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## OFFERING CIRCULAR

# Homeloans (No. 4) PLC

*(Incorporated with limited liability in England and Wales with registered number 3696161)*

**£198,000,000**

*Class A Mortgage Backed Floating Rate Notes Due 2019*

**Issue price: 100%**

**£16,500,000**

*Class B Mortgage Backed Floating Rate Notes Due 2028*

**Issue price: 100%**

**£5,500,000**

*Class C Mortgage Backed Floating Rate Notes Due 2028*

**Issue price: 100%**

The £198,000,000 Class A Mortgage Backed Floating Rate Notes Due 2019 of Homeloans (No. 4) PLC (the “**Issuer**”) (the “**Class A Notes**”) will be issued by the Issuer together with the £16,500,000 Class B Mortgage Backed Floating Rate Notes Due 2028 of the Issuer (the “**Class B Notes**”) and the £5,500,000 Class C Mortgage Backed Floating Rate Notes Due 2028 of the Issuer (the “**Class C Notes**”) (the Class A Notes, the Class B Notes and the Class C Notes together being the “**Notes**” and the Class B Notes and the Class C Notes together being the “**Subordinated Notes**”).

Interest on the Notes will be payable in pounds sterling quarterly in arrear on 16th September 2002 and thereafter on each subsequent 15th December, 15th March, 15th June and 15th September subject to adjustment in the manner described in this Offering Circular (each date as so adjusted, being an “**Interest Payment Date**”). Interest on the Subordinated Notes will be paid on an Interest Payment Date only if and to the extent that there are sufficient funds available to the Issuer on 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 not sufficient to pay the full amount of interest on the Class B Notes and/or the Class C Notes on such Interest Payment Date, payment of the shortfall will be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such shortfall, 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 relevant Subordinated Notes from time to time. The interest rates applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate (“**LIBOR**”) for three month sterling deposits (or, in the case of the first Interest Period, by reference to a linear interpolation between three and 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 A Notes: 0.35% per annum up to and including the Interest Period ending in June 2008 and thereafter 0.70% per annum;
- (ii) Class B Notes: 0.90% per annum up to and including the Interest Period ending in June 2008 and thereafter 1.80% per annum; and
- (iii) Class C Notes: 2.00% per annum up to and including the Interest Period ending in June 2008 and thereafter 4.00% per annum.

The first Interest Period is expected to commence on (and include) 29th May 2002 and end on (but exclude) the Interest Payment Date falling in September 2002. Interest payments on the Notes will be made subject to applicable withholding tax (if any) without the Issuer being obliged to pay additional amounts therefor.

The Notes will be subject to mandatory redemption in part from time to time on any Interest Payment Date, as more particularly described 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 Subordinated Notes will be secured by the same security that will secure the Class A Notes but in the event of the security being enforced the Class A Notes will rank in priority to the Subordinated Notes and the Class B Notes will rank in priority to the Class C Notes. The right to payment of interest on the Subordinated Notes will be subordinated and may be limited as described herein (see “**Summary – Interest**” below). As a result, no assurance is given as to the amount (if any) of interest on the Subordinated 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 Fitch Ratings Ltd. (“**Fitch**”), an Aaa rating by Moody’s Investors Service Limited (“**Moody’s**”) and an AAA rating by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“**Standard & Poor’s**”) (and together with Fitch and Moody’s, the “**Rating Agencies**”). The Class B Notes are expected, on issue, to be assigned an A rating by Fitch, an A2 rating by Moody’s and an A rating by Standard & Poor’s and the Class C Notes are expected, on issue, to be assigned a BBB rating by Fitch, a Baa2 rating by Moody’s and a BBB rating by Standard & Poor’s. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

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

The Notes of each class will initially be 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 Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”) at the closing of the issues of the Notes (which is expected to be on 29th May 2002). The Temporary Global Note relating to each class of Notes will be exchangeable 40 days after the closing of the issues of the Notes (provided that certification of non-U.S. beneficial ownership has been received) for interests in a Permanent Global Note relating to the same class which will also be deposited with the Common Depository. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

Simultaneously with the issues of the Notes, the Issuer will issue unlisted Secured Subordinated Loan Stock 2028. The Loan Stock will be secured by the same security that will secure the Notes, although the Loan Stock will be subordinated to the Notes in point of payment of principal and will not be interest-bearing. The Notes will rank in priority to the Loan Stock in the event of the Security being enforced (see “**Summary – Priority of Payments – prior to enforcement**” and “**Summary – Priority of Payments – post-enforcement**”). No offer of Loan Stock is made hereby.

Particular attention is drawn to the section herein entitled “**Special Considerations**”.

### Class A Managers

#### Barclays Capital

Deutsche Bank

HSBC

ING

JPMorgan

SG Investment  
Banking

The Royal Bank  
of Scotland

### Class B Manager and Class C Manager

#### Barclays Capital

The date of this Offering Circular is 24th May 2002

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 – 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 or that the information contained in this Offering Circular is correct at any time subsequent to its date.

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

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

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

No action has been taken by the Issuer or the Managers, other than the applications to the UK Listing Authority and 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”, “Description of the Class B Notes, the Global Class B Notes and the Security” and “Description of the Class C Notes, the Global Class C Notes and the Security”.

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

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

**In connection with the issues of the Notes, Barclays Bank PLC (or any person acting for Barclays Bank PLC) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the date of the closing of the issues of the Notes. However, there is no obligation on Barclays Bank PLC or any agent of Barclays Bank PLC to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.**

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## SUMMARY

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

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

<b>Issuer</b>	Homeloans (No. 4) PLC, a public company incorporated under the laws of England, registered number 3696161 and a subsidiary of The Paragon Group of Companies PLC (“ <b>PGC</b> ”). The ordinary shares of PGC are listed by the UK Listing Authority and traded on the London Stock Exchange.
<b>HLJ</b>	Homeloans (Jersey) Limited (“ <b>HLJ</b> ”), a private company incorporated under the laws of Jersey, registered in Jersey under number 81110 and registered in England as an oversea company under number FC023570 with a branch registered under number BR006332 and, at the date of this Offering Circular, a wholly owned subsidiary of PGC.
<b>PFPLC</b>	Paragon Finance PLC (“ <b>PFPLC</b> ” or the “ <b>Administrator</b> ”), a public company incorporated under the laws of England and a wholly owned subsidiary of PGC.
<b>PML</b>	Paragon Mortgages Limited (“ <b>PML</b> ”), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC.
<b>Mortgage Originators</b>	The Mortgages were originated (i) by PFPLC, (ii) in respect of Local Authority Mortgages, by certain local authorities in England and Wales or the Housing Corporation or (iii) in respect of SG Mortgages, by a wholly-owned subsidiary of Société Générale (“ <b>Société Générale</b> ”, which expression includes such subsidiary where appropriate).
<b>Administrator</b>	PFPLC will be appointed to act as administrator of the Mortgages and to perform certain corporate, administrative and cash management services on behalf of the Issuer.
<b>Substitute Administrator</b>	Global Home Loans Limited (the “ <b>Substitute Administrator</b> ”), a private company incorporated under the laws of England, registered number 3709886 and a subsidiary of Countrywide Credit Industries Inc., will be appointed to act as administrator of last resort in respect of the Mortgages under the Substitute Administrator Agreement.
<b>Trustee</b>	Citicorp Trustee Company Limited (the “ <b>Trustee</b> ”) will act as trustee for the Noteholders (as defined below) and will hold the benefit of the security created by the Issuer on trust for, among others, the Noteholders.
<b>The Notes</b>	£198,000,000 Class A Mortgage Backed Floating Rate Notes Due 2019, £16,500,000 Class B Mortgage Backed Floating Rate Notes Due 2028 and £5,500,000 Class C Mortgage Backed Floating Rate Notes Due 2028.  <b>The Notes will be obligations of the Issuer. The Notes will not be obligations or the responsibility of any person other than the Issuer. The Notes will not be guaranteed by any person. In particular, the Notes will not be obligations or the responsibility of PFPLC, PML, PGC, HLJ, POPLC, any company in the same group of companies as PGC (other than the Issuer), the Trustee, any of the Managers or of any other person other than the Issuer.</b>

**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, HLJ, POPLC, any company in the same group of companies as PGC (other than the Issuer), the Trustee, any of the Managers or by any other person other than the Issuer.**

**Payments in respect of the Class B Notes will only be made if and to the extent that there are sufficient funds after paying or providing for certain liabilities, including certain liabilities in respect of the Class A Notes. The Class B Notes rank after the Class A Notes in point of security.**

**Payments in respect of the Class C Notes will only be made if and to the extent that there are sufficient funds after paying or providing for certain liabilities, including certain liabilities in respect of the Class A Notes and the Class B Notes. The Class C Notes rank after the Class A Notes and the Class B Notes in point of security.**

## **Interest**

The interest rates 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, by reference to a linear interpolation between three and 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:

Class A Notes: 0.35% per annum up to and including the Interest Period ending in June 2008 and thereafter 0.70% per annum;

Class B Notes: 0.90% per annum up to and including the Interest Period ending in June 2008 and thereafter 1.80% per annum; and

Class C Notes: 2.00% per annum up to and including the Interest Period ending in June 2008 and thereafter 4.00% per annum.

Interest payments on the Subordinated Notes will be subordinated to interest payments on the Class A Notes and interest payments on the Class C Notes will be subordinated to interest payments on the Class A Notes and the Class B Notes (see "Priority of Payments – prior to enforcement" below). Accordingly, Class B Noteholders and Class C Noteholders will not be entitled to receive any payment of interest on an Interest Payment Date unless and until all amounts of interest then due to Class A Noteholders on that Interest Payment Date have been paid in full. Similarly, Class C Noteholders will not be entitled to receive any payment of interest on an Interest Payment Date unless and until all amounts of interest then due to Class A Noteholders and Class B Noteholders on that Interest Payment Date have been paid in full. The Class A Noteholders, the Class B Noteholders and the Class C Noteholders are together referred to in this Offering Circular as the "Noteholders".

**To the extent that, on any Interest Payment Date, funds are insufficient to pay the interest otherwise due on the Class B Notes and/or the Class C Notes on that Interest Payment Date, the deficit will not then be paid but will be deferred and will only be paid on subsequent Interest Payment Dates if and when permitted by subsequent cash flow which is surplus to the Issuer's liabilities of a higher priority (see "Priority of Payments – prior to enforcement") on the relevant Interest Payment Date. Such unpaid interest will accrue interest (at the rate applicable from time to time to the relevant class of Notes) during the time it remains unpaid.**

Interest is payable in respect of the Notes (provided certification of non-U.S. beneficial ownership by the Noteholders has been received) in pounds sterling quarterly in arrear on 16th September 2002 and thereafter on each subsequent 15th December, 15th March, 15th June and 15th September or, if any such day is either a Saturday or Sunday

and/or is not a day on which banks are generally open for business in London (a “**Business Day**”), on the immediately succeeding Business Day.

The first Interest Period will commence on (and include) the date of the closing of the issue of the Notes, which is expected to be 29th May 2002 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 Interest Payment Date falling in September 2002. Each subsequent Interest Period applicable to the Notes will commence on (and include) an Interest Payment Date and end on (but exclude) the next succeeding Interest Payment Date.

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) the Mortgages (as defined in “The Mortgages” below) to be purchased by the Issuer and mortgage indemnity insurance (if applicable) relating thereto. (No mortgage indemnity insurance in respect of the SG Mortgages will be purchased by the Issuer and therefore no security interests in respect of such insurance will be granted by the Issuer, although PML will undertake to pay the Issuer amounts (if any) received by it under such insurance where such amounts relate to the Mortgages and to the Issuer’s period of ownership of the Mortgages where PML retains the benefit of such insurance (as more particularly described in “Insurance Coverage – Mortgage Indemnity Insurance” below));
- (ii) various other insurance policies relating to the Mortgages in which the Issuer has an interest;
- (iii) the Issuer’s rights under the Mortgage Sale Agreement, the Administration Agreement, the Services Letter, the Subordinated Loan Agreement, the Fee Letter, the Collection Account Declarations of Trust, any hedging arrangements entered into by the Issuer, the Substitute Administrator Agreement and the VAT Declaration of Trust;
- (iv) any investments in which the Issuer may place any cash which it owns; 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 3WL (or such other bank account 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). In addition, subject as mentioned above, the Notes will be secured by a floating charge over all the assets and undertaking of the Issuer other than those covered by fixed security (but extending to all of the Issuer’s Scottish assets, including those covered by the fixed security).

The Class A Notes, the Class B Notes and the Class C Notes will be constituted by the same trust deed and will share the same security, but in the event of the security being enforced the Class A Notes will rank in priority to the Subordinated Notes and the Class B Notes will rank in priority to the Class C Notes.

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 Global Home Loans Limited in its capacity as administrator of last resort under the Substitute Administrator Agreement, any amounts payable to a Permitted Hedge Provider under a Permitted Hedge Agreement, the fees and expenses of, and commissions payable to, and all other amounts owing to, the Administrator and/or any substitute administrator, the amounts owing for the time being to HLJ as holder of the Loan Stock, all amounts owing to HLJ under the Mortgage Sale Agreement, all amounts owing to PFPLC and/or PML under, among other things, the Mortgage Sale Agreement, the Subordinated Loan Agreement, the Administration Agreement, the Fee Letter and the Services Letter.

#### **Use of Ledgers – the Issuer**

The Administrator will be required to maintain in the books of the Issuer certain ledgers in which the Administrator will record all amounts received by or on behalf of the Issuer. These ledgers will include a “**Principal Ledger**” and a “**Revenue Ledger**”.

The Administrator will be required to credit to the Principal Ledger all principal amounts received or deemed to have been received from borrowers in respect of the Mortgages or otherwise paid or recovered in respect of the Mortgages.

The Administrator will be required to credit all other amounts received by the Issuer to the Revenue Ledger which will include any amount received from a borrower following the completion of enforcement procedures (apart from (i) drawings under the Subordinated Loan Agreement which are to be used for the purposes of establishing or increasing the First Loss Fund and the Shortfall Fund referred to below; (ii) drawings under the Subordinated Loan Agreement in order to reduce to zero any debit balance on the Principal Deficiency Ledger (as defined below) and/or to replenish the First Loss Fund to the Required Amount (as specified in “First Loss Fund” below) and thus to enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances (as defined below), which drawings will not form part of the priority of payments prior to enforcement of the security constituted by the Deed of Charge (see “Priority of Payments – prior to enforcement” below) but will be credited directly, in the case of amounts drawn down to reduce to zero any debit balance on the Principal Deficiency Ledger, to the Principal Deficiency Ledger and will be deemed to be principal received for the purposes of calculating Available Redemption Funds (as defined below) and, in the case of amounts drawn down to replenish the First Loss Fund to the Required Amount, to a separate first loss ledger (the “**First Loss Ledger**”) thus increasing to that extent the First Loss Fund; and (iii) drawings under the Subordinated Loan Agreement in order to fund the Issuer when making any Discretionary Further Advances, which will be credited to the Principal Ledger). For the avoidance of doubt (a) any Mandatory Further Advances made by the Issuer out of principal received or recovered or deemed to have been received or recovered will be credited to the Revenue Ledger and debited to the Principal Ledger and (b) drawings under the



Subordinated Loan Agreement in order to fund the Issuer when making any Mandatory Further Advances otherwise than as referred to in (a) above will be credited to the Revenue Ledger.

The Administrator will also be required to maintain a “**Principal Deficiency Ledger**” to which will be debited amounts representing principal losses incurred on the Mortgages and principal receipts which are applied in paying interest on the Class A Notes, the Class B Notes and/or the Class C Notes, in paying amounts (other than (a) Swap Termination Amounts arising where the relevant Permitted Hedge Provider is the Defaulting Party (as defined in the relevant Permitted Hedge Agreement) and (b) Withholding Compensation Amounts) under any hedging arrangements entered into by the Issuer and in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Mortgages.

**Priority of Payments – prior to enforcement**

Moneys in the Transaction Account representing the credit balance on the Revenue Ledger will be applied from time to time (including on an Interest Payment Date) in making payment of certain moneys which properly belong to third parties (such as overpayments by borrowers) and of sums due under obligations incurred in the course of the Issuer’s business and in making certain provisions.

Until enforcement of the security for the Notes, the following payments and provisions are required (except in circumstances where and to the extent that such payments or provisions are waived by the party entitled to receive them) to be made out of such moneys standing to the credit of the Transaction Account and representing the credit balance on the Revenue Ledger 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) *pro rata* according to the respective amounts thereof, payment of amounts (if any) due and payable by the Issuer to the Trustee and payment of amounts due and payable by the Issuer to the Substitute Administrator pursuant to the Substitute Administrator Agreement (other than the commitment fee referred to therein);
- (ii) *pro rata* according to the respective amounts thereof, payment of all fees, costs, expenses and commissions due and payable to the Administrator and/or PFPLC and/or PML and/or any substitute administrator under the Administration Agreement and the commitment fee due and payable to the Substitute Administrator pursuant to the Substitute Administrator Agreement;
- (iii) *pro rata* according to the respective amounts thereof, (a) payment of all amounts (save for (a) any Withholding Compensation Amounts or (b) Swap Termination Amounts arising where the relevant Permitted Hedge Provider is the Defaulting Party (as defined in the relevant Permitted Hedge Agreement)) due and payable to any Permitted Hedge Provider under any hedging arrangements entered into by the Issuer and (b) payment of interest due and payable and all arrears of interest remaining unpaid on the Class A Notes together with (if applicable) interest thereon;
- (iv) payment of interest due and payable and all arrears of interest remaining unpaid (including Additional Interest (as defined in the terms and conditions of the Class B Notes below)) on the Class B Notes together with (if applicable) interest thereon;

- (v) payment of interest due and payable and all arrears of interest remaining unpaid (including Additional Interest (as defined in the terms and conditions of the Class C Notes below)) on the Class C Notes together with (if applicable) interest thereon;
- (vi) *pro rata* according to the respective amounts thereof, payment of sums due and payable 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 corporation tax and/or 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, the Administration Agreement and the VAT Declaration of Trust (see "The Paragon VAT Group" below);
- (vii) provision for an amount necessary to replenish the First Loss Fund to the Required Amount (as specified in "First Loss Fund" below);
- (viii) provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; 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) *pro rata* according to the respective amounts thereof, payment of (a) any Withholding Compensation Amounts and (b) any Swap Termination Amounts arising where the relevant Permitted Hedge Provider is the Defaulting Party (as defined in the relevant Permitted Hedge Agreement), in each case due and payable to any Permitted Hedge Provider under any hedging arrangements entered into by the Issuer;
- (x) provision for, at the option of the Issuer, a reserve to fund any purchases of hedging arrangements and/or related guarantees in the next Interest Period;
- (xi) the repayment of principal to HLJ under the Class A Loan Stock in an amount equal to the lesser of (a) the aggregate outstanding principal amount of such Class A Stock and (b) the amount available for application having made in full all provisions and payments referred to at (i) to (x) inclusive above;
- (xii) provision for any amounts then due or overdue to PFPLC under the Fee Letter;
- (xiii) provision for interest due under the Subordinated Loan Agreement;
- (xiv) provision for the repayment of the aggregate outstanding amount of all advances made under the Subordinated Loan Agreement, subject to a maximum provision of the lesser of (a) the aggregate outstanding amount of all such advances less the Required Amount; and (b) the amount available for application having made in full all provisions and payments referred to at (i) to (xiii) inclusive above;
- (xv) the repayment of principal to HLJ under the Class B Loan Stock in an amount equal to the lesser of (a) the aggregate outstanding principal amount of such Class B Loan Stock and (b) the amount available for application having made in full all provisions and payments referred to at (i) to (xiv) inclusive above;

- (xvi) provision for payment to the Administrator or PFPLC of such fees as the Issuer and the Administrator or PFPLC, as the case may be, may agree (including, without limitation, in the Services Letter) in respect of facilities or services provided to the Issuer by the Administrator or PFPLC, as the case may be, other than fees provided for above;
- (xvii) payment to HLJ of deferred consideration for the Mortgages (as described in “Deferred Consideration” below); and
- (xviii) the balance to the Issuer to enable it to pay or provide for the payment of any dividends or other distributions to be made by the Issuer,

all as set out in a deed of sub-charge and assignment to be entered into between, among other persons, the Issuer, the Trustee, PFPLC, PML, the Administrator and the Substitute Administrator (the “**Deed of Charge**”).

If and to the extent that the provisions specified in paragraphs (xii), (xiii), (xiv) and (xvi) are made on such Interest Payment Date, the relevant amounts shall be paid to the persons entitled thereto on or (with the prior consent of PFPLC) after the first Business Day after such Interest Payment Date to the extent that the amounts credited to the Transaction Account representing a credit balance on the Revenue Ledger are sufficient for such purpose.

If on any Interest Payment Date, while any Class A Note remains outstanding, application of moneys in the Transaction Account representing a credit balance on the Revenue Ledger in the order set out above would result in the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) following such application, exceeding the amount of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes (after deducting the amount of any Class C Available Redemption Funds on the Principal Determination Date relating to such Interest Payment Date) then, to the extent of such excess, the payments or provisions specified in paragraphs (v) and (vi) shall be postponed and shall instead be paid after any provisions referred to in paragraphs (vii) and (viii) (but prior to any payment referred to in paragraph (ix)).

If on any Interest Payment Date, while any Class A Note remains outstanding, application of moneys in the Transaction Account representing a credit balance on the Revenue Ledger in the order set out above would result in the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) following such application exceeding the sum of:

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

then, to the extent of such excess, the payments or provisions specified in paragraphs (iv), (v) and (vi) shall be postponed and shall instead be paid after any provisions referred to in paragraphs (vii) and (viii) (but prior to any payment 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 cash as security for any future payments on the Notes.

**Priority of Payments –  
post-enforcement**

The terms on which the security interests, referred to above in “Security for the Notes”, will be held will provide that all moneys received or recovered by or on behalf of the Trustee after the security constituted by or pursuant to the Deed of Charge has become enforceable shall (subject as provided therein) be applied in the following order of priority (in each case, *pro rata* according to the respective amounts thereof):

- (i) (a) remuneration payable to any receiver appointed under the Deed of Charge and any costs, charges, liabilities and expenses incurred by such receiver together with interest as provided in the Deed of Charge, (b) amounts due from the Issuer to the Trustee, together with interest thereon as provided in the Deed of Charge, and (c) amounts due from the Trustee to borrowers relating to Mandatory Further Advances;
- (ii) certain fees and out-of-pocket expenses and commissions of the Administrator, certain commissions previously received by the Issuer which have not previously been paid to PFPLC and/or PML, and all moneys due and payable under the Substitute Administrator Agreement (including the commitment fee payable to the Substitute Administrator);
- (iii) (a) all amounts due and payable by the Issuer to any Permitted Hedge Provider (other than any Withholding Compensation Amounts and any Swap Termination Amounts arising where the relevant Permitted Hedge Provider is the Defaulting Party (as defined in the relevant Permitted Hedge Agreement)), (b) all interest unpaid in respect of the Class A Notes (together with any unpaid interest thereon), (c) all principal moneys due in respect of the Class A Notes and (d) any other amounts due in respect of the Class A Notes;
- (iv) (a) all interest unpaid in respect of the Class B Notes (together with any unpaid interest thereon), (b) all principal moneys due in respect of the Class B Notes and (c) any other amounts due in respect of the Class B Notes;
- (v) (a) all interest unpaid in respect of the Class C Notes (together with any unpaid interest thereon), (b) all principal moneys due in respect of the Class C Notes and (c) any other amounts due in respect of the Class C Notes;
- (vi) any Withholding Compensation Amounts and any Swap Termination Amounts arising where the relevant Permitted Hedge Provider is the Defaulting Party (as defined in the relevant Permitted Hedge Agreement), in each case due and payable by the Issuer to any Permitted Hedge Provider;
- (vii) all amounts due and payable by the Issuer to HLJ under the Class A Loan Stock and the Class B Loan Stock and the Instrument;
- (viii) all amounts due and payable by the Issuer (a) to PFPLC under the Subordinated Loan Agreement, (b) to HLJ under the Mortgage Sale Agreement, (c) to PFPLC under the Mortgage

Sale Agreement, the Administration Agreement, the Fee Letter, the Services Letter and the Deed of Charge, (d) to PML under the Administration Agreement and the Deed of Charge and (e) to any other lender under the Subordinated Loan Agreement; and

- (ix) the surplus (if any) to the Issuer.

#### **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 last Business Day of the month preceding that in which such Interest Payment Date falls (each such Business Day, a “**Principal Determination Date**”).

Up to and including the later of the Interest Payment Date falling in June 2007 and the Interest Payment Date on which the ratio of the aggregate of the Principal Amount Outstanding of the Class B Notes and the Principal Amount Outstanding of the Class C Notes to the aggregate Principal Amount Outstanding of the Notes is 55:220 or more (such circumstance constituting the “**Determination Event**”), all Available Redemption Funds will be applied in mandatory redemption of the Class A Notes.

After the occurrence of the Determination Event, on each Interest Payment Date, provided that (a) on the immediately preceding Interest Payment Date after the application of the moneys in the Transaction Account representing the credit balance on the Revenue Ledger in accordance with the priority of payments set out in “Priority of Payments – prior to enforcement” on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger, and (b) on the immediately preceding Principal Determination Date the then outstanding balance, including arrears of interest and all other sums due and payable but unpaid (the “**Current Balance**”) of Mortgages which are more than three months in arrears represents less than 20% of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and remain outstanding and/or within the 12 months immediately preceding such time have been capitalised), Available Redemption Funds will be applied in redemption of the Class A Notes, the Class B Notes and the Class C Notes (as between the Class B Notes and the Class C Notes *pro rata* according to their Principal Amount Outstanding on the Closing Date), where the Class A Notes have not been redeemed in full, so as to achieve and then maintain the ratio referred to in the preceding paragraph provided that:

- (i) if all Class A Notes have been redeemed in full, all Available Redemption Funds will be applied to redeem the Class B Notes;
- (ii) if all Class B Notes have been redeemed in full, all Available Redemption Funds will be applied to redeem the Class C Notes; and
- (iii) while any Class A Note remains outstanding, the aggregate of the Principal Amount Outstanding of the Class B Notes and the Principal Amount Outstanding of the Class C Notes may not be less than £10,000,000.

