

Finance for People (No.4) PLC

(Incorporated with limited liability in England and Wales with registered number 03203909)

£163,350,000

Class A Mortgage Backed Floating Rate Notes Due 2037

Class A1 £44,350,000 Class A2 £119,000,000

Issue price: 100%

£17,650,000

Class B Mortgage Backed Floating Rate Notes Due 2037

Issue price: 100%

The £163,350,000 Class A Mortgage Backed Floating Rate Notes Due 2037 of Finance for People (No.4) PLC (the "Issuer") will comprise £44,350,000 Class A1 Notes (the "Class A1 Notes") and £119,000,000 Class A2 Notes (the "Class A2 Notes") (together the "Class A Notes") and will be issued by the Issuer together with the £17,650,000 Class B Mortgage Backed Floating Rate Notes Due 2037 of the Issuer (the "Class B Notes") (the Class A Notes and the Class B Notes together being the "Notes").

Interest on the Notes will be payable in pounds sterling quarterly in arrear on the last business day falling in January, April, July and October in each year (each an "Interest Payment Date"), the first interest payment being made on the last business day in January 1999. Interest on the Class B 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 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, on which Interest Payment Date payment of the shortfall will be made to the extent of such available funds. Such deferred interest will accrue interest at the rate of interest accruing on the Class B 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 (or, in the case of the first Interest Period, four month sterling deposits), 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: 0.12% per annum up to and including the Interest Period ending in October 2000 and thereafter 0.25% per annum;
- (ii) Class A2 Notes: 0.25% per annum up to and including the Interest Period ending in October 2004 and thereafter 0.50% per annum; and
- (iii) Class B Notes: 0.65% per annum up to and including the Interest Period ending in October 2004 and thereafter 1.30% per annum.

The first Interest Period is expected to commence on (and include) 30th September 1998 and end on (but exclude) the last business day in January 1999. 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 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. 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 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 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. 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 (as defined in "Summary – Global Notes" below), without coupons or talons, which will be deposited with a 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 30th September 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.

The Issuer will draw down an amount or amounts under the PFPLC Subordinated Loan Agreement on the Closing Date (each as defined herein) sufficient to enable the Issuer to purchase the Mortgages and to enable the Issuer to achieve the initial ratings of the Notes (see "Summary – PFPLC Subordinated Loan Agreement" below).

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

Class A1 Notes Managers

ING Barings

Deutsche Bank

HSBC Markets

J.P. Morgan Securities Ltd.

SG

Class A2 and Class B Notes Manager

ING Barings

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

No person has been authorised to give any information or to make any representation other than as contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Trustee (as defined in “Summary – The Trustee” below) 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 be guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations or the responsibility of, or be guaranteed by, PFPLC, PML, PGC (each as defined in “Summary” below), 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 the application to the London Stock Exchange and the delivery to the Registrar of Companies as described 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. 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” and “Description of the Class B Notes, the Global Class B Notes and the Security”.

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 issues of the Notes, Baring Brothers Limited as agent for ING Bank N.V., London Branch may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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SUMMARY

The information on the first page, page 2 and pages 4 to 19 relating to the Notes and the Mortgages (as defined below) is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular.

Issuer	Finance for People (No.4) PLC, a public company incorporated under the laws of England, registered number 03203909 and a 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 Originator	The Mortgages were originated by Paragon Mortgages Limited (“PML”), a wholly owned subsidiary of PGC.
The Trustee	Citicorp Trustee Company Limited (the “Trustee”).
The Notes	<p>£163,350,000 Class A Mortgage Backed Floating Rate Notes Due 2037 (comprising £44,350,000 Class A1 Notes and £119,000,000 Class A2 Notes) and £17,650,000 Class B Mortgage Backed Floating Rate Notes Due 2037. 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 priority of payments of principal.</p> <p>The Notes will be obligations of the Issuer. The Notes will not be obligations or the responsibility of, or be guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations or the responsibility of, or be guaranteed by, PFPLC, 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>
Interest	<p>The interest rate applicable to the Notes from time to time will be determined by reference to LIBOR for three month sterling deposits (or, in the case of the first Interest Period, four month sterling deposits) 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:</p> <p>Class A1 Notes: 0.12% per annum up to and including the Interest Period ending in October 2000 and thereafter 0.25% per annum;</p> <p>Class A2 Notes: 0.25% per annum up to and including the Interest Period ending in October 2004 and thereafter 0.50% per annum; and</p> <p>Class B Notes: 0.65% per annum up to and including the Interest Period ending in October 2004 and thereafter 1.30% per annum.</p> <p>Interest payments on the Class B Notes will be subordinated to interest payments on the Class A Notes (see “Priority of Payments” below). Accordingly, Class B Noteholders will not be entitled to receive any payment of interest on an Interest Payment Date unless and until all amounts of interest then due to Class A Noteholders on that Interest Payment Date have been paid in full.</p>

To the extent that funds are insufficient to pay the interest otherwise due on the Class B 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 January, April, July and October in each year, the first payment being made on the last business day in January 1999.

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 30th September 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 January 1999. 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 mortgage 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 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);

(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 B91 3TF (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 and the Class B 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 Class B Notes.

Certain other amounts will also have the benefit of the security interests referred to above, including the amounts owing to the Trustee and any receiver, any amounts payable to Barclays Bank PLC ("Barclays") in its capacity as administrator of last resort 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, 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.

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; and
- (iii) 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 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) and all amounts payable to the providers of any other hedging arrangements entered into by the Issuer;

(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) provision for an amount necessary to replenish the First Loss Fund (as defined below) to the relevant amount specified in "First Loss Fund" below;

(viii) 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;

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

(x) provision for, at the option of the Issuer, a reserve to fund any purchases of Caps (as defined in "Hedging Arrangements" below) and/or other hedging arrangements and/or related guarantees in the next Interest Period;

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

(xii) provision for the repayment of the outstanding amount of any advances made under the PFPLC Subordinated Loan Agreement to establish or increase the Shortfall Fund (as defined in "Shortfall Fund" below) subject to a maximum provision of the lesser of (a) the aggregate of such advances; and (b) the amount available for application having made in full all provisions and payments referred to at (i) to (xi) above;

(xiii) 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;

(xiv) payment of deferred consideration for the Mortgages to PFPLC (as described in "Deferred Consideration" below); and

(xv) 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 (ix), (xi), (xii), (xiii) and (xv) 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),

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

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

Save for the First Loss Fund, 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 appropriate.

**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 Class B Notes to the aggregate Principal Amounts Outstanding of the Notes is 35.3:181 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 24% 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 Class B 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 Class B Notes; and
- (ii) while any Class A Note remains outstanding the aggregate Principal Amount Outstanding of the Class B Notes may not be less than £2,000,000.

