisation of the Issuer as at the date of this document, adjusted for the Notes now being issued and the Loan Stock now being created, is as follows:

Share capital	£
Authorised	
49,800 ‘A’ Ordinary Shares of £1 each	
100 ‘B’ Ordinary Shares of £1 each	
100 ‘C’ Ordinary Shares of £1 each	
Issued	
49,800 ‘A’ Ordinary Shares of £1 each (1 fully paid and 49,799 25p paid)	12,450.75
100 ‘B’ Ordinary Shares of £1 each (1 fully paid and 99 25p paid).....	25.75
100 ‘C’ Ordinary Shares of £1 each (all 25p paid).....	25.00
	<hr/>
	12,501.50
	<hr/> <hr/>
Loan capital	
£132,000,000 Class A Mortgage Backed Floating Rate Notes Due 2034	132,000,000
(now being issued)	
£33,000,000 Class B Mortgage Backed Floating Rate Notes Due 2034	33,000,000
(now being issued)	
£10,000,000 Class C Mortgage Backed Floating Rate Notes Due 2034	10,000,000
(now being issued)	
Convertible Cumulative Secured Subordinated Loan Stock 2034 (loan capital created)	5,000,000 ⁽¹⁾
	<hr/>
Total capitalisation	180,012,501.50
	<hr/> <hr/>

The current financial period of the Issuer will end on 30th September 1998. The balance sheet of the Issuer as at 30th September 1997 is set out in “General Information” below.

Note:

(1) This figure is illustrative only. The Loan Stock will be issued on the Closing Date in an amount sufficient to satisfy the balance of the consideration payable for the Mortgages purchased by the Issuer and to satisfy the requirements of Moody’s.

THE PARAGON VAT GROUP

The Issuer is a member of the Paragon VAT Group (consisting of PFPLC and certain of its related companies, as more particularly described in the Administration Agreement). At present, PFPLC as representative member of the Paragon VAT Group is the entity primarily responsible for the VAT affairs of the Paragon VAT Group. However, for such period as the Issuer is a member of the Paragon VAT Group it will be, under current VAT legislation, jointly and severally liable with the other members of the Paragon VAT Group for any amount of VAT due from the Paragon VAT Group to H.M. Customs & Excise. PFPLC has established a VAT fund held in an account at National Westminster Bank PLC (the "VAT Account") to be used to pay amounts owing to H.M. Customs & Excise if the company primarily responsible fails to pay the relevant amount. Morgan Guaranty Trust Company of New York is the trustee of the fund which currently amounts to approximately £360,000. The Issuer will on the Closing Date become one of the beneficiaries of the trust over the VAT Account (the "VAT Declaration of Trust").

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Morgan Guaranty Trust Company of New York (“Morgan Guaranty”) is a wholly owned subsidiary and the principal asset of J.P. Morgan & Co. Incorporated, a Delaware corporation whose principal office is located in New York. Morgan Guaranty 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.

THE MORTGAGES

Origination of the Mortgages

All the Mortgages forming part of the initial security for the Notes (referred in this section as the “Mortgages”) except for the Local Authority Mortgages were originated by PFPLC or PML. PFPLC is a public company, PML is a private company and both are wholly owned subsidiaries of PGC. The ordinary share capital of PGC is listed on the London Stock Exchange. The registered address of both PFPLC and PML is St. Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE. PFPLC’s principal activities are to invest in mortgage loans secured on residential or other properties within the British Isles or elsewhere, to acquire mortgage loans from third parties and to manage or administer loan portfolios for third parties. PML’s principal activities are to invest in mortgage loans secured on residential or other properties within the British Isles or elsewhere and to acquire mortgage loans from third parties.

Introduction of Mortgage Business

Sources of PFPLC Lending

PFPLC has attracted mortgage lending business primarily through its association with a panel of life assurance companies. In addition, a small number of mortgage applications have been accepted directly from members of the public or via an approved panel of mortgage brokers.

Sources of PML Lending

PML derives its mortgage lending business through intermediaries and by applications directly from members of the public.

Information on the Mortgages

General

The Mortgages forming part of the initial security for the Notes all had original maturities of between 5 years and 37 years. No Mortgage falls to be repaid later than November 2032.

The Mortgages will comprise standard variable rate mortgages (“Standard Mortgages”) and other types of mortgages (“Non-Standard Mortgages”) described below. All the Mortgages will consist of mortgage loans which, save in respect of the Excluded Mortgages and the Local Authority Mortgages, meet certain lending criteria, and are secured by charges over freehold or leasehold properties located in England or Wales (“English Mortgages”) or by standard securities over feudal or long leasehold residential properties located in Scotland (“Scottish Mortgages”). The Issuer will have the benefit of warranties by PFPLC and PML, as the case may be, in relation to the Mortgages, including warranties in relation to the lending criteria applied in advancing the loans, save in respect of the Excluded Mortgages, the PFPLC Shared Ownership Mortgages and the Local Authority Mortgages as to which only certain warranties will be given.

The properties which are the subject of the Mortgages (the “Properties”) are residential properties located in England or Wales (the “English Properties”) or are residential properties located in Scotland (the “Scottish Properties”) and are either freehold or leasehold or, in the case of the Scottish Properties, feudal or long leasehold (and in the case of leasehold or long leasehold the lease has at least 25 years to run beyond the term of the relevant Mortgage).

Other than in respect of the Local Authority Mortgages and the PFPLC Shared Ownership Mortgages all of the Mortgages are subject to standard mortgage conditions (“Mortgage Conditions”). These contain various covenants and undertakings by the borrower including covenants to make the monthly interest payments as notified to the borrower and to pay premiums on any endowment life assurance policy or policies (except in relation to Repayment and Interest-only Mortgages) and buildings insurance policies effected in relation to the Property. The Mortgage Conditions also contain provisions for the usual remedies of a mortgagee in the event of default by the borrower.

The Income and Corporation Taxes Act 1988 provides that a person who pays certain categories of loan interest on which tax relief is due will normally be entitled to deduct and retain from his payments a sum equal to 15% of the loan interest payable on up to the first £30,000 of the amount of the loan (although this percentage will reduce to 10% with effect from the tax year commencing 6th April 1998). The Inland Revenue will repay to the lender an amount equal to the amount of the deduction made. In practice, the Administrator will inform borrowers of the net amount of their monthly payments although the borrowers covenant to pay the gross amount.

Repayment Types

Certain Mortgages will be mortgages under which monthly instalments covering both interest and principal are required to be paid by the borrower (“Repayment Mortgages”). The payment schedule applicable to such a Mortgage on origination is structured so that the principal element of the instalments is small in the early years but increases in size during the life of the Mortgage until full repayment by maturity. PFPLC has not required borrowers under Repayment Mortgages to arrange life assurance or pension cover. PML recommends that borrowers arrange term life assurance in connection with Repayment Mortgages.

Some Mortgages, when originated, provided for interest only to be paid monthly during their term, with no scheduled payment of principal prior to maturity (“Interest-only Mortgages”). Life assurance or pension cover may not have been required by PFPLC in connection with Interest-only Mortgages. PML recommends that borrowers arrange term life assurance in connection with Interest-only Mortgages.

Each Mortgage which, when originated by PFPLC or PML, was not a Repayment Mortgage or an Interest-only Mortgage will be either endowment-linked or pension-linked. All endowment-linked Mortgages, when originated, will have had the benefit of a collateral charge over one or more life assurance policies or one or more life assurance policies will have been deposited with the mortgagee. These policies were expected, at the time of the original advance of the relevant Mortgage, in aggregate to provide amounts sufficient to pay off the principal balance of the Mortgage and any Mandatory Further Advances (excluding fees, costs and expenses) in the event of the death of the borrower(s) prior to maturity of the Mortgage and were expected, at the time of origination, on the basis of criteria generally applied by mortgage lenders in the United Kingdom, to provide sums at the maturity of the policies sufficient to pay in full the principal amount secured by the Mortgage and any Mandatory Further Advances (excluding fees, costs and expenses). The borrower may not have been making payment in full or on time of the premium(s) due on any such policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder. In certain cases the policy may have been surrendered but not necessarily in return for a cash payment and any cash received by the borrower may not have been applied in paying amounts due under the Mortgage.

Mortgages which, when originated, were pension-linked Mortgages, may, when originated, have had the benefit of a collateral charge over one or more life assurance policies under which the assured sums would in aggregate provide amounts sufficient to pay off the principal balance of the Mortgage (excluding certain further advances, fees, costs and expenses) in the event of the death of the borrower(s) prior to maturity of the Mortgage. However, neither the Issuer nor the Trustee may take any security interest over a pension policy. Similar considerations to those noted above in respect of the maturity of life assurance policies apply in respect of pension policies.

Particular PFPLC Mortgage Types

Standard PFPLC Mortgages may include the following:

- (i) Right-to-Buy Mortgages, which relate to property purchased by borrowers from a local authority pursuant to statutory entitlement under “right-to-buy” legislation, consolidated in the Housing Act 1985 and the Housing (Scotland) Act 1987.
- (ii) Stabilised Rate Mortgages, under which the borrower is required to pay interest during an availability period at a fixed rate and PFPLC agrees to advance for the borrower’s account each month an amount by which interest calculated at the actual charging rate exceeds interest calculated at such fixed rate. To the extent that the borrower pays interest at the fixed rate and this exceeds interest calculated at the actual charging rate, the excess received is deemed to be a principal receipt and will be dealt with in the manner described in “Summary – Mandatory Redemption in Part” above. However, if requested PFPLC will allow the borrower to pay interest at the charging rate if this is lower than the relevant fixed rate at the time.
- (iii) PFPLC Shared Ownership Mortgages, which relate to shared ownership leases, under which the borrower initially acquired only a share in the property and continues to pay a rent calculated by reference to the value of the share in the property which he has not yet acquired. The shared ownership leases contain provisions for the acquisition by the borrower of additional shares in the property and potentially the acquisition of the landlord’s freehold or superior leasehold interest. Some of the shared ownership leases securing PFPLC Shared Ownership Mortgages were granted to tenants exercising a right to acquire such a shared

ownership lease, conferred by the “right-to-buy” legislation, whilst other leases were granted by Housing Associations to provide lower cost home ownership.

Shared ownership leases create a legal estate, as any other lease, over which a legal charge may be taken and the usual mortgagee’s remedies may be applied, for example, the sale of the lease. However on the sale of the lease, in some cases and under certain circumstances, the landlord has the right to nominate the purchaser and, if the landlord exercises his right, the purchase price is fixed at a figure no greater than the market value of the share in the property already owned. Both the nomination and valuation procedures may cause delay. In practice therefore the preferable course for a mortgagee is likely to be to purchase the outstanding share in the property when it exercises its power of sale and in many cases the proceeds of sale may be used to fund that acquisition so that the landlord makes a simultaneous transfer of the freehold or superior leasehold interest to the purchaser.

PFPLC has approved a number of different forms of shared ownership lease for lending purposes which give rise to a number of considerations to be taken into account by a mortgagee upon enforcement. These are:

- (a) in some cases the mortgagee is required to offer the lease back to the landlord before exercising the right to acquire the outstanding share, at a price prescribed by the lease which is limited to the amount of the principal (not including any capitalised interest) outstanding to the mortgagee plus up to twelve months’ unpaid interest and certain associated costs;
- (b) in some cases the provisions relating to the acquisition of the outstanding shares, and ultimately the freehold or superior leasehold interest, require the mortgagee to discharge arrears of rent and other sums due under the lease before the acquisition of that share can proceed so that the mortgagee would have to discharge those arrears from its own funds;
- (c) in some cases the tenant is obliged to acquire the outstanding share by a specified payment date and a mortgagee in possession on that date would be obliged to make that payment from its own funds in order to preserve its security; and
- (d) in some cases the lease provides that where the property has been sold by the tenant at a profit within a specified period after the acquisition of the final outstanding share, a further payment (reflecting the profit element) is payable to the landlord.

A small number of PFPLC Shared Ownership Mortgages are Scottish Mortgages, and while the underlying legal structure of the scheme of shared ownership in relation to these Scottish Mortgages differs in a number of respects from that which applies under English law, the position of PFPLC as mortgagee of the relevant Scottish Mortgages is nevertheless similar to that set out above.

Each Non-Standard PFPLC Mortgage is one of the following:

- (i) Blue Chip Mortgages, under which the borrower is required to pay interest at a fixed margin above three-month LIBOR determined quarterly.
- (ii) Local Authority Mortgages which consist of mortgages originated by various local authorities in England and Wales and the Housing Corporation, to permit residential borrowers to fund council property purchases. These mortgages were acquired by PFPLC during the mid-1980’s and PFPLC is now the legal owner of them. There are certain considerations in relation to these mortgages, which include:
 - (a) in some cases the original mortgage conditions imposed by the local authority continue to apply;
 - (b) interest is charged on the same basis as when PFPLC acquired the mortgages (i.e., a rate of 0.25% below the standard national rate declared by the Secretary of State pursuant to Schedule 16 of the Housing Act 1985).