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

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

- (a) the aggregate of:
  - (i) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) 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 (and including) the Principal Determination Date on which such calculation occurs (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 Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid in cash by the Issuer to HLJ (and not by the issue of Loan Stock) by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date 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) and (iii) 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 or in paying interest on the Class A Notes, the Class B Notes and/or the Class C Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer 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) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;

- (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 Subordinated Loan Agreement;
- (iii) 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, the Class B Notes and/or the Class C Notes (on the assumption that the payment of interest on the Class B Notes and/or the Class C Notes will not be postponed (as set out in “Priority of Payments – prior to enforcement” above)) and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on that Interest Payment Date; and
- (iv) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages,

in each such case (save for (a)(iii) and (a)(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**

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 that the Issuer or any Permitted Hedge Provider is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under any hedging arrangements entered into by the Issuer, or in the event of certain other United Kingdom taxation changes then, all (but not some only) of the Class A 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. The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction save that the Issuer may agree under any hedging arrangements which it enters into that it will, subject to and in accordance with the agreed order of priority of payments referred to under “Priority of Payments – prior to enforcement” above, pay Withholding Compensation Amounts to a Permitted Hedge Provider (see “The Issuer – Hedging Arrangements”). Furthermore, the Issuer will also be entitled, but not obliged, to redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after June 2005.

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 £44,000,000.

Furthermore, any optional redemption of all (but not some only) of the Class A Notes may only be made if each of the Rating Agencies has first confirmed to the Trustee and the Issuer that (where the Class B Notes and/or the Class C Notes are not redeemed at the same time) its then current rating of the Class B Notes and the Class C Notes would not be adversely affected by such redemption.

**Optional Redemption of Class B Notes**

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 that the Issuer or any Permitted Hedge Provider is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under any hedging arrangements entered into by the Issuer, or in the event of certain other United Kingdom taxation changes then, provided that there are no Class A Notes then outstanding or all the Class A Notes are to be redeemed in full at the same time, all (but not some only) of the Class B Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date. The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction save that the Issuer may agree under any hedging arrangements which it enters into that it will, subject to and in accordance with the agreed order of priority of payments referred to under “Priority of Payments – prior to enforcement” above, pay Withholding Compensation Amounts to a Permitted Hedge Provider (see “The Issuer – Hedging Arrangements”).

Provided that there are no Class A Notes then outstanding or all the Class A Notes are to be redeemed in full at the same time, all (but not some only) of the Class B Notes may, at the option of the Issuer, be redeemed in full at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after June 2005 or, if the Class A Notes have already been or are to be redeemed in full, on any Interest Payment Date falling on or after the date on which all the Class A Notes were or are redeemed in full.

Furthermore, any optional redemption of all (but not some only) of the Class B Notes may only be made if each of the Rating Agencies has first confirmed to the Trustee and the Issuer that (where the Class C Notes are not redeemed at the same time) its then current rating of the Class C Notes would not be adversely affected by such redemption.

**Optional Redemption of Class C Notes**

In the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class C Notes, or in the event that the Issuer or any Permitted Hedge Provider is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under any hedging arrangements entered into by the Issuer, or in the event of certain other United Kingdom taxation changes then, provided that there are no Class A Notes or Class B Notes then outstanding or all the Class A Notes (if any) and the Class B Notes (if any) are to be redeemed in full at the same time, all (but not some only) of the Class C Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date. The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction save that the Issuer may agree under any hedging arrangements which it enters into that it will, subject to and in accordance with the agreed order of priority of payments referred to under “Priority of Payments



– prior to enforcement” above, pay Withholding Compensation Amounts to a Permitted Hedge Provider (see “The Issuer – Hedging Arrangements”).

Provided that there are no Class A Notes or Class B Notes then outstanding or all the Class A Notes (if any) and/or the Class B Notes are to be redeemed in full at the same time, all (but not some only) of the Class C Notes may, at the option of the Issuer, be redeemed in full at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after June 2005 or, if the Class A Notes and the Class B Notes have already been or are to be redeemed in full, on any Interest Payment Date falling on or after the date on which all the Class A Notes and the Class B Notes were or are redeemed in full.

**Purchase of Notes**

The Issuer may not purchase Notes at any time.

**Final Redemption**

To the extent not otherwise redeemed, (i) the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in March 2019, (ii) the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in September 2028 and (iii) the Class C Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in September 2028.

**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 the 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 for each Interest Period and such determination will be published on the Reuters Screen by not later than the sixth Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date, or as soon as practicable thereafter.

**The Mortgages**

The Mortgages the beneficial interest in which is to be acquired by the Issuer and is to form part of the security for the Notes will comprise (i) mortgages originated by PFPLC the benefit of all of which has been sold by PFPLC to HLJ pursuant to a mortgage sale agreement dated 8th November 2001 (the “**PFPLC-originated Mortgages**” and the “**HLJ Mortgage Sale Agreement**” respectively), (ii) mortgages originated by certain local authorities in England and Wales or the Housing Corporation, the benefit of all of which has been acquired by PFPLC and sold by PFPLC to HLJ pursuant to the HLJ Mortgage Sale Agreement (the “**Local Authority Mortgages**” and, together with the PFPLC-originated Mortgages, the “**PFPLC Mortgages**”) and (iii) mortgages originated by Société Générale the benefit of which has been acquired by PML, sold by PML to PFPLC and subsequently sold by PFPLC to HLJ pursuant to the HLJ Mortgage Sale Agreement (the “**SG Mortgages**”). The borrowers in respect of all Mortgages are individuals.

The Mortgages will be acquired by the Issuer pursuant to an agreement to be dated on or about the Closing Date between the Issuer, HLJ, PFPLC, PML and the Trustee (the “**Mortgage Sale Agreement**”).

On the Closing Date, HLJ will own the benefit of the Mortgages to be purchased by the Issuer from HLJ pursuant to the Mortgage Sale Agreement but the legal estate and title in the PFPLC Mortgages will be vested in PFPLC and the legal estate and title in the SG Mortgages will be vested in PML. HLJ will sell to the Issuer on the Closing Date the benefit of the Mortgages pursuant to the Mortgage Sale Agreement. The legal estate and title in the PFPLC Mortgages will remain vested in PFPLC and the legal estate and title in the SG Mortgages will remain vested in PML. The Issuer will have the right to call for the legal estate and title in the Mortgages to be vested in it in certain circumstances described below in “Special considerations – Perfection of Title”.

The PFPLC Mortgages comprise Standard Mortgages, Blue Chip Mortgages and Local Authority Mortgages, all as described below (see “The Mortgages” below). Other than in the case of Local Authority Mortgages, all of the PFPLC Mortgages will consist of mortgages which met certain lending criteria (see “Lending Guidelines – PFPLC Mortgages” below) at the time of origination by PFPLC. The Issuer will have the benefit of warranties given by PFPLC in relation to the PFPLC Mortgages including (other than in respect of the Local Authority Mortgages) warranties in relation to the lending criteria applied in advancing the loans made under the PFPLC Mortgages. PFPLC will be required to purchase any Mortgage sold by HLJ in relation to which there is a material breach of warranty.

The SG Mortgages comprise Standard Mortgages (see “The Mortgages” below) and consist of mortgages which met certain lending criteria (see “Lending Guidelines – SG Mortgages” below) at the time of origination. The Issuer will also have the benefit of certain warranties given by PFPLC in relation to the SG Mortgages. PFPLC will be required to purchase any SG Mortgage sold by HLJ in relation to which there is a material breach of warranty.

None of the Mortgages comprised in the Provisional Mortgage Pool are Mortgages under which for a specified period or periods the borrower is required to pay interest at a fixed rate or a series of fixed rates (“**Fixed Rate Mortgages**”) or Mortgages under which the borrower is required to pay interest at a rate up to a specified rate for a specified period (“**Capped Rate Mortgages**”). Mortgages may, however, be converted into Fixed Rate Mortgages or Capped Rate Mortgages (see “Conversion of Mortgages” below).

In this document, the term the “**Mortgages**” shall mean (a) those mortgages comprised in the Provisional Mortgage Pool or, as the context may require, (b) those mortgages acquired by the Issuer from HLJ and which remain, at the relevant time, beneficially owned by it.

**Location of the properties secured by the Mortgages**

The Mortgages are, or will be, 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**”).

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.

### **Accruals and arrearages in respect of the Mortgages**

As at the Closing Date, there will be Mortgages which are to be sold to the Issuer which will have outstanding arrearages in excess of one current monthly payment under such Mortgages (“**Arrearages Mortgages**”). As at the Provisional Pool Date, the aggregate Provisional Balance of Arrearages Mortgages was £143,911,506.58.

Any arrearages of interest, other amounts (other than principal) which have become due but remain unpaid and interest accrued (but unpaid) in respect of any Mortgage (the “**Pre-Closing Accruals and Arrearages**”) will be purchased by the Issuer. Any payments received in respect of any Mortgage after the date of its purchase will be applied in discharging Pre-Closing Accruals and Arrearages in respect of such Mortgage only after discharging any payments of interest and principal which are for the time being due and payable in respect of such Mortgage and any amounts so applied will be treated as revenue received and credited to the Revenue Ledger.

### **Selection of Mortgages**

The Mortgages to be purchased by the Issuer on the Closing Date will have an aggregate principal amount of approximately £220,000,000 and will comprise all of the Mortgages beneficially owned by HLJ on the Closing Date, being those Mortgages comprised in the pool of mortgages to which the statistical and other information contained in this document relates (the “**Provisional Mortgage Pool**”) other than any such Mortgages which do not comply with the warranties in the Mortgage Sale Agreement (see “The Provisional Mortgage Pool” below) and other than any such Mortgages which have been or are redeemed in full prior to the Closing Date.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 35 years. No Mortgage falls to be repaid later than March 2017 save for certain Mortgages having an aggregate principal amount outstanding no greater than £10,000,000 which can have a final maturity of no later than July 2026. Principal payments may be made in whole or in part at any time during the term of a Mortgage at the option of the relevant borrower. Any such payments received by the Issuer in respect of a Mortgage (whether or not scheduled) will form part of the moneys included in the calculation of Available Redemption Funds. The calculation of Available Redemption Funds also includes deductions from the foregoing amounts to the extent of Mandatory Further Advances or Discretionary Further Advances.

### **Further Advances in respect of the Mortgages**

Each Interest Advance in respect of a Stabilised Rate Mortgage is referred to as a “**Mandatory Further Advance**”. Any further advance in respect of a Mortgage other than a Mandatory Further Advance is referred to as a “**Discretionary Further Advance**”.

Subject to the satisfaction of certain conditions, the Issuer may make or fund Discretionary Further Advances on the Mortgages provided that (a) there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date (or, to the extent that there is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the Principal Deficiency Ledger, is sufficient to reduce to zero any such debit balance on the Principal Deficiency Ledger), (b) the First Loss Fund is at least equal to the Required Amount on the immediately preceding Interest Payment Date (or, to the extent that it is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the First Loss Ledger, is sufficient to replenish the First Loss Fund to the Required Amount) and (c) the sum of (i) all Discretionary Further Advances (other than by way of capitalisation of arrearages) which have been made

since the Closing Date or which are proposed to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made, (ii) all Mandatory Further Advances which have been made since the Closing Date or which are to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made which, in the case of sub-paragraphs (i) and (ii) above, have been or are to be funded by the Issuer out of principal received or recovered or deemed to have been received or recovered in respect of the Mortgages and not out of the proceeds of any advance under the Subordinated Loan Agreement made or to be made for such purpose and (iii) such Mandatory Further Advances as may in the opinion of the Administrator be required to be made after the making of the relevant Discretionary Further Advance, would not, on the date of the relevant Discretionary Further Advance, exceed a combined aggregate cumulative limit of £7,000,000.

Discretionary Further Advances may only be made in respect of any Mortgage if the lending criteria of (in the case of Discretionary Further Advances in respect of PFPLC Mortgages) PFPLC or (in the case of Discretionary Further Advances in respect of SG Mortgages) PML 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. The Issuer may also make Discretionary Further Advances to the extent that these are funded by advances made to it under the Subordinated Loan Agreement (see “Subordinated Loan Agreement” below).

#### **Conversion of Mortgages**

Any Mortgage 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.

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 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 in respect of Mortgages**

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages will (in the case of collections in respect of PFPLC Mortgages) be paid into a collection account in the name of PFPLC (such account or such accounts together being the “**PFPLC Collection Account**”) or (in the case of collections in respect of SG Mortgages) be paid into a collection account in the name of PML (such account or such accounts together being the “**PML Collection Account**”). All moneys received in respect of the Mortgages will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

Under the Collection Account Declarations of Trust, PFPLC and 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 their respective collection accounts 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, HLJ, 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 0.30% (inclusive of VAT) on the aggregate interest charging balance of the outstanding Mortgages, payable quarterly in arrear on each Interest Payment Date by the Issuer. 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 the Substitute Administrator (the “**Substitute Administrator Agreement**”), the Substitute Administrator will agree in return for a commitment fee to be administrator of last resort and, in the event that it became the administrator, an annual fee of 0.30% (exclusive of VAT) on the aggregate interest charging balances of the Mortgages payable quarterly in arrear on each Interest Payment Date would be payable by the Issuer. The commitment fee referred to above will be payable quarterly in arrear on each Interest Payment Date and will be, in the case of each Interest Payment Date falling in or before June 2003, £5,000 and, in respect of each Interest Payment Date thereafter, calculated at the rate of 0.009 per cent. per annum on the interest charging balances of the Mortgages on the Principal Determination Date immediately preceding the Interest Period ending on such Interest Payment Date.

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**

With respect to each Mortgage, the original mortgagee will, in addition to various buildings insurances, have originally held the benefit of security over one or more life assurance policies except in the case of a Repayment Mortgage or an Interest-only Mortgage. However, borrowers may not have been making payment in full or on time of the premiums due on any relevant policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder.

In relation to some of the PFPLC Mortgages HLJ has the benefit of a mortgage indemnity insurance policy written by either Royal & Sun Alliance Insurance plc (“**Royal & Sun Alliance**”) or Legal & General Insurance Limited (“**Legal & General**”), the benefit of which insofar as it relates to the Mortgages will be assigned or transferred by HLJ to the Issuer pursuant to the Mortgage Sale Agreement and, where necessary, assigned by way of security by the Issuer for the benefit of the Trustee (see “Special Considerations” below). Although similar mortgage indemnity insurance has been obtained for certain of the SG Mortgages, the benefit of this insurance has been and will be retained by PML who will undertake to pay to the Issuer such amounts, if any, as are received by it under such insurance where such amounts relate to the Mortgages and to the Issuer’s period of ownership of the Mortgages but without any obligation to pursue claims therefor. However, PML will be entitled at its option to release insurers from their obligations under such mortgage indemnity insurance and to retain any consideration for such release and therefore there can be no assurance that the Issuer will benefit from this mortgage indemnity insurance.

## First Loss Fund

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount (the “**1.9% Amount**”) which equals 1.9% of the then Principal Amount Outstanding of all of the Notes at the Closing Date and will credit such amount to the First Loss Ledger 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 or provision for the amounts referred to in items (i) to (iii) inclusive and, subject to the next paragraph, items (iv), (v) and (vi) in the priority of payments set out in “Priority of Payments – prior to enforcement” above where the income of the Issuer and the amount available to the Issuer (if any) on such Interest Payment Date in any Shortfall Fund as described below, is insufficient to pay such amounts.

The First Loss Fund will not be applied towards payment of items (iv), (v) or (vi) in the priority of payments set out in “Priority of Payments – prior to enforcement” above to the extent that the priority of payment of such items is postponed (as set out in “Priority of Payments – prior to enforcement” 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 the payments or provisions referred to in paragraphs (v) and (vi) or, as the case may be, paragraphs (iv), (v) and (vi) in the priority of payments set out in “Priority of Payments – prior to enforcement” above, is postponed, items (i) to (iv) inclusive or, as the case may be, items (i) to (iii) inclusive) will be applied to replenish the First Loss Fund to the Required Amount.

Subject as provided in the next paragraph, the Required Amount (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 or such other amount (including a reduction thereof) as may have been agreed with the Rating Agencies. If, on any Interest Payment Date falling in or after June 2007, (a) after the application of the moneys in the Transaction Account representing the credit balance on the Revenue Ledger in accordance with the priority of payments set out in “Priority of Payments – prior to enforcement” on that Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger, (b) the then Current Balances of Mortgages which are then more than three months in arrears in aggregate comprise less than 6% 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 remain outstanding and/or within the 12 months immediately preceding such time have been capitalised) and (c) the amount which is 3.8% of the then Current Balances of the Mortgages (the “**3.8% 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 shall have 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 3.8% Amount, provided that while any of the Notes remain outstanding the Required Amount may not be less than the greater of £1,000,000 and the amount which is two times the

outstanding principal balance of the largest Mortgage owned by the Issuer. If on any such Interest Payment Date the conditions in (a), (b) and (c) of this paragraph are not satisfied, the then current Required Amount will not be reduced but will remain at the Required Amount on the immediately preceding Interest Payment Date.

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 Subordinated Loan Agreement.

#### **Shortfall Fund**

The Issuer may at any time, with the prior consent of PFPLC, draw down under the 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 taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account (as to which see “Reinvestment of Income” below) and including the amount of all Interest Advances to be made in respect of the Mortgages is less than 4.5% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) above LIBOR applicable to the Notes for the then current Interest Period, then the Administrator 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 at the end of the then current Interest Period 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 – prior to enforcement” above.

#### **Deferred Consideration**

On each Interest Payment Date, after paying or providing in full for items (i) to (xvi) inclusive in “Priority of Payments – prior to enforcement” above, the Issuer shall, pursuant to the Mortgage Sale Agreement, pay to HLJ by way of deferred consideration (“**Deferred Consideration**”) for the Mortgages, an amount equal to the remaining balance (if any) of the moneys available on such Interest Payment Date for application in accordance with the priority of payments set out in “Priority of Payments – prior to enforcement” above less an amount equal to 0.01% of the Principal Amount Outstanding of all of the Notes on the Principal Determination Date immediately prior to that Interest Payment Date, multiplied by the actual number of days in the Collection Period ending on such Principal Determination Date divided by 365.

#### **Hedging Arrangements**

In relation to any Fixed Rate Mortgages or Capped Rate Mortgages arising upon conversion of any Mortgages into Fixed Rate Mortgages or 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 with an appropriate credit rating or other arrangements are entered into at

the time which are sufficient to maintain the then current ratings of the Notes) and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge (any such bank or financial institution being a “**Permitted Hedge Provider**” and any agreement with a Permitted Hedge Provider under which such hedging arrangements are entered into being a “**Permitted Hedge 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 Fitch, Aaa by Moody’s and AAA by Standard & Poor’s or whose short term debt is rated at least at least F-1 by Fitch, at least P-1 by Moody’s and at least A-1 by Standard & Poor’s (or in such other sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class B Notes outstanding, the Class C Notes). Any investments made by the Issuer must also satisfy certain further criteria described in “Mortgage Administration – Reinvestment of Income” below.

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

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

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

### **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 Clearstream, Luxembourg. 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 Clearstream, Luxembourg.

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 Clearstream, Luxembourg. Each of the persons appearing from time to time in the records of Euroclear or of Clearstream, Luxembourg as the holder of a Note of a particular class will be entitled to receive any payment so made in respect of that Note in accordance with the rules and procedures of Euroclear or, as the case may be, Clearstream, Luxembourg. Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes of any class for so long as either of the Global Notes of that class 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**

The trust deed constituting the Notes will contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders as regards all of the powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee to have regard only to the interests of the Class A Noteholders if, in its opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders and/or the Class C Noteholders. The trust deed will also contain provisions limiting the powers of the Class B Noteholders and the Class C Noteholders to, among other things, 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. Neither the Class B Noteholders nor the Class C Noteholders will be entitled to request or direct the Trustee to accelerate payment by the Issuer of the Class B Notes or, as the case may be, the Class C Notes upon the occurrence of an Event of Default unless payment of the Class A Notes is also accelerated or there are no Class A Notes outstanding. Except in certain circumstances, the trust deed will contain no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding upon the Class B Noteholders and the Class C Noteholders, irrespective of the effect thereof upon their interests.

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

#### **Fee Letter**

PFPLC has agreed to arrange the issue of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issue of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Managers. PFPLC 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 will agree under a fee letter to be entered into on the Closing Date (the “**Fee Letter**”) that it will pay PFPLC an arrangement fee of 0.4% of the aggregate principal amount of the Notes and that it will repay PFPLC such commissions and such expenses in 16 quarterly instalments beginning on the first Business Day after the first Interest Payment Date (or in such greater number of instalments and/or at such later times as may be agreed by PFPLC). Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR (or such other rate which PFPLC and the Issuer agree to be a fair commercial rate at the time) payable quarterly in arrear.

#### **Services Letter**

PFPLC will agree under a services letter to be entered into on the Closing Date (the “**Services Letter**”) to undertake certain management and administration services to the extent that these are not provided pursuant to the Administration Agreement. The Issuer will agree to pay to PFPLC, for the provision of these services, a fee calculated on the basis of an apportionment, according to the average gross value of Mortgages under management during the relevant period, of the costs incurred by PFPLC in respect of the services.

#### **Loan Stock**

The Notes will be issued simultaneously with the £25,000,000 Class A Secured Subordinated Loan Stock 2028 of the Issuer (the “**Class A Loan Stock**”) and the £1,000,000 Class B Secured Subordinated Loan Stock 2028 of the Issuer (the “**Class B Loan Stock**” and, together with the Class A Loan Stock, the “**Loan Stock**”), the terms and conditions of each of which will be set out in an instrument to be dated the Closing Date (the “**Instrument**”). The Loan Stock will not bear interest. £25,000,000 of Class A Loan Stock and £1,000,000 of Class B Loan Stock will be issued on the Closing Date to HLJ in part consideration for the sale of the Mortgages. No cash proceeds will be received by the Issuer for the Loan Stock.

On each Interest Payment Date the principal of the Class A Loan Stock will be repaid in an amount equal to the lesser of (a) the aggregate outstanding principal amount of the Class A Loan Stock and (b) the amount available for application having made in full all provisions and payments referred to at (i) to (x) inclusive of the priority of payments set out in “Priority of Payments – prior to enforcement” above.

On each Interest Payment Date the principal of the Class B Loan Stock will be repaid in an amount equal to the lesser of (a) the aggregate outstanding principal amount of the Class B Loan Stock and (b) the amount available for application having made in full all provisions and payments referred to at (i) to (xiv) inclusive of the priority of payments set out in “Priority of Payments – prior to enforcement” above.

See further “The Issuer – Loan Stock” below.

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

#### **Subordinated Loan Agreement**

PFPLC will make available to the Issuer under a subordinated loan agreement to be entered into on or before the Closing Date (the “**Subordinated Loan Agreement**”) a subordinated loan facility. An amount or amounts will be drawn down under the Subordinated Loan

Agreement by the Issuer from PFPLC on the Closing Date to establish the First Loss Fund and, together with the proceeds of the issue of the Notes, to enable the Issuer to pay the amounts payable by the Issuer in cash (and not by the issue of Loan Stock) by way of purchase price for the Mortgages on the Closing Date, thereby allowing it to achieve the initial ratings on the Notes.

PFPLC will also agree 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 fund itself when making any Mandatory Further Advances which it is required to make. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances. The Issuer shall not be entitled to make a Discretionary Further Advance where it is unable to fund such Discretionary Further Advance accordingly.

In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Ledger, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, and/or (iii) to enable the Issuer to make any Discretionary Further Advances when it would otherwise be unable to do so (see “Further Advances in respect of the Mortgages”).

PFPLC will also agree to make further advances to the Issuer under the Subordinated Loan Agreement, as follows: (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it, after making the payments and provisions of a higher priority as set out in the priority of payments set out in “Priority of Payments – prior to enforcement” above, by paying directly to a Permitted Hedge Provider any Swap Termination Amounts due and payable on such Interest Payment Date and (ii) at any time where the Issuer, or the Administrator on the Issuer’s behalf, waives any prepayment charges applicable to any Mortgage, by paying to the Issuer an amount equal to such waived prepayment charge.

Further drawings may be made by the Issuer under the 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 Subordinated Loan Agreement.

In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement in order to fund (if necessary) purchases by the Issuer of hedging arrangements (and any related guarantee) to hedge the Issuer’s interest rate exposure on Fixed Rate Mortgages or Capped Rate Mortgages.