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 Class B Notes will be applied in redemption of the Class A2 Notes.

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 sum of (a) the aggregate principal amount of the Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the PFPLC Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid to acquire Mortgages in accordance with the Mortgage Sale Agreement and (b) the amount applied to establish the First Loss Fund on the Closing Date;

(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 October 2000; and
- (ii) Class A2 Notes on any Interest Payment Date falling in or after October 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 £36,000,000.

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 October 2001 or, if earlier, falling on or after the date on which all the Class A 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 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 B Notes, the amount by which the applicable Principal Deficiency (as defined in “Description of the Class B Notes, the Global Class B Notes and the Security – Subordination”) exceeds the then balance of the First Loss Fund) on the Interest Payment Date falling in October 2037.

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 acquired by PFPLC which were originated by PML and, in the case of mortgages of English Properties (as defined below) which are registered or require to be registered at H.M. Land Registry and Scottish Mortgages (as defined below), of which PML remains the legal owner (the “Mortgages”).

The Mortgages will be acquired by the Issuer pursuant to an agreement dated 28th September 1998 between the Issuer, PFPLC, PML, the Trustee and Paragon Second Funding Limited (“PSFL”) whereby on the Closing Date PML will re-acquire the Mortgages from PSFL (being the subsidiary of PGC which has previously purchased the beneficial interest in the Mortgages in connection with a securitisation transaction), PFPLC will acquire the Mortgages from PML and the Issuer will acquire the Mortgages from PFPLC (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 appropriate. 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.

Selection of Mortgages

The majority of 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 Offering Circular relates (see “The Provisional Mortgage Pool” below) but Mortgages not included in the Provisional Mortgage Pool may also be purchased by the Issuer provided that they meet the lending criteria referred to below.

The Mortgages in the Mortgage Pool will have had original maturities of up to 37 years and will on the Closing Date have an aggregate principal amount of not less than £165,000,000. 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.

All the Mortgages in the Mortgage Pool will comprise Standard Mortgages, Fixed Rate Mortgages, LIBOR-Linked Mortgages and Capped Rate Mortgages (see “The Mortgages” below) which met certain lending criteria (see “Lending Guidelines” below) at the time of origination by PML. The Issuer will have the benefit of warranties given by PFPLC in relation to the Mortgages. PFPLC will be required to repurchase any Mortgage sold by it in relation to which there is a material breach of warranty.

Further Advances

Each further advance made 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 £35,000,000.

Discretionary Further Advances may only be made on any Mortgage if PML’s lending criteria as far as applicable are satisfied at the relevant

time subject to such waivers as might be within the discretion of a reasonably prudent mortgage lender, all as will be provided in the Administration Agreement.

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 or Capped 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 together with any related guarantees if not to do so would adversely affect any of the then current ratings of the Notes (see “The Issuer – Hedging Arrangements” below).

Receipt of Moneys

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

Under the Collection Account Declaration of Trust (as defined in “Mortgage Administration – Payments from Borrowers” below), PML will declare that all direct debit payments made by borrowers under the Mortgages and 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 which are credited to its collection account 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. 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 0.3% (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 0.3% (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 policies referred to below.

Insurances

Where a Repayment Mortgage or an Interest-only Mortgage (as defined in “The Mortgages” below) 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. Even if such

policies were taken out, borrowers may not have been making payment in full or on time of the premiums due on the relevant policies, 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 indemnity insurance policy written by Lloyd's of London ("Lloyd's") which will be assigned by PML to the Issuer and 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 the mortgage indemnity insurance policy referred to above and certain 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 Balances 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) 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) on such Interest Payment Date by reason of 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 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 (vi) inclusive (or, to the extent that the priority of payment of interest due on the Class B 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 10% 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 5% of the then Current Balances of the Mortgages ("the 5% 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 5% 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 to such higher amount 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.

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 1.6% until (and including) the Interest Payment Date falling in October 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 (net of all provisions previously made during the then current Interest Period) in order to provide for the shortfall which would arise and the Issuer makes a provision in the Shortfall Fund equal to such shortfall.

On each Interest Payment Date, the full amount of the Shortfall Fund will be available to the Issuer to be applied, together with the Issuer's other net income, to the items referred to in "Priority of Payments" above.

Deferred Consideration

On each Interest Payment Date, after paying or providing in full for items (i) to (xiii) inclusive in "Priority of Payments" above, the Issuer shall pursuant to the Mortgage Sale Agreement pay to PFPLC by way of deferred consideration for the Mortgages acquired by it on the Closing Date an amount broadly equal to the remaining balance of the moneys available on such Interest Payment Date for application in accordance with "Priority of Payments" above less an amount equal to 0.01% of the principal amount outstanding in respect of the Notes on the Principal Determination Date immediately prior to that Interest Payment Date.

Hedging Arrangements

On the Closing Date, the Issuer will have entered 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”) and one or more interest rate swaps or caps or other hedging arrangements thereunder, each in accordance with Moody’s requirements to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages that are acquired by it on the Closing Date.

In relation to any Fixed Rate Mortgages or, as the case may be, Capped Rate Mortgages, arising upon conversion of any Mortgages which are not as at the Closing Date Fixed Rate Mortgages, or, as the case may be, Capped Rate Mortgages, into Fixed Rate Mortgages or, as the case may be, Capped Rate Mortgages, the Issuer will be obliged to enter into hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes. These hedging arrangements may be provided by any bank or financial institution provided that on the date on which it makes such arrangements available to the Issuer, such bank or financial institution has a rating for its long term or short term debt obligations sufficient to maintain the then ratings of the Notes (unless such arrangements are guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes) and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge. Hedging arrangements may, but need not, include 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”) or may comprise other hedging arrangements entered into with the Swap Provider under the Swap Agreement.

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). 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 a 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 particular 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 and the Class B Noteholders as regards all of the powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee to have regard only to the interests of the Class A Noteholders if, in its opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders. The trust deed will also contain provisions limiting the powers of the Class B 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 will not be entitled to request or direct the Trustee to accelerate payment by the Issuer of the Class B Notes upon the occurrence of 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, irrespective of the effect thereof upon their interests.

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 28th September 1998 (the “Fee Letter”) that it will pay PFPLC an arrangement fee of 0.4% of the aggregate principal amount of the Notes and that it will repay 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.