Interest on the PFPLC Mortgages is payable monthly at rates which are currently set by PFPLC (subject to the restrictions mentioned above) and, except in certain limited circumstances in which the Trustee or Barclays or any substitute administrator will be entitled to take over this function, will continue to be set by PFPLC as Administrator on behalf of the Issuer and the Trustee after the sale and sub-charge of the PFPLC Mortgages.

Particular PML Mortgage Types

Standard Mortgages originated by PML may include the following:

- (i) Freshstart Mortgages, which will have been originated under guidelines which permit advances to applicants who have previously had difficulty in meeting their credit obligations. To qualify for a Freshstart Mortgage, applicants must be able to demonstrate a history of previous credit obligation repayment which was interrupted by an identifiable problem. The applicant must also be able to demonstrate that the problem has been rectified and that the applicant is again able to meet its obligations. Interest on Freshstart Mortgages is charged at between 1% and 3% above the standard variable rate. However, if the borrower makes 36 consecutive payments, the interest rate chargeable on the Freshstart Loan will be lowered to PML's standard variable rate.
- (ii) PML Shared Ownership Mortgages, which relate to shared ownership leases, under which the borrower initially acquired only a share in the property and continues to pay a rent calculated by reference to the value of the share in the property which he has not yet acquired. The shared ownership leases contain provisions for the acquisition by the borrower of additional shares in the property and potentially the acquisition of the landlord's freehold or superior leasehold interest.

Shared ownership leases create a legal estate, as with any other lease, over which a legal charge may be taken and the usual mortgagee's remedies may be applied, for example, the sale of the lease. However on the sale of the lease, in some cases and under certain circumstances, the landlord has the right to nominate the purchaser and, if the landlord exercises his right, the purchase price is fixed at a figure no greater than the market value of the share in the property already owned. Both the nomination and valuation procedures may cause delay. In practice therefore the preferable course for a mortgagee is likely to be to purchase the outstanding share in the property when it exercises its power of sale and in many cases the proceeds of sale may be used to fund that acquisition so that the landlord makes a simultaneous transfer of the freehold or superior leasehold interest to the purchaser.

PML has approved two forms of shared ownership lease, both of which are based on the model forms of shared ownership lease promulgated by the Housing Corporation.

- (iii) Lettings Mortgages, which relate to property purchased by the borrower and occupied by tenants. Lettings Mortgages will include loans to non-UK nationals and ex-patriates. The properties will normally be let under an assured shorthold tenancy (or, in Scotland, a short assured tenancy) and in all cases the occupier will have no statutory security of tenure.
- (iv) Right-to-Buy Mortgages, which relate to property purchased by borrowers from a local authority pursuant to statutory entitlement under "right-to-buy" legislation, consolidated in the Housing Act 1985 or the Housing (Scotland) Act 1987.
- (v) Variable Discount Mortgages under which, during a specified discount period running from the date of the advance and ending on the date stated in the Mortgage Conditions, PML agrees to accept interest payments at a stated percentage below the rate which would have been applicable to its Standard Mortgages.
- (vi) A Premier Rate Mortgage under which PML shall set the interest rate at the lowest rate possible taking into account its required return and the costs to it of making, funding and administering the loan. In some cases the interest rate is at a fixed margin of 0.75% below that applicable to PML's Standard Mortgages. In most cases, this rate is concessionary and may be withdrawn at PML's option in the event of a breach of any of the borrower's obligations under the mortgage.

A Non-Standard PML Mortgage is, and any Mortgage may be converted into, either one of the following:

- (i) a Fixed Rate Mortgage under which for a fixed initial period or periods the rate of interest payable by the borrower is not capable of being reset monthly or quarterly at will by the Issuer or the Administrator but the borrower is required to pay interest at a fixed rate or a series of fixed rates. After the fixed initial period(s) the mortgage rate chargeable becomes the rate applicable to PML's Standard Mortgages and can be reset normally; or

- (ii) a LIBOR-Linked Mortgage under which the borrower is required to pay interest at a fixed margin over three month LIBOR determined quarterly.

Standard Mortgages originated by PML may also include a “flexible repayment” or “index linked” provision pursuant to which no principal need be included in the payments made by the borrower up to the first anniversary of the date of the advance. At the first, and each subsequent anniversary, the borrower may select the amount of principal to be included in repayments for the next year which must be at least the amount which if applied uniformly to repayments throughout the mortgage term would ensure that the Mortgage is repaid by the end of that term.

Certain PML Standard Mortgages and Fixed Rate Mortgages may also include a cashback concession under which the borrower is paid a percentage of the amount advanced in a single lump sum payment.

Interest on the PML Mortgages is payable monthly at rates which are currently set by or on behalf of PML (subject to the restrictions mentioned above) and, except in certain limited circumstances in which the Trustee or Barclays will be entitled to take over this function, will be set by PFPLC as Administrator on behalf of the Issuer and the Trustee after the sale and sub-charge of the PML Mortgages.

Redemption Provisions – PFPLC Mortgages

Other than in respect of certain Local Authority Mortgages (which restrict the right of the borrower to repay to certain days), each PFPLC Mortgage provides that the borrower may prepay principal at any time without prior notice. If a Stabilised Rate Mortgage is redeemed while subject to a stabilised rate of interest, the borrower is required to pay the equivalent of two or, in some cases, three months’ interest.

Redemption Provisions – PML Mortgages

The PML Mortgages provide that the borrower may prepay principal at any time without prior notice. The period within which a prepayment of principal gives rise to an obligation to pay an additional sum, and the size of that sum, are specified in the relevant Mortgage Conditions.

With Standard Mortgages without a cashback concession and Premier Rate Mortgages, if the borrower prepays principal within three years of completion of the Mortgage, the borrower is required to pay the equivalent of one month’s interest, at the then prevailing charging rate, on the amount prepaid.

With Variable Discount Mortgages, the Mortgage Conditions dictate that if the borrower prepays principal prior to the date specified in the applicable Mortgage Conditions the borrower is required to pay a penalty equal to the amount of interest that would have been payable on the amount prepaid if the stated discount had not applied.

Certain of the Fixed Rate Mortgages have prepayment provisions similar to those for Standard and Premier Rate Mortgages. For other Fixed Rate Mortgages, if the borrower prepays any principal within four (or in certain cases five) years of completion of the Mortgage, the borrower must pay whichever is the lesser of:

- (i) the proper cost to PML of the borrower making the prepayment (taking into account the cost of making, funding and administering the loan as well as any return foregone by PML or payment PML is required to make); and
- (ii) an amount equivalent to between one and six months’ interest (depending upon the actual date of prepayment), at the then prevailing charging rate, on the amount prepaid.

In some cases, if the borrower received a cashback concession and then prepays principal prior to the date specified in the applicable Mortgage Conditions, then the borrower must pay a penalty equal to a portion of the cashback sum received in the same proportion that the principal amount prepaid bears to the amount originally advanced together with any other penalty.

Scottish Mortgages

A proportion of the Mortgages are Scottish Mortgages. These are secured over the relevant Properties by way of standard security, being the only means of creating a fixed charge or security over heritable property in Scotland. In respect of Scottish Mortgages, references in this Offering Circular to a “mortgage” and a “mortgagee” 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 Conditions may be varied by agreement between the parties. For most major lenders in the residential mortgage market the Standard Conditions are varied by a “Deed of Variation”, the terms of which are in turn imported into each standard security. PFPLC and PML have each executed a Deed of Variation of Standard Conditions with a view to assimilating as far as possible their Scottish Mortgages and English Mortgages from an operational viewpoint (subject to such limitations as are inherent to the differences between Scots and English law).

The main provisions of the Standard Conditions which cannot be varied by agreement relate to enforcement. Generally, where a breach by a borrower entitles the lender to require repayment an appropriate statutory notice must first be served. First, the lender may serve a “calling up notice”, in which event the borrower has two months to comply and in default the lender may enforce its rights under the standard security by sale or the other remedies provided by statute (court application only being necessary where the borrower fails to vacate the property). Alternatively, in the case of remediable breaches, the lender may serve a “notice of default”, in which event the borrower has only one month in which to comply, but also has the right to object to the notice by court application within fourteen days of the date of service. In addition, the lender may in certain circumstances make direct application to the court without the requirement of a preliminary notice. The appropriate steps for enforcement will therefore depend on the circumstances of each case.

Acquisition of Mortgages

PFPLC has agreed to re-purchase on the Closing Date certain Mortgages from companies to which it has previously sold such Mortgages in connection with securitisation transactions. The Issuer has, in turn, agreed with PFPLC to purchase these Mortgages. Pursuant to the Mortgage Sale Agreement, PML has agreed to re-purchase certain Mortgages from Paragon Second Funding Limited on the Closing Date. The Issuer has in turn agreed to purchase those Mortgages from PML.

The purchase consideration in respect of the Mortgages purchased on the Closing Date will be paid on the Closing Date.

The Mortgage Sale Agreement provides that, on the Closing Date, PFPLC and PML will each receive transfers (or, in the case of Scottish Mortgages, releases from trust) of the Mortgages which it has agreed to acquire (in each case, together with transfers or, in the case of Scottish Mortgages, releases from trust of the security over the relative life assurance policies and all other rights and interests agreed to be sold to it). In the case of Mortgages over land which is registered at H.M. Land Registry or over land in Scotland, the legal estate and title in the PFPLC Mortgages and the PML Mortgages will remain vested in PFPLC and PML respectively.

Simultaneously, PFPLC and PML will each deliver to the Issuer transfers and assignments of all its right, title and interest in and to all the Mortgages then to be sold to the Issuer together with transfers and assignments of the security over the life assurance policies and all other rights and interests agreed to be sold to the Issuer. In addition, PFPLC and PML will each declare a trust in favour of the Issuer over the Scottish Mortgages to be sold to the Issuer (the “PFPLC Scottish Declaration of Trust” and the “PML Scottish Declaration of Trust” respectively and together, the “Scottish Declarations of Trust”) which will thereby under Scots law acquire the beneficial interest in the Scottish Mortgages and their related security.

Notice of the interests of the Issuer and the Trustee in the Mortgages in the Mortgage Pool will be given to the borrowers as soon as practicable, but notice to the life assurance companies in respect of the security over the life assurance policies will only be given in certain limited circumstances set out in the Administration Agreement.

In respect of the English Mortgages, the transfers and assignments by PFPLC to the Issuer and by PML to the Issuer will, upon giving notice to the borrowers, operate as legal transfers but, for the remainder, they will take effect in equity only (or, in the case of Scottish Mortgages, the transfer of the beneficial interest therein will be effected by the Scottish Declarations of Trust). Save in the circumstances set out in the Administration Agreement, neither the Issuer nor the Trustee will apply to H.M. Land Registry or to the Registers of Scotland to register or record the Issuer as legal owner of English Mortgages over registered land and the transfer of such Mortgages will therefore take effect in equity only (see “Special Considerations” above).

The title deeds to the Properties which are subject to the PFPLC Mortgages and the PML Mortgages purchased by the Issuer will be held to the Trustee’s order on terms that the person holding them may release them to third parties, subject to conditions, but without reference to the Trustee.

Neither PFPLC nor PML nor the Issuer nor the Trustee has made or caused to be made (or will make or cause to be made) on its behalf in relation to the Mortgages purchased by the Issuer any of the enquiries, searches or investigations which a prudent purchaser of the relevant security would normally make, other than (in the case of the Issuer only) a search, prior to completion of the purchase by the Issuer of the Mortgages on the Closing Date, against PFPLC, PML and certain other companies from which PFPLC and PML purchase or re-purchase the Mortgages prior to their sale to the Issuer in the relevant file held by the Registrar of Companies and in the Register of Inhibitions and Adjudications in Scotland. Neither the Issuer nor the Trustee has made nor will make any enquiry, search or investigation prior to the making of any Mandatory Further Advance or Discretionary Further Advance or at any time in relation to compliance by PFPLC, PML, the Administrator or any other person with any applicable lending guidelines, criteria or procedures or the adequacy thereof or with the provisions of the Mortgage Sale Agreement, the Administration Agreement or the Deed of Charge or with any applicable laws or in relation to the execution, legality, validity, perfection, adequacy or enforceability of any Mortgages purchased on the Closing Date or any other security, including that over life assurance policies, or the other insurance contracts relating to the Properties and the Mortgages referred to herein.

In relation to all of the foregoing matters and the circumstances in which advances were made to borrowers prior to the purchase by the Issuer of the relevant Mortgages, both the Issuer and the Trustee will rely entirely on the warranties given by PFPLC and PML to the Issuer and the Trustee contained in the Mortgage Sale Agreement. These include warranties in respect of Mortgages to be purchased on the Closing Date as to the following: that each such Mortgage constitutes a valid and binding obligation of the borrower and, subject to registration, is a valid and subsisting first legal mortgage except for certain further advances which may be regulated under the Consumer Credit Act 1974 and which are secured by way of second charge over the relevant Property where the Issuer also purchases on the Closing Date the first charge over such Property; as to the procedures followed prior to completion of the relevant Mortgage; as to the terms upon which each such Mortgage was granted; that the mortgage guarantee indemnity insurance policies are in full force and effect save in respect of certain of the Excluded Mortgages and Local Authority Mortgages specified in “The Provisional Mortgage Pool” below; and as to the satisfaction of requirements of the Inland Revenue in relation to interest relief on the Mortgages. The Excluded Mortgages, the Local Authority Mortgages and the PFPLC Shared Ownership Mortgages are excluded from certain of the warranties given by PFPLC.