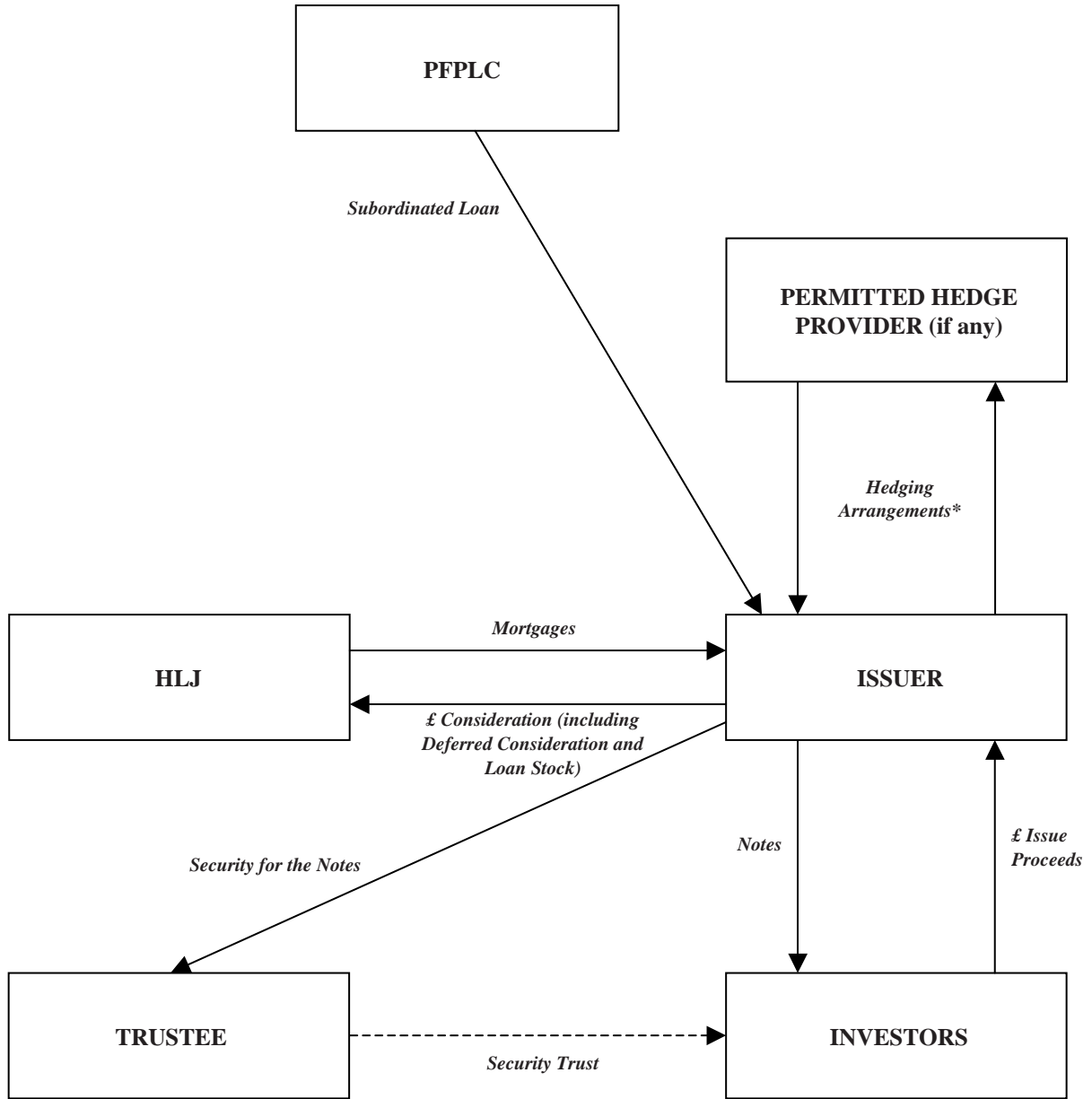
On any Interest Payment Date, sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of the funds available to the Issuer to do so (see “Priority of Payments – prior to enforcement” above) (provided that an amount equal to the Required Amount may not be repaid while any Notes remain outstanding and provided further that PFPLC and the Issuer may agree that any such repayment may be waived in whole or in part). See further “The Issuer – Subordinated Loan Facility” below.

#### **Post Enforcement Call Option**

The Trustee will, on the Closing Date, grant to Paragon Options PLC (an indirect subsidiary of PGC) (“**POPLC**”) (pursuant to a post enforcement call option deed to be entered into on the Closing Date between POPLC and the Trustee (the “**Post Enforcement Call Option Deed**”)) an option to require the transfer to it for a consideration of £0.01 per Class B Note and £0.01 per Class C Note of all (but not some only) of the Class B Notes and all (but not some only) of the Class C Notes (together in each case with accrued interest thereon) in the event that the security granted under or pursuant to the Deed of Charge is enforced and, after payment of all other claims ranking in priority to the Class B Notes and the Class B Coupons or (as the case may be) the Class C Notes and the Class C Coupons under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal, interest and other amounts due in respect of the Class B Notes and all other claims ranking *pari passu* therewith or (as the case may be) are insufficient to pay in full all principal, interest and other amounts due in respect of the Class C Notes and all other claims ranking *pari passu* therewith (see “Description of the Class B Notes, the Global Class B Notes and the Security – Enforcement and Post Enforcement Call Option” and “Description of the Class C Notes, the Global Class C Notes and the Security – Enforcement and Post Enforcement Call Option”). The Class B Noteholders and the Class C Noteholders will be bound by the terms and conditions of the Trust Deed and the Class B Conditions or (as the case may be) the Class C Conditions in respect of the post enforcement call option and the Trustee will be irrevocably authorised to enter into the Post Enforcement Call Option Deed as agent for the Class B Noteholders and the Class C Noteholders.

The Issuer will enter into a deed with, among other persons, POPLC (the “**POPLC Deed**”) pursuant to which, among other things, POPLC will agree with the Issuer to exercise the options granted in its favour pursuant to the Post Enforcement Call Option Deed.

**STRUCTURE DIAGRAM**



*\*(if any) entered into upon the conversion of Mortgages*

## **SPECIAL CONSIDERATIONS**

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

### **The Notes solely obligations of the Issuer**

The Notes will be solely the obligations of the Issuer. The Notes will not be obligations or the responsibility of, PFPLC, PML, PGC, HLJ, POPLC, any other company in the same group of companies as PGC (other than the Issuer), the Trustee, the Managers or of any other person other than the Issuer. Furthermore, none of PFPLC, PML, PGC, HLJ, POPLC, the Trustee, the Managers or 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 Notes will not be guaranteed by any person.

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

#### *Funds available to the Issuer*

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 the Mortgages, the Transaction Account deposit arrangements, any hedging arrangements entered into by the Issuer and any related guarantees, any permitted investments, the 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 the Local Authority Mortgages, the Administrator is unable to increase the rate of interest above the rate of 0.25% below the standard national rate declared by the Secretary of State pursuant to Schedule 16 of the Housing Act 1985; and in respect of Blue Chip Mortgages, 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 Local Authority Mortgages and Blue Chip Mortgages, on the one hand, and the rate of interest payable on the Notes on the other hand. In respect of any Fixed Rate Mortgages arising upon conversion, the Administrator will be unable to vary the rate of interest during the specified period set out in the relevant Mortgage Conditions and in respect of any Capped Rate Mortgages arising upon conversion, the Administrator will be unable to increase the rate of interest above the capped rate during the capped rate period set out in the relevant Mortgage Conditions. There are currently no Fixed Rate Mortgages or Capped Rate Mortgages in the Provisional Mortgage Pool. If, and to the extent that Mortgages are converted into Fixed Rate Mortgages or Capped Rate Mortgages the Issuer will enter into hedging arrangements on or before the date of conversion in respect of the relevant Mortgages if not to do so would adversely affect any of the then current ratings of the Notes. No hedging arrangements are expected to be entered into on the Closing Date.

### **Matters relating to the Mortgages**

#### *Setting of rates of interest in respect of the Mortgages*

The Administrator will, on behalf of the Issuer and the Trustee, in respect of the Mortgages, set, where relevant, the rates of interest applicable to the relevant Mortgages (other than Fixed Rate Mortgages and Capped Rate Mortgages arising upon conversion during the applicable fixed rate or capped rate period and other than Local Authority Mortgages or Blue Chip Mortgages (as described below)). The Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and including the amount of all Interest Advances to be made in respect of the Mortgages is not less than 4.5% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) above LIBOR applicable to the Notes at that time. The Administrator may set or maintain a lower weighted 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 any Fixed Rate Mortgages and Capped Rate Mortgages which may arise upon conversion during the applicable fixed rate or capped rate period and other than in relation to the Blue Chip Mortgages and the Local Authority Mortgages, the Trustee or the Issuer or any substitute administrator appointed by the Trustee or the Substitute Administrator (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 Subordinated 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 Subordinated Notes is or are missed or not paid in full.

#### *Representations and warranties*

PFPLC will warrant in the Mortgage Sale Agreement, among other things, that, prior to the making of an initial advance to a borrower under a Mortgage, the relevant originator carried out, save in respect of the Local Authority Mortgages, all investigations and searches as would a reasonably prudent mortgage lender and nothing which would cause such a mortgage 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 investigations, searches or other actions in relation to the Mortgages and each will rely instead on the warranties given in the Mortgage Sale Agreement by PFPLC. For further information on the representations and warranties to be given by PFPLC in respect of the Mortgages, see "The Mortgages – Information on the Mortgages" and "The Mortgages – Searches and Warranties in respect of the Mortgages" below.

The sole remedy against PFPLC in respect of breach of warranty shall be to require PFPLC to purchase from the Issuer any relevant Mortgage provided that this shall not limit any other remedies available if PFPLC fails to purchase, or procure the purchase of, a Mortgage when obliged to do so. PFPLC will also agree in the Mortgage Sale Agreement that, if a term of any Mortgage is at any time on or after the Closing Date found by a competent court, whether on application of a borrower, the Director General of Fair Trading or otherwise to be an unfair term for the purposes of the Unfair Terms in Consumer Contracts Regulations 1994 or 1999, it shall purchase or procure the purchase of the Mortgage concerned. There can be no assurance that PFPLC will have the financial resources to meet its obligations to purchase, or procure the purchase of, any Mortgage whether such obligation arises because of a breach of warranty or otherwise.

#### *Perfection of title*

The sales by HLJ to the Issuer of the Mortgages will only be perfected in certain circumstances by the execution by PFPLC (in respect of PFPLC Mortgages) or PML (in respect of SG Mortgages), in each case as the holder of legal title to the relevant Mortgages of transfers or assignments of Mortgages in favour of the Issuer, the carrying out of requisite registrations and the giving of notice to any borrower or guarantor. In the meantime, neither the Issuer nor the Trustee will acquire legal title to any of the English Mortgages or to the Scottish Mortgages and they will be prohibited by the terms of the Administration Agreement from applying to H.M. Land Registry, the Central Land Charges Registry or the Registers of Scotland to register transfers or assignments of the Mortgages to perfect their interests. They will not be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages. For further information, see "The Mortgages – Perfection of title" below.

The effect of the agreement to transfer the Mortgages from HLJ to the Issuer pursuant to the Mortgage Sale Agreement remaining unperfected (and, in relation to the Scottish Mortgages, the execution of a declaration of trust over such Mortgages) is that the rights of the Issuer (and, therefore, in turn, the Trustee) may be, or may become, subject to equities as well as to the interests of third parties who perfect a legal interest prior to the Issuer acquiring and perfecting its legal interests. Furthermore, the Issuer's interests will be or become subject to such equitable and other interests of third parties as may rank in priority to its interests in accordance with the normal rules governing the priority of equitable and other interests in the case of both registered and unregistered land.

### **Other matters**

#### *Third party rights*

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. None of PFPLC, PML, PGC, HLJ, POPLC, the Issuer or 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.

### *Mandatory Further Advances*

Under the terms of the Mortgage Conditions applicable to Stabilised Rate Mortgages, Mandatory Further Advances in the form of Interest Advances are required to be made to borrowers (see “The Mortgages – Particular PFPLC Mortgage Types”). The Issuer expects to fund itself when making Mandatory Further Advances from the moneys referred to in paragraph (A) of the definition of “Available Redemption Funds” in Condition 5(a) of the Class A Notes. The Issuer may not, however, receive sufficient amounts of principal to fund the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer does not have sufficient funds to fund itself when making any such Mandatory Further Advances, the Issuer will be entitled to borrow amounts from PFPLC under the Subordinated Loan Agreement and PFPLC will be under an obligation to make any such amounts available to the Issuer.

### *Directors’ certificates*

The directors of each of HLJ, 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 issue of the Notes that a duly authorised officer of the relevant company certify (i) that, in his or her opinion, such company is not unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 and will 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 performing its obligations under such Relevant Documents and (ii) that, in his or her opinion, there is no reason to believe this state of affairs will not continue thereafter.

### *Risk of losses associated with Interest-only Mortgages*

50.04% by Provisional Balance of the Mortgages in the Provisional Mortgage Pool constitute Interest-only Mortgages (as defined under “The Mortgages” below). Interest-only Mortgages are originated with a requirement that the borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest-only Mortgage, the borrower will be required to make a “bullet” payment that will represent the entirety of the principal amount outstanding. The ability of such a borrower to repay an Interest-only Mortgage at maturity frequently may depend on such borrower’s ability to refinance the Property or obtain funds from another source such as a pension policy or a unit trust or an endowment policy. The ability of a borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the borrower’s equity in the Property, the financial condition of the borrower, tax laws and general economic conditions at the time. Moreover, the Mortgage Conditions in respect of Interest-only Mortgages do not require a borrower to put in place alternative funding arrangements.

### *Arrears Mortgages*

53.16% by Provisional Balance of the Mortgages in the Provisional Mortgage Pool are more than one month in arrears (and for these purposes a Mortgage will be more than one month in arrears at any time if at such time amounts totalling in aggregate more than the then current monthly payment due from the borrower under such Mortgage have not been paid and remain outstanding and/or within the 12 months immediately preceding such time have been capitalised). There can be no assurance that amounts due under these Mortgages will not fall further into arrears. Likewise, no assurance can be given that the Mortgages included in the Provisional Mortgage Pool which are currently in arrears will perform on average to the level of the Mortgages in the Provisional Mortgage Pool which are not in arrears.

### *Interest Payments made on behalf of borrowers*

19.43% by Provisional Balance of the Mortgages in the Provisional Mortgage Pool relate to loans which have been made to borrowers whose monthly interest (but not capital) payments are currently paid in whole or in part on behalf of the borrower to the mortgagee under the Social Security Contributions and Benefits Act 1992. There can be no assurance that such payments will continue to be so made.

### *Changes to regulatory framework*

The Financial Services and Markets Act 2000 (“FSMA”) introduces a new regime for the regulation of financial services in the United Kingdom. FSMA states that no person may carry on a regulated activity in the United Kingdom, or purport to do so, unless he is an authorised person or an exempt person and that, in certain circumstances, an agreement made after 30th November 2001 by a person in the course of carrying on a regulated activity in contravention of this prohibition is unenforceable against the other party.



Regulation 61 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended, the “**Regulated Activities Order**”) currently contemplates that each of (i) administering a regulated mortgage contract (as defined below) where the contract was entered into by way of business after the coming into force of regulation 61 and (ii) entering into a regulated mortgage contract as lender, will become activities which, if carried on by way of business, are regulated activities for the purposes of FSMA. Regulation 61 has not yet come into force although the Regulated Activities Order currently provides that it is to come into force in September 2002. In December 2001, however, HM Treasury announced that it proposed that mortgage advice should also become a regulated activity for the purposes of FSMA and that, as a result, the Financial Services Authority would need to re-consult on mortgage regulation generally. In February 2002 HM Treasury issued a consultation document entitled “*Regulating Mortgages*” which attached draft legislation to amend the Regulated Activities Order to implement these proposals by specifying two new regulated activities, namely (i) arranging for another person to enter into or vary the terms of a regulated mortgage contract and (ii) advising a person on entering into or varying the terms of a regulated mortgage contract. The consultation document states that HM Treasury does not propose to amend the existing provisions of regulation 61 except where necessary to regulate these two new regulated activities. The consultation paper also states that the likely date for these proposals to come into effect is now envisaged to be in the second quarter of 2004 and not September 2002 as previously envisaged. Given that the final form which the latest proposals described above will eventually take, what changes may be made to regulation 61 as a result and the timetable in which the amended legislation to implement these proposals will come into effect have not yet been determined, there can be no assurance that they will not affect the Mortgages, the Issuer or the Noteholders.

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

The Issuer does not itself propose to be an authorised person under FSMA and so if, and when, regulation 61 comes into force in its current form it will mean that the Administrator or any substitute administrator will need to be authorised to administer the Mortgages to enable the Issuer to take advantage of the exclusion referred to in the previous paragraph. As a result, the Administration Agreement will contain an undertaking on the part of the Administrator to the effect that, to the extent that the services which it has agreed in the Administration Agreement to perform require it or the Issuer to obtain any authorisation under FSMA and/or the Regulated Activities Order, the Administrator will obtain, and use its reasonable endeavours to keep in force, such an authorisation in respect of itself. The Administration Agreement will also provide that the appointment of the Administrator will, unless the Issuer and the Trustee agree otherwise, be terminated with immediate effect if at any time the Administrator does not have any authorisation under FSMA and/or the Regulated Activities Order which it is required to have in order to perform the services which it has agreed in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in circumstances where the Issuer is itself not so authorised.

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

A contract is a “regulated mortgage contract” for the purposes of the Regulated Activities Order if, at the time it is entered into, (i) the contract is one under which the lender provides credit to an individual or to trustees, (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage (or, in Scotland, a first ranking heritable security) on land (other than timeshare

accommodation) in the United Kingdom and (iii) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

#### *Insolvency Act 2000*

It should be noted that significant changes to the insolvency regime in England, Wales and Scotland have recently been enacted in the Insolvency Act 2000 although not all of these changes have yet been brought into effect. Under this Act certain “small” companies (which are defined by reference to certain financial and other tests) proposing to put in place a company voluntary arrangement procedure may be able to obtain protection from their creditors by way of a moratorium for a period of 28 days with the possibility for an extension of a further two months. These provisions have not yet been brought into force. The Secretary of State for Trade and Industry may by regulation modify the eligibility requirements for a moratorium and can make different provisions for different cases. Draft regulations are currently under consideration which would exclude certain special purpose companies (and this would include the Issuer) from being eligible for such a moratorium. However, these regulations have not yet been finalised and there can be no assurance that they will be enacted or that, as finally enacted, they will exclude the Issuer from the relevant moratorium provisions or that these moratorium provisions will not be detrimental to the interests of Noteholders.

#### *Potential change to UK insolvency regime*

The Government of the United Kingdom announced on 18th June 2000 its intention to reform the existing UK insolvency regime. This was followed by the publication of a White Paper in the latter part of July 2001 entitled “*Productivity and Enterprise – Insolvency – A Second Chance*” which set out in broad terms the Government’s proposals for reform. The White Paper states that “administrative receivership which places effective control of the direction and outcome of the procedure in the hands of the secured creditor is now seen by many as outdated”. The proposals were included in the Enterprise Bill introduced into the House of Commons on 26th March 2002 (the “**Bill**”).

A part of the proposed reforms includes a change to the existing UK insolvency regime by restricting or abolishing the availability of administrative receivership to secured creditors and by promoting in its place more collective forms of insolvency proceedings and, in particular, administration. The intent behind such proposals (reflecting the Government’s stated aim) is that, rather than having primary regard to the interests of secured creditors, any insolvency official appointed to a company should have regard to the interests of all creditors, both secured and unsecured.

Were these proposals to be enacted in a form which would apply to transactions such as those contemplated by this Offering Circular, then it is possible that the Trustee, as holder of a floating charge under the Deed of Charge, might be unable to enforce the Deed of Charge by appointing an administrative receiver (or other receiver). If an administrator or other insolvency official (aside from an administrative receiver or a receiver) were to be appointed on default by the Issuer, then such administrator or other insolvency official might not have regard solely to the interests of the beneficiaries of the security created under, or pursuant to, the Deed of Charge. The Issuer as a special purpose company, however, will agree not to carry on business or incur any indebtedness for borrowed money other than as permitted by the Relevant Documents.

The Bill provides an exception which does not prevent the appointment of an administrative receiver in pursuance of an agreement which is or forms part of a capital market arrangement if a party incurs or is expected to incur a debt of at least £50 million under the arrangement and the arrangement involves the issue of a capital market investment. The exception would appear to include the transactions contemplated by this Offering Circular. There can be no assurance, however, that the Bill will be enacted in its current form or at all.

### **Matters relating to the European Union**

#### *European Monetary Union*

It is possible that, prior to the maturity of the Notes, the United Kingdom may become a participating member state in Economic and Monetary Union and the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of the Notes and/or the Mortgages may become payable in euros; (ii) applicable provisions of law may allow the Issuer to redenominate the Notes into euros and take additional measures in respect of the Notes and/or the Mortgages to be redenominated into euros and/or additional measures to be taken in respect of the Mortgages by one or both of the parties thereto; and (iii) the introduction of the euro as the lawful currency

of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Notes and/or the Mortgages or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect the borrower's ability to repay the Mortgages as well as adversely affect investors. It cannot be said with certainty what effect, if any, the adoption of the euro by the United Kingdom would have on investors in the Notes.

*European Union proposals for the taxation of savings scheme*

On 13th December 2001 the Council for the European Union published a revised draft directive regarding the taxation of savings income. It is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, except that Austria, Belgium and Luxembourg will instead operate a withholding tax system for a transitional period in relation to such payments. The proposals are not yet final, and they may be subject to further amendment and/or clarification. Consequently, it is not possible to predict what effect, if any, the adoption of the proposed directive would have on the Notes or on the payments of principal or interest on the Notes.

*Provision of information*

Noteholders who are individuals should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a "**paying agent**"), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a "**collecting agent**"), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to the United Kingdom Inland Revenue details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Noteholder is not so resident, the details provided to the United Kingdom Inland Revenue may, in certain cases, be passed by the United Kingdom Inland Revenue to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

## CREDIT STRUCTURE

As a condition to their issue, the classes of Notes are to be assigned the following ratings:

<i>Class of Notes</i>	<i>Rating</i>		
	<i>Fitch</i>	<i>Moody's</i>	<i>Standard &amp; Poor's</i>
A .....	AAA	Aaa	AAA
B .....	A	A2	A
C .....	BBB	Baa2	BBB

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The structure of the credit arrangements may be summarised as follows:

### 1. Credit Support for the Notes provided by credit balance on the Revenue Ledger

To the extent that on any Interest Payment Date prior to the enforcement of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions required to be met in priority to item (vii), or, in certain circumstances, item (v) or item (iv) of the priority of payments specified under “Summary – Priority of Payments – prior to enforcement” above on the next Interest Payment Date, such excess (after making payments or provisions of a higher priority) is available to replenish the First Loss Fund to the Required Amount and thereafter may be applied towards reducing any debit balance on the Principal Deficiency Ledger. To the extent that on any Interest Payment Date prior to the enforcement of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions required to be met in items (i) to (iii) in the priority of payments specified under “Summary – Priority of Payments – prior to enforcement” above and, save where payment of item (iv) in such priority of payments is postponed, item (iv) and, save where payment of items (v) and (vi) in such priority of payments is postponed, items (v) and (vi), (as to which, see “Summary – Priority of Payments – prior to enforcement” above and “6. The Subordinated Notes” below), such excess (after making payments or provisions of a higher priority), to the extent that it is sufficient, is available to replenish the First Loss Fund to the Required Amount.

### 2. First Loss Fund

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount equal to 1.9% of the aggregate of the Principal Amount Outstanding of the Notes as at the Closing Date for the purpose of establishing 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 (iii) inclusive in the priority of payments specified under “Summary – Priority of Payments – prior to enforcement” above and, save where payment of item (iv) in such priority of payments is postponed, item (iv) and, save where payment of items (v) and (vi) in such priority of payments is postponed, items (v) and (vi), (as to which, see “Summary – Priority of Payments – prior to enforcement” above and “6. The Subordinated Notes” below), where the income of the Issuer, and the amount available to the Issuer on such Interest Payment Date in the Shortfall Fund, is insufficient to pay such amounts.

With effect from the first day on which no Class A Note is outstanding, the making of provisions specified in item (vii) of the priority of payments referred to in the preceding paragraph (which relates to amounts for replenishing the First Loss Fund) shall be postponed and instead such provision shall be made immediately after the making of the provision referred to in item (viii) of such priority of payments (which relates to the provision for an amount reducing any debit balance of the Principal Deficiency Ledger). See further “Summary – First Loss Fund” above.

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 Subordinated Loan Agreement.

Amounts may also be drawn, at the discretion of PFPLC, under the Subordinated Loan Agreement in order to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances.

### **3. Shortfall Fund**

The Issuer may at any time, with the prior consent of PFPLC, draw down under the Subordinated Loan Agreement for the purpose of establishing 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 taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and including the amount of all Interest Advances to be made in respect of the Mortgages is less than 4.5% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) above LIBOR applicable to the Notes at that time, then the Administrator may do so provided that (1) 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 at the end of the then current Interest Period and (2) 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 "Summary – Priority of Payments – prior to enforcement" above.

### **4. Transfer of Funds from the PFPLC and PML Collection Accounts**

All direct debit payments made by borrowers under the PFPLC Mortgages and all other moneys paid in respect of the PFPLC Mortgages will generally be paid into a PFPLC Collection Account. All direct debit payments made by borrowers under the SG Mortgages and all other moneys paid in respect of the SG Mortgages will generally be paid into a PML Collection Account. All moneys so received will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

Under the PFPLC Collection Account Declaration of Trust, PFPLC will declare that all direct debit payments made by borrowers under the PFPLC Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any PFPLC Mortgages and certain other sums in respect of the PFPLC Mortgages which are credited to its collection accounts are held on trust for the Issuer until they are applied in the manner described above.

Under the PML Collection Account Declaration of Trust, PML will declare that all direct debit payments made by borrowers under the SG Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any SG Mortgages and certain other sums in respect of the SG Mortgages which are credited to its collection account are held on trust for the Issuer until they are applied in the manner described above.

### **5. Principal Deficiency Ledger**

The Transaction Account will comprise five ledgers, including the Principal Ledger and the Revenue Ledger.

If on any Interest Payment Date there are insufficient funds standing to the credit of the Revenue Ledger, the First Loss Fund and the Shortfall Fund to pay interest on the Class A Notes, to pay amounts (other than (a) Withholding Compensation Amounts or (b) Swap Termination Amounts arising where the relevant Permitted Hedge Provider is the Defaulting Party (as defined in the relevant Permitted Hedge Agreement) payable to any Permitted Hedge Provider under any hedging arrangements entered into by the Issuer and to meet certain other expenses of the Issuer and (unless the priority of payment of such items is postponed (as set out in "Summary – Priority of Payments – prior to enforcement" above)) to pay interest on the Class B Notes and/or the Class C Notes, the Issuer may apply funds which were standing to the credit of the Principal Ledger on the immediately preceding Principal Determination Date and deducted as described in paragraph (b)(iii) of the definition of Available Redemption Funds (see "Summary – Mandatory Redemption in Part" above) in the payment of such interest, amounts and expenses. In addition, the Issuer may receive an amount in respect of the Mortgages 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 funds standing to the credit of the Principal Ledger. Either of these events may lead to the consequences set out in the following paragraph.