PFPLC Subordinated Loan Agreement

PFPLC has made available to the Issuer under a subordinated loan agreement dated 28th September 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 to enable the Issuer to purchase the Mortgages and to achieve the initial ratings on the Notes 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), and, to the extent there is outstanding any advance made to establish or increase the Shortfall Fund, sums borrowed for such purposes may be repaid to the extent of the funds available to the Issuer to do so (see “Priority of Payments” 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 be 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 whether entered into under the Swap Agreement or otherwise, 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 Capped Rate Mortgages, the Administrator is unable to increase the rate of interest above the capped rate during the capped rate period set out in the relevant Mortgage Conditions; and in respect of 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, Capped Rate Mortgages and LIBOR-Linked Mortgages, on the one hand, and the rate of interest payable on the Notes on the other hand. In relation to any Fixed Rate Mortgages and/or Capped Rate Mortgages that are acquired by the Issuer on the Closing Date, the Issuer will on the Closing Date have entered into hedging arrangements relating thereto. If, and to the extent that after the Closing Date Mortgages are converted into Fixed Rate Mortgages or Capped Rate Mortgages, the Issuer will be required to enter into 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.

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 the Class B Noteholders and (c) payments on the Notes will rank ahead of all amounts then owing to PFPLC and PML under, *inter alia*, 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 until all amounts owing to the Class A 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 PSFL, 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 PSFL's, 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 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; secondly, 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 an amount equivalent to the amount then standing to the credit of the First Loss Fund 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, the 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, where relevant, the rates of interest applicable to the Mortgages (other than Fixed Rate Mortgages and Capped Rate Mortgages during the applicable fixed rate or capped rate period). The Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages is not less than 1.6% until and including the Interest Payment Date falling in October 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 and other than in relation to Fixed Rate Mortgages and Capped Rate Mortgages during the applicable fixed rate or capped rate period, 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 and the Class B 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 or the Class B 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" and "Description of the Class B Notes, the Global Class B Notes and the Security – Events of Default" below).

PFPLC 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, PML carried out 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. The Issuer’s and the Trustee’s sole remedy against PFPLC in respect of breach of warranty shall be to require PFPLC to repurchase any relevant Mortgage provided that this shall not limit any other remedies available to the Issuer and/or the Trustee if PFPLC 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.

Some U.K. mortgage lenders have experienced delays in achieving successful settlement of claims made under mortgage indemnity insurance policies and there can be no guarantee that such delays could not affect those Mortgages acquired by the Issuer 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 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 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 by PFPLC 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, PML may not possess all the title numbers of the individual Mortgages over registered properties. PFPLC has 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.

The Mortgages which are to be acquired by the Issuer from PFPLC pursuant to the Mortgage Sale Agreement will be acquired by PFPLC from PML and, for this purpose, they will be re-acquired by PML

on the Closing Date having been previously sold by PML to PSFL in connection with a securitisation transaction. The Mortgages are currently subject to existing security arrangements but such arrangements will be discharged on or prior to the Closing Date. PFPLC will include in its warranties a warranty as to the validity of the unencumbered title transferred by it to the Issuer.

Borrowers are not generally required by PML 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 death during the mortgage term).

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 and the Class B 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 of interests between the interests of the Class B Noteholders and the interests 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.

In respect of certain 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” and “Description of the Class B Notes, the Global Class B 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 Mortgages has, since origination, remained with PML. The sales by PML to PFPLC and by PFPLC to the Issuer of the Mortgages will only be perfected in the circumstances set out below. In the meantime, neither the Issuer nor the Trustee will acquire legal title to the Mortgages of

English Properties which are registered or required to be registered at H.M. Land Registry or to the Scottish Mortgages and they will not be applying to H.M. Land Registry, the Central Land Charges Registry or the Registers of Scotland to perfect their interests. They will take legal title to Mortgages of English Properties which are unregistered or do not require to be registered. They will not be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages.

For so long as PML retains legal title to a Mortgage, a third party dealing with PML could obtain legal title free of the interests of PFPLC, the Issuer and the Trustee. For so long as PML retains legal title, it must be joined as a party to any legal proceedings against any borrower or in relation to the enforcement of any Mortgage. In this regard, each of PFPLC and PML has undertaken 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 in connection with any such proceedings. Further, the rights of the Issuer and the Trustee may be or become subject to interests of third parties: for example, a later encumbrance or transfer of the Mortgages and/or to equities created or arising before the transfer of the legal title is perfected: for example, rights of set-off as between the relevant borrowers and PML. These could result in the Issuer receiving less money than anticipated. However, the risk of third party claims defeating or obtaining priority to the interests of the Issuer or the Trustee would be likely to be limited to circumstances arising from a breach by PML of its contractual obligations or fraud, negligence or mistake on the part of PML or the Issuer or their respective personnel or agents.

Until the transfer of the legal title is perfected, the borrower may continue making payment to PML. Perfecting legal title would mean that the borrower would no longer be entitled to obtain a good receipt from PML as mortgagee. Under the Mortgage Sale Agreement PFPLC has undertaken to the Trustee that if at any time on or after the Closing Date it receives (or there is received to its order) any property, interest, right or benefit agreed to be sold to the Issuer, it will hold the same on trust for the Issuer as the beneficial owner thereof. Furthermore under the Collection Account Declaration of Trust (as defined in "Mortgage Administration – Payments from Borrowers" below), PML will declare that all direct debit payments made by borrowers under the Mortgages and 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 credited to PML's collection account are held on trust for the Issuer until they are transferred to the Transaction Account. Notice to borrowers in respect of the Mortgages would also prevent the Mortgages from being amended by PML or PFPLC or the borrowers without the involvement of the Issuer.

Upon the occurrence of any of (i) the valid service of an Enforcement Notice or a Protection Notice (each as to be 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 28th September 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 or (vi) the payment in full of all moneys and other liabilities due or owing under the Notes, the Trust Deed and the Deed of Charge, the Issuer and the Trustee will have the right to perfect legal title to the Mortgages by effecting the necessary registrations and notifications and giving notice to the borrowers and any guarantors in respect of the Mortgages. 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 28th and 30th September 1998. The Class A Notes will be constituted by a trust deed (the "Trust Deed") expected to be dated 30th September 1998 between the Issuer and Citicorp Trustee Company Limited (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class A Notes (the "Class A Noteholders") and the holders for the time being of the Class B Notes (the "Class B Noteholders"). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to PFPLC of the purchase price for the Mortgages to be purchased under a mortgage sale agreement dated 28th September 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 30th September 1998 between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the "Principal Paying Agent", which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the "Reference Agent", which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the "Paying Agents", which expression shall include the successors of each paying agent 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 11 Old Jewry, London EC2R 8DU, 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 £44,350,000 for the Class A1 Notes and £119,000,000 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 a 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 28th September 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 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 of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (3) 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 Collection Account Declaration of Trust (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;
- (4) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at National Westminster Bank Plc (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);
- (5) 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);
- (6) 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
- (7) 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 to any Receiver, the Trustee, Barclays, the Administrator, 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 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 £163,350,000 Class A Mortgage Backed Floating Rate Notes Due 2037 of the Issuer comprising £44,350,000 Class A1 Notes (the "Class A1 Notes") and £119,000,000 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 30th September 1998 between the Issuer and Citicorp Trustee Company Limited (the "Trustee", which expression shall include its successors as trustee under the Trust

Deed) as trustee of 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 (as defined below) (the “Class B 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 and the Class B 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 30th September 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 £17,650,000 Class B Mortgage Backed Floating Rate Notes Due 2037 of the Issuer (the “Class B 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 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 and the Class B 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 or the other persons entitled to the benefit of the Security.