The Class A Subscription Agreements, the Class B Subscription Agreement and the Class C Subscription Agreement referred to in “Subscription and Sale” below contain warranties by PFPLC (in relation to it and the PFPLC Mortgages sold by it) and by PML (in relation to it and the PML Mortgages sold by it) to the effect that the information in this Offering Circular with regard to the Mortgages to be purchased by the Issuer, the Properties, the life assurance policies, the other insurance contracts relating to the Properties and the Mortgages and PFPLC and its business and PML and its business is true and accurate in all material respects.

PFPLC LENDING GUIDELINES

Other than in the case of those Local Authority Mortgages, the guidelines provided by PFPLC to help introducers of mortgage loan business to PFPLC to assess the suitability of a potential borrower and of the security offered set a standard in respect of the PFPLC Mortgages in the Provisional Mortgage Pool which, at the time any of the PFPLC Mortgages included in the Provisional Mortgage Pool was originated, was not substantially different from the following (which, although expressed in the present tense, should be read as applying at the time of origination):

Types of Property

Owner-occupied residential properties which are either freehold (or the Scottish equivalent) or leasehold and, in the case of leasehold properties, with at least 25 years remaining on the lease at the end of the mortgage term.

Amount of Mortgage

Up to £250,000 subject, generally, to a maximum (excluding any mortgage guarantee indemnity insurance premium and certain other fees) of 100% of the market valuation or purchase price, where relevant, whichever is the lower or, in the case of a Right-to-Buy Mortgage, 75% of the market value (excluding certain fees). This maximum is reduced to 80% (or in certain cases 75%) for the initial loan for a Stabilised Rate Mortgage (excluding mortgage guarantee indemnity insurance premium and fees) and is reduced to 75% in the case of advances greater than £250,000, up to a maximum advance of £500,000. Mortgage guarantee indemnity insurance is required in all cases where the advance exceeds 75% of the market valuation or purchase price, where relevant, whichever is the lower (or, in the case of a Right-to-Buy Mortgage, 75% of the market value) (excluding, in each case, certain fees which are added to the advance), and the single premium is added to the amount of the advance. Where appropriate, an advance, for the purposes of calculating the indemnity premium includes projected capitalised interest and endowment premiums.

Status

A search is made in all cases which will give details of any County Court judgments (or the Scottish equivalent) or defaults registered against the applicant at the applicant's declared address and may give details of large credit commitments of the applicant.

For advances which (excluding certain fees) do not exceed 75% of the market valuation or the purchase price (or, in the case of a Right-to-Buy Mortgage, 75% of the market value), where relevant, whichever is the lower, no further credit references are sought, except that, if applicable, a previous lender's reference is sought for advances greater than £100,000.

Where the advance (excluding certain fees) exceeds 75% of the market valuation or the purchase price (or, in the case of a Right-to-Buy Mortgage, 75% of the market value), where relevant, whichever is the lower, and the borrower is a sole trader or in partnership, the borrower provides either an accountant's certificate stating the last three years' drawings and net profit or, if the borrower has only been trading for two years, an accountant's certificate and copies of an accountant's projection for the third year.

If the borrower owns over 25% of the employing company's shares, a letter is required from the company's auditors confirming the borrower's income for the previous three financial years or, if the borrower has only been employed for two years, an accountant's certificate and copies of an accountant's projection for the third year.

Where a borrower is employed and the advance (excluding certain fees) exceeds 75% of the market valuation or the purchase price (or, in the case of a Right-to-Buy Mortgage, 75% of the market value), where relevant, whichever is the lower, his latest P60 and last three wage slips or an employer's reference are taken as proof of income.

Where applicable in the case of remortgages, previous lender's references are sought where the advance (excluding certain fees) exceeds 75% of the market valuation or, where relevant, the purchase price if lower.

Type of Loan

All Mortgages (other than Repayment Mortgages and Interest-only Mortgages) are endowment mortgages or pension-linked mortgages (under which payments of interest only are made by the borrowers). The related life policy or policies have (in aggregate) a minimum death benefit at least equal to the initial

principal amount advanced under the relevant Mortgage and any scheduled further advances of deferred interest or endowment premiums (but excluding any mortgage guarantee indemnity insurance premium and certain other fees). Discretionary Further Advances and further advances under certain Mortgages which have or have had deferred payment facilities may, however, not be covered by life insurance.

Repayment Term

Between five years and 35 years.

Valuation of Property

A valuation is required by a qualified valuer approved by PFPLC to ascertain the current market value, reinstatement value, type of construction and any defects.

Income Multiple

Up to three times the annual income of the primary wage earner plus all the annual income of one further party to the loan. In the case of joint borrowers, where both are over 21 years old, up to two and a half times the joint income. The income multiples do not take into account the mortgage guarantee insurance premiums, Mandatory Further Advances and certain other fees. In the case of Mortgages with the benefit of a guarantee, the relevant income may be that of the surety rather than the mortgagor.

Endowment Life Assurance

A range of endowment life assurance policies are acceptable to be deposited with, or assigned to, PFPLC by way of security for endowment Mortgages.

New policies from one of PFPLC's panel of life offices or existing policies from any U.K. registered life assurance company are acceptable.

Endowment policies are required to:

1. mature at or no later than six months after the maturity of the mortgage;
2. cover the lives of one or more borrowers or, in the case of Mortgages with the benefit of a guarantee, the life of the guarantor;
3. be full or low cost or low cost low start endowment policies (conventional or unit linked); and
4. have a guaranteed minimum death benefit (in aggregate with other policies deposited or assigned) of not less than the principal of the original mortgage debt and any scheduled further advances of deferred interest or endowment premiums (excluding mortgage guarantee indemnity insurance premium and certain fees). Discretionary Further Advances and further advances under certain Mortgages which have or have had deferred payment facilities may, however, not be covered by life insurance.

New conventional endowment life policies are generally written on the basis that only 80% of the current reversionary bonus level need be maintained in order to pay off the mortgage debt upon maturity. No account is taken of the value of terminal bonuses.

Whilst PFPLC checks that the guaranteed minimum death benefit is sufficient to repay the loan, the checking of bonus assumptions is made by life companies.

Life Cover for Pension-Linked Mortgages

A range of term life assurance policies are acceptable to be deposited with, or assigned to, PFPLC by way of additional security for pension-linked Mortgages.

New policies from one of PFPLC's panel of life offices or existing life policies from any U.K. registered life assurance company are acceptable.

Life policies are required to:

1. mature at or before the maturity of the mortgage;
2. cover the lives of one or more borrowers; and
3. have a guaranteed minimum death benefit (in aggregate with other policies deposited or assigned) of not less than the principal of the original mortgage debt and any scheduled further advances of deferred interest (excluding mortgage guarantee indemnity insurance premium and certain fees). Discretionary Further Advances and further advances under certain Mortgages which have or have had deferred payment facilities may, however, not be covered by life insurance.

PML LENDING GUIDELINES

The guidelines provided by PML to help introducers of mortgage loan business to PML to assess the suitability of a potential borrower and of the security offered set a standard in respect of the PML Mortgages in the Provisional Mortgage Pool which, at the time any of the PML Mortgages included in the Provisional Mortgage Pool was originated, was not substantially different from the following (which, although expressed in the present tense, should be read as applying at the time of origination):

Personal Details

The maximum number of applicants who may be party to the mortgage is four.

All applicants must be a minimum of 18 years of age at completion.

The solicitor acting should establish the identity of each applicant or guarantor (where applicable) in accordance with the Law Society's Green Card warning, dated May 1993.

Mortgage Requirements

Loans greater than £1,000 and less than or equal to £250,000 are available up to a maximum loan-to-value of 100% when fees are excluded and 105% when fees are included.

Loans greater than £250,000 and less than or equal to £650,000 are available to a maximum loan-to-value of 75% excluding fees.

Multiple applications for let properties will be considered up to a total of £650,000 per borrower(s).

The maximum term for a loan is 37 years, the minimum is 5 years.

Where an owner occupation residential loan exceeds 70% of the lower of the purchase price or valuation (where applicable), PML will normally charge an additional security fee.

Loans may be taken on either a Capital Repayment or an Interest-only basis, or a combination of the two.

Property Details

Loans must be secured on residential property which, following a valuation by PML's valuer or a valuer appointed to act on PML's behalf, is considered to be suitable security.

The following are unacceptable to PML:

- Properties located other than on mainland England, Wales and Scotland

- Freehold flats and maisonettes

- Properties designated under the Housing Act 1985 or the Housing (Scotland) Act 1987

- Property having agricultural restrictions

- Properties subject to notice of mineral extraction, or previous mining subsidence and land fill

- Local Authority Flats being purchased under the Right-to-buy Scheme.

The following will be considered by PML on an individual basis:

- Properties used for part commercial purposes

- Properties with adjoining land used for commercial purposes or having agricultural or other planning restrictions

- Properties on which buildings insurance is not available on block policy terms

- Flats directly attached to or directly above commercial premises

- Properties with an element of Flying Freehold

- Self-build properties (pre and post completion).

Properties under 10 years old must have the benefit of an NHBC Certificate or any other approved guarantee from an acceptable body. Architects' Certificates must also be provided for each stage of construction together with Local Authority approval in respect of properties under 10 years old that do not have the benefit of an NHBC Certificate. Similar requirements may be imposed for converted properties.

Where loans are required on properties which are not to be used for owner occupation, they may be let on an assured shorthold tenancy (or, in Scotland a short assured tenancy) basis or in circumstances where the occupier has no statutory security of tenure.

Where the tenure of the property is leasehold, the minimum length of the lease at the end of the mortgage term must be 35 years.

All properties must be insured for a minimum of the reinstatement amount shown on the valuation report, under either PML's block insurance policy, or through an equivalent index linked policy with an alternative insurance company.

Credit History

A credit search will be carried out in respect of all applicants which, with the exception of PML's Freshstart product, must show no evidence of adverse credit which is material to the assessment of the case.

Where the applicant(s) has an existing first charge on a property(s) occupied by them, PML requires satisfactory evidence of proof of payment. This may take the form of either a lender's reference, mortgage statements or credit bureau information.

Where the applicant(s) has an existing first charge on property(s) not occupied by them, PML will obtain either a lender's reference, mortgage statements or credit bureau information on a sufficient number of properties to enable a satisfactory payment record to be established.

Income and Employment Details

Salaried applicants must derive their income from permanent or contracted employment which, other than in exceptional circumstances, is non-probationary. PML will seek a reference from the applicants' current employers and any previous employers where this is considered appropriate.

In addition to the above, independent written verification of earnings is normally required. This may include, for example, the latest or most recent P60.

Where an applicant is defined as self-employed in accordance with these guidelines, PML will require proof of income over an extended period of time. Acceptable forms of proof of income include audited accounts, personal tax returns, bank statements, or an accountant's reference. Such proof will normally be expected to cover a 3 year period, but this may be reduced where the information submitted is deemed sufficient to establish a usable income figure.

Applicants are defined as self employed where any of the following circumstances occur unless PML can be provided with proof that this is inappropriate:

An applicant has a liability to tax under any schedule of the Inland Revenue criteria other than schedule E

An applicant owns 20% or more of the shares of the company providing their employment

An applicant is related to the family which owns the company providing their employment

Where income is based upon self employed, salaried, or contracted employment, the maximum loan available is calculated as follows:

Single applicant – up to 4.25 x income

Multiple applicants – up to 4.25 x 1st income plus 1 x 2nd income

– up to 3.25 x joint income

In calculating income, up to 50% of an applicant's regular overtime, bonus or commission may be taken into account, providing that the total overtime, bonus or commission used does not exceed 25% of the total earnings. Where appropriate, PML will also consider rental income from tenanted residential property as part of an applicant's principal income.

Where income is based solely upon the rental income generated from the property to be mortgaged, the rental income must be for a minimum of 120% of the associated mortgage payment when calculated on an Interest-only basis.

INSURANCE COVERAGE

The following is a summary of the various insurance and assurance contracts which are relevant to the Mortgages to be purchased by the Issuer and the activities of the Issuer and the Administrator.

Endowment Life Policies and Term Life Policies

The amount payable upon the maturity of endowment life assurance policies which are collateral security for certain Mortgages (the "Life Policies") will vary depending on the terms of the relevant Life Policy, any bonuses declared during the term of the Life Policy and any bonuses declared and payable upon its termination. On prudent assumptions, and without taking account of terminal bonuses, the amount payable upon the maturity of the Life Policies relating to any Mortgage was, when the Mortgage was originated, expected to be not less than the initial principal amount advanced by PFPLC or PML pursuant to that Mortgage (excluding any mortgage guarantee indemnity insurance premium which has been added to the amount of the Mortgage and certain other fees) plus any scheduled further advances of deferred interest or endowment premiums. Discretionary Further Advances and further advances under certain Mortgages which have or have had deferred payment facilities may, however, not be covered by life assurance.