The Issuer will also keep a Principal Deficiency Ledger. Amounts will be debited from the Principal Deficiency Ledger representing principal losses incurred on the Mortgages and funds standing to the credit of the Principal Ledger applied as described in the preceding paragraph.

Moneys in the Transaction Account representing the credit balance on the Revenue Ledger shall, after making the payments or provisions required to be met in priority to item (viii) (other than, in certain circumstances where such items are postponed, items (v) and (vi) or items (iv), (v) and (vi)) of the priority of payments set out in “Summary – Priority of Payments – prior to enforcement” above, be applied in an amount necessary to reduce to zero any debit balance on the Principal Deficiency Ledger.

Amounts may also be drawn, at the discretion of PFPLC, under the Subordinated Loan Agreement in order to reduce to zero any debit balance on the Principal Deficiency Ledger and thus to enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances.

## **6. The Subordinated Notes**

The Noteholders in respect of the Subordinated Notes will not be entitled to receive any payment of interest unless and until all interest amounts then due to the Class A Noteholders have been paid in full, in accordance with the priority of payments set out in “Summary – Priority of Payments – prior to enforcement” above.

In the event that on any Interest Payment Date, while any Class A Note remains outstanding, application in the order set out in the priority of payments referred to in the preceding paragraph would result in the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) following such application exceeding the aggregate Principal Amount Outstanding of the Class C Notes (after deducting the amount of any Class C Available Redemption Funds on the Principal Determination Date relating to such Interest Payment Date), then, to the extent of such excess, the payments or provisions specified in item (v) (and also item (vi) which relates to sums due to third parties and to the Issuer’s liability to value added tax and to any corporation tax) of such order of priority of payments shall be postponed and shall instead be paid after any provisions referred to in items (vii) and (viii) of such order of priority of payments (but prior to any payment referred to in item (ix)).

In the event that on any Interest Payment Date, while any Class A Note remains outstanding, application in the order set out in the priority of payments referred to in the last but one paragraph would result in the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) following such application exceeding the sum of (a) the aggregate Principal Amount Outstanding of the Class B Notes (after deducting the amount of any Class B Available Redemption Funds on the Principal Determination Date relating to such Interest Payment Date) and (b) the aggregate Principal Amount Outstanding of the Class C Notes (after deducting the amount of any Class C Available Redemption Funds on the Principal Determination Date relating to such Interest Payment Date) then, to the extent of such excess, the payments or provisions specified in items (iv), (v) and (vi) of such order of priority of payments shall be postponed and shall instead be paid after any provisions referred to in items (vii) and (viii) of such order of priority of payments (but prior to any payment referred to in item (ix)).

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

## **7. Subordinated Loan Agreement**

PFPLC will make available to the Issuer a subordinated loan facility. An amount or amounts will be drawn down under the facility by the Issuer from PFPLC on the Closing Date to establish the First Loss Fund and, together with the proceeds of the issue of the Notes, to enable the Issuer to pay the amounts payable by the Issuer in cash (and not by the issue of Loan Stock) by way of purchase price for the Mortgages on the Closing Date, thereby allowing it to achieve the initial ratings on the Notes.

PFPLC will also agree 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 fund itself when making any Mandatory Further Advances which it is required to make. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when

such amounts are credited to the First Loss Ledger, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances and/or (iii) to enable the Issuer to make any Discretionary Further Advances when it would otherwise be unable to do so.

PFPLC will also agree to make further advances to the Issuer under the Subordinated Loan Agreement, as follows:

- (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it, after making the payments and provisions of a higher priority as set out in “Summary – Priority of Payments – prior to enforcement” above, to pay any Swap Termination Amounts due and payable to any Permitted Hedge Provider on such Interest Payment Date; and
- (ii) at any time where the Issuer, or the Administrator on the Issuer’s behalf, waives any prepayment charges applicable to any Mortgage, in an amount equal to such waived prepayment charge.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of PFPLC (1) for the purpose of establishing or increasing the Shortfall Fund and (2) to fund the purchase of hedging arrangements (and any related guarantees) to hedge the Issuer’s interest rate exposure upon conversion of any Mortgages into Fixed Rate Mortgages or Capped Rate Mortgages. The Issuer may from time to time borrow further sums from PFPLC or other lenders on the terms of the Subordinated Loan Agreement.

On any Interest Payment Date, sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of the funds available to the Issuer to do so (see “Summary – Priority of Payments – prior to enforcement” above) (provided that an amount equal to the Required Amount may not be repaid while any Notes remain outstanding and provided further that PFPLC and the Issuer may agree that any such repayment may be waived in whole or in part).

## **8. Hedging Arrangements**

PFPLC, in its capacity as the Administrator, will have responsibility for setting the interest rates on the Mortgages in accordance with the provisions of the Administration Agreement and the terms and conditions of the Mortgages. The interest rates payable by the Issuer with respect to the Notes are calculated as a margin over sterling LIBOR.

In relation to any Fixed Rate Mortgages or Capped Rate Mortgages which arise upon conversion of any 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. No hedging arrangements are expected to be entered into on the Closing Date.

## 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 resolutions of the Board of Directors of the Issuer passed on 24th May 2002 and 29th May 2002. The Class A Notes will be constituted by a trust deed (the “**Trust Deed**”) expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class A Notes (the “**Class A Noteholders**”), the holders for the time being of the Class B Notes (the “**Class B Noteholders**”) and the holders for the time being of the Class C Notes (the “**Class C Noteholders**”). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to Homeloans (Jersey) Limited (“**HLJ**”) of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement to be dated the Closing Date (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, HLJ, PML, the Administrator and Global Home Loans Limited (the “**Substitute Administrator**”) (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 the Closing Date between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “**Reference Agent**”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the successors of each paying agent 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, Third Floor, Cottons Centre, Hays Lane, London SE1 2QT, 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

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 £198,000,000. The Temporary Global Class A Note will be deposited on behalf of the subscribers of the Class A Notes with a common depositary (the “**Common Depositary**”) for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”) on the Closing Date. Upon deposit of the Temporary Global Class A Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class A Notes with the principal amount of Class A Notes for which it has subscribed and paid. Interests in the Temporary Global Class A Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class A Noteholders has been received) for interests in the Permanent Global Class A Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class A Note (the expression “**Global Class A Notes**” and “**Global Class A Note**” meaning, respectively, (i) both of the Temporary Global Class A Note and the Permanent Global Class A Note, or (ii) either of the Temporary Global Class A Note or the Permanent Global Class A Note, as the context may require). On the exchange of the Temporary Global Class A Note for the Permanent Global Class A Note, the Permanent Global Class A Note will also be deposited with the Common Depositary. The Global



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

For so long as the Class A Notes are represented by a Global Class A Note, the 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, Clearstream, Luxembourg.

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

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

If (i) the principal amount of the Class A Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 24th May 2002, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class A Notes which would not be required were the Class A Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class A Notes represented by the Permanent Global Class A Note in exchange for the whole outstanding interest in the Permanent Global Class A Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

## Security

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

- (1) a sub-charge over the Mortgages which comprise English Mortgages and an assignation in security of the Issuer's interest in the Mortgages which comprise Scottish Mortgages purchased by the Issuer from HLJ under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment or assignation in security 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 Services Letter, under the Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the Collection Account Declarations of Trust and under any 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); and
- (6) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class A Notes, are referred to as the "**Security**". The Security will also stand as security for any amounts payable by the Issuer to the Class B Noteholders and the Class C Noteholders and to any Receiver, the Trustee, the Substitute Administrator, the Administrator, PFPLC, HLJ, PML and any Subordinated Lender 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 Instrument and the Subordinated Loan 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.

#### **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 would be as set out below (the "**Class A Conditions**"). While the Class A Notes 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 in definitive form.

#### **1. Form, Denomination and Title**

The £198,000,000 Class A Mortgage Backed Floating Rate Notes Due 2019 of the Issuer (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 29th May 2002 or such later date agreed between the Issuer and the Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (the "**Class A Noteholders**"), the holders for the time being of the Class B Notes (as defined below) (the "**Class B Noteholders**") and the holders for the time being of the Class C Notes (as defined below) (the "**Class C Noteholders**") may treat the holder of any Class A Note, Coupon or Talon as the absolute owner thereof (whether or not such Class A Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

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

The Class A Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the "**Deed of Charge**") dated the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Homeloans (Jersey) Limited, Paragon Mortgages Limited and Global Home Loans Limited (the "**Substitute Administrator**")) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

The £16,500,000 Class B Mortgage Backed Floating Rate Notes Due 2028 of the Issuer (the “**Class B Notes**”) and the £5,500,000 Class C Mortgage Backed Floating Rate Notes Due 2028 of the Issuer (the “**Class C Notes**”) are constituted by the Trust Deed and are secured by the same security as secures the Class A Notes but the Class A Notes will rank in priority to the Class B Notes and the Class C Notes in the event of the security being enforced. The Trust Deed and Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders, the Class C Noteholders or the other persons entitled to the benefit of the Security.

### 3. Covenants of the Issuer

- (A) So long as any of the Class A Notes, the Class B Notes or the Class C Notes remain outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:
- (1) carry on any business other than as described in the Offering Circular dated 24th May 2002 relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
    - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;
    - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class A Notes, the Coupons and Talons, the Class B Notes and the Class C Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Loan Stock and the Instrument, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declarations of Trust, any hedging arrangements entered into by the Issuer with a Permitted Hedge Provider, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declarations of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Trust Deed, the Deed of Charge or the Mortgage Sale Agreement) (together the “**Relevant Documents**”);
    - (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, among other things, make claims, payments and surrenders in respect of certain tax reliefs;
    - (d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem the Class A Notes or the Class B Notes or the Class C Notes in accordance with their respective terms and conditions; and
    - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;
  - (2) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Deed of Charge, the Trust Deed, the Notes, the Fee Letter, the Services Letter, any hedging arrangement entered into by the Issuer with a Permitted Hedge Provider, the Substitute Administrator Agreement, the VAT Declaration of Trust and indebtedness incurred on the issue of Loan Stock and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;

- (3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
  - (4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
    - (a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes, the Class B Notes and the Class C Notes and the performance and observance of every covenant in the Trust Deed and in these Class A Conditions on the part of the Issuer to be performed or observed;
    - (b) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;
    - (c) the Trustee is satisfied that the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
    - (d) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and
    - (e) the then current ratings of the Class A Notes, the Class B Notes and the Class C Notes are not adversely affected;
  - (5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
  - (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
  - (7) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust) and the Collection Accounts (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, among other things, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, among other things, 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, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under 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 the Closing Date. Provided certification of non-U.S. beneficial ownership has been received with respect to the Class A Notes, interest in respect of such Class A Notes is payable quarterly in arrear on 16th September 2002 and thereafter on each subsequent 15th December, 15th March, 15th June and 15th September (or, if such date is not a Business Day (as defined below), the next succeeding Business Day) (each an “**Interest Payment Date**”). As used in these Class A Conditions except Class A Condition 6, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) 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 Interest Payment Date falling in September 2002 in respect of the period from (and including) the Closing Date to (but excluding) that Interest Payment Date.

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

(c) *Rate of Interest*

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

- (i) On the Closing Date (an “**Interest Determination Date**”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on a linear interpolation between sterling deposits for a period of three months and sterling deposits for a period of four months, in each case 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 for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of (a) such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and (b) the margin of 0.35% per annum up to and including the Interest Period ending in June 2008 and thereafter the margin of 0.70% per annum.
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “**Reference Banks**”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for three-month and 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) above, 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 for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.

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

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

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable on, a Class A Note (an “**Interest Payment**”) for the relevant Interest Period. The Interest Payment for a Class A Note shall be calculated by applying the Rate of Interest for Class A Notes 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 the Class A Notes for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as the Class A Notes are listed by the UK Listing Authority and admitted to trading on the London Stock Exchange plc (the “**London Stock Exchange**”), the UK Listing Authority and 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 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 Reference Agent approved by the Trustee has been appointed.

## 5. Redemption and Purchase

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

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

The Principal Determination Date relating to an Interest Payment Date means the last Business Day of the month preceding that in which such Interest Payment Date falls.

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

(A) the aggregate of:

- (i) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) 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 (and including) the Principal Determination Date on which such calculation occurs (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, the Class B Notes and the Class C Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid in cash by the Issuer to HLJ (and not by the issue of Loan Stock) by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date 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, Class B Notes or Class C Notes on the Interest Payment Date relative thereto; and
- (iv) any part of the amount deducted pursuant to (B)(i), (ii) and (iii) 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, or in paying interest on the Class A Notes, the Class B Notes and/or the Class C Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer, 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) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;

- (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 Subordinated Loan Agreement;
  - (iii) 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, the Class B Notes and/or the Class C Notes (on the assumption that the payment of interest on the Class B Notes and/or the Class C Notes will not be postponed in accordance with the Deed of Charge) and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on that Interest Payment Date; and
  - (iv) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages,
- in each such case (save for (A)(iii) and (A)(iv) above) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date.

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the later of the Interest Payment Date falling in June 2007 and the first Interest Payment Date on which the ratio of (I) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes is 55:220 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

The Subordinated Available Redemption Funds shall equal:

- (i) where the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined falls prior to the occurrence of the Determination Event or (thereafter) if (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of less than zero on the Principal Deficiency Ledger or (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined 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 20% or more of the then Current Balances of all of the Mortgages, nil; and
- (ii) on any other Principal Determination Date, provided (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger and (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances of Mortgages which are more than three months in arrears represent less than 20% of the then Current Balances of all of the Mortgages, that amount of the Available



Redemption Funds determined as at such date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 55:220; provided that the sum of the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £10,000,000.

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

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

*(c) Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class A Notes, or the Issuer or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under any Permitted

Hedge Agreement, 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, 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 provided that each of the Rating Agencies has confirmed to the Trustee and the Issuer that (where the Class B Notes and/or the Class C Notes are not redeemed at the same time) its then current ratings of the Class B Notes and the Class C Notes would not thereby be adversely affected and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes.

(d) *Optional Redemption in Full*

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

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 sum of (1) the aggregate of the Principal Amount Outstanding of the Class A Notes, (2) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and (3) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes is less than £44,000,000 provided that each of the Rating Agencies has confirmed to the Trustee and the Issuer that (where the Class B Notes and/or the Class C Notes are not redeemed at the same time) its then current ratings of the Class B Notes and the Class C Notes would not thereby be adversely affected and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes.

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in March 2019.

(f) *Purchases*

The Issuer may not purchase Class A Notes.

(g) *Cancellation*

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

(h) *Certification*

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

## 6. Payments

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

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

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

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

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

If interest is not paid in respect of a Class A 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 A Notes 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) give notice (an “**Enforcement Notice**”) to the Issuer that the Class A Notes are, and each Class A Note shall accordingly forthwith become, immediately due and repayable at its Principal Amount Outstanding, together with accrued interest as provided in the Trust Deed, if any of the following events (each an “**Event of Default**”) shall occur:

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

## 10. Enforcement

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

enforce repayment of the Class A Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or so requested in writing by Class A Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing, if the Class A Notes have become due and repayable pursuant to Class A Condition 9 otherwise than by reason of a default in payment of any amount due on the Class A Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class A Noteholders and the Couponholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cashflow 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 to 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 PGCP) 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, among other things, 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 the Class A Notes, reducing or cancelling the amount of principal payable in respect of the Class A Notes or the rate of interest applicable to the Class A Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Class A Notes or the Coupons or any alteration of the date or priority of redemption of the Class A Notes (any such modification being referred to below as a “**Basic Terms Modification**”) shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class A Noteholders as described below. The quorum at

any meeting of Class A Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50% of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class A Noteholders whatever the aggregate Principal Amount Outstanding of the Class A Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing 75%, or at any adjourned such meeting 25%, or more of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding. In the case of a Basic Terms Modification, an Extraordinary Resolution of a meeting of the 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. The Trust Deed contains provisions limiting the powers of the Class B Noteholders and the Class C Noteholders, among other things, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders and the Class C Noteholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class A Noteholders shall be binding on all Class A Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution.

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

#### **14. Indemnification of the Trustee**

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

#### **15. Notifications and Other Matters to be Final**

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

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

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

## **17. Governing Law**

The Class A Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof relating to the Scottish Mortgages and their related security as are particular to Scots law, which 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 resolutions of the Board of Directors of the Issuer passed on 24th May 2002 and 29th May 2002. The Class B Notes will be constituted by a trust deed (the “**Trust Deed**”) expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class B Notes (the “**Class B Noteholders**”), the holders for the time being of the Class A Notes (the “**Class A Noteholders**”) and the holders for the time being of the Class C Notes (the “**Class C Noteholders**”). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to Homeloans (Jersey) Limited (“**HLJ**”) of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement to be dated the Closing Date (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, HLJ, PML, the Administrator and Global Home Loans Limited (the “**Substitute Administrator**”) (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 the Closing Date between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “**Reference Agent**”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the successors of each paying agent 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, Third Floor, Cottons Centre, Hays Lane, London SE1 2QT, 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 £16,500,000. The Temporary Global Class B Note will be deposited on behalf of the subscribers of the Class B Notes with a common depositary (the “**Common Depositary**”) for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”) on the Closing Date. Upon deposit of the Temporary Global Class B Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class B Notes with the principal amount of Class B Notes for which it has subscribed and paid. Interests in the Temporary Global Class B Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received) for interests in the Permanent Global Class B Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class B Note (the expression “**Global Class B Notes**” and “**Global Class B Note**” meaning, respectively, (i) both of the Temporary Global Class B Note and the Permanent Global Class B Note or (ii) either of the Temporary Global Class B Note or the Permanent Global Class B Note, as the context may require). On the exchange of the Temporary Global Class B Note for the Permanent Global Class B Note, the Permanent Global Class B Note will also be deposited with the Common Depositary. The Global Class



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

For so long as the Class B Notes are represented by a Global Class B Note, 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, Clearstream, Luxembourg.

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

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

If (i) the principal amount of the Class B Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 24th May 2002, 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 (among other persons) the Class B Noteholders:

- (1) a sub-charge over the Mortgages which comprise English Mortgages and an assignation in security of the Issuer's interest in the Mortgages which comprise Scottish Mortgages purchased by the Issuer from HLJ under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment or assignation in security 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 Services Letter, under the Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the Collection Account Declarations of Trust and under any 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); and
- (6) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class B Notes, are referred to as the "**Security**". The Security will also stand as security for any amounts payable by the Issuer to the Class A Noteholders and the Class C Noteholders and to any Receiver, the Trustee, the Substitute Administrator, the Administrator, PFPLC, HLJ, PML and any Subordinated Lender 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 Instrument and the Subordinated Loan 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.

### **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 £16,500,000 Class B Mortgage Backed Floating Rate Notes Due 2028 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 29th May 2002 or such later date agreed between the Issuer and the Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (as defined below) (the "**Class A Noteholders**"), the holders for the time being of the Class B Notes (the "**Class B Noteholders**") and the holders for the time being of the Class C Notes (as defined below) (the "**Class C Noteholders**") may treat the holder of any Class B Note, Coupon or Talon as the absolute owner thereof (whether or not such Class B Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

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

The Class B Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the "**Deed of Charge**") dated the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Homeloans (Jersey) Limited, Paragon Mortgages Limited and Global Home Loans Limited (the "**Substitute Administrator**")) 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, among other things, payments of principal and interest on the £198,000,000 Class A Mortgage Backed Floating Rate Notes Due 2019 of the Issuer (the “**Class A Notes**”) in accordance with the provisions of Class B Condition 7, the Trust Deed and the Deed of Charge.

The Class B Notes are secured by the same security that secures the Class A Notes and the £5,500,000 Class C Mortgage Backed Floating Rate Notes Due 2028 of the Issuer (the “**Class C Notes**”) but the Class A Notes and certain other obligations of the Issuer will rank in point of security in priority to the Class B Notes in the event of the security being enforced.

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

### **3. Covenants of the Issuer**

- (A) So long as any of the Class A Notes, the Class B Notes or the Class C Notes 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 24th May 2002 relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
    - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;
    - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class B Notes, the Coupons and Talons, the Class A Notes and the Class C Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Loan Stock and the Instrument, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declarations of Trust, any hedging arrangements entered into by the Issuer with a Permitted Hedge Provider, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declarations of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Trust Deed, the Deed of Charge or in the Mortgage Sale Agreement) (together the “**Relevant Documents**”);
    - (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, among other things, make claims, payments and surrenders in respect of certain tax reliefs;
    - (d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem the Class B Notes or the Class A Notes or the Class C Notes in accordance with their respective terms and conditions; and
    - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;

- (2) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Deed of Charge, the Trust Deed, the Notes, the Fee Letter, the Services Letter, any hedging arrangement entered into by the Issuer with a Permitted Hedge Provider, the Substitute Administrator Agreement, the VAT Declaration of Trust and indebtedness incurred on the issue of Loan Stock and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;
  - (3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
  - (4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
    - (a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes, the Class B Notes and the Class C Notes and the performance and observance of every covenant in the Trust Deed and in these Class B Conditions on the part of the Issuer to be performed or observed;
    - (b) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;
    - (c) the Trustee is satisfied that the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
    - (d) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and
    - (e) the then current ratings of the Class A Notes, the Class B Notes and the Class C Notes are not adversely affected;
  - (5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
  - (6) in a manner which adversely affects the then current ratings of the Class A Notes or the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
  - (7) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust) and the Collection Accounts (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, among other things, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, among other things, 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, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the Mortgage Sale Agreement.

#### 4. Interest

##### (a) *Interest Payment Dates*

Each Class B Note bears interest on its Principal Amount Outstanding (as defined in Class B Condition 5(b)) from and including 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 16th September 2002 and thereafter on each subsequent 15th December, 15th March, 15th June and 15th September (or, if such date is not a Business Day (as defined below), the next succeeding Business Day) (each an “**Interest Payment Date**”). To the extent that the funds available to the Issuer in accordance with the Deed of Charge after paying in full all items of a higher priority to pay interest on the Class B Notes on the Principal Determination Date immediately preceding 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 (as defined below) applicable from time to time to the Class B Notes and, subject to Class B Condition 7, payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest (and any interest and Deferred Interest) to the extent of such available funds. To the extent that any such Deferred Interest 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 Interest Payment Date falling in September 2002 in respect of the period from (and including) the Closing Date to (but excluding) that Interest Payment Date.

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 a linear interpolation between sterling deposits for a period of three months and sterling deposits for a period of four months, in each case 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 B Notes for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of (a) such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and (b) the margin of 0.90% per annum up to and including the Interest Period ending in June 2008 and thereafter the margin of 1.80% per annum.
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “**Reference Banks**”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for three-month and 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) above, 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 to 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 by the UK Listing Authority and admitted to trading on the London Stock Exchange plc (the “**London Stock Exchange**”), the UK Listing Authority and the London Stock Exchange, and will cause the same to be published in accordance with Class B Condition 13 on or as soon as possible after the date of commencement of the relevant Interest Period. The Issuer will cause the Deferred Interest (if any) and the Additional Interest (if any) applicable to the Class B Notes for each Interest Period to be notified to the Trustee, the Paying Agents and (for so long as the Notes are listed by the UK Listing Authority and admitted to trading on the London Stock Exchange), the UK Listing Authority and 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 Reference Agent approved by the Trustee has been appointed.

## 5. Redemption and Purchase

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

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

The Principal Determination Date relating to an Interest Payment Date means the last Business Day of the month preceding that in which such Interest Payment Date falls.

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

(A) the aggregate of:

- (i) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) 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 (and including) the Principal Determination Date on which such calculation occurs (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, the Class B Notes and the Class C Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid in cash by the Issuer to HLJ (and not by the issue of Loan Stock) by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date 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, Class B Notes or Class C Notes on the Interest Payment Date relative thereto; and
- (iv) any part of the amount deducted pursuant to (B)(i), (ii) and (iii) 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 or in paying interest on the Class A Notes, the Class B Notes and/or the Class C Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer, 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) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;



- (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 Subordinated Loan Agreement;
- (iii) 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, the Class B Notes and/or the Class C Notes (on the assumption that the payment of interest on the Class B Notes and/or the Class C Notes will not be postponed in accordance with the Deed of Charge) and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on that Interest Payment Date; and
- (iv) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments, in respect of the Mortgages,

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

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the later of the Interest Payment Date falling in June 2007 and the first Interest Payment Date on which the ratio of (I) the sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes is 55:220 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

The Subordinated Available Redemption Funds shall equal:

- (i) where the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined falls prior to the occurrence of the Determination Event or (thereafter) if (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of less than zero on the Principal Deficiency Ledger or (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined 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 20% or more of the then Current Balances of all of the Mortgages, nil; and
- (ii) on any other Principal Determination Date, provided (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger and (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances of Mortgages which are more than three months in arrears represent less than

20% of the then Current Balances of all of the Mortgages, that amount of the Available Redemption Funds determined as at such date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 55:220; provided that the sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £10,000,000.

The Class B Available Redemption Funds:

- (a) on any Principal Determination Date on which there are Class A Notes outstanding, shall be determined in accordance with the following formula:

$$\text{BARF} = \text{SARF} \times 16,500,000/22,000,000$$

where:

- (i) “**BARF**” means the Class B Available Redemption Funds on such Principal Determination Date; and
- (ii) “**SARF**” means the Subordinated Available Redemption Funds on such Principal Determination Date; and
- (b) on any Principal Determination Date on which there are no Class A Notes outstanding, shall equal the lesser of the Available Redemption Funds and the aggregate Principal Amount Outstanding of the Class B Notes on such date.

The Class C Available Redemption Funds:

- (a) on any Principal Determination Date on which there are Class A Notes outstanding, shall be determined in accordance with the following formula:

$$\text{CARF} = \text{SARF} \times 5,500,000/22,000,000$$

where:

- (i) “**CARF**” means the Class C Available Redemption Funds on such Principal Determination Date; and
- (ii) “**SARF**” has the meaning given to that term above;
- (b) on any Principal Determination Date on which there are Class B Notes outstanding, but no Class A Notes outstanding, shall equal nil; and
- (c) on any Principal Determination Date on which there are no Class A Notes and no Class B Notes outstanding, shall equal the lesser of the Available Redemption Funds and the aggregate Principal Amount Outstanding of the Class C Notes on such date.