3. Covenants of the Issuer

(A) So long as any of the Class A Notes or the Class B 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 28th September 1998 relating to the issues of the Class A Notes and the Class B 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 and the Class B Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes and the Class B Notes and the other agreements relating to the issues of the Class A Notes and the Class B Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the PFPLC Subordinated Loan Agreement, the Transfers, the Mortgages, the Deed of Charge, the Collection Account Declaration of Trust, the Swap Agreement, any Caps, 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 Declaration of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes and the Class B 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 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 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 and the Class B 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 and the Class B 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 and the Class B 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 or the Class B 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) and the Collection Account (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 30th September 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 January 1999 and, thereafter, on the last Business Day falling in January, April, July and October in each year (each, including the last Business Day falling in January 1999, 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 January 1999 in respect of the period from (and including) the Closing Date to (but excluding) the last Business Day falling in January 1999.

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 Citibank, N.A. acting as reference agent (the “Reference Agent”, which expression shall include its successors as Reference Agent under the Agency Agreement) on the basis of the following provisions:

- (i) On the Closing Date (an “Interest Determination Date”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of four 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: 0.12% per annum up to and including the Interest Period ending in October 2000 and thereafter 0.25% per annum;

Class A2 Notes: 0.25% per annum up to and including the Interest Period ending in October 2004 and thereafter 0.50% per annum.

- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds 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 four-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 and the Class B 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 sum of (a) the aggregate principal amount of the Class A Notes and the Class B Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the PFPLC Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid to acquire the Mortgages in accordance with the Mortgage Sale Agreement and (b) the amount applied to establish the First Loss Fund on the Closing Date;
 - (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes or Class B 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 and the Class B Notes to determine the “Class A Available Redemption Funds” and the “Class B 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 aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes is 35.3:181 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 Class B Available Redemption Funds determined as at such date.

The Class B 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 24% 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 24% 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, would cause the ratio of (I) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B 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 35.3:181; provided that the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £2,000,000.

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 October 2000; and
- (ii) Class A2 Notes on any Interest Payment Date falling in or after October 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, 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 and (2) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes is less than £36,000,000.

(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 October 2037.

(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 Citibank, N.A. at its office at 5 Carmelite Street, London EC4Y 0PA.

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

Upon the date on which the Principal Amount Outstanding of a Class A Note 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, including any directive of the European Union, 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 and the Fee Letter) 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 PGCK) 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, *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, 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 28th and 30th September 1998. The Class B Notes will be constituted by a trust deed (the "Trust Deed") expected to be dated 30th September 1998 between the Issuer and Citicorp Trustee Company Limited (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class B Notes (the "Class B Noteholders") and the holders for the time being of the Class A Notes (the "Class A Noteholders"). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to PFPLC of the purchase price for the Mortgages to be purchased under a mortgage sale agreement dated 28th September 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 30th September 1998 between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the "Principal Paying Agent", which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the "Reference Agent", which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the "Paying Agents", which expression shall include the successors of each paying agent 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 11 Old Jewry, London EC2R 8DU, 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 £17,650,000. The Temporary Global Class B Note will be deposited on behalf of the subscribers of the Class B Notes with a common depositary for Euroclear and 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 Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received by Euroclear or 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 28th September 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 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 of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (3) 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 Collection Account Declaration of Trust (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;

- (4) an assignment of the Issuer’s rights to all moneys standing to the credit of the Issuer’s bank account at National Westminster Bank Plc (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);
- (5) 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);
- (6) 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
- (7) 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 to any Receiver, the Trustee, Barclays, the Administrator, 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 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, 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 £17,650,000 Class B Mortgage Backed Floating Rate Notes Due 2037 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 30th September 1998 between the Issuer and Citicorp Trustee Company Limited (the “Trustee”, which expression shall include its successors as trustee under the Trust Deed) as trustee of 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 (the “Class B 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 and the Class B 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 30th September 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 £163,350,000 Class A Mortgage Backed Floating Rate Notes Due 2037 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 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.

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 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 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 other persons entitled to the benefit of the Security.

3. Covenants of the Issuer

(A) So long as any of the Class A Notes or the Class B 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 28th September 1998 relating to the issues of the Class A Notes and the Class B 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 and the Class A Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes and the Class B Notes and the other agreements relating to the issues of the Class A Notes and the Class B Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the PFPLC Subordinated Loan Agreement, the Transfers, the Mortgages, the Deed of Charge, the Collection Account Declaration of Trust, the Swap Agreement, any Caps, 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 Declaration of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes and the Class B 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) 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 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 and the Class B 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 and the Class B 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 and the Class B 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 or the Class B 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) and the Collection Account (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. 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 30th September 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 January 1999 and, thereafter, on the last Business Day falling in January, April, July and October in each year (each, including the last Business Day falling in January 1999, 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 January 1999 in respect of the period from (and including) the Closing Date to (but excluding) the last Business Day falling in January 1999.

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 Citibank, N.A. acting as reference agent (the “Reference Agent”, which expression shall include its successors as Reference Agent under the Agency Agreement) on the basis of the following provisions:

- (i) On the Closing Date (an “Interest Determination Date”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of four 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 0.65% per annum up to and including the Interest Period ending in October 2004 and thereafter 1.30% 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 four-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 and the Class B 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 sum of (a) the aggregate principal amount of the Class A Notes and the Class B Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the PFPLC Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid to acquire the Mortgages in accordance with the Mortgage Sale Agreement and (b) the amount applied to establish the First Loss Fund on the Closing Date;
 - (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes or Class B 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 and the Class B Notes to determine the “Class A Available Redemption Funds” and the “Class B 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 aggregate Principal Amount Outstanding of the Class B 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 and the aggregate Principal Amount Outstanding of the Class B Notes is 35.3:181 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 Class B Available Redemption Funds determined as at such date.

The Class B 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 24% 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 24% 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, would cause the ratio of (I) the aggregate Principal Amount Outstanding of the Class B 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 and the aggregate Principal Amount Outstanding of the Class B 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 35.3:181; provided that the aggregate Principal Amount Outstanding of the Class B Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £2,000,000.