The Administrator, on behalf of the Issuer, would expect to be notified by the life assurance company of any default in the payment of premiums on the Life Policy and in other circumstances where the value of the Life Policy may be reduced. In such a case, the Administrator will take action to preserve the value of the security, in the first instance by requesting the borrower to ensure that premiums on the Life Policy are paid and continue to be paid and, if this fails, by either converting the policy into a "paid up policy" in which case it continues to attract nominal bonuses which will be paid on maturity or by surrendering it to the life assurance company in return for a cash payment (the "surrender value") which would be applied in reduction of the amount outstanding on the Mortgage. The Administrator may, instead, elect, on behalf of the Issuer, to pay premiums due on the Life Policy on the basis that these would thenceforth be added to the amount due under the Mortgage.

The amount payable under the life policies which are collateral security for pension-linked Mortgages (the "Term Life Policies") on the death of the assured prior to maturity of the Mortgage is guaranteed to be at least equal to the initial principal amount advanced by PFPLC or PML pursuant to that Mortgage (excluding any mortgage guarantee indemnity insurance premium which has been added to the amount of the Mortgage and certain other fees) plus any scheduled further advances of deferred interest. Discretionary Further Advances and further advances under certain Mortgages which have or have had deferred payment facilities may, however, not be covered by life assurance.

The Administrator, on behalf of the Issuer, would expect to be notified by the life assurance company of any default in the payment of premiums on any Term Life Policy. In such a case, the Administrator will take action to preserve the value of the security, in the first instance by requesting the borrower to ensure that premiums on the Term Life Policy are paid and continue to be paid and, if this fails, the Administrator may elect, on behalf of the Issuer, to pay premiums due on the Term Life Policy on the basis that these would thenceforth be added to the amount due under the Mortgage.

The Administrator may, if a borrower so requests or agrees or if the borrower is in default, convert any Mortgage from an endowment Mortgage (under which payments of interest only are made by the borrower) to a Repayment Mortgage under which the borrower repays principal and interest throughout the remaining term of the Mortgage. The Administrator will be permitted to take any of these actions pursuant to the Administration Agreement.

Each of PFPLC and PML has undertaken in the Mortgage Sale Agreement that within 6 months of the Closing Date it will use all reasonable endeavours to deliver to the Trustee a schedule confirming that each of the Life Policies and the Term Life Policies has been delivered to the Issuer in accordance with the Mortgage Sale Agreement and setting out the name of the relevant insurance company, the policy number of each Life Policy or Term Life Policy (as appropriate) and the name of the relevant policy holder of each Life Policy or Term Life Policy (as appropriate).

The benefit of PFPLC's or, as the case may be, PML's interest in the Life Policies and the Term Life Policies will be assigned to (or in the case of Life Policies relating to Scottish Mortgages, put into trust for) the Issuer and charged by the Issuer to the Trustee. Notice of the assignment and charge will only be required to be given to the relevant life assurance companies in certain limited circumstances set out in the Administration Agreement.

PFPLC Mortgage Guarantee Indemnity Insurance

Save in respect of the Excluded Mortgages, the Local Authority Mortgages, the Right-to-Buy Mortgages and the PFPLC Shared Ownership Mortgages where the amount of an initial advance by PFPLC (excluding certain fees added to the amount of the initial advance) when aggregated with any further advances scheduled to be, or actually, made by PFPLC exceeded 75% of the lower of the purchase price, where relevant, and the value of the Property for security purposes in the opinion of a valuer approved by PFPLC or, in the case of Right-to-Buy Mortgages where the original advance (excluding certain fees added to the amount of the original advance) exceeded 75% of the valuation of the relevant property and save in respect of certain Mortgages where the premium for the mortgage guarantee indemnity insurance is £10.00 or less, PFPLC has the benefit of mortgage guarantee indemnity insurance written by Sun Alliance or Legal & General. In such cases, a single premium was payable by the borrower at the time of the advance and was normally added to the amount of the advance.

Like other UK mortgage lenders, PFPLC has experienced delays in achieving successful settlement of claims made by it under mortgage guarantee indemnity insurance policies relating to mortgages originated by it and there can be no guarantee that such delays will not affect those PFPLC Mortgages in respect of which mortgage guarantee indemnity insurance has been taken out. Consequently, in order to expedite the settlement of claims under the mortgage guarantee indemnity insurance policies or policy relating to the PFPLC Mortgages, the Administrator may make arrangements with insurers pursuant to which the insurers shall be entitled to settle disputed claims under the mortgage guarantee indemnity insurance policy or policies relating to the PFPLC Mortgages at a discount to the face amount of such claims provided that payment of the settlement amount is made within an agreed period from the date of each claim. These arrangements are intended to have the effect of accelerating receipt from the insurers of the proceeds of claims made under the relevant mortgage guarantee indemnity insurance policies or policy and may entitle the insurers to discount claims.

The benefit of PFPLC's interests in the Sun Alliance and the Legal & General mortgage guarantee indemnity insurance policies as they relate to Properties which are subject to the PFPLC Mortgages will be assigned by PFPLC to the Issuer and charged by the Issuer to the Trustee. Notice of the assignment and charge will be given to Sun Alliance and Legal & General. Any claim under such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

The consents of Sun Alliance and Legal & General to the assignment of the benefit of the relevant mortgage guarantee indemnity insurance policy to the Issuer and to the Trustee as security and to Barclays as administrator of last resort are expected to be obtained on or before the Closing Date. Save for where Barclays acts as administrator of last resort, it is likely that, if PFPLC ceases to administer the PFPLC Mortgages, prior approval of Sun Alliance and Legal & General will be required for the mortgage guarantee indemnity insurance to continue.

PML Mortgage Indemnity Insurance

Save in respect of PML Shared Ownership Mortgages, where the amount of an initial advance by PML (excluding certain fees added to the amount of the initial advance) when aggregated with any further advances made by PML exceeded 75% of the lower of the purchase price, where relevant, and the value of the Property for security purposes in the opinion of a valuer approved by PML, PML has the benefit of mortgage indemnity insurance written by Lloyd's through the agency of C.E. Heath (Insurance Services) Limited. In such cases, a single additional security fee was payable by the borrower at the time of the advance and was normally added to the amount of the advance.

As with PFPLC, there can be no guarantee that claim delays could not affect those PML Mortgages in respect of which mortgage indemnity insurance has been taken out. Consequently, in order to expedite the settlement of claims under the mortgage indemnity insurance policy relating to the PML Mortgages, the Administrator may make arrangements with insurers pursuant to which the insurers shall be entitled to settle disputed claims under the mortgage indemnity insurance policy relating to the PML Mortgages at a discount to the face amount of such claims provided that payment of the settlement amount is made within an agreed period from the date of each claim. These arrangements are intended to have the effect of accelerating receipt from the insurers of the proceeds of claims made under the mortgage indemnity insurance policy and may entitle the insurers to discount claims.

The benefit of PML's interests in the Lloyd's mortgage indemnity insurance policy as it relates to Properties which are subject to the PML Mortgages will be assigned by PML to the Issuer and charged by

the Issuer to the Trustee. Notice of the assignment and charge will be given to Lloyd's through the agency of C.E. Heath (Insurance Services) Limited. Any claim under such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

Buildings Insurance

The following is a summary of the principal types of buildings insurance of which the Issuer will have the benefit from the date of completion of the acquisition of the Mortgages, which benefit will be charged to the Trustee pursuant to the Deed of Charge.

All freehold Properties (or the Scottish equivalent) except those mentioned in the next paragraph will be insured under the comprehensive block policies in the name of PFPLC or PML, the benefit of which will be assigned to the Issuer on the Closing Date with the interest of the Trustee noted thereon, unless it is unnecessary for the Issuer and the Trustee to be or become insured thereunder, for their reinstatement value, as recommended by the relevant valuer, from the date of completion of the acquisition of the Mortgages by the Issuer. For PFPLC Mortgages and for PML Mortgages the relevant block policies will be with Legal & General or Commercial Union Assurance Company plc. The premiums will be collected monthly by the Administrator with the interest payments due on the Mortgages.

In cases involving freehold Properties (or the Scottish equivalent) where the borrower specifically requested permission to make his own insurance arrangements each of PFPLC and PML has ensured that it has become a named insured or that its interest has been noted on the policy taken out by the borrower. The Issuer will have the benefit of insurance to provide cover in the event that such Properties are not, or are not adequately, insured. Each of PFPLC and PML has policies with Royal Insurance (U.K.) Limited which cover losses arising from a failure by an insurer under a buildings policy arranged by a borrower to pay in full the amount of any otherwise valid claim under such policy by such borrower or by PFPLC or PML as a result of acts or omissions unknown to, or beyond the control of, PFPLC or PML.

Leasehold Properties will be insured in the same way as freehold Properties except where the lease requires insurance to be effected by the landlord. Where a landlord insures a Property under the terms of a lease, each of PFPLC and PML will have taken all reasonable steps to ensure that the relevant Property is insured under a policy with an insurance company approved by PFPLC or PML, as the case may be, against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the originator's valuer and that either PFPLC or PML, as the case may be, has become a named insured or its interest has been noted by the insurers.

In cases involving Leasehold Property where the lease requires insurance to be effected by the landlord, the Issuer will have the benefit of insurance, the effect of which will be to provide cover if the Leasehold Property is not, or is not adequately, insured under the terms of the lease. The Administrator may instruct a valuer to check that satisfactory reinstatement has taken place and to review the value of the Property for security purposes.

The benefit of PFPLC's and PML's interests in those insurance policies referred to above insofar as they relate to the Mortgages will either be assigned by PFPLC and PML to the Issuer or the Issuer will be or become a named insured thereunder. The Issuer's interest in all of the insurance policies referred to above will, if the Trustee is not itself insured thereunder, be assigned to the Trustee and no notice of each of these assignments will be given to the insurers, save that notice of the assignments by PFPLC and PML to the Issuer will be given in respect of those of the policies referred to above where PFPLC or PML is a named insured. Any claim under any such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

Other Miscellaneous Insurances

Both PFPLC and PML have insurance which covers loss arising from negligent acts, errors or omissions and dishonesty or fraud by the insured's staff, negligence or breach of duty by its directors and officers and fraudulent interference with computer systems or data. The Issuer will be endorsed as a named insured under each of these policies, and the Trustee's interest is expected to be noted on the policies, with effect from the completion of the acquisition of the Mortgages by the Issuer and execution of the Deed of Charge.

The solicitors who acted on behalf of PFPLC and PML in relation to the Mortgages are all covered by the professional indemnity scheme established by The Law Society or The Law Society of Scotland. This scheme should provide compensation in the event that PFPLC, PML or the Issuer has a claim against such

solicitors for negligence which is not satisfied by such solicitors out of their own resources. Licensed conveyancers who acted on behalf of PFPLC or PML in relation to the Mortgages are all covered by a similar indemnity scheme established under the Administration of Justice Act 1985.

PFPLC also has the benefit of insurance with Sun Alliance to cover the situation where it granted further advances on existing first mortgages prior to October 1992, the borrower has granted a second charge over the relevant Property without PFPLC receiving notice and PFPLC has not obtained the second mortgagee's agreement to postponement of such second charge. Notwithstanding the fact that PFPLC has not received such notice it may nevertheless be deemed to have constructive notice of the creation of the second charge. PFPLC's policy does not apply to any Mandatory Further Advance made under the terms of a Stabilised Rate Mortgage. The Issuer will have assigned to it the benefit of PFPLC's policy in relation to matters arising prior to its purchase of the Mortgages. The consent of Sun Alliance to the assignment of the benefit of such policy to the Issuer is expected to be obtained on or before the Closing Date.

PFPLC has the benefit of insurance with Combined Insurance Company of America and London General Insurance Company Limited and PML has the benefit of insurance with the London General Insurance Company Limited which provides for certain payments to be made to PFPLC and PML (as the case may be) in the event of the total disability, unemployment or hospitalisation of a particular borrower. The benefits received by PFPLC or PML are applied by them in reducing the borrower's indebtedness to PFPLC or PML (as the case may be). The benefit of PFPLC's and PML's interests in these policies will be assigned by PFPLC or PML (as the case may be) to the Issuer and charged by the Issuer to the Trustee.

THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool, evidenced by the mortgages described below (the “Provisional Mortgage Pool”) as at 31 December 1997 (the “Provisional Pool Date”) consisted of 3,365 Mortgages having a Provisional Balance (as defined below) of £185,761,328.99.

The Provisional Mortgage Pool includes 2,151 Current Mortgages having an outstanding balance as at the Provisional Pool Date, excluding amounts which had accrued and become due and payable but which remained unpaid (“Accrued Arrears”) and excluding any accrued interest thereon (the “Current Mortgage Provisional Balance”), of £101,258,208.41 and 1,214 Arrears Mortgages having a balance outstanding as at the Provisional Pool Date, including Accrued Arrears but excluding any accrued interest thereon (the “Arrears Mortgage Provisional Balance”), of £84,503,120.58 (the Current Mortgage Provisional Balance and the Arrears Mortgage Provisional Balance being together, the “Provisional Balance”).