If the Issuer does not for any reason determine the aggregate principal amount of the 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, by not later than the fifth Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date, will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class B Notes are listed by the UK Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange and will 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 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Class B Notes on any Interest Payment Date a notice to this effect will be given to the Class B Noteholders.
- (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding or the Pool Factor applicable to Class B Notes in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) *Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class B Notes, or the Issuer or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under any Permitted Hedge Agreement, 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 further that each of the Rating Agencies has confirmed to the Trustee and the Issuer that (where the Class C Notes are not redeemed at the same time) its then current rating of the Class C Notes would not thereby be adversely affected and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class 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) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes, or the Trustee is otherwise directed by Extraordinary Resolution (as defined in the Trust Deed) of the Class B Noteholders, at any time at its option, having given not more than 60 nor less than 30 days’ notice in accordance with Class B Condition 13, redeem all, but not some only, of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date.

(d) *Optional Redemption in Full*

On giving not more than 60 nor less than 20 days’ notice to the Trustee and the Class B Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided further that each of the Rating Agencies has confirmed to the Trustee and the Issuer that (where the Class C Notes are not redeemed at the same time) its then current rating of the Class C Notes would not thereby be adversely affected

and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class B Condition 7) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes or the Trustee is otherwise directed by Extraordinary Resolution of the Class B Noteholders, the Issuer may, on any Interest Payment Date falling in or after June 2005 or, if earlier, falling on or after the date on which all the Class A Notes are redeemed in full, redeem all (but not some only) of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption.

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in September 2028.

(f) *Purchases*

The Issuer may not purchase Class B Notes.

(g) *Cancellation*

All Class B Notes redeemed in full pursuant to the foregoing provisions will be cancelled forthwith, together with all unmaturing 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 0JP.

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

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

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

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

## **7. Deferral of Interest Payments**

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

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 7, due on the Class B Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class B Condition 7 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 Class B Condition 4 and this Class B Condition 7 falls short of the aggregate amount of interest which would have been due and payable on the Class B Notes on that date pursuant to Class B Condition 4. Such shortfall shall accrue interest in accordance with the provisions of Class B Condition 4. Any such shortfall, together with any accrued interest thereon will, subject to this Class B Condition 7, be payable on the next following Interest Payment Date. Any accrued but unpaid interest (together with any interest thereon) outstanding on the Interest Payment Date falling in September 2028 or on any earlier date upon which the Class B Notes are redeemed in full shall be due and payable on such Interest Payment Date or other earlier date.

## **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 Subordinated Loan Agreement, the Fee Letter, the Instrument, the Loan Stock and the Services Letter) or otherwise becomes insolvent; or

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

## 11. Enforcement and Post Enforcement Call Option

At any time after the Class B Notes become due and repayable at their Principal Amount Outstanding, 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 remain 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 cashflow 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 to proceed, fails to do so within a reasonable time and such failure is continuing.

In the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class B Notes and Coupons under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class B Notes and all other claims ranking *pari passu* therewith, then the Class B Noteholders and the Class B Couponholders shall, upon the Security having been enforced and realised to the maximum possible extent as certified by the Trustee, be forthwith entitled to their respective shares of such remaining proceeds (as determined in accordance with the provisions of the Deed of Charge) and, after payment to each Class B Noteholder or Class B Couponholder (as the case may be) of its respective share of such remaining proceeds, all interests in the Permanent Global Class B Note will be automatically exchanged for equivalent interests in an equivalent amount of Class B Notes in definitive form and such Permanent Global Class B Note (if any) will be cancelled. On the date of such exchange (the “**Option Exercise Date**”), the Trustee (on behalf of all of the Class B Noteholders) will, at the request of Paragon Options PLC (“**POPLC**”), transfer for a consideration of £0.01 per Class B Note all (but not some only) of the Class B Notes to POPLC pursuant to the option granted to it by the Trustee (as agent for the Noteholders) pursuant to a post enforcement call option deed (the “**Post Enforcement Call Option Deed**”) dated on or about the Closing Date between POPLC and the Trustee. POPLC will agree pursuant to a deed (the “**Deed**”) dated on or about the Closing Date to exercise the option granted in its favour pursuant to the Post Enforcement Call Option Deed. Immediately upon such transfer, no such former Class B Noteholder shall have any further interest in the Class B Notes. Each of the Class B Noteholders acknowledges that the Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post Enforcement Call Option Deed and each Class B Noteholder, by subscribing for or purchasing Class B Notes, agrees to be so bound.

## 12. 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 PGCP) 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, among other things, 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, among other things, 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 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. The Contracts (Rights of Third Parties) Act 1999**

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

#### **18. Governing Law**

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

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

The issue of the Class C Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on 24th May 2002 and 29th May 2002. The Class C Notes will be constituted by a trust deed (the “**Trust Deed**”) expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class C Notes (the “**Class C Noteholders**”), the holders for the time being of the Class A Notes (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 Homeloans (Jersey) Limited (“**HLJ**”) of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement to be dated the Closing Date (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, HLJ, PML, the Administrator and Global Home Loans Limited (the “**Substitute Administrator**”) (the “**Deed of Charge**”). The Trust Deed will include the form of the Global Class C Notes and the definitive Class C Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the “**Agency Agreement**”) expected to be dated the Closing Date between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “**Reference Agent**”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class C Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class C Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof, Third Floor, Cottons Centre, Hays Lane, London SE1 2QT, and at the specified offices for the time being of the Paying Agents.

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

### Global Class C Notes

The Class C Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class C Note in bearer form, without coupons or talons, in the principal amount of £5,500,000. The Temporary Global Class C Note will be deposited on behalf of the subscribers of the Class C Notes with a common depository (the “**Common Depository**”) for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”) on the Closing Date. Upon deposit of the Temporary Global Class C Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class C Notes with the principal amount of Class C Notes for which it has subscribed and paid. Interests in the Temporary Global Class C Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class C Noteholders has been received) for interests in the Permanent Global Class C Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class C Note (the expression “**Global Class C Notes**” and “**Global Class C Note**” meaning, respectively, (i) both of the Temporary Global Class C Note and the Permanent Global Class C Note or (ii) either of the Temporary Global Class C Note or the Permanent Global Class C Note, as the context may require). On the exchange of the Temporary Global Class C Note for the Permanent Global Class C Note, the Permanent Global Class C Note will also be deposited with the Common Depository.

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

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

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

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

If (i) the principal amount of the Class C Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 24th May 2002, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class C Notes which would not be required were the Class C Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class C Notes represented by the Permanent Global Class C Note in exchange for the whole outstanding interest in the Permanent Global Class C Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

## Security

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

- (1) a sub-charge over the Mortgages which comprise English Mortgages and an assignment in security of the Issuer's interest in the Mortgages which comprise Scottish Mortgages purchased by the Issuer from HLJ under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment or assignment in security 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 Services Letter, under the Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the Collection Account Declarations of Trust and under any 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); and
- (6) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class C Notes, are referred to as the "**Security**". The Security will also stand as security for any amounts payable by the Issuer to the Class A Noteholders and the Class B Noteholders and to any Receiver, the Trustee, the Substitute Administrator, the Administrator, PFPLC, HLJ, PML and any Subordinated Lender 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 Instrument and the Subordinated Loan 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.

### **Terms and Conditions**

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

#### **1. Form, Denomination and Title**

The £5,500,000 Class C Mortgage Backed Floating Rate Notes Due 2028 of the Issuer (the "**Class C Notes**") are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons ("**Interest Coupons**") and principal coupons ("**Principal Coupons**") (severally or together "**Coupons**") and talons ("**Talons**") attached. Title to the Class C Notes, the Coupons and the Talons shall pass by delivery.

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

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents (as defined in a trust deed (the "**Trust Deed**") dated 29th May 2002 or such later date agreed between the Issuer and the Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (as defined below) (the "**Class A Noteholders**"), the holders for the time being of the Class B Notes (the "**Class B Noteholders**") and the holders for the time being of the Class C Notes (as defined below) (the "**Class C Noteholders**") may treat the holder of any Class C Note, Coupon or Talon as the absolute owner thereof (whether or not such Class C Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

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

The Class C Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the "**Deed of Charge**") dated the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Homeloans (Jersey) Limited, Paragon Mortgages Limited and Global Home Loans Limited (the "**Substitute Administrator**")) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

Payments of principal and interest on the Class C Notes are subordinated to, among other things, payments of principal and interest on the £198,000,000 Class A Mortgage Backed Floating Rate Notes Due 2019 of the Issuer (the “**Class A Notes**”) and payments of principal and interest on the £16,500,000 Class B Mortgage Backed Floating Rate Notes Due 2028 of the Issuer (the “**Class B Notes**”) in accordance with the provisions of Class C Condition 7, the Trust Deed and the Deed of Charge.

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

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class C Noteholders, 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 between the interests of the Class B Noteholders and the interests of the Class C 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, the Class B Notes or the Class C Notes remain outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:

- (1) carry on any business other than as described in the Offering Circular dated 24th May 2002 relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
  - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;
  - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class C Notes, the Coupons and Talons, the Class A Notes and the Class B Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Loan Stock and the Instrument, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declarations of Trust, any hedging arrangements entered into by the Issuer with a Permitted Hedge Provider, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declarations of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Trust Deed, the Deed of Charge or in the Mortgage Sale Agreement) (together the “**Relevant Documents**”);
  - (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, among other things, make claims, payments and surrenders in respect of certain tax reliefs;
  - (d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem the Class C Notes or the Class A Notes or the Class B Notes in accordance with their respective terms and conditions; and
  - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;

- (2) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding for the avoidance of doubt, indebtedness under the Deed of Charge, the Trust Deed, the Notes, the Fee Letter, the Services Letter, any hedging arrangement entered into by the Issuer with a Permitted Hedge Provider, the Substitute Administrator Agreement, the VAT Declaration of Trust and indebtedness incurred on the issue of Loan Stock and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;
  - (3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
  - (4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
    - (a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes, the Class B Notes and the Class C Notes and the performance and observance of every covenant in the Trust Deed and in these Class C Conditions on the part of the Issuer to be performed or observed;
    - (b) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;
    - (c) the Trustee is satisfied that the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
    - (d) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and
    - (e) the then current ratings of the Class A Notes, the Class B Notes and the Class C Notes are not adversely affected;
  - (5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
  - (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
  - (7) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust) and the Collection Accounts (as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it.
- (B) So long as any of the Class C Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the “**Administrator**”). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales and Scotland. The Administrator will not be permitted to terminate its appointment without, among other things, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, among other things, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class A Notes and Class B Notes have been redeemed in full, the Class C Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the Mortgage Sale Agreement.

#### 4. Interest

##### (a) *Interest Payment Dates*

Each Class C Note bears interest on its Principal Amount Outstanding (as defined in Class C Condition 5(b)) from and including the Closing Date. Provided certification of non-U.S. beneficial ownership has been received with respect to the Class C Notes, interest in respect of the Class C Notes is (subject to Class C Condition 7) payable quarterly in arrear on 16th September 2002 and thereafter on each subsequent 15th December, 15th March, 15th June and 15th September (or, if such date is not a Business Day (as defined below), the next succeeding Business Day) (each an “**Interest Payment Date**”). To the extent that the funds available to the Issuer in accordance with the Deed of Charge after paying in full all items of a higher priority to pay interest on the Class C Notes on the Principal Determination Date immediately preceding an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall (“**Deferred Interest**”) which will be borne by each Class C Note, in a proportion equal to the proportion that the Principal Amount Outstanding of that Class C Note bears to the aggregate Principal Amount Outstanding of the Class C Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not then fall due but will instead, subject to Class C Condition 7, be deferred until the first Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available (after allowing for the Issuer’s liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. Such Deferred Interest will accrue interest (“**Additional Interest**”) at the Rate of Interest (as defined below) applicable from time to time to the Class C Notes and, subject to Class C Condition 7, payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest (and any interest and Deferred Interest) to the extent of such available funds. To the extent that any such Deferred Interest or Additional Interest is not subsequently paid, the Issuer’s obligation to the Class C Noteholders in respect of any such Deferred Interest and/or Additional Interest will be subject to Class C Condition 7. As used in these Class C Conditions except Class C Condition 6, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

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

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

##### (b) *Coupons and Talons*

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

##### (c) *Rate of Interest*

The rate of interest applicable from time to time to the Class C Notes (the “**Rate of Interest**”) will be determined by 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 a linear interpolation between sterling deposits for a period of three months and sterling deposits for a period of four months, in each case 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 C Notes for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of (a) such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and (b) the margin of 2.00% per annum up to and including the Interest Period ending in June 2008 and thereafter the margin of 4.00% per annum.
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “**Reference Banks**”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for three-month and 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) above, on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.
- (iii) There shall be no maximum or minimum Rate of Interest.
- (d) *Determination of Rate of Interest, Calculation of Interest Payments, Deferred Interest and Additional Interest*

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable, subject to Class C Condition 7, on, a Class C Note (an “**Interest Payment**”) for the relevant Interest Period. The Interest Payment for a Class C Note shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of a Class C Note taking into account any payment of principal due on such Interest Determination Date, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). On (or as soon as practicable after) each Principal Determination Date (as defined in Class C Condition 5(a)), the Issuer shall determine (or cause the Administrator to determine) the actual



amount of interest which will be paid on each Class C Note on the Interest Payment Date next following such Principal Determination Date and the amount of Deferred Interest (if any) on each Class C Note in respect of the Interest Period ending on such Interest Payment Date and the amount of Additional Interest (if any) which will be paid on such Interest Payment Date. The amount of Additional Interest shall be calculated by applying the relevant Rate of Interest to the Deferred Interest relating to the Class C Notes and any Additional Interest from prior Interest Periods which remains unpaid, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). In the event that on any Principal Determination Date funds then available to the Issuer are insufficient to pay in full the Interest Payment, any outstanding Deferred Interest and any Additional Interest due on the Interest Payment Date next following such Principal Determination Date such funds will be applied first to the payment of any Interest Payment, secondly to the payment of any outstanding Deferred Interest and thereafter to the payment of any Additional Interest.

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

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

(f) *Determination or Calculation by Trustee*

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

(g) *Reference Banks and Reference Agent*

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

## 5. **Redemption and Purchase**

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

The Class C Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Principal Determination Date (as defined below) relating thereto there are any Class C Available Redemption Funds (as defined below). The principal amount so redeemable in respect of

each Class C Note prior to the service of an Enforcement Notice (each a “**Principal Payment**”) on any Interest Payment Date shall be the amount of the Class C Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date divided by the number of Class C Notes then outstanding (as defined in the Trust Deed) (rounded down to the nearest pound sterling); provided always that no Principal Payment may exceed the Principal Amount Outstanding of the relevant Class C Note.

The Principal Determination Date relating to an Interest Payment Date means the last Business Day of the month preceding that in which such Interest Payment Date falls.

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

(A) the aggregate of:

- (i) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) 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 (and including) the Principal Determination Date on which such calculation occurs (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, the Class B Notes and the Class C Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid in cash by the Issuer to HLJ (and not by the issue of Loan Stock) by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date 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, Class B Notes or Class C Notes on the Interest Payment Date relative thereto; and
- (iv) any part of the amount deducted pursuant to (B)(i), (ii) and (iii) 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 or in paying interest on the Class A Notes, the Class B Notes and the Class C Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer, 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) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;
- (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 Subordinated Loan Agreement;
- (iii) 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, the Class B Notes and/or the Class C Notes (on the assumption that the payment of interest on the

Class B Notes and/or the Class C Notes will not be postponed in accordance with the Deed of Charge) and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on that Interest Payment Date; and

- (iv) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments, in respect of the Mortgages,

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

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the later of the Interest Payment Date falling in June 2007 and the first Interest Payment Date on which the ratio of (I) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes is 55:220 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

The Subordinated Available Redemption Funds shall equal:

- (i) where the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined falls prior to the occurrence of the Determination Event or (thereafter) if (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of less than zero on the Principal Deficiency Ledger or (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined 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 20% or more of the then Current Balances of all of the Mortgages, nil; and
- (ii) on any other Principal Determination Date, provided (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger and (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances of Mortgages which are more than three months in arrears represent less than 20% of the then Current Balances of all of the Mortgages, that amount of the Available Redemption Funds determined as at such date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the aggregate Principal Amount Outstanding (defined as

aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 55:220; provided that the sum of the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £10,000,000.

The Class B Available Redemption Funds:

- (a) on any Principal Determination Date on which there are Class A Notes outstanding, shall be determined in accordance with the following formula:

$$\text{BARF} = \text{SARF} \times 16,500,000/22,000,000$$

where:

- (i) “**BARF**” means the Class B Available Redemption Funds on such Principal Determination Date; and
- (ii) “**SARF**” means the Subordinated Available Redemption Funds on such Principal Determination Date; and
- (b) on any Principal Determination Date on which there are no Class A Notes outstanding shall equal the lesser of the Available Redemption Funds and the aggregate Principal Amount Outstanding of the Class B Notes on such date.

The Class C Available Redemption Funds:

- (a) on any Principal Determination Date on which there are Class A Notes outstanding, shall be determined in accordance with the following formula:

$$\text{CARF} = \text{SARF} \times 5,500,000/22,000,000$$

where:

- (i) “**CARF**” means the Class C Available Redemption Funds on such Principal Determination Date; and
- (ii) “**SARF**” has the meaning given to that term above;
- (b) on any Principal Determination Date on which there are Class B Notes outstanding, but no Class A Notes outstanding, shall equal nil; and
- (c) on any Principal Determination Date on which there are no Class A Notes and no Class B Notes outstanding, shall equal the lesser of the Available Redemption Funds and the aggregate Principal Amount Outstanding of the Class C Notes on such date.

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

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

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

- (ii) The Issuer, by not later than the fifth Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date, will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class C Notes are listed by the UK Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange and will cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class C Condition 13 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Class C Notes on any Interest Payment Date a notice to this effect will be given to the Class C Noteholders.
- (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding or the Pool Factor applicable to Class C Notes in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) *Redemption for Taxation or Other Reasons*

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

(d) *Optional Redemption in Full*

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

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class C Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in September 2028.

(f) *Purchases*

The Issuer may not purchase Class C Notes.

(g) *Cancellation*

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

(h) *Certification*

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

## 6. Payments

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

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

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

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

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

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

## **7. Deferral of Interest Payments**

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

In the event that the aggregate funds, if any (computed in accordance with the provisions of the Deed of Charge), available to the Issuer on any Interest Payment Date for application in or towards the payment of interest which is, subject to this Class C Condition 7, due on the Class C Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class C Condition 7 as the “**Residual Amount**”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Class C Condition, due on the Class C Notes on such Interest Payment Date, there shall be payable on such Interest Payment Date, by way of interest on each Class C Note, a *pro rata* share of the Residual Amount on such Interest Payment Date.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class C Notes on any Interest Payment Date in accordance with Class C Condition 4 and this Class C Condition 7 falls short of the aggregate amount of interest which would have been due and payable on the Class C Notes on that date pursuant to Class C Condition 4. Such shortfall shall accrue interest in accordance with the provisions of Class C Condition 4. Any such shortfall, together with any accrued interest thereon will, subject to this Class C Condition 7, be payable on the next following Interest Payment Date. Any accrued but unpaid interest (together with any interest thereon) outstanding on the Interest Payment Date falling in September 2028 or on any earlier date upon which the Class C Notes are redeemed in full shall be due and payable on such Interest Payment Date or other earlier date.

## **8. Taxation**

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

## **9. Prescription**

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

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

## **10. Events of Default**

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class C Notes outstanding or if so directed by an Extraordinary Resolution of the Class C Noteholders (subject, in each case, to being indemnified to its satisfaction and to restrictions contained in the Trust Deed to protect the interests of the Class A

Noteholders) 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 or, if there are no Class B Notes outstanding, to the interests of the Class C Noteholders and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Class C Notes, only if the Trustee shall have certified in writing that the Issuer had, on the due date for payment of the amount of interest in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such interest (after payment of all sums which it is permitted under the Deed of Charge to pay in priority thereto or *pari passu* therewith)), give notice (an “**Enforcement Notice**”) to the Issuer that the Class C Notes are, and each Class C Note shall, if notice is, or has already been, given that the Class A Notes are due and payable pursuant to the terms and conditions of the Class A Notes or, if there are no Class A Notes then outstanding, if notice is, or has already been, given that the Class B Notes are due and payable pursuant to the terms and conditions of the Class B Notes or, if there are no Class B Notes then outstanding, accordingly forthwith become, immediately due and repayable subject to Class C Condition 7 at its Principal Amount Outstanding, together with accrued interest (including any Deferred Interest and Additional Interest) as provided in the Trust Deed, if any of the following events (each an “**Event of Default**”) shall occur:

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



## 11. Enforcement and Post Enforcement Call Option

At any time after the Class C 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 C Notes and Coupons and to enforce repayment of the Class C Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class C Noteholders or so requested in writing by Class C Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class C Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing but provided that all of the Class A Notes and all of the Class B Notes have been redeemed in full, so long as any of the Class C Notes remain outstanding, if the Class C Notes have become due and payable pursuant to Class C Condition 10 otherwise than by reason of a default in payment of any amount due on the Class C Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class C Noteholders and the Couponholders and 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 cashflow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class C Noteholders and the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class C Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or to proceed, fails to do so within a reasonable time and such failure is continuing.

In the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class C Notes and Coupons under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class C Notes and all other claims ranking *pari passu* therewith, then the Class C Noteholders and the Class C Couponholders shall, upon the Security having been enforced and realised to the maximum possible extent as certified by the Trustee, be forthwith entitled to their respective shares of such remaining proceeds (as determined in accordance with the provisions of the Deed of Charge) and, after payment to each Class C Noteholder or Class C Couponholder (as the case may be) of its respective share of such remaining proceeds, all interests in the Permanent Global Class C Note will be automatically exchanged for equivalent interests in an equivalent amount of Class C Notes in definitive form and such Permanent Global Class C Note (if any) will be cancelled. On the date of such exchange (the “**Option Exercise Date**”), the Trustee (on behalf of all of the Class C Noteholders) will, at the request of Paragon Options PLC (“**POPLC**”), transfer for a consideration of £0.01 per Class C Note all (but not some only) of the Class C Notes to POPLC pursuant to the option granted to it by the Trustee (as agent for the Noteholders) pursuant to a post enforcement call option deed (the “**Post Enforcement Call Option Deed**”) dated on or about the Closing Date between POPLC and the Trustee. POPLC will agree pursuant to a deed (the “**Deed**”) dated on or about the Closing Date to exercise the option granted in its favour pursuant to the Post Enforcement Call Option Deed. Immediately upon such transfer, no such former Class C Noteholder shall have any further interest in the Class C Notes. Each of the Class C Noteholders acknowledges that the Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post Enforcement Call Option Deed and each Class C Noteholder, by subscribing for or purchasing Class C Notes, agrees to be so bound.

## 12. Replacements of Notes, Coupons and Talons

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

## 13. Notices

All notices, other than notices given in accordance with the next following paragraph, to Class C Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the Financial Times) or, if this is not practicable, in another leading English language newspaper having general circulation in

Europe previously approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above.

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, 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 PGCP) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Class C Noteholders (the “**Relevant Screen**”). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class C Condition shall be given in accordance with the preceding paragraph.

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

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

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

The Trustee may agree, without the consent of the Class C Noteholders or Couponholders, (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of the Class C Notes (including these Class C Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Class C Noteholders or (ii) to any modification of the Class C Notes (including these Class C Conditions) or any of the Relevant Documents which, in the Trustee’s opinion, is to correct a manifest error or is of a formal,

minor or technical nature. The Trustee may also, without the consent of the Class C Noteholders or the Couponholders, determine that any Event of Default or any condition, event or act which with the giving of notice and/or lapse of time and/or the issue of a certificate would constitute an Event of Default shall not, or shall not subject to specified conditions, be treated as such. Any such modification, waiver, authorisation or determination shall be binding on the Class C Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class C Noteholders in accordance with Class C Condition 13 as soon as practicable thereafter.

#### **15. Indemnification of the Trustee**

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

#### **16. Notifications and Other Matters to be Final**

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

#### **17. The Contracts (Rights of Third Parties) Act 1999**

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

#### **18. Governing Law**

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

## USE OF PROCEEDS

The gross proceeds from the issue of the Class A Notes will be £198,000,000, those from the issue of the Class B Notes will be £16,500,000 and those from the issue of the Class C Notes will be £5,500,000. Commissions of 0.175% of the principal amount of the Class A Notes, of 0.3% of the principal amount of the Class B Notes and of 0.45% of the principal amount of the Class C Notes will be payable on the issues of the Notes. These commissions, together with certain other expenses of the issues, will be paid on behalf of or reimbursed to the Issuer by PFPLC as described in “The Issuer-Fee Letter” below. The net proceeds from the issue of the Notes, which will be approximately £218,850,000, and the sums paid by PFPLC to the Issuer in respect of such commissions and expenses on the Closing Date will be applied towards payment to HLJ of the purchase price payable by the Issuer in cash (and not by the issue of Loan Stock) for the Mortgages to be purchased by the Issuer pursuant to the Mortgage Sale Agreement.

## RATINGS

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

## THE ISSUER

### Introduction

The Issuer was incorporated and registered in England (registered number 3696161) as a public limited company under the Companies Act 1985 on 15th January 1999 as Finance for People (No. 13) PLC. It changed its name to Homeloans (No. 4) PLC on 14th February 2002. 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 by the UK Listing Authority and is traded on the London Stock Exchange.

The principal objects of the Issuer are set out in clause 4 of its Memorandum of Association and include investing in and/or acquiring mortgage loans or other similar investments, borrowing or raising money in such manner as the Issuer shall think fit and securing the repayment of any money borrowed, raised or owing by mortgage, charge or lien upon the whole or any part of the Issuer's property or assets, lending or advancing money or giving credit to any company, firm or person and entering into hedging and/or derivative arrangements or transactions. The Issuer has agreed in the Relevant Documents to observe certain restrictions on its business activities.

The Issuer is a special purpose vehicle for issuing the Notes and the Loan Stock and purchasing the Mortgages.