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 October 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 October 2037, 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 Citibank, N.A. at its office at 5 Carmelite Street, London EC4Y 0PA.

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

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

If the due date for payment of any amount of principal or interest in respect of any Class B Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay. In this Class B Condition 6 the expression "Business Day" means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class B Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class B Note for definitive Class B Notes, on which both Euroclear and 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 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, including any directive of the European Union, 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 and the Fee Letter) or otherwise becomes insolvent; or
- (vi) notice is given to the Issuer pursuant to the Trust Deed that the Class A Notes are immediately due and repayable.

11. Enforcement

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 Class B Condition 10 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, any Deferred Interest, any Additional Interest, 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 PGCK) 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, *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 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, 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.

USE OF PROCEEDS

The gross proceeds from the issue of the Class A Notes will be £163,350,000 and those from the issue of the Class B Notes will be £17,650,000. Commissions of 0.1% of the principal amount of the Class A1 Notes, of 0.2% of the principal amount of the Class A2 Notes and of 0.3% of the principal amount of the Class B 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 £180,664,700, 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 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. 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 03203909) as a private limited company under the Companies Act 1985 on 24th May 1996 under the name Loans for Students Direct Limited. It changed its name to Finance for People (No.4) PLC on 9th September 1998. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The Issuer is a 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 is a special purpose vehicle for the issuance of the Notes.

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 issue of the Notes, the agreement to purchase the Mortgages and the matters contemplated in this Offering Circular, 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 28th September 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" and "Description of the Class B Notes, the Global Class B 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 28th September 1998 that it will pay PFPLC an arrangement fee of 0.4% 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 28th September 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 and to enable the Issuer to purchase the Mortgages and to achieve the initial ratings on the Notes. 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 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. 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 January 1999 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 October 2037 and (ii) the first day on which there are no Notes outstanding except that on any Interest Payment Date (a) 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); and (b) to the extent there is outstanding any advance made to establish or increase the Shortfall Fund, sums borrowed for such purposes may be repaid to the extent of the funds available to the Issuer to do so (see "Summary – Priority of Payments" 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.

Hedging Arrangements

On the Closing Date, the Issuer will have entered into hedging arrangements under the Swap Agreement, all in accordance with Moody's requirements to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages that are acquired by it on the Closing Date.

In relation to any Fixed Rate Mortgages or, as the case may be, Capped Rate Mortgages, arising upon conversion of any Mortgages which are not as at the Closing Date Fixed Rate Mortgages, or, as the case may be, Capped Rate Mortgages, into Fixed Rate Mortgages or, as the case may be, Capped Rate Mortgages, the Issuer will 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. 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 to the Swap Counterparty, will rank in priority to payments on the Notes as provided above.

Hedging arrangements may be provided by any bank or financial institution provided that on the date on which it makes such arrangements available to the Issuer, such bank or financial institution has a

rating for its long term or short term debt obligations sufficient to maintain the then ratings of the Notes unless such arrangements are guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge. Hedging arrangements may, but need not, include 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 or may comprise other hedging arrangements entered into with the Swap Provider under the Swap Agreement.

After payment of or for items (i) to (ix) 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, is as follows:

Share capital	£
Authorised	
26 ‘A’ Ordinary Shares of £1 each	
74 ‘B’ Ordinary Shares of £1 each	
49,900 Preference Shares of £1 each	
Issued	
26 ‘A’ Ordinary Shares of £1 each (all 25p paid)	6.50
74 ‘B’ Ordinary Shares of £1 each (2 fully paid and 72 25p paid)	20.00
49,900 Preference Shares of £1 each (all 25p paid).....	12,475.00
	<hr/>
	12,501.50
	<hr/> <hr/>
Loan capital	
£163,350,000 Class A Mortgage Backed Floating Rate Notes Due 2037	163,350,000.00
(now being issued)	
£17,650,000 Class B Mortgage Backed Floating Rate Notes Due 2037	17,650,000.00
(now being issued)	
Advance under the PFPLC Subordinated Loan Agreement	1,000,000.00 ⁽¹⁾
	<hr/>
Total capitalisation	182,012,501.50
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Note:

(1) This figure is illustrative only. An advance under the PFPLC Subordinated Loan Agreement will be made 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 enable the Issuer to achieve the initial ratings on the Notes.

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

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

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

Ordinary Shares carry the right to receive notice of, to attend and to vote at any general meeting of the Issuer.

PGC beneficially holds all the 'B' Ordinary Shares and all the Preference Shares. SPV Management Limited, whose registered office is at 78 Cannon Street, London EC4P 5LN, beneficially holds all the 'A' Ordinary Shares.

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.

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 £426,000. The Issuer will on the Closing Date become one of the beneficiaries of the trust over the VAT Account, such trust being constituted by a declaration of trust dated 19th March 1993, as subsequently amended (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 to in this section as the “Mortgages”) have been originated by PML and sold by it to PSFL. PML will repurchase such Mortgages on the Closing Date and sell them to PFPLC prior to their sale by PFPLC to the Issuer. PML is a private company and both PFPLC and PML 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. 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 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 will all have had original maturities of between 5 years and 37 years. No Mortgage falls to be repaid later than September 2035.

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 met 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 in relation to the Mortgages, including warranties in relation to the lending criteria applied in advancing the loans.

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).

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 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 10% of the loan interest payable on up to the first £30,000 of the amount of the loan. 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. PML recommends (but does not require) 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”). PML recommends (but does not require) that borrowers arrange term life assurance in connection with Interest-only Mortgages.

Particular 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) 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.

A Non-Standard Mortgage is, and any Mortgage may be converted into, any 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;
- (ii) a LIBOR-Linked Mortgage under which the borrower is required to pay interest at a fixed margin over three month LIBOR determined quarterly; or
- (iii) a Capped Rate Mortgage under which the borrower is required to pay interest at a rate equal to three month LIBOR plus a fixed margin up to a specified rate for a specified period from origination of the loan. After that specified period the borrower is required to pay interest at a variable rate.

Standard Mortgages 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 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 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 the Administrator on behalf of the Issuer and the Trustee after the sale and sub-charge of the Mortgages.

Redemption Provisions

The 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.

Mortgages are subject to a minimum early repayment charge of the equivalent of one month’s interest should the account be redeemed within three years of completion. However, where a mortgage has a fixed rate, or offers new borrowers an incentive (as with a cashback, discounted rate or similar) early repayment charges are more substantial in order to ensure incentives are effectively repaid should this occur.