The Mortgages to be purchased by the Issuer on the Closing Date form part only of the Provisional Mortgage Pool which contains other mortgage loans that will not be sold by PFPLC or PML to the Issuer. Therefore the information set out below in relation to the Provisional Mortgage Pool may not necessarily correspond to that for the Mortgages sold to the Issuer on the Closing Date.

All of the Mortgages forming part of the Provisional Mortgage Pool which were originated by PFPLC or PML were originated between May 1986 and November 1997. The Local Authority Mortgages were acquired by PFPLC between December 1985 and October 1986.

The majority of the Mortgages to be purchased by the Issuer have a remaining term of less than 25 years although Mortgages may have maturities of up to 35 years with the latest scheduled maturity of any mortgage loan in the Provisional Mortgage Pool being not later than November 2032. An Arrangement Mortgage is an Arrears Mortgage which is making payment under arrangement and on which a payment has been received in five of the previous six months and on which aggregate payments over the six-month period equal at least 75% of the amount due from the borrower during such six-month period. Mortgages in the Provisional Mortgage Pool as at the Provisional Pool Date with an Arrears Mortgage Provisional Balance of £28,801,265.28 were Arrangement Mortgages.

The Excluded Mortgages in the Provisional Mortgage Pool had at the Provisional Pool Date an aggregate Provisional Balance of not more than £9,333,530.84. All the Excluded Mortgages fall into one of the following four categories and £869,923.02 of the Excluded Mortgages fall into more than one of the categories: (i) Excluded Mortgages with an aggregate Provisional Balance outstanding of not more than £2,485,385.40 where the amount advanced could have been in excess of 75% of the lower of the value of the Property for security purposes in the opinion of a valuer approved by PFPLC and the purchase price, where appropriate, (excluding certain fees) and no mortgage guarantee indemnity insurance was effected in respect of such excess; (ii) Excluded Mortgages with an aggregate Provisional Balance of not more than £1,474,297.63 where the amount advanced in each case could have been more than three times the annual income of the primary wage earner plus the annual income of one further party to the loan or in the case of joint borrowers where both are over 21 years old, more than two and a half times the joint income; (iii) Excluded Mortgages with an aggregate Provisional Balance of not more than £5,552,703.90 which could have breached other lending criteria; and (iv) Excluded Mortgages with an aggregate Provisional Balance of not more than £691,066.93 where certain other warranties may not apply. The Local Authority Mortgages in the Provisional Mortgage Pool had at the Provisional Pool Date an aggregate Provisional Balance of not more than £395,658.02. The PFPLC Shared Ownership Mortgages in the Provisional Mortgage Pool had at the Provisional Pool Date an aggregate Provisional Balance of not more than £839,937.95.

The following tables give further information about the Provisional Mortgage Pool as at the Provisional Pool Date. All percentages have been taken to two decimal places:

Loan-to-Value Ratios (“LTV”)

<i>Loan-to-Value Ratios (%)</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
> 0 < = 25	1,230,074.08	0.66%	45	1.34%
> 25 < = 50	12,512,614.06	6.74%	328	9.75%
> 50 < = 55	6,060,009.32	3.26%	140	4.16%
> 55 < = 60	7,085,200.86	3.81%	144	4.28%
> 60 < = 65	7,729,947.31	4.16%	172	5.11%
> 65 < = 70	12,421,813.26	6.69%	256	7.61%
> 70 < = 75	30,242,291.23	16.28%	615	18.28%
> 75 < = 80	27,716,357.72	14.92%	606	18.01%
> 80 < = 85	15,346,571.65	8.26%	245	7.28%
> 85 < = 90	9,693,999.33	5.22%	148	4.40%
> 90 < = 95	10,534,268.55	5.67%	155	4.61%
> 95 < = 97	3,551,285.99	1.91%	55	1.63%
> 97 < = 100	8,016,710.87	4.32%	121	3.60%
Over 100 ⁽¹⁾	33,620,184.76	18.10%	335	9.96%
Total	185,761,328.99		3,365	

Average LTV weighted by Provisional Balance: 84.79%.

Average LTV weighted by Provisional Balance less Accrued Arrears: 80.87%.

Note:

(1) The total amount of the excess over 100% based on the latest valuation for the Current Mortgages and the Arrangement Mortgages in the Provisional Mortgage Pool is £442,691.39.

Product Summary by Rate Fixing Method

<i>Product</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Local Authority Rate.....	395,658.02	0.21%	29	0.86%
PFPLC Standard Variable Rate	86,836,135.29	46.75%	1,285	38.19%
PML Standard Variable Rate	71,211,171.99	38.33%	1,604	47.67%
Blue Chip	4,398,435.29	2.37%	52	1.55%
PML LIBOR-Linked	145,328.77	0.08%	4	0.12%
PML-Fixed Rate	22,774,599.63	12.26%	391	11.62%
Total	185,761,328.99		3,365	

Product Summary by Repayment Method

<i>Product</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Endowment	21,568,442.81	11.61%	377	11.20%
Repayment	110,730,159.78	59.61%	2,031	60.36%
Interest only and Pension-linked	53,462,726.40	28.78%	957	28.44%
Total	185,761,328.99		3,365	

Loan Size

(£)	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
0.00 –15,000	739,351.63	0.40%	64	1.90%
15,000.01 – 30,000	19,548,845.18	10.52%	843	25.05%
30,000.01 – 45,000	33,908,636.70	18.25%	918	27.28%
45,000.01 – 60,000	28,231,458.03	15.20%	546	16.23%
60,000.01 – 70,000	15,906,855.22	8.56%	245	7.28%
70,000.01 – 80,000	14,219,016.51	7.65%	190	5.65%
80,000.01 – 90,000	10,172,086.77	5.48%	120	3.57%
90,000.01 – 100,000	7,412,501.35	3.99%	78	2.32%
100,000.01 – 110,000	7,862,566.41	4.23%	75	2.23%
110,000.01 – 120,000	6,406,019.93	3.45%	56	1.66%
120,000.01 – 130,000	5,479,799.64	2.95%	44	1.31%
130,000.01 – 140,000	3,920,051.67	2.11%	29	0.86%
140,000.01 – 150,000	4,060,655.88	2.19%	28	0.83%
150,000.01 – 175,000	5,408,086.74	2.91%	34	1.01%
175,000.01 – 200,000	5,828,145.76	3.14%	31	0.92%
200,000.01 – 225,000	5,276,361.14	2.84%	25	0.74%
225,000.01 – 250,000	4,532,842.31	2.44%	19	0.56%
Over 250,000	6,848,048.12	3.69%	20	0.59%
Total	185,761,328.99		3,365	

Property Tenure

	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Freehold	136,063,451.74	73.25%	2,327	69.15%
Leasehold	40,928,371.34	22.03%	859	25.53%
Feudal	8,769,505.91	4.72%	179	5.32%
Total	185,761,328.99		3,365	

Seasoning of Mortgages

<i>Year of Completion</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
1985.....	15,691.00	0.01%	1	0.03%
1986.....	2,994,284.67	1.61%	67	1.99%
1987.....	7,575,946.97	4.08%	105	3.12%
1988.....	14,013,289.29	7.54%	179	5.32%
1989.....	29,765,230.59	16.02%	418	12.42%
1990.....	20,893,079.66	11.25%	349	10.37%
1991.....	16,372,706.42	8.81%	247	7.34%
1992.....	0.00	0.00%	0.00	0.00%
1993.....	0.00	0.00%	0.00	0.00%
1994.....	0.00	0.00%	0.00	0.00%
1995.....	0.00	0.00%	0.00	0.00%
1996.....	0.00	0.00%	0.00	0.00%
1997.....	94,131,100.39	50.67%	1,999	59.41%
Total.....	185,761,328.99		3,365	

Maturity of Mortgage

<i>Years to Maturity⁽²⁾</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
> 0 < 5	2,346,523.87	1.26%	44	1.31%
> = 5 < 10.....	13,059,628.92	7.03%	305	9.06%
> = 10 < 15	39,365,974.67	21.19%	700	20.80%
> = 15 < 20	85,075,998.06	45.80%	1,416	42.08%
> = 20 < 25.....	43,535,635.40	23.44%	860	25.56%
> = 25 < 30	1,732,080.05	0.93%	29	0.86%
> = 30 < 35	645,488.02	0.35%	11	0.33%
Over 35	0.00	0.00%	0	0.00%
Total.....	185,761,328.99		3,365	

Note:

(2) From the Provisional Pool Date to maturity of Mortgage.

Loan Purpose

<i>Use of Proceeds</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
House/Flat Purchase.....	100,071,458.49	53.87%	1,945	57.80%
Remortgage	85,689,870.50	46.13%	1,420	42.20%
Total.....	185,761,328.99		3,365	

Geographical Dispersion

<i>Defined Area</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
North	3,627,025.19	1.95%	104	3.09%
North West	8,805,441.92	4.74%	234	6.95%
Yorkshire	8,700,159.43	4.68%	238	7.07%
East Midlands.....	9,192,992.58	4.95%	204	6.06%
West Midlands	10,138,735.38	5.46%	231	6.86%
East Anglia	7,457,207.91	4.01%	158	4.70%
South East (excl. Greater London)	72,982,942.99	39.29%	1,153	34.26%
South West.....	14,940,814.32	8.04%	315	9.36%
Greater London	36,039,627.35	19.40%	434	12.90%
Wales.....	5,106,876.01	2.75%	115	3.42%
Scotland	8,769,505.91	4.72%	179	5.32%
Total.....	185,761,328.99		3,365	

Number of Months in Possession: Properties in Possession

<i>No. of Months</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
1	227,395.29	14.37%	5	20.00%
2	461,498.44	29.17%	6	24.00%
3	173,498.69	10.97%	2	8.00%
4	136,072.87	8.60%	4	16.00%
6	48,505.63	3.07%	1	4.00%
8	100,997.34	6.38%	3	12.00%
9	78,868.66	4.99%	1	4.00%
12	121,166.74	7.66%	1	4.00%
14	116,519.43	7.37%	1	4.00%
43	117,378.23	7.42%	1	4.00%
Total.....	1,581,901.32		25	

Average number of months in possession weighted by Provisional Balance: 7.68 months.

Average number of months in possession weighted by Provisional Balance less Accrued Arrears: 6.92 months.

Number of Months in Arrears⁽³⁾: Properties in Possession

<i>No. of Months</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>	<i>Accrued Arrears (£)</i>
> 0 < = 1	0.00	0.00%	0	0.00%	0.00
> 1 < = 2	0.00	0.00%	0	0.00%	0.00
> 2 < = 3	0.00	0.00%	0	0.00%	0.00
> 3 < = 4	0.00	0.00%	0	0.00%	0.00
> 4 < = 5	0.00	0.00%	0	0.00%	0.00
> 5 < = 6	0.00	0.00%	0	0.00%	0.00
> 6 < = 7	26,455.11	1.67%	1	4.00%	2,266.61
> 7 < = 8	28,135.03	1.78%	1	4.00%	2,688.21
> 8 < = 9	0.00	0.00%	0	0.00%	0.00
> 9 < = 10	0.00	0.00%	0	0.00%	0.00
> 10 < = 11	25,969.88	1.64%	1	4.00%	3,628.73
> 11 < = 12	0.00	0.00%	0	0.00%	0.00
> 12 < = 15	373,425.98	23.61%	8	32.00%	57,988.77
> 15 < = 18	104,026.87	6.58%	2	8.00%	19,210.20
> 18 < = 21	297,120.91	18.78%	5	20.00%	68,160.63
> 21 < = 24	249,989.32	15.80%	2	8.00%	59,671.45
> 24 < = 30	78,868.66	4.99%	1	4.00%	17,659.81
> 30 < = 36	281,390.13	17.79%	3	12.00%	105,603.31
> 36 < = 42	116,519.43	7.37%	1	4.00%	49,575.35
Total	1,581,901.32		25		386,453.07

Average number of months in arrears, for Mortgages which are greater than one month in arrears, and which are in possession, weighted by Provisional Balance: 21.71 months.

Average number of months in arrears for Mortgages which are greater than one month in arrears, and which are in possession, weighted by Provisional Balance less Accrued Arrears: 20.69 months.

Note:

- (3) The extent to which a particular mortgage is “in arrears” is determined by dividing the aggregate amount (whether in respect of interest, principal or any other amounts) in arrears by the current monthly payment due. Thus, a mortgage “six months in arrears” means that the borrower has failed to pay in aggregate amounts totalling six times the current monthly payment as at the time the calculation is being made. A change in interest rates set on a Mortgage will result in a change to the number of months in arrears as shown in the above table even though the aggregate amount of payments in arrears may remain unaltered.