The Issuer has not engaged, since its incorporation, in any material activities other than (i) those incidental to its registration as a public limited company under the Companies Act 1985, (ii) obtaining a certificate from the Registrar of Companies pursuant to section 117 of the Companies Act 1985, (iii) the activities described in the report set out under "Accountants' Report" below, (iv) the authorisation of the issue of the Notes and the matters contemplated in this Offering Circular and execution of the other documents referred to in this Offering Circular to which it is a party, (v) applying for a standard licence under the Consumer Credit Act 1974, (vi) applying for registration and/or registering under the Data Protection Act 1998, and (vii) applying to join the Paragon VAT Group and, in each case, any other activities incidental to any of the foregoing.

### Directors and Secretary

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

<b>Name</b>	<b>Business Address</b>	<b>Principal activities</b>
John Gemmell	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Director of Financial Accounting and Secretary of PGC and Director and Secretary of PFPLC
Nicholas Keen	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	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
Adem Mehmet	28 King Street London EC2V 8EH	Director of PFPLC
James Fairrie	Cannon Centre 78 Cannon Street London EC4P 5LN	Director of SPV Management Limited

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

The Issuer has no employees.

## **Management and Activities**

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

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

## **Fee Letter**

PFPLC has agreed to arrange the issues of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issues of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Managers. PFPLC 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 will agree under the Fee Letter, to be dated the Closing Date, that it will pay PFPLC an arrangement fee of 0.4% of the aggregate principal amount of the Notes and that it will repay PFPLC the commissions and expenses referred to above in 16 quarterly instalments beginning on the first Business Day after the first Interest Payment Date (or in such greater number of instalments and/or at such later dates as may be agreed by PFPLC). Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR (or such other rate which PFPLC and the Issuer agree is a fair commercial rate at the relevant time) payable quarterly in arrear. Amounts owing to PFPLC under the Fee Letter will be subordinated in the manner described in “Summary – Priority of Payments – prior to enforcement” above.

## **Subordinated Loan Facility**

By the Subordinated Loan Agreement (which is to be made between PFPLC, the Issuer and the Trustee and to be dated the Closing Date) PFPLC will agree to make available to the Issuer a loan facility. An amount or amounts will be drawn down under the Subordinated Loan Agreement by the Issuer from PFPLC on the Closing Date to establish the First Loss Fund and, together with the proceeds of the issue of the Notes, to enable the Issuer to pay the amounts payable by the Issuer in cash (and not by the issue of Loan Stock) by way of purchase price for the Mortgages on the Closing Date thereby allowing it to achieve the initial ratings on the Notes. Under the terms of the Subordinated Loan Agreement, PFPLC will also agree 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 fund itself when making any Mandatory Further Advances which it is required to make. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Ledger, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances and/or (iii) to enable the Issuer to make any Discretionary Further Advances when it would otherwise be unable to do so. Further drawings may be made by the Issuer under the 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 Subordinated Loan Agreement to be used by the Issuer to purchase 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 Subordinated Loan Agreement. Amounts owing to PFPLC and any Subordinated Lenders under the Subordinated Loan Agreement will be subordinated in the manner described in “Summary – Priority of Payments – prior to enforcement” above.

PFPLC will also agree to make further advances to the Issuer under the Subordinated Loan Agreement, as follows: (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it to pay any Swap Termination Amounts due and payable to any Permitted Hedge Provider on such Interest Payment Date; and (ii) at any time where the Issuer or the Administrator on the Issuer’s behalf waives any prepayment charges applicable to any Mortgage, in an amount equal to such waived prepayment charge.

Interest under the Subordinated Loan Agreement will be payable by the Issuer quarterly on or after the first Business Day after each Interest Payment Date commencing with the Interest Payment Date falling in September 2002 on the amount of the loan at the rate of 4% per annum above LIBOR (or such other rate which is agreed by the Issuer and PFPLC to be a fair commercial rate at the relevant time). Principal will be repayable on the earlier of (i) the day following the last Interest Payment Date falling in September 2028 and (ii) the first day on which there are no Notes outstanding except that on any Interest Payment Date sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of the funds available to the Issuer to do so (see “Summary – Priority of Payments – prior to enforcement” above) (provided that an amount equal to the Required Amount may not be repaid while any Notes remain outstanding). Payments of interest under the 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 – prior to enforcement” above. PFPLC and the Issuer may agree that any payments of interest and repayments of principal under the Subordinated Loan Agreement may be waived (in whole or in part).

### **Loan Stock**

The Notes will be issued simultaneously with the Class A Loan Stock and the Class B Loan Stock the terms and conditions of each of which will be set out in the Instrument. £25,000,000 of Class A Loan Stock and £1,000,000 of Class B Loan Stock will be issued on the Closing Date to HLJ in part consideration for the sale of the Mortgages. The Loan Stock will not bear interest. No cash proceeds will be received by the Issuer for the Loan Stock.

On each Interest Payment Date the principal of the Class A Loan Stock will be repaid in an amount equal to the lesser of (a) the aggregate outstanding principal amount of the Class A Loan Stock and (b) the amount available for application having made in full all provisions and payments referred to at (i) to (x) inclusive of the priority of payments set out in “Summary – Priority of Payments – prior to enforcement” above.

On each Interest Payment Date the principal of the Class B Loan Stock will be repaid in an amount equal to the lesser of (a) the aggregate outstanding principal amount of the Class B Loan Stock and (b) the amount available for application having made in full all provisions and payments referred to at (i) to (xiv) inclusive of the priority of payments set out in “Summary – Priority of Payments – prior to enforcement” above.

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

### **Hedging Arrangements**

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 time of the closing of the issues of the Notes 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.

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 with an 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.

Under the terms of the Administration Agreement the Issuer may be required to terminate all or part of any hedging arrangement entered into with any Permitted Hedge Provider to reflect prepayment of Fixed Rate Mortgages. Furthermore, total termination of any such hedging arrangement may occur independently of an Event of Default. Any such termination (whether in full or in part) may give rise to a termination payment due either to or from the Issuer. Any such payment due from the Issuer to a Permitted Hedge Provider (a “**Swap Termination Amount**”) will, where such payment arises where the relevant Permitted Hedge Provider is the Defaulting Party (as defined in the relevant Permitted Hedge Agreement), rank in priority behind payments on the Notes. Any Swap Termination Amount which arises where the relevant Permitted Hedge Provider is not the Defaulting Party (as defined in the relevant Permitted Hedge Agreement) will rank in priority both before and after enforcement of the Security (as described in “Summary – Priority of Payments – prior to enforcement” and “Summary – Priority of Payments – post-enforcement” above) *pari passu* with payments of interest on the Class A Notes and prior to payments of interest on the Class B Notes and the Class C Notes. Under the terms of the Administration Agreement, the Issuer will not be permitted to enter into any hedging agreement unless the terms of that hedging agreement provide that any such payment due to the Issuer will not be payable in full immediately but will be payable to the Issuer in the form of an annuity on each Interest Payment Date until the date on which the relevant hedging agreement would have expired had it not been terminated early.

The Administration Agreement will also require that any hedging arrangement entered into by the Issuer with a Permitted Hedge Provider will provide that if the Issuer or the Permitted Hedge Provider is required to make any deduction or withholding for or on account of United Kingdom tax from any amounts payable by it under the relevant hedging arrangement on any Interest Payment Date, then under the terms of such hedging arrangement (i) the relevant Permitted Hedge Provider will be obliged to pay additional amounts (“**Additional Amounts**”) to ensure that the Issuer receives the full amount it would otherwise have received from the relevant Permitted Hedge Provider and (ii) the Issuer shall make such payment after such withholding or deduction has been made (such withholding or deduction, a “**Withheld Amount**”) and shall not be obliged to make any additional payments to the relevant Permitted Hedge Provider in respect of such withholding or deduction.

The Administration Agreement will permit any hedging arrangement entered into by the Issuer with a Permitted Hedge Provider to provide that the Issuer will agree that on each Interest Payment Date it will, subject to and in accordance with the agreed order of priority of payments referred to in “Summary – Priority of Payments – prior to enforcement” above, pay to the relevant Permitted Hedge Provider an amount or amounts (“**Withholding Compensation Amounts**”) equal to (i) any Additional Amounts so paid by the relevant Permitted Hedge Provider to the Issuer on such Interest Payment Date together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the relevant Permitted Hedge Provider under the relevant hedging arrangements on any previous Interest Payment Date and (ii) any Withheld Amount on such Interest Payment Date, together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Withheld Amount applicable to any previous Interest Payment Date.

After payment of or for items (i) to (ix) inclusive in the order of priority of payments set out in “Summary – Priority of Payments – prior to enforcement” above, the Issuer may reserve funds on a Principal Determination Date to enable it to purchase hedging arrangements (and related guarantees) in the succeeding Interest Period.



## Capitalisation and indebtedness

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

<i>Share capital</i>	<i>£</i>
Authorised	
26 'A' Ordinary Shares of £1 each	
74 'B' Ordinary Shares of £1 each	
49,900 Preference Shares of £1 each	
<hr/>	
Issued	
26 'A' Ordinary Shares of £1 each (each fully paid)	26.00
74 'B' Ordinary Shares of £1 each (each fully paid)	74.00
49,900 Preference Shares of £1 each (each paid up as to £0.25)	12,475.00
	<hr/> 12,575.00
<i>Secured Loan Capital</i>	<i>£</i>
£198,000,000 Class A Mortgage Backed Floating Rate Notes Due 2019 (now being issued)	198,000,000
£16,500,000 Class B Mortgage Backed Floating Rate Notes Due 2028 (now being issued)	16,500,000
£5,500,000 Class C Mortgage Backed Floating Rate Notes Due 2028 (now being issued)	5,500,000
£25,000,000 Class A Secured Subordinated Loan Stock 2028 (now being issued)	25,000,000
£1,000,000 Class B Secured Subordinated Loan Stock 2028 (now being issued)	1,000,000

Note:

- (1) In addition, an advance under the Subordinated Loan Agreement will be made on the Closing Date in an amount sufficient, among other things, to enable the Issuer to achieve the initial ratings on the Notes. The amount of this advance is expected to be approximately £35,000,000. The Subordinated Loan Agreement will have the benefit of security.

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 other 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 holds 74 'B' Ordinary Shares in the Issuer, all of which are fully paid up, and 49,900 Preference Shares in the Issuer, all of which are paid up as to £0.25. SPV Management Limited, whose registered office is at 78 Cannon Street, London EC4P 5LN, holds 26 'A' Ordinary Shares in the Issuer, all of which are fully paid up. SPV Management Limited holds the beneficial interest in such 26 'A' Ordinary Shares on discretionary trust for various charitable bodies.

The current financial period of the Issuer will end on 30th September 2002. The balance sheets of the Issuer as at 30th September 2000, 30th September 2001 and 24th May 2002 are set out below. As at the date of this Offering Circular, save as disclosed above, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities which are material.

## ACCOUNTANTS' REPORT

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:

“The Directors  
Homeloans (No. 4) PLC  
St. Catherine's Court  
Herbert Road  
Solihull  
West Midlands  
B91 3QE

The Directors  
Barclays Bank PLC  
5 The North Colonnade  
Canary Wharf  
London  
E14 4BB

(for and on behalf of itself and the other Managers of the Issue)

Our Ref: PJNH/DGM

24th May 2002

Dear Sirs

### **Homeloans (No. 4) PLC (the “Issuer”)**

We report on the financial information set out below. This financial information has been prepared for inclusion in the Offering Circular dated 24th May 2002 (the “**Offering Circular**”) relating to the issue of £198,000,000 Class A Mortgage Backed Floating Rate Notes due 2019, £16,500,000 Class B Mortgage Backed Floating Rate Notes due 2028 and £5,500,000 Class C Mortgage Backed Floating Rate Notes due 2028 (the “**Issue**”).

### **Basis of preparation**

The Issuer was incorporated on 15th January 1999 under the name of Finance for People (No. 13) PLC. It changed its name to Homeloans (No. 4) PLC on 14th February 2002.

The Issuer has issued 50,000 shares for a consideration of £12,575. No material contracts or transactions have been entered into save for those in connection with the Issue.

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

The financial information set out in this report is based on the audited statutory accounts of the Issuer for the years ending 30th September 2000 and 30th September 2001 and the audited non-statutory accounts of the Issuer for the period ending 24th May 2002 to which no adjustments were considered necessary.

We have been auditors of the Issuer since its incorporation on 15th January 1999.

### **Responsibility**

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

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

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

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that obtained by us relating to the audit of the non-statutory financial statements for the period ended 24th May 2002 underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

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

### Opinion

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

### BALANCE SHEETS

As at 30th September 2000, 30th September 2001 and 24th May 2002.

	<i>Notes</i>	<i>2000</i> £	<i>2001</i> £	<i>2002</i> £
<b>ASSETS EMPLOYED</b>				
<b>Current Assets</b>				
Debtors .....	2	2.00	2.00	
Cash at bank and in hand .....		—	—	12,575.00
		<u>2.00</u>	<u>2.00</u>	<u>12,575.00</u>
<b>FINANCED BY</b>				
Called up share capital .....	3	2.00	2.00	12,575.00
		<u>2.00</u>	<u>2.00</u>	<u>12,575.00</u>

### NOTES TO THE FINANCIAL INFORMATION

As at 30th September 2000, 30th September 2001 and 24th May 2002.

#### 1. ACCOUNTING POLICIES

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

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

#### 2. DEBTORS

	<i>2000</i> £	<i>2001</i> £	<i>2002</i> £
Amounts falling due within one year:			
Amounts owed by parent company	2.00	2.00	—
	<u>2.00</u>	<u>2.00</u>	<u>—</u>

#### 3. CALLED UP SHARE CAPITAL

	<i>2000</i> £	<i>2001</i> £	<i>2002</i> £
Authorised:			
Ordinary shares of £1 each .....	50,000.00	50,000.00	—
'A' Ordinary Shares of £1 each .....	—	—	26.00
'B' Ordinary Shares of £1 each.....	—	—	74.00
Preference Shares of £1 each.....	—	—	49,900.00
	<u>50,000.00</u>	<u>50,000.00</u>	<u>50,000.00</u>
Allotted:			
Ordinary shares of £1 each (fully paid) .....	2.00	2.00	—
26 'A' Ordinary Shares of £1 each (fully paid) .....	—	—	26.00
74 'B' Ordinary Shares of £1 each (fully paid).....	—	—	74.00
49,900 Preference Shares of £1 each (25p paid) .....	—	—	12,475.00
	<u>2.00</u>	<u>2.00</u>	<u>12,575.00</u>

On 10th April 2002 98 of the remaining unissued shares of the company were re-designated as 26 'A' Ordinary Shares of £1 each and 72 'B' Ordinary Shares of £1 each. The remaining 49,900 unissued shares were designated Preference Shares of £1 each.

The authorised share capital of the Issuer consists of 26 'A' Ordinary Shares of £1 each, 74 'B' Ordinary Shares of £1 each and 49,900 Preference Shares of £1 each. The issued share capital consists of 2 'B' Ordinary Shares (£2 paid-up and allotted on 15th January 1999, which formed the initial share capital of the Issuer), 26 'A' Ordinary Shares and 72 'B' Ordinary Shares (£24.50 paid up and allotted on 10th April 2002 and £73.50 paid up on 26th April 2002) and 49,900 Preference Shares (£12,475 paid-up and allotted on 10th April 2002). Consideration received on the shares allocated during the year was their called up value.

#### **4. PROFIT AND LOSS ACCOUNT**

The Directors have represented that the Issuer has been dormant throughout the period since incorporation on 15th January 1999 until 24th May 2002, and consequently no profit and loss account and no statement of total recognised gains and losses have been prepared. The Directors have received no remuneration and the Issuer has no employees.

#### **5. ULTIMATE PARENT COMPANY**

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

Yours faithfully

Deloitte & Touche

Chartered Accountants"

## THE PARAGON VAT GROUP

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

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

## THE MORTGAGES

### Origination of the Mortgages

All the Mortgages forming part of the initial security for the Notes were sold by PFPLC to HLJ pursuant to the HLJ Mortgage Sale Agreement as described in “Summary – the Mortgages” above and will be sold by HLJ to the Issuer on the Closing Date. All such Mortgages were originated (i) by PFPLC (in the case of the PFPLC-originated Mortgages), (ii) by certain local authorities in England and Wales or the Housing Corporation (in the case of the Local Authority Mortgages) or (iii) by Société Générale (in the case of the SG Mortgages). PFPLC is a public company and a wholly-owned subsidiary of PGC. The ordinary share capital of PGC is listed on the Official List by the UK Listing Authority and admitted to trading on the London Stock Exchange. The registered address of PFPLC is St. Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE. PFPLC’s principal activities are to invest in mortgage loans secured on residential or other properties within the British Isles or elsewhere, to acquire mortgage loans from third parties and to manage or administer loan portfolios for third parties.

### Introduction of Mortgage Business

#### *Sources of PFPLC Lending*

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

#### *Sources of Société Générale Lending*

Société Générale attracted mortgage lending business through its association with a panel of life assurance companies.

#### *Sources of Local Authority Lending*

Certain local authorities in England and Wales and the Housing Corporation accepted mortgage applications directly from residential tenants of council property to fund the purchase of such council property.

### Information on the Mortgages

#### *General*

The Mortgages forming part of the initial security for the Notes all had original maturities of between 5 years and 35 years. No Mortgage falls to be repaid later than March 2017 save for certain Mortgages having an aggregate principal amount outstanding no greater than £10,000,000 which can have a final maturity of no later than July 2026.

The Mortgages will comprise standard variable rate mortgages (“**Standard Mortgages**”) and other types of mortgages (“**Non-Standard Mortgages**”) described below. All the Mortgages will consist of mortgage loans which, save in respect of certain of the Local Authority Mortgages, 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 properties which are the subject of the Mortgages (the “**Properties**”) are residential properties located in England or Wales (the “**English Properties**”) or in Scotland (the “**Scottish Properties**”) and are either freehold or leasehold or, in the case of the Scottish Properties, feudal or long leasehold (and in the case of leasehold or long leasehold the lease has at least 25 years to run beyond the term of the relevant Mortgage).

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

### *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 scheme 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. Neither PFPLC (in relation to the PFPLC Mortgages) nor PML or Société Générale (in relation to the SG Mortgages) has required borrowers under Repayment Mortgages to arrange life assurance or pension cover.

Some Mortgages, when originated, provided for interest only to be paid monthly during their term, with no scheduled payment of principal prior to maturity (“**Interest-only Mortgages**”). Life assurance or pension cover may not have been required by PFPLC (in relation to PFPLC Mortgages) or by PML or Société Générale (in relation to SG Mortgages), in either case in connection with Interest-only Mortgages.

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

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

### **Particular PFPLC Mortgage Types**

Each Standard Mortgage which is a PFPLC Mortgage but not a Local Authority Mortgage may include the following:

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

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

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

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

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

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

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

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

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



## **SG Mortgages**

On origination, certain of the SG Mortgages were operated on a low start basis, i.e. the amount the borrower was required to pay each month was less than the amount of interest which accrued. The resultant shortfall was added to the loan. The period during which payments could be deferred under this type of Mortgage has now expired. In addition, some of the borrowers under the SG Mortgages that operated on a low start basis elected to pay the full amount of interest as it accrued plus a contribution towards the capital repayment of the interest which was deferred in the earlier years of the loan.

Interest on the SG Mortgages is payable monthly at rates which are currently being set by PFPLC as agent for HLJ and, except in certain limited circumstances in which the Trustee or the Substitute Administrator or any substitute administrator will be entitled to take over this function, will, as from the Closing Date, continue to be set by PFPLC but in its capacity as Administrator on behalf of the Issuer and the Trustee after the sale by HLJ to the Issuer and sub-charge by the Issuer of the SG Mortgages.

### **Redemption Provisions – PFPLC-originated Mortgages**

Each PFPLC-originated Mortgage provides that the borrower may prepay principal at any time without prior notice. If a Stabilised Rate Mortgage is redeemed while subject to a stabilised rate of interest, the borrower is required to pay the equivalent of two or, in some cases, three months' interest.

### **Redemption Provisions – Local Authority Mortgages**

Certain of the Local Authority Mortgages restrict the right of the borrower to prepay principal to certain days.

### **Redemption Provisions – SG Mortgages**

The SG Mortgages provide that the borrower may prepay principal at any time on giving one month's prior notice (or one month's interest in lieu of notice).

## **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 Variations", the terms of which are in turn imported into each standard security. In relation to the Scottish Mortgages, both PFPLC and Société Générale on commencement of origination executed a deed of variations varying such Standard Conditions.

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 14 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.

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

time limits, to suspend the exercise of the lender's enforcement remedies for such period and to such extent as the court considers reasonable in the circumstances, having regard among other factors to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation.

The transfer of the beneficial interest in all of the Scottish Mortgages acquired by the Issuer pursuant to the Mortgage Sale Agreement will be effected by declarations of trust (the "**Scottish Declarations of Trust**") made on the Closing Date by PFPLC or (as applicable) PML with the consent of HLJ in favour of the Issuer.

### **Acquisition of Mortgages**

The Issuer will agree with HLJ to purchase the Mortgages pursuant to the Mortgage Sale Agreement. The purchase consideration in respect of the Mortgages purchased on the Closing Date will comprise the payment of cash and the issue of the Loan Stock by the Issuer on such date and the payment of the Deferred Consideration by the Issuer. Further information relating to the acquisition of the Mortgages is set out in "Summary – The Mortgages" above.

### **Perfection of title**

The sales by HLJ to the Issuer of the Mortgages will only be perfected by the execution by PFPLC (in respect of PFPLC Mortgages) and PML (in respect of SG Mortgages), in each case as the holder of legal title to the relevant Mortgages, of transfers and assignments of the Mortgages, the carrying out of requisite registrations, and giving notice to any borrower or guarantor in the circumstances set out below. Neither the Issuer nor the Trustee will be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages. For so long as PFPLC (in respect of PFPLC Mortgages) or PML (in respect of SG Mortgages) retains legal title to such Mortgages, a third party dealing with PFPLC or PML (as relevant) could obtain legal title free of the interests of the Issuer and the Trustee. For so long as PFPLC (in respect of PFPLC Mortgages) or PML (in respect of SG Mortgages) 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 to which it retains legal title. In this regard PFPLC (in respect of PFPLC Mortgages) and PML (in respect of SG Mortgages) will undertake for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required 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 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 PFPLC or PML (as relevant). 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 PFPLC or PML (as relevant) of its contractual obligations or fraud, negligence or mistake on the part of PFPLC or PML (as relevant) or the Issuer or their respective personnel or agents. Under the Mortgage Sale Agreement HLJ will agree that it will not require PFPLC (in respect of PFPLC Mortgages) or PML (in respect of SG Mortgages) to perfect transfers of Mortgages to it and each of PFPLC and PML will agree that it will not perfect transfers of Mortgages to HLJ but will instead, where required to do so and in the circumstances set out below, execute transfers and assignments directly in favour of the Issuer.

Until the transfer of the legal title is perfected, the borrower may continue making payment to PFPLC (in respect of PFPLC Mortgages) and PML (in respect of SG Mortgages). Perfecting legal title would mean that the borrower would no longer be entitled to obtain a good receipt from PFPLC or PML (as relevant) as mortgagee. Under the Mortgage Sale Agreement, HLJ and PFPLC (in respect of PFPLC Mortgages) and HLJ and PML (in respect of SG Mortgages) will undertake that if at any time 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 Declarations of Trust PFPLC (in respect of PFPLC Mortgages) and PML (in respect of SG Mortgages) 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 the PFPLC Collection Account or the PML 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 PFPLC (in respect of PFPLC Mortgages) or PML (in respect of SG Mortgages) or the borrowers without the involvement of the Issuer.

Upon the occurrence of certain events such as (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 (in respect of PFPLC Mortgages) or PML (in respect of SG Mortgages) being required, by an order of a court of competent jurisdiction, or by a regulatory authority of which PFPLC or PML (as relevant) is a member or with whose instructions it is customary for PFPLC or PML (as relevant) to comply, to perfect the transfer of legal title to the Mortgages or (iv) any change occurring in the law after the Closing Date rendering it necessary by law to perfect the transfer of legal title to the Mortgages 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 or (vii) the Interest Payment Date falling in March 2030, the Issuer or the Trustee will have the right to perfect legal title to the Mortgages by executing transfers and assignments of the Mortgages in the appropriate form (if necessary pursuant to irrevocable powers of attorney as described below) effecting the necessary registrations and notifications and giving notice to the borrowers and any guarantors in respect of such Mortgages. The right of the Issuer and the Trustee to exercise the powers of the registered proprietor or heritable creditor of the Mortgages pending registration will be secured by irrevocable powers of attorney granted by PFPLC (in respect of PFPLC Mortgages) and PML (in respect of SG Mortgages) in favour of the Issuer and the Trustee.

### **Searches and Warranties in respect of the Mortgages**

None of HLJ, PFPLC, PML, the Issuer or 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 HLJ, PFPLC and PML 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, Société Générale, 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, 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 Mortgages, the Issuer and the Trustee will rely entirely on the warranties to be 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, among other things, the following: that, subject to registration, the Mortgages in relation to each Property constitute valid and binding obligations of the borrower and are valid and subsisting mortgages or standard securities over which no other mortgage or standard security has priority other than any Mortgage which has also been sold to the Issuer and as to the lending criteria applied in advancing the loans and as to certain other matters, although in respect of the Local Authority Mortgages and the Shared Ownership Mortgages it should be noted that only certain warranties will be given and that, accordingly, the warranties to be given in respect of the Local Authority Mortgages and the Shared Ownership Mortgages will not be as comprehensive as those given in relation to the PFPLC-originated Mortgages and the SG Mortgages. The sole remedy against PFPLC in respect of breach of warranty shall be to require PFPLC to purchase from the Issuer any relevant Mortgage provided that this shall not limit any other remedies available if PFPLC fails to purchase, or procure the purchase of, a Mortgage when obliged to do so. PFPLC will also agree in the Mortgage Sale Agreement that, if a term of any Mortgage is at any time on or after the Closing Date found by a competent court, whether on application of a borrower, the Director General of Fair Trading or otherwise to be an unfair term for the purposes of the Unfair Terms in Consumer Contracts Regulations 1994 or 1999, it shall purchase or procure the purchase of the Mortgage concerned.