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. PML has executed a Deed of Variation of Standard Conditions with a view to conforming as far as possible its Scottish Mortgages and English Mortgages from an operational viewpoint (subject to such limitations as are inherent to the differences between Scots and English law).

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

Acquisition of Mortgages

Pursuant to the Mortgage Sale Agreement, PML has agreed to re-purchase the Mortgages from PSFL on the Closing Date. PFPLC has, in turn, agreed to purchase and PML has agreed to sell on the Closing Date these Mortgages. The Issuer has, in turn, agreed to purchase (and PFPLC has agreed to sell) these Mortgages on the Closing Date.

The purchase consideration (other than the deferred consideration element) in respect of the Mortgages purchased on the Closing Date will be paid on the Closing Date. The deferred consideration will

be paid as follows: on each Interest Payment Date, after paying or providing in full for items (i) to (xiii) inclusive in “Summary – Priority of Payments” above, the Issuer shall pay to PFPLC an amount broadly equal to the remaining balance of the moneys available on such Interest Payment Date for application in accordance with “Summary – Priority of Payments” above less an amount equal to 0.01% of the principal amount outstanding in respect of the Notes on the Principal Determination Date immediately prior to that Interest Payment Date.

The Mortgage Sale Agreement provides that, on the Closing Date, PML will receive transfers (or, in the case of Scottish Mortgages, releases from trust) and subsequently PFPLC will receive transfers (in respect of English Mortgages) of the Mortgages which it has agreed to acquire (in each case, together with 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 Mortgages will remain vested in PML.

Simultaneously, PFPLC will 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 and all other rights and interests agreed to be sold to the Issuer. In addition, PML with the consent of PFPLC, will declare a trust in favour of the Issuer over the Scottish Mortgages to be sold to the Issuer (the “Scottish Declaration of Trust”) and the Issuer will thereby under Scots law acquire the beneficial interest in the Scottish Mortgages and their related security.

In respect of Mortgages of English Properties which are neither registered at H.M. Land Registry nor required to be registered, the transfers will operate to transfer legal title to the Mortgages to the Issuer. For the remainder of the Mortgages of English Properties, legal title will not be transferred unless and until application is made to H.M. Land Registry to register the Issuer as the new proprietor of the Mortgages. In relation to Scottish Mortgages, the transfer of the beneficial interest therein will be effected by the Scottish Declaration of Trust, and otherwise legal title thereto will not be affected and will remain with PML. Save in the circumstances to be 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 the new registered proprietor of any Mortgages, and accordingly in relation to the relative Mortgages the situation described above as regards title thereto will continue to apply (see “Special Considerations” above).

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 PSFL 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 or the 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 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, subject to registration, each such Mortgage constitutes a valid and binding obligation of the borrower and 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 policy is in full force and effect; and as to the satisfaction of requirements of the Inland Revenue in relation to interest relief on the Mortgages.

The Class A Subscription Agreements and the Class B Subscription Agreement referred to in “Subscription and Sale” below contain warranties by PFPLC and PML to the effect that the information in this Offering Circular with regard to the Mortgages to be purchased by the Issuer, the Properties, the 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.

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 Mortgages which, at the time any of the Mortgages 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 £1,100,000 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 £1,100,000 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 in 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 occupier is a body corporate, the maximum length of lease will normally be for a period no longer than three years. Where the occupier is a public sector body, the maximum length of lease will normally be for a period of no longer than five years.

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 contracts which are relevant to the Mortgages to be purchased by the Issuer and the activities of the Issuer and the Administrator.

Mortgage Indemnity Insurance

Save in respect of certain of the Shared Ownership Mortgages and Right-to-Buy 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.

There can be no guarantee that delays in achieving successful settlement of claims under mortgage indemnity insurance policies could not affect those 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 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 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 Mortgages will be assigned by PML to PFPLC and by PFPLC 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 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 because the Issuer and the Trustee otherwise 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. The relevant block policies are 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 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. 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 PML as a result of acts or omissions unknown to, or beyond the control of, 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, PML will have taken all reasonable steps to ensure that the relevant Property is insured under a policy with an insurance company approved by PML 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 PML 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 PML's interests in those insurance policies referred to above insofar as they relate to the Mortgages will either be assigned by PML to PFPLC and then by PFPLC 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 but no notice of each of these assignments will be given to the insurers, save that notice of the assignments by PML to PFPLC and PFPLC to the Issuer will be given in respect of those of the policies referred to above where 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

PML has 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 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 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 PML in relation to the Mortgages are all covered by a similar indemnity scheme established under the Administration of Justice Act 1985.

PML has the benefit of insurance with the London General Insurance Company Limited which provides for certain payments to be made to PML in the event of the total disability, unemployment or hospitalisation of a particular borrower. The benefits received by PML are applied by it in reducing the borrower's indebtedness to PML. The benefit of PML's interests (if any) in this insurance will be assigned by PML to PFPLC and by PFPLC to the Issuer and then 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 31st August 1998 (the “Provisional Pool Date”) consisted of 3,391 Mortgages having a Provisional Balance (as defined below) of £162,857,539.64.

The Provisional Mortgage Pool includes 3,365 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 £161,510,526.26 and 26 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 £1,347,013.38 (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 to the Issuer. In addition, Mortgages originated after the Provisional Pool Date which were not included in the Provisional Mortgage Pool may be included in the Mortgages sold to the Issuer on the Closing Date. 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 (see “Summary – Selection of Mortgages” above).

All of the Mortgages forming part of the Provisional Mortgage Pool were originated between August 1997 and August 1998.

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 37 years with the latest scheduled maturity of any mortgage loan in the Provisional Mortgage Pool being not later than September 2035.

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	919,787.54	0.56	38	1.12
> 25 < = 50	14,479,389.42	8.89	403	11.88
> 50 < = 55	7,094,644.88	4.36	158	4.66
> 55 < = 60	9,481,165.02	5.82	170	5.01
> 60 < = 65	11,978,778.17	7.36	240	7.08
> 65 < = 70	17,396,133.57	10.68	342	10.09
> 70 < = 75	45,805,697.07	28.13	897	26.45
> 75 < = 80	45,141,952.61	27.72	954	28.13
> 80 < = 85	4,983,948.82	3.06	94	2.77
> 85 < = 90	1,820,199.96	1.12	29	0.86
> 90 < = 95	1,505,542.68	0.92	23	0.68
> 95 < = 97	1,179,192.42	0.72	20	0.59
> 97 < = 100	1,016,007.48	0.62	22	0.65
Over 100.....	55,100.00	0.03	1	0.03
Total	162,857,539.64		3,391	

Average LTV weighted by Provisional Balance: 68.64%.

Average LTV weighted by Provisional Balance less Accrued Arrears: 68.64%.