Number of Months in Arrears⁽³⁾: Properties not in Possession

<i>No. of Months</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>	<i>Accrued Arrears (£)</i>
> 0 < = 1	101,258,208.41	54.98%	2,151	64.40%	39,089.31
> 1 < = 2	4,289,036.68	2.33%	110	3.29%	65,753.69
> 2 < = 3	3,597,993.96	1.95%	79	2.37%	100,878.54
> 3 < = 4	2,345,576.40	1.27%	57	1.71%	93,293.23
> 4 < = 5	2,490,423.57	1.35%	52	1.56%	128,436.36
> 5 < = 6	2,200,214.15	1.19%	46	1.38%	134,562.67
> 6 < = 7	2,818,403.96	1.53%	53	1.59%	204,766.04
> 7 < = 8	2,537,868.27	1.38%	41	1.23%	210,335.08
> 8 < = 9	2,501,674.76	1.36%	40	1.20%	239,837.25
> 9 < = 10	2,133,696.57	1.16%	30	0.90%	216,770.30
> 10 < = 11.....	2,126,442.03	1.15%	36	1.08%	249,263.95
> 11 < = 12.....	2,041,518.41	1.11%	34	1.02%	259,656.43
> 12 < = 15.....	7,061,902.78	3.83%	105	3.14%	1,098,747.77
> 15 < = 18.....	7,020,279.13	3.81%	106	3.17%	1,295,027.01
> 18 < = 21.....	5,692,943.53	3.09%	79	2.37%	1,250,565.97
> 21 < = 24.....	5,615,468.81	3.05%	71	2.13%	1,407,802.08
> 24 < = 30.....	9,303,856.44	5.05%	104	3.11%	2,891,105.45
> 30 < = 36.....	7,392,351.82	4.01%	74	2.22%	2,762,426.50
> 36 < = 42.....	5,535,016.18	3.01%	35	1.05%	2,433,061.91
> 42.....	6,216,551.81	3.38%	37	1.11%	3,535,691.04
Total	184,179,427.67		3,340		18,617,070.58

Average number of months in arrears, for Mortgages which are greater than one month in arrears, and which are not in possession, weighted by Provisional Balance: 19.91 months.

Average number of months in arrears for Mortgages which are greater than one month in arrears, and which are not in possession, weighted by Provisional Balance less Accrued Arrears: 14.90 months.

Number of Months in Arrears⁽³⁾: Overall Figures

<i>No. of Months</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>	<i>Accrued Arrears (£)</i>
> 0 <= 1	101,258,208.41	54.51%	2,151	63.92%	39,089.31
> 1 <= 2	4,289,036.68	2.31%	110	3.27%	65,753.69
> 2 <= 3	3,597,993.96	1.94%	79	2.35%	100,878.54
> 3 <= 4	2,345,576.40	1.26%	57	1.69%	93,293.23
> 4 <= 5	2,490,423.57	1.34%	52	1.55%	128,436.36
> 5 <= 6	2,200,214.15	1.18%	46	1.37%	134,562.67
> 6 <= 7	2,844,859.07	1.53%	54	1.60%	207,032.65
> 7 <= 8	2,566,003.30	1.38%	42	1.25%	213,023.29
> 8 <= 9	2,501,674.76	1.35%	40	1.19%	239,837.25
> 9 <= 10	2,133,696.57	1.15%	30	0.89%	216,770.30
> 10 <= 11.....	2,152,411.91	1.16%	37	1.10%	252,892.68
> 11 <= 12.....	2,041,518.41	1.10%	34	1.01%	259,656.43
> 12 <= 15.....	7,435,328.76	4.00%	113	3.36%	1,156,736.54
> 15 <= 18.....	7,124,306.00	3.84%	108	3.21%	1,314,237.21
> 18 <= 21.....	5,990,064.44	3.22%	84	2.50%	1,318,726.60
> 21 <= 24.....	5,865,458.13	3.16%	73	2.17%	1,467,473.53
> 24 <= 30.....	9,382,725.10	5.05%	105	3.12%	2,908,765.26
> 30 <= 36.....	7,673,741.95	4.13%	77	2.29%	2,868,029.81
> 36 <= 42.....	5,651,535.61	3.04%	36	1.07%	2,482,637.26
> 42.....	6,216,551.81	3.35%	37	1.10%	3,535,691.04
Total	185,761,328.99		3,365		19,003,523.65

Average number of months in arrears weighted by Provisional Balance: 19.95 months.

Average number of months in arrears weighted by Provisional Balance less Accrued Arrears: 15.00 months.

Analysis of percentage of subscription⁽⁴⁾ paid (in aggregate) for Arrears Mortgages

<i>Percentage of Subscription</i>	<i>Paid During Last Month</i>	<i>% of Total</i>	<i>Paid During Last Three Months</i>	<i>% of Total</i>	<i>Paid During Last Six Months</i>	<i>% of Total</i>
= 0%	10,305,540.48	12.20%	2,970,952.08	3.52%	1,350,847.29	1.60%
> 0% <= 50%	23,705,978.68	28.05%	25,048,491.36	29.64%	25,632,869.16	30.33%
> 50% <= 100%.....	31,478,558.13	37.25%	39,813,516.26	47.11%	45,060,647.00	53.32%
= 100%	1,711,709.10	2.03%	861,353.44	1.02%	235,076.05	0.28%
> 100% <= 150%.....	14,408,550.83	17.05%	14,775,557.90	17.49%	11,903,497.32	14.09%
> 150%	2,892,783.36	3.42%	1,033,249.54	1.22%	320,183.76	0.38%
Total	84,503,120.58		84,503,120.58		84,503,120.58	

Note:

(4) The “subscription” is the monthly amount due.

This table shows the Provisional Balance of accounts which have paid in aggregate the percentage of the subscription due over the relevant period e.g. the accounts with a Provisional Balance of £31,478,558.13 have paid in aggregate between 50% – 100% of their subscriptions for the last month, and the accounts with a Provisional Balance of £45,060,647.00 have paid in aggregate between 50% – 100% of their total subscriptions for the last six months, in each case prior to the Provisional Pool Date.

MORTGAGE ADMINISTRATION

Introduction

PFPLC will be appointed by each of the Issuer and the Trustee under the Administration Agreement to be its agent to administer the Mortgages. PFPLC will administer the Mortgages with the diligence and skill it would apply if it were a reasonably prudent mortgage lender administering its own mortgages subject to the provisions of the Administration Agreement. PFPLC will undertake that in its role as administrator it will comply with any proper directions, orders and instructions which the Issuer or the Trustee may from time to time give to PFPLC in accordance with the provisions of the Administration Agreement. Save as provided therein, the Administration Agreement is conditional upon completion of the Mortgage Sale Agreement taking place. PFPLC's appointment as administrator can be terminated by the Trustee in the event of a breach by PFPLC of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class B Notes have been redeemed in full, the Class C Noteholders or in the event of PFPLC's insolvency.

As at 31st December 1997, PFPLC employed approximately 368 people in mortgage origination and administration.

Mortgage Interest Rate

After completion of the Mortgage Sale Agreement and pursuant to the Administration Agreement, PFPLC (on behalf of the Issuer and the Trustee) will set or calculate the rates of interest applicable to the Mortgages purchased by the Issuer, in accordance with the Mortgage Conditions applicable to PFPLC or PML (as the case may be) except in certain limited circumstances when the Trustee or the Issuer or a substitute administrator or Barclays acting in its capacity as administrator of last resort will be entitled to do so.

Interest in relation to the PFPLC Mortgages is calculated on the basis of the amount owing by a borrower immediately after the initial advance or, depending on the type of Mortgage, on 31st March in each year or on the last day of the preceding calendar quarter (adjusted in respect of further advances and/or principal payments). Interest in relation to the PML Mortgages is calculated on the basis of the amount owing by a borrower immediately after the initial advance or on the last day of the preceding month (adjusted in respect of further advances and/or principal payments).

In relation to the Stabilised Rate Mortgages, the interest payment is calculated on the amount owing by a borrower immediately after the initial advance at a fixed rate which is, at the date hereof, 10.49 or 11.49% per annum. PFPLC will credit to the borrower's account each month any amount by which interest calculated at the rate applicable to Standard Mortgages exceeds the relevant fixed rate. The monthly credits will themselves accrue interest at the rate applicable to Standard Mortgages and all interest will be capitalised quarterly. When the aggregate of all monthly credits and capitalised interest reaches 15% of the original amount advanced or, in certain cases, if earlier, the expiry of five years from the date of the original advance, the interest charging balance will be increased by the amount of all monthly credits and capitalised interest and the monthly payments to be made by the borrower will then be calculated at the rate applicable to Standard Mortgages on the basis of the interest charging balance as so increased. To the extent that the borrower pays interest at the fixed rate and this exceeds interest calculated at the actual charging rate, the excess received is deemed to be a principal receipt and will be dealt with in the manner described in "Summary – Mandatory Redemption in Part" above. However, the borrower has the option at any time of paying interest at the rate applicable to Standard Mortgages if this is lower than the relevant fixed rate at that time.

In setting the interest rates on the Mortgages, PFPLC will have regard to the rates of interest on the Notes but, as to the interrelation between the interest rates on the Mortgages and the rate of interest on the Notes, see "Mortgage Interest Rate Shortfalls, Minimum Interest Rate and the Shortfall Fund" below.

Mortgage Interest Rate Shortfalls, Minimum Interest Rate and the Shortfall Fund

The Issuer may at any time with the prior consent of PFPLC draw down under the PFPLC Subordinated Loan Agreement for the purpose of establishing a Shortfall Fund for the purpose of providing funds, in the manner described in more detail below, to meet any shortfall arising from the interest rates set by the Administrator for the Mortgages averaging less than a specified rate above LIBOR then applicable to the Notes.

If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages

is less than 1.5% until (and including) the Interest Payment Date falling in March 2004 and 2% thereafter, in each case, above the LIBOR applicable to the Notes at that time, it may do so only if and to the extent that there is a credit balance in the Shortfall Fund (if any) at least equal to the shortfall which would arise at that time and it makes a provision in such Shortfall Fund equal to such shortfall.

The Shortfall Fund may also be applied, on any Interest Payment Date, after excluding any amount already set aside to meet potential shortfalls, to the extent necessary to pay or provide for items (i) to (vii) inclusive in “Summary – Priority of Payments” above.

Payments from Borrowers

All direct debit payments made by borrowers under the PFPLC Mortgages and the PML Mortgages will be paid directly into the Transaction Account. All other moneys paid in respect of the Mortgages purchased by the Issuer (including cheque payments and redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) will generally be paid first into PFPLC collection accounts (in the case of PFPLC Mortgages) or a PML collection account (in the case of PML Mortgages) and will be transferred on the next following business day, or as soon as practicable thereafter, to the Transaction Account. PFPLC executed a declaration of trust over its collection accounts at National Westminster Bank PLC and Midland Bank plc in August 1992 which declaration of trust has been amended and supplemented from time to time and which shall be further amended by a supplemental declaration of trust to be dated the Closing Date (the “PFPLC Collection Accounts Declaration of Trust”) under which it shall declare that all cheque payments, redemption moneys and certain other sums of money in respect of the PFPLC Mortgages purchased by the Issuer on the Closing Date are held on trust for the Issuer until they are applied in the manner described above. PML executed a declaration of trust over its collection account at National Westminster Bank PLC on 13th May 1994 which declaration of trust has been amended and supplemented from time to time and which shall be further amended by a supplemental declaration of trust to be dated the Closing Date (the “PML Collection Account Declaration of Trust”) under which it shall declare that all cheque payments, redemption moneys and certain other sums of money in respect of the PML Mortgages purchased by the Issuer on the Closing Date are held on trust for the Issuer until they are applied in the manner described above.

Arrears and Default Procedures

The Administrator will regularly give details to the Issuer and the Trustee in writing of the status of the enforcement procedures in relation to Mortgages in respect of which there are arrears and enforcement procedures are being followed by the Administrator in connection therewith.

The Administrator will endeavour to collect all payments due under or in connection with the Mortgages in accordance with procedures agreed from time to time with the Trustee and the Issuer but having regard to the circumstances of the borrower in each case. The procedures may include making arrangements whereby a borrower’s payments may be varied and/or taking legal action for possession of the relevant Property and the subsequent sale of that Property. The Court has discretion as to whether, on application by the lender, it orders the borrower to vacate the Property after a default. A lender will usually apply for such an order so that it can sell the Property with vacant possession.

The net proceeds of sale of the Property (after payment of the costs and expenses of the sale) would, together with any amount payable on the related Life Policy or Policies (as defined under “Insurance Coverage – Endowment Life Policies and Term Life Policies” above), be applied against the sums owing from the borrower to the extent necessary to discharge the Mortgage. Where such funds are insufficient to redeem the Mortgage in full a claim would be made under any applicable mortgage guarantee indemnity insurance. Where the funds arising from application of the above procedures are insufficient to pay all amounts owing in respect of a Mortgage, such funds will be applied first in paying interest and costs, and secondly in paying principal owing in respect of such Mortgage. If there is no applicable mortgage guarantee indemnity insurance or if, after a claim has been paid, an amount is still outstanding (the “outstanding amount”) in respect of the Mortgage, a provision will be made for the outstanding amount (to the extent that it represents principal owing in respect of a Mortgage) in the Principal Deficiency Ledger, forming part of the Issuer’s accounts, although circumstances may arise in which this provision is subsequently reduced.

Mortgage Interest Relief at Source (MIRAS)

On behalf of the Issuer, PFPLC will administer the recovery from the Inland Revenue, under the MIRAS Scheme, of sums equal to tax relief at the appropriate rate (currently 15% of the loan interest payable on up to the first £30,000 of the amount of the loan, although this percentage will reduce to 10%,

with effect from the tax year commencing 6th April 1998) which have been deducted by borrowers from monthly payments of interest due in respect of their Mortgages while the MIRAS Scheme continues in operation.