The Class A Subscription Agreement, the Class B Subscription Agreement and the Class C Subscription Agreement referred to in "Subscription and Sale" below contain warranties by PFPLC to the effect that the information in this Offering Circular with regard to the Mortgages, the Properties, the insurance contracts relating to the Properties and the Mortgages and PFPLC and its business is true and accurate in all material respects.

## LENDING GUIDELINES

### PFPLC Mortgages

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

#### Types of Property

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

#### Amount of Mortgage

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

#### Status

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

For advances which (excluding certain fees) do not exceed 75% of the market valuation or the purchase price (or, in the case of a Right-to-Buy Mortgage, 75% of the market value), where relevant, whichever is the lower, no further credit references are sought.

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

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

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

#### Type of Loan

All Mortgages (other than Repayment Mortgages and Interest-only Mortgages) are endowment mortgages or pension-linked mortgages (under which payments of interest only are made by the borrowers). The related life policy or policies have (in aggregate) a minimum death benefit at least equal to the initial principal amount advanced under the relevant Mortgage and any scheduled further advances of deferred interest or endowment premiums (but excluding any mortgage guarantee indemnity insurance

premium and certain other fees). Discretionary Further Advances and further advances under certain Mortgages which have or have had deferred payment facilities may, however, not be covered by life insurance.

### **Repayment Term**

Between five years and 35 years.

### **Valuation of Property**

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

### **Income Multiple**

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

### **Endowment Life Assurance**

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

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

Endowment policies are required to:

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

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

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

### **Life Cover for Pension-Linked Mortgages**

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

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

Life policies are required to:

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

## SG Mortgages

The guidelines relating to the SG Mortgages were not substantially different from the following (which, although expressed in the present tense, should be read as applying at the time of origination of each SG Mortgage):

### Types of Property

Primary-residence-only properties which are either freehold (or the Scottish equivalent) or leasehold and, in the case of leasehold properties, with at least 35 years remaining on the lease at the end of the mortgage term.

### Amount of Mortgage

Up to £250,000 (with loans above this amount considered on their merits) subject, generally, to a maximum (excluding any mortgage guarantee indemnity insurance premium and certain other fees) of 95% of the market valuation or purchase price, where relevant, whichever is the lower. Mortgage guarantee indemnity insurance is required where the advance exceeds 75% of the market valuation or purchase price, where relevant, whichever is the lower (excluding certain fees which are added to the advance), and the single premium is added to the amount of the advance. *(It should be noted, however, that such insurance will not be assigned to the Issuer and the Issuer cannot therefore claim under such insurance.)*

### Status

A search is made in all cases which would give details of any County Court judgements (or the Scottish equivalent) or defaults registered against the applicant at the applicant's declared address to cover the preceding two year period and might give details of recent credit transactions of the applicant.

An employer's reference is required from all applicants whose income is included in the calculation for the mortgage advance. In cases where the employer is unwilling to provide a reference, the last three payslips and a P60 are required to support the application.

An accountant's certificate is required for all self-employed applicants and applicants who hold more than 33% of the employing company's issued share capital. Receipted tax assessments are also requested in certain circumstances.

If applicable, a statement of account from a previous lender or bank statements are required to ascertain the performance of previous mortgage borrowing. Alternatively, the previous lender is asked to confirm that the account has been conducted satisfactorily.

### Type of Loan

All SG Mortgages (other than Repayment Mortgages and Interest-only Mortgages) are endowment mortgages or pension-linked mortgages (under which payment of interest only is made by the borrowers). The related life policy or policies are expected at origination, on the basis of criteria generally applied by mortgage lenders in the United Kingdom, to have (in aggregate) a minimum death benefit at least equal to the initial principal amount advanced under the relevant SG Mortgage and any scheduled further advances of deferred interest or endowment premiums (but excluding any mortgage guarantee indemnity insurance premium and certain other fees).

### Repayment Term

The repayment term of each Mortgage is between ten years and 35 years.

### Valuation of Property

A valuation is required by a qualified valuer approved by Société Générale to ascertain the saleability and value of the property.

### Income Multiple

Income multiples of up to three times (in certain cases, three and a half times) the annual income of the primary wage earner plus all the annual income of the second applicant or, in the case of joint borrowers, up to two and a half times (in certain cases, two and three-quarters times) the joint income are permitted. The income multiples do not take into account mortgage guarantee insurance premiums or certain other fees.

### **Endowment Life Assurance**

A range of endowment life insurance policies is acceptable for deposit with, or assignment or assignation to, Société Générale by way of security for endowment SG Mortgages.

Endowment policies are required to:

1. be full or low cost or low cost low start endowment policies (conventional or unit linked); and
2. have a guaranteed minimum death benefit (in aggregate with other policies deposited or assigned) of not less than the loan amount.

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

### **Life Cover for Pension-Linked SG Mortgages**

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

Policies from one of Société Générale's panel of life offices or existing life policies from any U.K. registered life assurance company were acceptable.

Life policies are required to have a guaranteed minimum death benefit (in aggregate with other policies deposited or assigned) of not less than the loan amount.

## 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 the SG Mortgages, the Local Authority Mortgages, the Right-to-Buy Mortgages and the Shared Ownership Mortgages, where the amount of an initial advance by PFPLC (excluding certain fees added to the amount of the initial advance) when aggregated with any further advances scheduled to be or actually made by PFPLC exceeded 75% of the lower of the purchase price, where relevant, and the value of the Property for security purposes in the opinion of a valuer approved by PFPLC or, in the case of Right-to-Buy Mortgages where the original advance (excluding certain fees added to the amount of the original advance) exceeded 75% of the valuation of the relevant property and save in respect of certain Mortgages where the premium for the mortgage indemnity insurance is £10.00 or less, HLJ acquired from PFPLC pursuant to the HLJ Mortgage Sale Agreement, the benefit of the mortgage indemnity insurance written by Royal & Sun Alliance, an insurance company whose registered office is at St. Mark's Court, Chart Way, Horsham, West Sussex RH12 1XL or Legal & General, an insurance company whose registered office is at Temple Court, 11 Queen Victoria Street, London EC4N 4TP. In such cases, a single premium was payable by the borrower at the time of the advance by PFPLC 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 HLJ's interests in the Royal & Sun Alliance and Legal & General mortgage indemnity insurance policies as they relate to Properties which are subject to the Mortgages will be assigned to the Issuer and be charged by the Issuer to the Trustee. Any claim under such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

Although similar mortgage indemnity insurance has been obtained for certain of the SG Mortgages, the benefit of this insurance was retained by PML when the SG Mortgages were sold to HLJ and so will not be sold to the Issuer under the Mortgage Sale Agreement. PML will undertake to pay to the Issuer such amounts, if any, as are received by it under such insurance where such amounts relate to the Mortgages and to the Issuer's period of ownership of the Mortgages but without any obligation to pursue claims therefor. However, PML will be entitled at its option to release insurers from their obligations under such mortgage indemnity insurance and to retain any consideration for such release and therefore there can be no assurance that the Issuer will benefit from this mortgage indemnity insurance.

### **Buildings Insurance**

All freehold Properties (or the Scottish equivalent) except those mentioned in the next paragraph are insured under the comprehensive master and comprehensive block policies for their reinstatement value, as recommended by the relevant valuer. The relevant block policies are with Legal & General, an insurance company whose registered office is at Temple Court, 11 Queen Victoria Street, London EC4N 4TP. 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, PFPLC (in respect of PFPLC Mortgages) and PML (in respect of SG Mortgages) took all reasonable steps to ensure that it became a named insured or that its interest was noted on the policy taken out by the borrower.

In cases involving freehold Properties (or the Scottish equivalent) or leasehold Properties PFPLC and PML both have the benefit of a policy with Aon Group Limited, an insurance company whose registered office is at 8 Devonshire Square, London EC2M 4PL, which covers losses arising from a failure by an insurer under a buildings policy arranged by a borrower to pay in full the amount of any otherwise valid



claim under such policy by such borrower or by PFPLC (in respect of PFPLC Mortgages) or PML (in respect of SG Mortgages) as a result of acts or omissions unknown to, or beyond the control of, PFPLC (in respect of PFPLC Mortgages) or PML (in respect of SG Mortgages).

Leasehold Properties are 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, PFPLC (in respect of PFPLC Mortgages) and PML (in respect of SG Mortgages) took all reasonable steps to ensure that the relevant Property is insured under a policy with an insurance company approved by PFPLC (in respect of PFPLC Mortgages) or PML (in respect of SG Mortgages) 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 PFPLC (in respect of PFPLC Mortgages) or PML (in respect of SG Mortgages) became a named insured or its interest was noted by the insurers.

In cases involving leasehold Property where the lease requires insurance to be effected by the landlord, there is insurance providing 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.

Pursuant to the HLJ Mortgage Sale Agreement and the Mortgage Sale Agreement, the Issuer will, with effect from the Closing Date, acquire the benefit of the insurance policies referred to above or will be or become a named insured under such policies. 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. 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**

PFPLC 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 the original mortgagee in relation to the Mortgages should be covered by the professional indemnity insurance which solicitors are required to maintain by The Law Society or The Law Society of Scotland. This insurance should (if it is taken out) provide compensation in the event that the original mortgagee 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 the original mortgagee in relation to the English Mortgages should be covered by a professional indemnity scheme established under the Administration of Justice Act 1985. This scheme should provide compensation in the event that the original mortgagee or the Issuer has a claim against such licensed conveyancers for negligence which is not satisfied by such licensed conveyancers out of their own resources.

PFPLC has the benefit of receipts of claims payments from insurances with the London General Insurance Company Limited, an insurance company whose registered office is at Combined House, 15 Wheatfield Way, Kingston-upon-Thames, Surrey KT1 2PQ which provide for certain payments to be made to PFPLC in the event of the total disability, unemployment or hospitalisation of a particular borrower under a PFPLC-originated Mortgage. Such receipts by PFPLC are applied by it in reducing the borrower's indebtedness to PFPLC. The benefit of any receipts of this insurance will extend to the Issuer and the Trustee.

## THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool comprising all of the Mortgages owned by HLJ on 28th February 2002 (the “**Provisional Pool Date**”), as evidenced by the mortgages described below (the “**Provisional Mortgage Pool**”) as at the Provisional Pool Date consisted of 6,150 Mortgages having an aggregate Provisional Balance (as defined below) of £270,702,727.86.

The Provisional Balance of a Mortgage includes amounts which have, at the relevant date, accrued and become due and payable but which remained unpaid (the “**Provisional Balance**”).

The Mortgages to be purchased by the Issuer on the Closing Date will be all of the Mortgages which comprise the Provisional Mortgage Pool other than any such Mortgages which do not comply with the warranties in the Mortgage Sale Agreement and other than any such Mortgages which are redeemed in full prior to the Closing Date. Therefore the information set out below in relation to the Provisional Mortgage Pool may not necessarily correspond exactly to that for the Mortgages sold to the Issuer (see “Summary – Selection of Mortgages” above).

All of the Mortgages forming part of the Provisional Mortgage Pool were originated between September 1985 and November 1993. The Local Authority Mortgages were acquired by PFPLC between December 1985 and October 1986. The SG Mortgages were originated by Société Générale from September 1985 up to and including March 1992. There are no Fixed Rate Mortgages or Capped Rate Mortgages in the Provisional Mortgage Pool.

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 (“LTV”) Ratios Based on Latest Valuation<sup>(1)</sup> (By Provisional Balance less Accrued Arrears<sup>(2)</sup>)

<i>LTV ratios (%)</i>	<i>Number of Mortgages</i>	<i>Provisional Balance less Accrued Arrears</i>		<i>Accrued Arrears</i>		<i>Provisional Balance</i>	
		<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>
< = 25 .....	743	7,245,599.54	3.07	393,564.30	1.15	7,639,163.84	2.82
> 25 < = 50 .....	1,246	34,795,554.73	14.72	1,340,238.80	3.91	36,135,793.53	13.35
> 50 < = 55 .....	425	14,722,252.33	6.23	890,685.54	2.60	15,612,937.87	5.77
> 55 < = 60 .....	421	15,743,040.80	6.66	1,151,934.32	3.36	16,894,975.12	6.24
> 60 < = 65 .....	486	20,139,678.70	8.52	2,130,920.76	6.21	22,270,599.46	8.23
> 65 < = 70 .....	573	24,827,152.64	10.50	2,836,351.84	8.27	27,663,504.48	10.22
> 70 < = 75 .....	605	29,219,652.03	12.36	3,103,733.94	9.05	32,323,385.97	11.94
> 75 < = 80 .....	574	28,794,740.73	12.18	5,144,005.87	14.99	33,938,746.60	12.54
> 80 < = 85 .....	356	19,903,780.09	8.42	4,404,343.06	12.84	24,308,123.15	8.98
> 85 < = 90 .....	239	12,401,868.84	5.25	3,213,790.54	9.37	15,615,659.38	5.77
> 90 < = 95 .....	190	9,667,241.38	4.09	1,920,733.16	5.60	11,587,974.54	4.28
> 95 < = 97 .....	72	3,217,465.99	1.36	337,883.94	0.98	3,555,349.93	1.31
> 97 < = 100 .....	55	2,965,773.50	1.25	945,549.79	2.76	3,911,323.29	1.44
Over 100 .....	165	12,753,987.45	5.40	6,491,203.25	18.92	19,245,190.70	7.11
<b>Total</b> .....	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>

Weighted average LTV by Provisional Balance less Accrued Arrears 69.34%

Notes:

- (1) The term “Latest Valuation” means the valuation of the relevant Property in connection with the origination of the Mortgage secured on such Property or, in the event that PFPLC or PML has obtained any subsequent valuation of such Property in connection with, for example, Discretionary Further Advances, enforcement procedures or arrears procedures, the latest valuation of such Property so obtained.
- (2) The term “Accrued Arrears”, as used in the tables on this and the following pages, means all sums which have accrued as due and payable by borrowers in respect of the Mortgages which remain unpaid as at the Provisional Pool Date.

**LTV Based on Latest Valuation<sup>(1)</sup>**  
**(By Provisional Balance)**

<i>LTV ratios (%)</i>	<i>Number of Mortgages</i>	<i>Provisional Balance less Accrued Arrears</i>		<i>Accrued Arrears</i>		<i>Provisional Balance</i>	
		<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>
< = 25	732	7,075,755.06	2.99	22,312.23	0.07	7,098,067.29	2.62
> 25 < = 50 .....	1,166	31,788,248.34	13.45	436,130.50	1.27	32,224,378.84	11.90
> 50 < = 55 .....	369	12,208,362.46	5.16	212,677.88	0.62	12,421,040.34	4.59
> 55 < = 60 .....	375	13,439,619.72	5.69	319,008.32	0.93	13,758,628.04	5.08
> 60 < = 65 .....	412	15,673,306.74	6.63	546,433.19	1.59	16,219,739.93	5.99
> 65 < = 70 .....	443	18,523,994.76	7.84	692,608.40	2.02	19,216,603.16	7.10
> 70 < = 75 .....	518	24,067,521.54	10.18	719,840.39	2.10	24,787,361.93	9.16
> 75 < = 80 .....	454	20,762,995.63	8.78	974,293.69	2.84	21,737,289.32	8.03
> 80 < = 85 .....	295	14,342,818.11	6.07	1,057,550.24	3.08	15,400,368.35	5.69
> 85 < = 90 .....	246	11,517,088.27	4.87	1,247,220.38	3.64	12,764,308.65	4.72
> 90 < = 95 .....	234	11,157,901.48	4.72	1,367,229.61	3.99	12,525,131.09	4.63
> 95 < = 97 .....	102	4,415,326.22	1.87	572,911.31	1.67	4,988,237.53	1.84
> 97 < = 100 .....	82	3,683,021.27	1.56	830,005.07	2.42	4,513,026.34	1.67
Over 100 .....	722	47,741,829.15	20.20	25,306,717.90	73.77	73,048,547.05	26.98
<b>Total</b> .....	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>

Weighted average LTV by Provisional Balance 89.06%

**Product Summary by Repayment Method**  
**(By Provisional Balance less Accrued Arrears)**

<i>Product</i>	<i>Number of Mortgages</i>	<i>Provisional Balance less Accrued Arrears</i>		<i>Accrued Arrears</i>		<i>Provisional Balance</i>	
		<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>
Endowment/interest-only.....	3,106	127,313,437.18	53.86	8,153,973.67	23.77	135,467,410.85	50.04
Repayment .....	3,044	109,084,351.57	46.14	26,150,965.44	76.23	135,235,317.01	49.96
<b>Total</b> .....	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>

Note:

(1) The term "Latest Valuation" means the valuation of the relevant Property in connection with the origination of the Mortgage secured on such Property or, in the event that PFPLC or PML has obtained any subsequent valuation of such Property in connection with, for example, Discretionary Further Advances, enforcement procedures or arrears procedures, the latest valuation of such Property so obtained.

**Loan Size**  
**(By Provisional Balance less Accrued Arrears)**

Loan size (£)	Number of Mortgages	Provisional Balance less Accrued Arrears		Accrued Arrears		Provisional Balance	
		(£)	%	(£)	%	(£)	%
0 - 15,000 .....	849	5,245,564.96	2.22	423,090.35	1.23	5,668,655.31	2.09
15,000.01 – 30,000 ....	1,765	41,478,273.59	17.55	1,915,132.31	5.58	43,393,405.90	16.03
30,000.01 – 45,000 ....	1,763	64,578,602.81	27.32	5,128,576.35	14.95	69,707,179.16	25.75
45,000.01 – 60,000 ....	916	47,277,082.25	20.00	6,682,231.21	19.48	53,959,313.46	19.93
60,000.01 – 70,000 ....	308	19,739,575.29	8.35	3,361,898.13	9.80	23,101,473.42	8.53
70,000.01 – 80,000 ....	165	12,204,724.49	5.16	2,384,913.00	6.95	14,589,637.49	5.39
80,000.01 – 90,000 ....	98	8,287,703.72	3.51	2,023,423.92	5.90	10,311,127.64	3.81
90,000.01 – 100,000 ..	80	7,533,787.99	3.19	1,849,265.49	5.39	9,383,053.48	3.47
100,000.01 – 110,000	46	4,827,527.96	2.04	1,185,183.16	3.45	6,012,711.12	2.22
110,000.01 – 120,000	34	3,905,775.35	1.65	1,133,224.00	3.30	5,038,999.35	1.86
120,000.01 – 130,000	28	3,460,550.12	1.46	766,986.48	2.24	4,227,536.60	1.56
130,000.01 – 140,000	17	2,282,002.35	0.97	625,162.78	1.82	2,907,165.13	1.07
140,000.01 – 150,000	14	2,039,703.49	0.86	799,229.63	2.33	2,838,933.12	1.05
150,000.01 – 175,000	25	3,995,188.70	1.69	1,051,545.51	3.07	5,046,734.21	1.86
175,000.01 – 200,000	14	2,604,461.42	1.10	858,129.43	2.50	3,462,590.85	1.28
200,000.01 – 250,000	14	3,071,170.79	1.30	1,595,548.35	4.65	4,666,719.14	1.72
Over 250,000 .....	14	3,866,093.47	1.64	2,521,399.01	7.35	6,387,492.48	2.36
<b>Total</b> .....	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>

Average loan size (by Provisional Balance less Accrued Arrears) £38,438.66

**Loan Size**  
**(By Provisional Balance)**

Loan size (£)	Number of Mortgages	Provisional Balance less Accrued Arrears		Accrued Arrears		Provisional Balance	
		(£)	%	(£)	%	(£)	%
0 – 15,000 .....	838	5,111,010.73	2.16	21,702.39	0.06	5,132,713.12	1.90
15,000.01 – 30,000 ....	1,591	36,643,146.91	15.50	707,261.27	2.06	37,350,408.18	13.80
30,000.01 – 45,000 ....	1,660	58,118,121.78	24.58	2,587,147.03	7.54	60,705,268.81	22.43
45,000.01 – 60,000 ....	884	42,315,117.49	17.90	3,312,102.21	9.65	45,627,219.70	16.86
60,000.01 – 70,000 ....	335	19,218,059.16	8.13	2,349,723.88	6.85	21,567,783.04	7.97
70,000.01 – 80,000 ....	200	12,562,098.56	5.31	2,316,427.63	6.75	14,878,526.19	5.50
80,000.01 – 90,000 ....	164	11,201,727.98	4.74	2,680,241.42	7.81	13,881,969.40	5.13
90,000.01 – 100,000 ..	101	7,672,660.75	3.25	1,888,083.90	5.50	9,560,744.65	3.53
100,000.01 – 110,000	71	5,882,840.41	2.49	1,544,582.83	4.50	7,427,423.24	2.74
110,000.01 – 120,000	59	5,375,914.08	2.27	1,396,191.97	4.07	6,772,106.05	2.50
120,000.01 – 130,000	44	4,329,973.11	1.83	1,166,890.27	3.40	5,496,863.38	2.03
130,000.01 – 140,000	29	2,677,283.42	1.13	1,233,210.98	3.59	3,910,494.40	1.44
140,000.01 – 150,000	34	3,480,133.62	1.47	1,452,253.63	4.23	4,932,387.25	1.82
150,000.01 – 175,000	51	6,161,365.99	2.61	2,087,431.47	6.08	8,248,797.46	3.05
175,000.01 – 200,000	18	2,445,809.38	1.03	885,193.03	2.58	3,331,002.41	1.23
200,000.01 – 250,000	26	3,751,180.47	1.59	2,023,262.60	5.90	5,774,443.07	2.13
Over 250,000 .....	45	9,451,344.91	4.00	6,653,232.60	19.39	16,104,577.51	5.95
<b>Total</b> .....	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>

Average loan size (by Provisional Balance) £44,016.70

**Property Tenure**  
**(By Provisional Balance less Accrued Arrears)**

<i>Property tenure</i>	<i>Number of Mortgages</i>	<i>Provisional Balance less Accrued Arrears</i>		<i>Accrued Arrears</i>		<i>Provisional Balance</i>	
		<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>
Freehold.....	4,977	193,086,404.22	81.68	28,919,165.85	84.30	222,005,570.07	82.01
Leasehold.....	971	36,646,050.51	15.50	4,605,069.88	13.42	41,251,120.39	15.24
Feudal .....	202	6,665,334.02	2.82	780,703.38	2.28	7,446,037.40	2.75
<b>Total.....</b>	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>

**Seasoning of Mortgages**  
**(By Provisional Balance less Accrued Arrears)**

<i>Year of Completion</i>	<i>Number of Mortgages</i>	<i>Provisional Balance less Accrued Arrears</i>		<i>Accrued Arrears</i>		<i>Provisional Balance</i>	
		<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>
1985 .....	12	215,919.28	0.09	—	0.00	215,919.28	0.08
1986 .....	774	9,950,920.64	4.21	413,106.81	1.20	10,364,027.45	3.83
1987 .....	861	34,495,776.65	14.59	2,081,172.40	6.07	36,576,949.05	13.51
1988 .....	824	36,409,427.30	15.40	3,303,656.35	9.63	39,713,083.65	14.67
1989 .....	1,298	59,823,225.52	25.31	11,883,949.36	34.64	71,707,174.88	26.49
1990 .....	1,585	64,217,836.72	27.17	11,488,345.78	33.49	75,706,182.50	27.97
1991 .....	794	31,223,630.79	13.21	5,133,422.29	14.96	36,357,053.08	13.43
1992 .....	1	19,259.89	0.01	—	0.00	19,259.89	0.01
1993 .....	1	41,791.96	0.02	1,286.12	0.00	43,078.08	0.02
<b>Total.....</b>	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>

Weighted average seasoning in years 12.65

**Maturity of Mortgages**  
**(By Provisional Balance less Accrued Arrears)**

<i>Years to Maturity</i>	<i>Number of Mortgages</i>	<i>Provisional Balance less Accrued Arrears</i>		<i>Accrued Arrears</i>		<i>Provisional Balance</i>	
		<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>
< 5.....	702	16,802,032.52	7.11	1,876,692.90	5.47	18,678,725.42	6.90
> = 5 < 10 .....	1,559	49,531,223.21	20.95	7,108,083.00	20.72	56,639,306.21	20.92
> = 10 < 15 .....	3,718	161,816,521.33	68.45	23,957,184.78	69.84	185,773,706.11	68.63
> = 15 < 20 .....	113	5,480,823.17	2.32	892,861.11	2.60	6,373,684.28	2.35
> = 20 < 25 .....	58	2,767,188.52	1.17	470,117.32	1.37	3,237,305.84	1.20
<b>Total.....</b>	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>

Weighted average remaining term in years 10.90

**Loan Purpose**  
**(By Provisional Balance less Accrued Arrears)**

<i>Use of Proceeds</i>	<i>Number of Mortgages</i>	<i>Provisional Balance less Accrued Arrears</i>		<i>Accrued Arrears</i>		<i>Provisional Balance</i>	
		<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>
Purchase.....	3,158	110,575,308.74	46.78	11,389,169.08	33.20	121,964,477.82	45.05
Remortgage.....	2,992	125,822,480.01	53.22	22,915,770.03	66.80	148,738,250.04	54.95
<b>Total.....</b>	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>