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>
Standard Variable Rate.....	73,356,317.27	45.04	1,604	47.30
LIBOR-Linked.....	1,244,949.74	0.76	27	0.80
Fixed Rate.....	78,969,821.36	48.49	1,560	46.00
Capped Rate	9,286,451.27	5.70	200	5.90
Total	162,857,539.64		3,391	

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>
Repayment	79,244,421.14	48.66	1,777	52.40
Interest-only	83,613,118.50	51.34	1,614	47.60
Total	162,857,539.64		3,391	

Loan Size

<i>(£)</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
0.00 – 15,000	319,718.32	0.20	26	0.77
15,000.01 – 30,000	27,344,982.49	16.79	1,162	34.27
30,000.01 – 45,000	34,849,411.02	21.40	956	28.19
45,000.01 – 60,000	27,260,485.48	16.74	525	15.48
60,000.01 – 70,000	11,545,599.48	7.09	180	5.31
70,000.01 – 80,000	10,393,160.77	6.38	139	4.10
80,000.01 – 90,000	7,539,782.56	4.63	89	2.62
90,000.01 – 100,000	6,477,966.32	3.98	68	2.01
100,000.01 – 110,000	5,438,420.25	3.34	52	1.53
110,000.01 – 120,000	4,243,811.07	2.61	37	1.09
120,000.01 – 130,000	3,954,987.06	2.43	32	0.94
130,000.01 – 140,000	2,978,228.84	1.83	22	0.65
140,000.01 – 150,000	2,301,913.74	1.41	16	0.47
150,000.01 – 175,000	4,879,539.25	3.00	30	0.88
175,000.01 – 200,000	4,231,424.55	2.60	23	0.68
200,000.01 – 225,000	2,368,934.76	1.45	11	0.32
225,000.01 – 250,000	3,073,861.34	1.89	13	0.38
Over 250,000	3,655,312.34	2.24	10	0.29
Total	162,857,539.64		3,391	

Property Tenure

	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Freehold	107,610,415.43	66.08	2,146	63.29
Leasehold	53,683,516.13	32.96	1,208	35.62
Feudal	1,563,608.08	0.96	37	1.09
Total	162,857,539.64		3,391	

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>
1997.....	12,349,333.67	7.58	253	7.46
1998.....	150,508,205.97	92.42	3,138	92.54
Total.....	162,857,539.64		3,391	

Maturity of Mortgage

<i>Years to Maturity⁽¹⁾</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
> 0 < 5	936,586.74	0.58	24	0.71
> = 5 < 10.....	19,444,429.81	11.94	429	12.65
> = 10 < 15	34,807,361.39	21.37	739	21.79
> = 15 < 20	42,511,750.25	26.10	865	25.51
> = 20 < 25.....	63,428,274.53	38.95	1,296	38.22
> = 25 < 30	1,340,144.09	0.82	25	0.74
> = 30 < 35	315,151.03	0.19	11	0.32
Over 35	73,841.80	0.05	2	0.06
Total.....	162,857,539.64		3,391	

Note:

(1) 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	95,387,069.76	58.57	2,039	60.13
Remortgage	67,470,469.88	41.43	1,352	39.87
Total.....	162,857,539.64		3,391	

Type of Occupancy

<i>Occupancy</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Owner Occupier	41,698,086.08	25.60	782	23.06
Lettings	121,159,453.56	74.40	2,609	76.94
Total.....	162,857,539.64		3,391	

Geographical Dispersion

<i>Defined Area</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
North	4,395,737.17	2.70	143	4.22
North West	8,761,176.86	5.38	256	7.55
Yorkshire	12,071,571.77	7.41	367	10.82
East Midlands	6,136,044.24	3.77	192	5.66
West Midlands	7,156,191.23	4.39	196	5.78
East Anglia	5,093,556.48	3.13	134	3.95
South East (excl. Greater London)	59,750,547.45	36.69	1,126	33.21
South West	16,679,069.58	10.24	353	10.41
Greater London	36,824,625.61	22.61	466	13.74
Wales	4,425,411.17	2.72	121	3.57
Scotland	1,563,608.08	0.96	37	1.09
Total	162,857,539.64		3,391	

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>
3	42,535.94	100.00	1	100.00
Total	42,535.94		1	

Average number of months in possession weighted by Provisional Balance: 3 months.

Average number of months in possession weighted by Provisional Balance less Accrued Arrears: 3 months.

Number of Months in Arrears⁽²⁾: 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>
> 8 < = 9	42,535.94	100.00	1	100.00	3,379.73
Total	42,535.94		1		3,379.73

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: 8.62 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: 8.62 months.

Note:

(2) 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 “eight months in arrears” means that the borrower has failed to pay in aggregate amounts totalling eight 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⁽²⁾: 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	161,510,526.26	99.20	3,365	99.26	32,907.74
> 1 < = 2	1,096,171.21	0.67	22	0.65	12,390.71
> 2 < = 3	28,122.35	0.02	1	0.03	418.55
> 3 < = 4	106,625.59	0.07	1	0.03	3,194.59
> 4 < = 5	73,558.29	0.05	1	0.03	2,837.04
Total	162,815,003.70		3,390		51,748.63

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: 1.84 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: 1.83 months.

Number of Months in Arrears⁽²⁾

<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	161,510,526.26	99.17	3,365	99.23	32,907.74
> 1 < = 2	1,096,171.21	0.67	22	0.65	12,390.71
> 2 < = 3	28,122.35	0.02	1	0.03	418.55
> 3 < = 4	106,625.59	0.07	1	0.03	3,194.59
> 4 < = 5	73,558.29	0.05	1	0.03	2,837.04
> 5 < = 6	0	0	0	0	0
> 6 < = 7	0	0	0	0	0
> 7 < = 8	0	0	0	0	0
> 8 < = 9	42,535.94	0.03	1	0.03	3,379.73
Total	162,857,539.64		3,391		55,128.36

Average number of months in arrears weighted by Provisional Balance: 2.05 months.

Average number of months in arrears weighted by Provisional Balance less Accrued Arrears: 2.03 months.

Analysis of percentage of subscription⁽³⁾ 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%	800,297.69	59.41	101,434.69	7.53	27,876.40	2.07
> 0% <= 50%	170,961.69	12.69	478,218.01	35.50	209,771.79	15.57
> 50% <= 100%	60,540.37	4.49	767,360.68	56.97	1,109,365.19	82.36
= 100%	220,634.42	16.38	0	0	0	0
> 100% <= 150%	55,980.36	4.16	0	0	0	0
> 150%	38,598.85	2.87	0	0	0	0
Total	1,347,013.38		1,347,013.38		1,347,013.38	

Note:

(3) 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 £60,540.37 have paid in aggregate between 50% – 100% of their subscriptions for the last month, and the accounts with a Provisional Balance of £1,109,365.19 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 that a reasonably prudent mortgage lender would apply in 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 will be 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 in the event of PFPLC's insolvency.