Further Advances

Mandatory Further Advances are currently only required to be made to borrowers under the terms of the Stabilised Rate Mortgages or for the purpose of advancing an amount of the original advance retained pending completion of construction or refurbishment.

In all cases where a Mandatory Further Advance is to be made, the Issuer expects to fund such Mandatory Further Advance from the principal moneys then held by it referred to in paragraph (a) of the definition of Available Redemption Funds (see “Summary – Mandatory Redemption in Part”). The Issuer may not receive sufficient amounts of principal to meet the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set-off the amounts of any Mandatory Further Advances which the Issuer has failed to make against amounts owing by those borrowers and/or to sue the Issuer for damages for breach of contract. Accordingly if, and to the extent that, the Issuer does not have sufficient funds to make any such Mandatory Further Advances, the Issuer will be entitled to borrow further amounts from PFPLC under the PFPLC Subordinated Loan Agreement and PFPLC will be under an obligation to make any such amounts available to the Issuer.

No Mandatory Further Advance may be made to a borrower if PFPLC has notice that the relevant borrower is in breach of the relevant Mortgage Conditions.

The Issuer may, at its discretion but subject to certain conditions in the Administration Agreement and provided that there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date, decide to make a Discretionary Further Advance on the security of the Property subject to the Mortgage on the request of a borrower. Such Discretionary Further Advance may only be made if it is secured on the relevant Property owned by the borrower but subject to the Mortgage. In addition, the Issuer may make a Discretionary Further Advance to a borrower as part of its arrears and default procedures by capitalising certain outstanding arrears of interest payable by a borrower. The capitalisation of outstanding arrears constitutes a capitalisation for these purposes if the capitalised amount is added to the principal balance of the Mortgage and the relevant borrower’s arrears are discharged. Discretionary Further Advances on the Mortgages in the Mortgage Pool (other than by way of capitalisation of arrears) are subject to an aggregate cumulative limit of £31,500,000. If the Issuer does not wish, or is unable, to make a Discretionary Further Advance, PFPLC or PML may (but is not obliged to) make that further advance on the security of a second mortgage over the Property in question (postponed to the relevant Mortgage). Discretionary Further Advances may only be made on a Mortgage if the PML lending criteria as far as applicable are satisfied at the relevant time subject to such waivers as might be within the discretion of a reasonably prudent lender, as provided in the Administration Agreement.

In all cases where a Discretionary Further Advance is to be made, the Issuer may use principal moneys referred to in paragraph (a) of the definition of Available Redemption Funds (see “Summary – Mandatory Redemption in Part”) but only after it has met Mandatory Further Advances required to be made by it at that time.

Conversion of Mortgages

On behalf of the Issuer and the Trustee, the Administrator may on the request of a borrower agree to convert its Mortgage from an endowment-linked Mortgage to a Repayment Mortgage (but not any other type of Mortgage) or, in the case of a default by a borrower, may itself on behalf of the Issuer and the Trustee elect to convert a borrower’s Mortgage from an endowment-linked Mortgage to a Repayment or an Interest-only Mortgage. Save as aforesaid, the Administrator is not permitted to make a conversion to any other type of mortgage (or to any combination of such other types of mortgage other than a Repayment Mortgage) unless certain conditions, including the following, are first satisfied:

- (a) no Enforcement Notice or Protection Notice (as defined in the Deed of Charge) has been given by the Trustee which remains in effect at the date of the relevant conversion;
- (b) such conversion would not adversely affect the then current ratings of the Notes;
- (c) if, and to the extent that, Mortgages are converted into Fixed Rate Mortgages, the Issuer having entered into Caps or other hedging arrangements on or before the date of the

conversion (and (where appropriate) obtained related guarantees) in respect of the Converted Mortgages if not to do so would adversely affect the then current ratings of the Notes;

- (d) on the date of the relevant conversion, there having been no failure by PFPLC or, as the case may be, PML to repurchase any Mortgage which it is required to repurchase under the terms of the Mortgage Sale Agreement in the event of there being a breach of warranty in respect of that Mortgage;
- (e) on the date of the relevant conversion, if the Mortgage is converted into a Stabilised Rate Mortgage, or such other mortgage under the terms of which Mandatory Further Advances are or may be required to be made, PFPLC remains obliged to make available to the Issuer under the PFPLC Subordinated Loan Agreement amounts which will be sufficient to meet all Mandatory Further Advances required to be made thereafter on all Mortgages (including such converted Mortgages) in the Mortgage Pool;
- (f) no conversion must extend the final maturity date of the relevant Mortgage beyond November 2032;
- (g) on the date of the relevant conversion, the Administrator is satisfied that, in the case of a conversion to a mortgage product which would oblige the Issuer to make a Mandatory Further Advance to a borrower, the principal amount outstanding, when aggregated with the maximum amount of Mandatory Further Advances that could be made following such conversion, would not exceed 100% of the most recent valuation of the property; and
- (h) on the date of and immediately following the relevant conversion, the PML lending criteria are satisfied so far as applicable, subject to such waivers as might be within the discretion of a reasonably prudent lender.

The Trustee will not make any investigation as to the manner in which any converted Mortgages differ from the Standard and Non-standard Mortgages purchased by the Issuer or as to the compliance thereof with the criteria referred to herein.

Insurance

PFPLC will, on behalf of the Issuer, administer and maintain the arrangements for insurance in respect of, or in connection with, the Mortgages purchased on the Closing Date to which the Issuer is a party or in which the Issuer has an interest and will make claims on behalf of the Issuer under any such insurance policies when necessary.

Reinvestment of Income

The Transaction Account shall at all times be maintained with a bank either the long-term unsecured and unguaranteed debt of which is rated Aaa by Moody's or whose short-term debt is rated P-1 by Moody's or any of the long-term unsecured and unguaranteed debt of which is rated by Moody's as high as or higher than the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes or, if there are no Class B Notes then outstanding, the Class C Notes, and shall not be changed without the prior consent of the Trustee. If such bank ceases to satisfy the criteria mentioned above, the Administration Agreement will contain provisions requiring the Administrator to arrange for the transfer of the Transaction Account to another bank which does satisfy such criteria.

Sums held to the credit of the Transaction Account to which payments of interest and repayments of principal in respect of Mortgages are to be credited and into and out of which all other payments to and by the Issuer are to be made must be invested (a) in sterling denominated securities, bank accounts or other obligations of or rights against entities either the long term unsecured and unguaranteed debt of which is rated Aaa by Moody's or whose short term unsecured and unguaranteed debt is rated P-1 by Moody's; or (b) in such other sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes or, if there are no Class B Notes then outstanding, the Class C Notes. Such investments and deposits must always mature on or before the next Interest Payment Date and will be charged to the Trustee and form part of the security for the payment of principal and interest on the Notes. No investment shall be made unless such investment is an asset which a building society (as defined in The Building Societies Act 1986, as amended by The Building Societies Act 1997, if applicable) has power to acquire, as is more particularly described in the Administration Agreement. In addition, funds of the Issuer must be invested in assets the acquisition of which would not prevent the Class A Notes, if they would otherwise do so, from

carrying a Risk Asset Weighting of 50% (or such percentage as may for the time being be generally applicable to mortgage backed securities, or if there is more than one Risk Asset Weighting percentage stipulated for mortgage backed securities the lower thereof) under the Capital Adequacy Rules for Authorised Institutions for the time being applied by the Bank of England or under the Capital Adequacy Rules for building societies for the time being applied by the Building Societies Commission.

Delegation by the Administrator

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

Administration Fee

The Administration Agreement makes provision for payments to be made to the Administrator. The Issuer will pay to PFPLC as Administrator an administration fee of not more than 0.505% (inclusive of VAT) per annum on the aggregate interest charging balance of the Mortgages at the beginning of each Interest Period which will be due quarterly in arrear on each Interest Payment Date. A higher fee at a rate agreed by the Trustee (but which does not exceed the rate then commonly charged by providers of mortgage administration services) may be payable to any substitute administrator appointed (other than as administrator of last resort) following termination of PFPLC's appointment. If no substitute administrator can be found, Barclays will act as administrator of last resort receiving a fee, calculated in the same manner as stated above for PFPLC, at a rate of 0.505% (exclusive of VAT) per annum.

Each of PFPLC and PML will be entitled to receive from the Issuer for its own account any commissions due to it from insurers out of premiums paid by borrowers as a result of it having placed buildings insurance in relation to the Mortgages with such insurers.

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

Redemption

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

UNITED KINGDOM TAXATION

Taxation of Interest Paid

Under current Inland Revenue practice the Notes will be regarded as bearer securities for the purposes of section 124 of the Income and Corporation Taxes Act 1988 (the “Act”) notwithstanding that they are represented by the Global Notes. Accordingly interest payments on each Note will be treated as interest paid on a “quoted Eurobond” within the meaning of section 124 of the Act, so long as the Notes are represented by the Global Notes and continue to be listed on a recognised stock exchange within the meaning of section 841 of the Act (the London Stock Exchange is currently a recognised stock exchange). Accordingly where the Notes represented by the Global Notes are held within a recognised clearing system within the meaning of section 841A of the Act (Euroclear, Cedel Bank, European Settlements Office, First Chicago Clearing Centre and the Depositary Trust Company of New York have each been designated as a recognised clearing system for this purpose) payments of interest on the Notes by any Paying Agent (as defined in the Trust Deed) may, under current law and practice, be made without withholding or deduction for or on account of United Kingdom income tax (provided that, where payment is made through a depositary for the clearing system, in accordance with regulations made by the Inland Revenue, the depositary has provided a declaration or the payer has received notice as mentioned below). This paragraph will not apply if the Notes cease to be represented by the Global Notes.

If the Notes cease to be represented by the Global Notes and definitive Notes are issued, the definitive Notes will constitute “quoted Eurobonds” within the meaning of section 124 of the Act, provided that they continue to be listed on a recognised stock exchange and remain in bearer form. Accordingly, under current law and practice, payments of interest may in such circumstances be made by any Paying Agent without withholding or deduction for or on account of United Kingdom income tax where:

- (a) the person by or through whom the payment is made is not in the United Kingdom; or
- (b) the payment is made by or through a person who is in the United Kingdom and:
 - (i) the Note and the Coupon are held in a recognised clearing system (as to which see above) and provided that, where payment is made to or at the direction of a depositary for the clearing system, the depositary has made a declaration in the required manner to the relevant payer in respect of payments of interest on the Notes or the Inland Revenue has issued a notice to the relevant payer stating that this paragraph (i) is satisfied, or
 - (ii) a person who is not resident in the United Kingdom beneficially owns the Notes and related Coupons (provided that a separate declaration in the required form has been made in advance to the relevant payer in respect of each payment of interest, or the Inland Revenue has issued a notice to the relevant payer stating that this paragraph (ii) is satisfied).

In all other cases, interest will be paid under deduction of United Kingdom income tax at the lower rate, currently 20%, subject to any direction to the contrary by the Inland Revenue pursuant to the provisions of any appropriate double taxation treaty. If interest is paid under deduction of United Kingdom income tax, the Issuer is not obliged to pay any additional amount in respect of the Notes.

Where:

- (a) any person in the United Kingdom, in the course of a trade or profession:
 - (i) acts as custodian of a Note or Coupon in respect of which he receives any interest or such interest is paid at his direction or with his consent; or
 - (ii) by means of Coupons (including any warrant for or bill of exchange purporting to be drawn or made in payment of interest) collects or secures payment of or receives interest for another person or otherwise arranges to collect or secure payment for such a person; or
- (b) any bank in the United Kingdom sells or otherwise realises Coupons (including any warrant or bill of exchange, as above) and pays over the proceeds or carries them into an account; or
- (c) any dealer in coupons in the United Kingdom purchases any Coupons (including any warrant or bill of exchange, as above) otherwise than from a bank or another dealer in coupons

that person, bank or dealer is liable to account for United Kingdom income tax at the lower rate, currently 20%, (except in the case where acting only to clear a cheque or arrange for the clearance of a cheque) on such interest or proceeds of realisation and is entitled to deduct an amount in respect thereof unless an exemption from such liability is applicable, including where:

- (aa) a person who is not resident in the United Kingdom beneficially owns the Note and Coupon and is beneficially entitled to the interest or proceeds; or
- (bb) the interest or proceeds arise to trustees in respect of a Note and Coupon held by them under a qualifying discretionary or accumulation trust (under the terms of which some or all of the trust income is required to be accumulated or is payable under a discretion) and is not, before being distributed, the income of any person other than the trustees (nor treated as income of a settlor) and the trustees and each of the beneficiaries are not resident in the United Kingdom; or
- (cc) the Notes are held in a recognised clearing system (as to which see above) and the person pays or accounts for interest directly or indirectly to the recognised clearing system; or
- (dd) the Notes are held in a recognised clearing system (as to which see above) for which the person is acting as depositary;

and, in each of (aa)–(cc) above, the person, bank or dealer concerned has received a declaration in the form required by regulations made by the Inland Revenue or the Inland Revenue has given notice that it considers that one or more of (aa)–(cc) above is satisfied.

Except for any income tax deducted as described above (and except in the case of non-United Kingdom resident trustees of a trust having any ordinarily resident or resident beneficiary) a person not resident in the United Kingdom will not be liable to United Kingdom tax on interest on a Note unless it is chargeable to income tax or corporation tax on a branch or agency in the United Kingdom through which the non-resident person carries on a trade, profession or vocation. However, exemption from or reduction of, such United Kingdom tax liability may be available under the provisions of an applicable double taxation treaty.

Capital Gains and Income Profits

The Notes will constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, neither a chargeable gain nor an allowable loss will arise on a disposal or redemption of the Notes for the purposes of United Kingdom taxation of chargeable gains.

A Noteholder within the charge to United Kingdom corporation tax in respect of a Note (including a Noteholder so chargeable in relation to a branch or agency in the United Kingdom) will, generally, be liable to corporation tax on income on any profits (and obtain relief for permitted losses) on the Notes. Any such profits (including interest) or permitted losses on the Notes will generally be chargeable by reference to accounting periods of the company on either an authorised accruals or mark to market basis. For such Noteholders, the “accrued income scheme” (described below) will not apply to such a Note.

Accrued Income

A Noteholder (other than a Noteholder within the charge to corporation tax in respect of the relevant Note) who is resident or ordinarily resident in the United Kingdom or carrying on a trade in the United Kingdom through a branch or agency with which the ownership of the Note is connected may be chargeable to United Kingdom tax on income on an amount treated (by rules known as the accrued income scheme contained in Chapter II of Part XVII of the Act) as representing interest accrued on the Note at the time of disposal (determined by the Inland Revenue on a just and reasonable basis). A purchaser of a Note will not be entitled to any allowance under the accrued income scheme to set against any deemed or actual interest in respect of the Notes. If for any reason any interest due on an Interest Payment Date is not paid and a Note is subsequently disposed of with the right to receive accrued interest, special rules may apply for the purposes of the accrued income scheme.

Stamp Duty

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Notes or on the issue of a Note in definitive form.

The above is not a complete summary of the United Kingdom tax law and practice currently applicable and some aspects do not apply to certain classes of taxpayer (such as dealers). Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction outside the United Kingdom should consult their professional advisers.

SUBSCRIPTION AND SALE

Midland Bank plc, Deutsche Bank AG London, Goldman Sachs International, ING Bank N.V. and J.P. Morgan Securities Ltd. (the “Class A1 Managers”) have, pursuant to a subscription agreement dated 23rd January 1998 (to which PFPLC and PML are also party) (the “Class A1 Subscription Agreement”), jointly and severally agreed, subject to certain conditions, to subscribe for the Class A1 Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class A1 Managers for certain of their expenses in connection with the issue of the Class A1 Notes. The Class A1 Subscription Agreement entitles the Class A1 Managers to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A1 Managers against certain liabilities in connection with the offer and sale of the Class A1 Notes. The Issuer has agreed to pay the Class A1 Managers a selling commission of 0.05% of the principal amount of the Class A1 Notes and a combined management and underwriting commission of 0.025% of the principal amount of the Class A1 Notes.

Midland Bank plc (the “Class A2 Manager”) has, pursuant to a subscription agreement dated 23rd January 1998 (to which PFPLC and PML are also party) (the “Class A2 Subscription Agreement”) agreed, subject to certain conditions, to subscribe for the Class A2 Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class A2 Manager for certain of its expenses in connection with the issue of the Class A2 Notes. The Class A2 Subscription Agreement entitles the Class A2 Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A2 Manager against certain liabilities in connection with the offer and sale of the Class A2 Notes. The Issuer has agreed to pay the Class A2 Manager a selling commission of 0.10% of the principal amount of the Class A2 Notes and a combined management and underwriting commission of 0.05% of the principal amount of the Class A2 Notes.

Midland Bank plc (the “Class B Manager”) has, pursuant to a subscription agreement dated 23rd January 1998 (to which PFPLC and PML are also party) (the “Class B Subscription Agreement”) subject to certain conditions, to subscribe for the Class B Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class B Manager for certain of its expenses in connection with the issue of the Class B Notes. The Class B Subscription Agreement entitles the Class B Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class B Manager against certain liabilities in connection with the offer and sale of the Class B Notes. The Issuer has agreed to pay the Class B Manager a selling commission of 0.20% of the principal amount of the Class B Notes and a combined management and underwriting commission of 0.10% of the principal amount of the Class B Notes.

Midland Bank plc (the “Class C Manager”) has, pursuant to a subscription agreement dated 23rd January 1998 (to which PFPLC and PML are also party) (the “Class C Subscription Agreement”) subject to certain conditions, to subscribe for the Class C Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class C Manager for certain of its expenses in connection with the issue of the Class C Notes. The Class C Subscription Agreement entitles the Class C Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class C Manager against certain liabilities in connection with the offer and sale of the Class C Notes. The Issuer has agreed to pay the Class C Manager a selling commission of 0.30% of the principal amount of the Class C Notes and a combined management and underwriting commission of 0.15% of the principal amount of the Class C Notes.

The Class A1 Managers, the Class A2 Manager, the Class B Manager and the Class C Manager are together referred to in this document as the “Managers”.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the requirements of the Securities Act. Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. Person, except in certain transactions permitted by U.S. tax regulations (terms used in this sentence have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder). Each of the Class A1 Managers, in respect of the Class A1 Notes, the Class A2 Manager, in respect of the Class A2 Notes, the Class B Manager, in respect of the Class B Notes and the Class C Manager, in respect of the Class C Notes, has agreed that, except as permitted by the relevant Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date (the “Restricted Period”) within the United States or to, or

for the account or benefit of, U.S. Persons, and that it will have sent to each dealer to which it sells Notes during the Restricted Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S of the Securities Act.

Each Class A1 Manager, in respect of the Class A1 Notes, the Class A2 Manager, in respect of the Class A2 Notes, the Class B Manager, in respect of the Class B Notes and the Class C Manager, in respect of the Class C Notes, has represented and agreed that (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part IV of the Financial Services Act 1986 (the "Act") 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 or the Act; (ii) it has complied and will comply with all applicable provisions of the Act with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issues of the Notes, other than any document which consists of or of any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Act, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended by the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1997) or is a person to whom the document may otherwise lawfully be issued or passed on.

Other than admission of the Notes to the Official List no action is being taken to permit a public offering of the Notes, or possession or distribution of the Offering Circular or other material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Each Class A1 Manager, in respect of the Class A1 Notes, the Class A2 Manager, in respect of the Class A2 Notes, the Class B Manager, in respect of the Class B Notes and the Class C Manager, in respect of the Class C Notes, has undertaken not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Offering Circular or any other material relating to the Notes, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any country or jurisdiction where such an offer or solicitation is not authorised.

GENERAL INFORMATION

It is expected that listing of the Notes on the London Stock Exchange will be granted on 26th January 1998, subject only to the issue of the Temporary Global Notes. The listing of the Notes will be cancelled if the Temporary Global Notes are not issued.

The Notes have been accepted for clearance through Euroclear and Cedel Bank and the Common Code Numbers and ISIN numbers are as follows:

Class A1 Notes, Common Code Number 8401756; ISIN XS0084017564;

Class A2 Notes, Common Code Number 8401799; ISIN XS0084017994;

Class B Notes, Common Code Number 8401837; ISIN XS0084018372; and

Class C Notes, Common Code Number 8401870; ISIN XS0084018703.

Transactions will normally be effected for settlement in sterling for delivery on the third calendar day after the date of the transaction.

The following is the text of a report received by the Directors of the Issuer from Deloitte & Touche, Chartered Accountants, the Auditors to the Issuer:

23rd January 1998

“The Directors
Finance for People (No. 2) PLC
St. Catherine’s Court
Herbert Road
Solihull
West Midlands
B91 3QE

Dear Sirs,

Finance for People (No. 2) PLC

Finance for People (No. 2) PLC (the “Company”) was incorporated on 19th January 1989 under the name Finance for Home Loans (23) Limited. On 1st March 1991 the Company changed its name to Corporate Transfers Limited. On 5th November 1997 the Company changed its name to Paragon Credit Management Limited. On 16th January 1998 the Company was re-registered as a public limited company and the Company changed its name to Finance for People (No. 2) PLC.

Since its incorporation, the Company has not traded and has not paid any dividends nor made any distributions. It has entered into a number of contracts in connection with the issues of the £132,000,000 Class A Mortgage Backed Floating Rate Notes Due 2034, the £33,000,000 Class B Mortgage Backed Floating Rate Notes Due 2034 and the £10,000,000 Class C Mortgage Backed Floating Rate Notes Due 2034 and for no other purpose.

We confirm that we have audited the financial statements of the Company for the year ended 30th September 1997 and given an unqualified opinion thereon.

We confirm that, in our opinion, the balance sheet of the Company as at 30th September 1997 set out under “General Information” in the Offering Circular dated 23rd January 1998 relating to the issues of the Notes referred to above has been properly prepared from the audited financial statements of the Company as at 30th September 1997 upon which we reported on 15th January 1998 in our opinion gave a true and fair view of the state of the Company’s affairs at 30th September 1997.

Yours faithfully,

Deloitte & Touche
Chartered Accountants and Registered Auditors”

Deloitte & Touche have given and not withdrawn their written consent to the issue of this Offering Circular and authorised contents of that part of the Listing Particulars with their report on the Issuer and references to their name included herein in the form and context in which they appear for the purposes of section 152(1)(e) of the Financial Services Act 1986.

The following table sets out the audited balance sheet of the Issuer as at 30th September 1997.

	Note	30th September 1997
Assets Employed		£
Current Assets		
Amount owed by parent company		2
		<u>2</u>
Financed by		
Equity Shareholders' Funds		
Called up share capital	1	2
		<u>2</u>

Accounting Policy

The accounts and notes have been prepared in accordance with applicable accounting standards. The particular accounting policy adopted is described below.

The accounts and notes have been prepared using the historical cost basis of accounting.

Notes to the Accounts

1. Authorised share capital consists of 100 ordinary shares of £1 each. The issued share capital consists of 2 ordinary shares allotted and paid-up.

2. The company has been dormant throughout the year to 30th September 1997. Consequently, no profit and loss account has been prepared.

3. The company's ultimate parent company is The Paragon Group of Companies PLC, a company registered in England and Wales. Copies of the group's financial statements are available from that company's registered office at St. Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.

So long as the Notes are listed on the London Stock Exchange the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent in London. The Issuer does not intend to publish interim accounts from the date hereof.

Since 30th September 1997 there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or (save as disclosed under "The Issuer – Capitalisation" above) financial position of the Issuer.

The Issuer is not involved in any legal or arbitration proceedings which may have, or have had during the twelve months preceding the date of this Offering Circular, a significant effect on the Issuer's financial position nor, so far as the Issuer is aware, are any such proceedings pending or threatened.

The annual report and financial statements of the Issuer for the period from 1st October 1996 until 30th September 1997 have been audited by Deloitte & Touche.

Copies of the following documents may be inspected during normal business hours on any weekday (excluding Saturdays and public holidays) at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB during the period of fourteen days from the date of this Offering Circular:

- (a) the Memorandum and Articles of Association of the Issuer;
- (b) the consent letter of Deloitte & Touche referred to above;
- (c) copies of the Class A Subscription Agreements, the Class B Subscription Agreement, the Class C Subscription Agreement, the Mortgage Sale Agreement, the PFPLC Subordinated Loan Agreement, the Fee Letter and the Services Letter;

- (d) drafts (subject to modification) of the Trust Deed to constitute the Class A Notes, the Class B Notes and the Class C Notes (including the forms of the Global Class A Notes, the Class A Notes, Coupons and Talons, the Global Class B Notes, the Class B Notes, Coupons and Talons and the forms of the Global Class C Notes, the Class C Notes, Coupons and Talons), the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, the Scottish Declarations of Trust, the Agency Agreement, the PFPLC Collection Account Declaration of Trust, the PML Collection Account Declaration of Trust, the Instrument and the Swap Agreement; and
- (e) the audited annual report and financial statements of the Issuer for the year ended 30th September 1997.

REGISTERED AND HEAD OFFICE OF THE ISSUER

St. Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE

ADMINISTRATOR

Paragon Finance PLC

St. Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE

TRUSTEE

J.P. Morgan Trustee Ltd.

60 Victoria Embankment
London EC4Y 0JP

**SWAP COUNTERPARTY, REFERENCE AGENT AND
PRINCIPAL PAYING AGENT**

Morgan Guaranty Trust Company of New York

60 Victoria Embankment
London EC4Y 0JP

LEGAL ADVISERS TO THE ISSUER AND THE ADMINISTRATOR

Slaughter and May
35 Basinghall Street
London EC2V 5DB

LEGAL ADVISERS TO THE MANAGERS AND THE TRUSTEE

Simmons & Simmons
21 Wilson Street
London EC2M 2TX

AUDITORS TO THE ISSUER

Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham B3 2BN

LISTING AGENT

Midland Bank plc
Thames Exchange
10 Queen Street Place
London EC4R 1BQ