As at 31st August 1998, PFPLC employed approximately 420 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 except in the case of Fixed Rate Mortgages and Capped Rate Mortgages and 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 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 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 purposes including that 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 1.6% until (and including) the Interest Payment Date falling in October 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) (net of all provisions previously made during the then current Interest Period) at least equal to the shortfall which would arise at that time and it makes a provision in such Shortfall Fund equal to such shortfall.

On each Interest Payment Date, the Shortfall Fund (if any) will be applied on such day to pay or provide for the items referred to in "Summary – Priority of Payments" above.

Payments from Borrowers

All direct debit payments made by borrowers under the Mortgages and 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 the PML collection account and then will be transferred on the next following business day, or as soon as practicable thereafter, to the Transaction Account. 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 "Collection Account Declaration of Trust") under

which PML shall declare that all direct debit payments, cheque payments, redemption moneys and certain other sums of money in respect of the Mortgages purchased by the Issuer on the Closing Date which are credited to its collection account 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 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 10% of the loan interest payable on up to the first £30,000 of the amount of the loan) 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 for the purpose of advancing any part of the original advance which was 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 £35,000,000. If the Issuer does not wish, or is unable, to make a Discretionary Further Advance, PML or, as the case may be, PFPLC 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 PML's lending criteria as far as applicable are satisfied at the relevant time subject to such waivers as might be within the discretion of a reasonably prudent lender, as will be 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

The Administrator may agree or elect to convert a Mortgage from an Interest-only Mortgage to a Repayment Mortgage (but not any other type of Mortgage) or from a Repayment Mortgage to an Interest-only Mortgage (but not any other type of 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 Mortgages which are Fixed Rate Mortgages or Capped 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 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) no conversion must extend the final maturity date of the relevant Mortgage beyond September 2035; and
- (f) on the date of and immediately following the relevant conversion, PML's 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 on the Closing Date 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 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 there are no Class A Notes are outstanding, the Class B 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 will be 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 Financial Services Authority 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 will make provision for payments to be made to the Administrator. The Issuer will pay to PFPLC as Administrator an administration fee of not more than 0.3% (inclusive of VAT) per annum on the aggregate interest charging balances 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 0.3% (exclusive of VAT) per annum.

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 Depository 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 depository for the clearing system, in accordance with regulations made by the Inland Revenue, the depository 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 payment is made directly to the recognised clearing system, or where payment is made to or at the direction of a depository for the clearing system, the depository 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 to another person 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 to the recognised clearing system or to a depositary for 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.

The interest will have a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment even if the interest is paid without deduction. However, 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 (or allowable, as appropriate) 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 for the purposes of which the Note is held 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 relates only to persons who are the absolute beneficial owners of Notes and Coupons, 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

Baring Brothers Limited, as agent for ING Bank N.V., London Branch (“ING Barings”), Deutsche Bank AG London, Midland Bank plc, J.P. Morgan Securities Ltd. and Société Générale (the “Class A1 Managers”) have, pursuant to a subscription agreement dated 28th September 1998 (to which PFPLC is 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 0.05% of the principal amount of the Class A1 Notes.

ING Barings (the “Class A2 Manager”) has, pursuant to a subscription agreement dated 28th September 1998 (to which PFPLC is 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 0.1% of the principal amount of the Class A2 Notes and a combined management and underwriting commission of 0.1% of the principal amount of the Class A2 Notes.

ING Barings (the “Class B Manager”) has, pursuant to a subscription agreement dated 28th September 1998 (to which PFPLC is also party) (the “Class B Subscription Agreement”) agreed, 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 0.15% of the principal amount of the Class B Notes and a combined management and underwriting commission of 0.15% of the principal amount of the Class B Notes.

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

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the requirements of the Securities Act. Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or 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 and the Class B Manager, in respect of the Class B 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 and the Class B Manager, in respect of the Class B 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 businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 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 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 such 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 and the Class B Manager, in respect of the Class B 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 29th September 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 9107924; ISIN XS0091079243;

Class A2 Notes, Common Code Number 9108092; ISIN XS0091080928; and

Class B Notes, Common Code Number 9108114; ISIN XS0091081140.

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:

28th September 1998

“The Board of Directors
Finance for People (No.4) PLC
St. Catherine’s Court
Herbert Road
Solihull
West Midlands
B91 3QE

Dear Sirs,

Finance for People (No.4) PLC

Finance for People (No.4) PLC (the “Company”) was incorporated on 24th May 1996 under the name Loans for Students Direct Limited. On 9th September 1998 the Company was re-registered as a public limited company and the Company changed its name to Finance for People (No.4) 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 £163,350,000 Class A Mortgage Backed Floating Rate Notes Due 2037 and the £17,650,000 Class B Mortgage Backed Floating Rate Notes Due 2037 and for no other purpose.

We confirm that we have audited the financial statements of the Company for the period from its incorporation on 24th May 1996 until 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 28th September 1998 relating to the issues of the Notes referred to above has been properly prepared from the audited financial statements of the Company for the period ended 30th September 1997 upon which we reported on 21st September 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		<u><u>2</u></u>
Equity Shareholders' Funds		
Called up share capital	1	2
		<u>2</u>
		<u><u>2</u></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, issued on 24th May 1996 to provide the initial working capital of the company.
2. The company has been dormant throughout the period from 24th May 1996 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 report and accounts of the Issuer for the period from 24th May 1996 to 30th September 1997 have been audited by Deloitte & Touche.

The address of PML is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE.

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 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 and the Class B Notes (including the forms of the Global Class A Notes, the Class A Notes, Coupons and Talons and the forms of Global Class B Notes, the Class B Notes, Coupons and Talons), the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, the Scottish Declaration of Trust, the Agency Agreement, the Collection Account Declaration of Trust and the Swap Agreement; and
- (e) the audited report and accounts of the Issuer for the period from 24th May 1996 to 30th September 1997 as approved by the directors of the Issuer on 18th September 1998.

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

Citicorp Trustee Company Limited

336 The Strand
London WC2R 1HB

SWAP COUNTERPARTY

Morgan Guaranty Trust Company of New York

60 Victoria Embankment
London EC4Y 0JP

**REFERENCE AGENT AND
PRINCIPAL PAYING AGENT**

Citibank, N.A.

5 Carmelite Street
London EC4Y 0PA

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

Baring Brothers Limited

60 London Wall
London EC2M 5TQ