**Geographic Dispersion**  
**(By Provisional Balance less Accrued Arrears)**

<i>Defined Area</i>	<i>Number of Mortgages</i>	<i>Provisional Balance less Accrued Arrears</i>		<i>Accrued Arrears</i>		<i>Provisional Balance</i>	
		<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>	<i>(£)</i>	<i>%</i>
North .....	100	2,373,602.54	1.00	220,428.33	0.64	2,594,030.87	0.96
North west.....	583	17,125,696.09	7.24	2,796,152.79	8.15	19,921,848.88	7.36
Yorkshire.....	303	6,224,405.26	2.63	588,364.46	1.72	6,812,769.72	2.52
East Midlands.....	591	19,695,087.89	8.33	3,136,930.63	9.14	22,832,018.52	8.43
West Midlands .....	717	21,123,407.06	8.94	2,777,556.60	8.10	23,900,963.66	8.83
East Anglia .....	208	8,085,738.56	3.42	1,136,209.90	3.31	9,221,948.46	3.41
South east .....	2,069	98,034,699.18	41.47	14,563,631.12	42.45	112,598,330.30	41.59
South west .....	480	16,276,241.23	6.89	2,555,072.57	7.45	18,831,313.80	6.96
Greater London .....	718	35,006,599.74	14.81	4,954,946.98	14.44	39,961,546.72	14.76
Wales .....	179	5,786,977.18	2.45	794,942.35	2.32	6,581,919.53	2.43
Scotland.....	202	6,665,334.02	2.82	780,703.38	2.28	7,446,037.40	2.75
<b>Total.....</b>	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>

**Number of Months in Arrears – Properties in Possession  
(By Provisional Balance less Accrued Arrears)**

Number of Months in Arrears	Number of Mortgages	Provisional Balance less Accrued Arrears		Accrued Arrears		Provisional Balance	
		(£)	%	(£)	%	(£)	%
Performing .....	2	42,842.90	1.28	512.73	0.03	43,355.63	0.84
> 1 <= 2 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
> 2 <= 3 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
> 3 <= 4 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
> 4 <= 5 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
> 5 <= 6 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
> 6 <= 7 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
> 7 <= 8 .....	1	31,705.16	0.95	1,901.27	0.10	33,606.43	0.65
> 8 <= 9 .....	2	50,196.15	1.50	2,981.44	0.16	53,177.59	1.03
> 9 <= 10 .....	1	33,062.89	0.99	3,535.19	0.19	36,598.08	0.71
> 10 <= 11 .....	3	92,649.48	2.78	7,393.68	0.40	100,043.16	1.93
> 11 <= 12 .....	1	39,982.94	1.20	3,696.44	0.20	43,679.38	0.84
> 12 <= 15 .....	2	72,516.86	2.17	8,557.24	0.46	81,074.10	1.56
> 15 <= 18 .....	1	22,353.46	0.67	3,498.43	0.19	25,851.89	0.50
> 18 <= 21 .....	3	92,424.06	2.77	17,864.19	0.97	110,288.25	2.13
> 21 <= 24 .....	3	168,419.22	5.05	29,567.38	1.60	197,986.60	3.82
> 24 <= 30 .....	3	112,035.13	3.36	35,874.22	1.95	147,909.35	2.86
> 30 <= 36 .....	11	482,602.86	14.47	191,009.24	10.36	673,612.10	13.00
> 36 <= 42 .....	6	423,585.48	12.70	165,964.91	9.00	589,550.39	11.38
> 42 .....	13	1,671,766.77	50.11	1,371,955.89	74.39	3,043,722.66	58.75
<b>Total</b> .....	<b>52</b>	<b>3,336,143.36</b>	<b>100.00</b>	<b>1,844,312.25</b>	<b>100.00</b>	<b>5,180,455.61</b>	<b>100.00</b>

Weighted average no. months in arrears for Mortgages where the Properties are in Possession (by Provisional Balance less Accrued Arrears) 40.37

Weighted average no. months in arrears for Mortgages where the Properties are in Possession (by Provisional Balance) 43.58

**Number of Months in Possession – Properties in Possession  
(By Provisional Balance less Accrued Arrears)**

Number of Months in Possession	Number of Mortgages	Provisional Balance less Accrued Arrears		Accrued Arrears		Provisional Balance	
		(£)	%	(£)	%	(£)	%
1 .....	17	773,174.06	23.18	267,435.03	14.50	1,040,609.09	20.09
2 .....	7	478,690.82	14.35	297,905.89	16.15	776,596.71	14.99
3 .....	5	301,650.10	9.04	164,663.80	8.93	466,313.90	9.00
4 .....	6	735,367.71	22.04	493,912.24	26.78	1,229,279.95	23.73
5 .....	2	63,266.26	1.90	16,822.58	0.91	80,088.84	1.55
6 .....	6	317,730.41	9.52	127,285.10	6.90	445,015.51	8.59
7 .....	2	242,027.51	7.25	181,139.49	9.82	423,167.00	8.17
8 .....	1	48,006.23	1.44	21,489.00	1.17	69,495.23	1.34
9 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
10 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
11 .....	1	27,150.02	0.81	8,493.00	0.46	35,643.02	0.69
12 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
13 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
14 .....	2	218,941.36	6.56	192,075.99	10.41	411,017.35	7.93
15 .....	1	48,858.78	1.46	16,604.21	0.90	65,462.99	1.26
16 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
17 .....	0	0.00	0.00	0.00	0.00	0.00	0.00
18 .....	1	28,278.73	0.85	8,719.72	0.47	36,998.45	0.71
19 .....	1	53,001.37	1.59	47,766.20	2.59	100,767.57	1.95
<b>Total</b> .....	<b>52</b>	<b>3,336,143.36</b>	<b>100.00</b>	<b>1,844,312.25</b>	<b>100.00</b>	<b>5,180,455.61</b>	<b>100.00</b>

Weighted average no. months in possession (by Provisional Balance less Accrued Arrears) 4.41

Weighted average no. months in possession (by Provisional Balance) 4.66

**Number of Months in Arrears – All Loans  
(By Provisional Balance less Accrued Arrears)**

<i>Number of Months in Arrears</i>	<i>Number of Mortgages</i>	<i>Provisional Balance less Accrued Arrears (£)</i>		<i>Accrued Arrears (£)</i>		<i>Provisional Balance (£)</i>	
			<i>%</i>		<i>%</i>		<i>%</i>
Performing .....	3,885	126,716,169.18	53.60	75,052.10	0.22	126,791,221.28	46.84
>1 <= 2 .....	244	8,993,673.03	3.80	101,244.96	0.30	9,094,917.99	3.36
>2 <= 3 .....	141	5,160,833.25	2.18	98,371.69	0.29	5,259,204.94	1.94
>3 <= 4 .....	106	3,769,078.87	1.59	102,385.99	0.30	3,871,464.86	1.43
>4 <= 5 .....	93	3,691,477.72	1.56	134,147.22	0.39	3,825,624.94	1.41
>5 <= 6 .....	75	3,040,196.32	1.29	138,594.35	0.40	3,178,790.67	1.17
>6 <= 7 .....	57	2,337,629.55	0.99	129,703.24	0.38	2,467,332.79	0.91
>7 <= 8 .....	53	1,826,880.63	0.77	115,465.86	0.34	1,942,346.49	0.72
>8 <= 9 .....	46	1,842,401.92	0.78	135,244.13	0.39	1,977,646.05	0.73
>9 <= 10 .....	48	1,950,749.32	0.83	162,462.14	0.47	2,113,211.46	0.78
>10 <= 11 .....	42	1,588,927.03	0.67	148,065.34	0.43	1,736,992.37	0.64
>11 <= 12 .....	41	1,617,693.13	0.68	177,228.23	0.52	1,794,921.36	0.66
>12 <= 15 .....	108	4,582,106.35	1.94	578,234.83	1.69	5,160,341.18	1.91
>15 <= 18 .....	104	4,524,283.16	1.91	707,754.49	2.06	5,232,037.65	1.93
>18 <= 21 .....	107	4,749,509.97	2.01	912,820.82	2.66	5,662,330.79	2.09
>21 <= 24 .....	105	4,522,371.92	1.91	1,053,639.42	3.07	5,576,011.34	2.06
>24 <= 30 .....	204	9,612,021.02	4.07	2,763,745.81	8.06	12,375,766.83	4.57
>30 <= 36 .....	255	13,958,679.57	5.90	5,214,023.79	15.20	19,172,703.36	7.08
>36 <= 42 .....	163	9,611,472.56	4.07	4,487,328.28	13.08	14,098,800.84	5.21
>42 .....	273	22,301,634.25	9.43	17,069,426.42	49.76	39,371,060.67	14.54
<b>Total .....</b>	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>

Weighted average no. months in arrears for Mortgages with Accrued Arrears  
(by Provisional Balance less Accrued Arrears) 21.31

Weighted average no. months in arrears for Mortgages with Accrued Arrears  
(by Provisional Balance) 25.56

**Interest rate fixing method  
(By Provisional Balance less Accrued Arrears)**

<i>Rate type</i>	<i>Number of Mortgages</i>	<i>Provisional Balance less Accrued Arrears (£)</i>		<i>Accrued Arrears (£)</i>		<i>Provisional Balance (£)</i>	
			<i>%</i>		<i>%</i>		<i>%</i>
Local Authority .....	593	3,410,768.82	1.44	18,470.77	0.05	3,429,239.59	1.27
Standard variable .....	4,750	196,167,334.47	82.98	33,443,183.50	97.49	229,610,517.97	84.82
Blue Chip .....	807	36,819,685.46	15.58	843,284.84	2.46	37,662,970.30	13.91
<b>Totals .....</b>	<b>6,150</b>	<b>236,397,788.75</b>	<b>100.00</b>	<b>34,304,939.11</b>	<b>100.00</b>	<b>270,702,727.86</b>	<b>100.00</b>



**Analysis of percentage of subscription<sup>(1)</sup> paid (in aggregate) for Arrears Mortgages**

<i>% Paid</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.....	16,517,641.59	15.06	5,084,133.69	4.64	3,482,818.66	3.18
> = 0 < = 50.....	45,685,746.29	41.65	43,440,970.36	39.61	42,737,035.67	38.96
> 50 < 100 .....	19,922,985.61	18.16	34,677,097.57	31.62	38,250,656.76	34.87
= 100.....	2,011,662.00	1.83	392,128.98	0.36	273,189.20	0.25
> 100 < = 150 .....	23,162,485.21	21.12	24,978,900.36	22.77	24,267,713.32	22.13
> 150.....	2,381,098.87	2.17	1,108,388.61	1.01	670,205.96	0.61
<b>Total .....</b>	<b>109,681,619.57</b>	<b>100.00</b>	<b>109,681,619.57</b>	<b>100.00</b>	<b>109,681,619.57</b>	<b>100.00</b>

Note:

(1) The Subscription is the monthly amount due. This table shows the Provisional Balance less Accrued Arrears 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 less Accrued Arrears of £19,922,985.61 have paid in aggregate between 50% and 100% of their subscriptions for the last month, and accounts with a Provisional Balance of £38,250,656.76 have paid in aggregate between 50% and 100% of their 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 in respect of the Mortgages under the Administration Agreement, expected to be dated the Closing Date, 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, if the Class B Notes have been redeemed in full, the Class C Noteholders, or in the event of PFPLC's insolvency. In addition, PFPLC's appointment will, unless PFPLC, the Trustee and the Issuer agree otherwise, be terminated with immediate effect if at any time PFPLC does not have any authorisation under FSMA and/or the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 which it is required to have in order to enable it to perform the services which it is to agree in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.

### 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 Local Authority Mortgages and Blue Chip Mortgages and any Fixed Rate Mortgages and Capped Rate Mortgages arising on conversion and except in certain limited circumstances when the Trustee or the Issuer or a substitute administrator or the Substitute Administrator 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 calendar quarter (adjusted in respect of further advances and/or principal payments).

In relation to the Stabilised Rate Mortgages, the interest payment is calculated on the amount owing by a borrower immediately after the initial advance at a fixed rate which is, at the date hereof, one of 10.49%, 11.49% and 12.49% per annum. PFPLC will credit to the borrower's account each month any amount by which interest calculated at the rate applicable to Standard Mortgages exceeds the relevant fixed rate. The monthly credits will themselves accrue interest at the rate applicable to Standard Mortgages and all interest will be capitalised quarterly. When the aggregate of all monthly credits and capitalised interest reaches 15% of the original amount advanced or, in certain cases, if earlier, the expiry of five years from the date of the original advance, the interest charging balance will be increased by the amount of all monthly credits and capitalised interest and the monthly payments to be made by the borrower will then be calculated at the rate applicable to Standard Mortgages on the basis of the interest charging balance as so increased. To the extent that the borrower pays interest at the fixed rate and this exceeds interest calculated at the actual charging rate, the excess received is deemed to be a principal receipt and will be dealt with in the manner described in "Summary – Mandatory Redemption in Part" above. However, the borrower has the option at any time of paying interest at the rate applicable to Standard Mortgages if this is lower than the relevant fixed rate at that time.

In setting the interest rates on the Mortgages (where applicable), 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 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 taking account of all hedging arrangements entered into by the Issuer and income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and including the amount of all Interest Advances to be made in respect of the Mortgages is less than 4.5% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee above 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 – prior to enforcement” 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 PFPLC Collection Account (in respect of PFPLC Mortgages) or the PML Collection Account (in respect of SG Mortgages) and then will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account. PFPLC executed a declaration of trust over its collection accounts at National Westminster Bank Plc in August 1992 which declaration of trust has been amended and supplemented from time to time and which shall be further amended by a supplemental declaration of trust to be dated the Closing Date (the “**PFPLC Collection Account Declaration of Trust**”) under which it shall declare that all cheque payments, redemption moneys and certain other sums of money in respect of the PFPLC Mortgages purchased by the Issuer on the Closing Date which are credited to its collection accounts are held on trust for the Issuer until they are applied in the manner described above. PML executed a declaration of trust over its collection account at National Westminster Bank Plc on 13th May 1994 which declaration of trust has been amended and supplemented from time to time and which shall be further amended by a supplemental declaration of trust to be dated the Closing Date (the “**PML Collection Account Declaration of Trust**” and, together with the PFPLC Collection Account Declaration of Trust, the “**Collection Account Declarations 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 SG 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.

The Administration Agreement will provide that if the short term debt of any bank with which a PFPLC Collection Account or a PML Collection Account is maintained ceases to be rated at least F-1 by Fitch, at least P-1 by Moody’s and at least A-1 by Standard & Poor’s or ceases to be rated such that the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes or, if no Class B Notes are outstanding, the Class C Notes would be adversely affected, PFPLC or PML (as relevant) and the Administrator shall be required to use their reasonable endeavours to procure that within 30 days of such occurrence (or such longer period as may be agreed by the Trustee and the Rating Agencies) (a) all direct debit payments which would otherwise be made by borrowers under the Mortgages and all other moneys which would otherwise be paid in respect of the Mortgages purchased by the Issuer (including cheque payments, redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) into such account are made or paid into a PFPLC Collection Account or, as the case may be, PML Collection Account with another bank which does satisfy such criteria and (b) PFPLC or PML (as relevant) executes a declaration of trust in the same terms, *mutatis mutandis*, as the PFPLC Collection Account Declaration of Trust or, as the case may be, the PML Collection Account Declaration of Trust in respect of such new PFPLC Collection Account or PML Collection Account.

### **Arrears and Default Procedures**

The Administrator will regularly give details to the Issuer and the Trustee, in accordance with the terms of the Administration Agreement, 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 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 (other than Pre-Closing Accruals and Arrears), secondly in paying principal owing in respect of such Mortgage and, thirdly, in paying Pre-Closing Accruals and Arrears. If there is no applicable mortgage 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.

### **Further Advances**

Mandatory Further Advances are currently only required to be made to borrowers in the form of Interest Advances under the terms of the Stabilised Rate Mortgages.

In all cases where a Mandatory Further Advance in respect of a Mortgage is to be made, the Issuer expects to fund itself when making 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") debiting the Principal Ledger and crediting the Revenue Ledger. The Issuer may not receive sufficient amounts of principal to fund the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer does not have sufficient funds to fund itself when making any such Mandatory Further Advances, the Issuer will be entitled to borrow amounts from PFPLC under the 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 PML, PFPLC or the Administrator has notice that the relevant borrower is in breach of the relevant Mortgage Conditions. In addition, no Mandatory Further Advance shall be made by the Issuer, or by PFPLC or PML as agent for or otherwise on behalf of the Issuer, if the making of such Mandatory Further Advance will involve the Issuer in carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA.

The Issuer may, at its discretion but subject to certain conditions in the Administration Agreement and (unless the relevant Discretionary Further Advance is to be funded out of the proceeds of an advance under the Subordinated Loan Agreement for such purpose) provided that (a) there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date (or, to the extent that there is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the Principal Deficiency Ledger, is sufficient to reduce to zero any such debit balance on the Principal Deficiency Ledger) and (b) the First Loss Fund is at least equal to the Required Amount on the immediately preceding Interest Payment Date (or, to the extent that it is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the First Loss Ledger, is sufficient to replenish the First Loss Fund to the Required Amount), decide to make a Discretionary Further Advance, on the security of the Property subject to the Mortgage on the request of a borrower. Any 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.

The Issuer will fund any Discretionary Further Advance out of its Available Redemption Funds and, where such Available Redemption Funds are insufficient, it will be entitled to request a further drawdown under the Subordinated Loan Agreement from PFPLC, although PFPLC shall be under no obligation to make available any such advance so requested. The Issuer is not entitled to agree to make any Discretionary Further Advance unless it can fund it out of Available Redemption Funds or unless PFPLC has agreed, at its discretion, to make available an advance under the Subordinated Loan Agreement for such purpose.

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” above) debiting the Principal Ledger and crediting the Revenue Ledger but only after the Issuer has met Mandatory Further Advances required to be made by it at that time.

If the Issuer does not wish, or is unable, to make a Discretionary Further Advance, PFPLC (in respect of a PFPLC Mortgage) or PML (in respect of an SG Mortgage) may (but is not obliged to) make that further advance on the security of a second mortgage or standard security over the Property in question (postponed to the relevant Mortgage). Discretionary Further Advances may only be made on a Mortgage by the Issuer if the lending criteria of PFPLC (in respect of a PFPLC Mortgage) or of PML (in respect of an SG Mortgage) 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.

Discretionary Further Advances (other than by way of capitalisation of arrears) will not be made or funded (except out of the proceeds of an advance under the Subordinated Loan Agreement for such purpose) if the sum of (i) all Discretionary Further Advances (other than by way of capitalisation of arrears) which have been made or funded since the Closing Date or which are proposed to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made, (ii) all Mandatory Further Advances which have been made or funded since the Closing Date or which are to be made or funded on or before the date on which the relevant Discretionary Further Advance is proposed to be made which, in the case of sub-paragraphs (i) and (ii) above, have been or are to be funded by the Issuer out of principal received or recovered in respect of the Mortgages and not out of the proceeds of any advance under the Subordinated Loan Agreement made or to be made for such purpose and (iii) such Mandatory Further Advances as may in the opinion of the Administrator be required to be made after the making of the relevant Discretionary Further Advance, would not, on the date of the relevant Discretionary Further Advance, exceed a combined aggregate cumulative limit of £7,000,000.

No Discretionary Further Advance (other than by way of capitalisation of arrears) may be made to a borrower if PML, PFPLC or the Administrator has notice that the relevant borrower is in breach of the relevant Mortgage Conditions. In addition, no Discretionary Further Advance will be made by the Issuer, or by PFPLC or PML as agent for or otherwise on behalf of the Issuer, if the making of such Discretionary Further Advance will involve the Issuer in carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA.

### **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 any of 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 has entered into 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 has been no failure by PFPLC to purchase any Mortgage which it is required to purchase under the terms of the Mortgage Sale Agreement in the event of there being a breach of warranty in respect of that Mortgage;

- (e) unless none of the then current ratings of the Notes would be adversely affected thereby, such conversion would not cause the outstanding aggregate principal amount of all Converted Mortgages which are Fixed Rate Mortgages or Capped Rate Mortgages to exceed £2,000,000;
- (f) unless none of the then current ratings of the Notes would be adversely affected thereby, the relevant Mortgage would not, as a result of such conversion, become a Fixed Rate Mortgage or a Capped Rate Mortgage in relation to which the specified period for which the interest rate is fixed or capped would exceed 2 years from the date of such conversion;
- (g) if, and to the extent that, Mortgages are to be converted into Mortgages which are Fixed Rate Mortgages or Capped Rate Mortgages or the final maturity of such Mortgages is to be extended, on the date of the relevant conversion the relevant borrower is not in breach of the Mortgage Conditions applicable to the relevant Mortgage;
- (h) no conversion must extend the final maturity date of the relevant Mortgage beyond March 2017, except for Mortgages having an aggregate principal amount outstanding of no more than £10,000,000 which can have a final maturity if no later than July 2026; and
- (i) on the date of and immediately following the relevant conversion, PFPLC's lending criteria (in respect of a PFPLC Mortgage) or PML's lending criteria (in respect of an SG Mortgage) 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 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 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 Fitch, Aaa by Moody's and AAA by Standard & Poor's or whose short term debt is rated at least F-1 by Fitch, at least P-1 by Moody's and at least A-1 by Standard & Poor's or such that the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes or, if no Class B Notes are outstanding, the Class C Notes would not be adversely affected 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 within 30 days of such occurrence (or such longer period as may be agreed by the Trustee and the Rating Agencies).

Sums held to the credit of the Transaction Account to which payments of interest and 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 Fitch, Aaa by Moody's and AAA by Standard & Poor's or whose short term unsecured and unguaranteed debt is rated at least F-1 by Fitch, at least P-1 by Moody's and at least A-1 by Standard & Poor'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 outstanding, the Class B Notes or, if there are no Class B Notes outstanding, the Class C Notes provided that moneys invested in entities rated A-1 by Standard & Poor's may not be invested for a period of more than 30 days and such investments may not exceed 20% of the then aggregate Principal Amount Outstanding of the Notes and provided further that moneys invested in entities whose short term debt is rated no higher than F-1 by Fitch may not be invested for a period of more than 30 days. Such investments and deposits must 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. 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.

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

#### **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.

#### **Termination of the appointment of the Administrator**

The appointment of the Administrator can be terminated by the Trustee in the event of:

- (a) certain payment defaults by the Administrator;
- (b) default by the Administrator in the performance or observance of its covenants and obligations under the Administration Agreement, which in the opinion of the Trustee is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class B Notes have been redeemed in full, the Class C Noteholders, and (except where in the reasonable opinion of the Trustee, such default is incapable of remedy, when no such continuation and/or notice as is hereinafter mentioned will be required) such default continues unremedied for a period of 14 days after the earlier of the Administrator becoming aware of such default and receipt by the Administrator of written notice from the Trustee requiring the same to be remedied. If the relevant default occurs as a result of a default by any person to whom the Administrator has sub-contracted or delegated part of its obligations under the Administration Agreement such default shall not result in the termination of the appointment of the Administrator if within such 14 day period the Administrator terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Trustee may reasonably specify to remedy such default or to indemnify the Issuer against the consequences of such default;
- (c) an order being made or an effective resolution being passed for winding up the Administrator;
- (d) the Administrator ceasing or threatening to cease to carry on its business or a substantial part of its business or stopping payment or threatening to stop payment of its debts or the Administrator being deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 or becoming unable to pay its debts as they fall due or the value of its assets falling to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becoming insolvent; or
- (e) proceedings being initiated against the Administrator under any applicable liquidation, administration, insolvency, composition, reorganisation (other than a reorganisation the terms of which have been approved by the Trustee and where the Administrator is solvent) or other similar laws, save where such proceedings are being contested in good faith by the Administrator, or an administrative or other receiver, administrator or other similar official is appointed in relation to the Administrator or in relation to the whole or any substantial part of the undertaking or assets of the Administrator or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Administrator, or a distress, execution, 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 Administrator and in any of the foregoing cases it shall not be discharged within 15 days; or the Administrator shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally.

In addition, PFPLC's appointment will, unless PFPLC, the Trustee and the Issuer agree otherwise, be terminated with immediate effect if at any time PFPLC does not have any authorisation under FSMA and/or the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 which it is required to have in order to enable it to perform the services which it is to agree in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.

The Administration Agreement may also be terminated upon the expiry of not less than 12 months' notice of termination given by the Administrator to the Issuer and the Trustee if:

- (a) the Trustee and the Substitute Administrator consent in writing;
- (b) a substitute administrator (which can include the Substitute Administrator) is appointed;
- (c) such substitute administrator has experience of administering mortgages of residential property in England and Wales and Scotland and (if other than the Substitute Administrator) is approved by the Trustee; and
- (d) the then current ratings of the Class A Notes, the Class B Notes and the Class C Notes by the Rating Agencies are not affected as a result of such termination unless otherwise agreed by an extraordinary resolution of the Class A Noteholders, the Class B Noteholders or the Class C Noteholders respectively.

If the Trustee is unable to appoint a substitute administrator, the Substitute Administrator has agreed under the Substitute Administrator Agreement that it will act as such substitute administrator pursuant to, and in accordance with, the terms of the Substitute Administrator Agreement.

#### **Administration Fee**

The Administration Agreement will make provision for payments to be made to the Administrator. The Issuer will pay, on behalf of itself to PFPLC as Administrator an administration fee of not more than 0.30% (inclusive of VAT) per annum on the aggregate interest charging balances of the Mortgages at the beginning of each Collection 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. Pursuant to the Substitute Administrator Agreement, the Substitute Administrator will agree, in return for a commitment fee, to be administrator of last resort (see "Summary – Mortgage Administration" above). If no substitute administrator can be found following termination of PFPLC's appointment as Administrator as aforesaid, the Substitute Administrator will act as administrator of last resort receiving a fee at a rate of 0.30% (exclusive of VAT) per annum on the aggregate interest charging balances of the Mortgages at the beginning of each Collection Period which will be due quarterly in arrear on each Interest Payment Date. If the Substitute Administrator is required to act as administrator of last resort, it will exercise such discretion as would be exercised by it if it were the mortgagee and beneficial owner of the Mortgages.

PFPLC (in respect of commissions relating to PFPLC Mortgages) and PML (in respect of commissions relating to SG Mortgages) 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 the Substitute Administrator 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, the Trustee and the Issuer will be required to execute powers of attorney in favour of the Administrator which will enable it to discharge the Mortgages from the security created over them in favour of the Trustee under the Deed of Charge, without reference to the Trustee or the Issuer.



## UNITED KINGDOM TAXATION

**The comments below are of a general nature and are based on the Issuer's understanding of current United Kingdom law and practice. They are not exhaustive. They relate only to the position of persons who are the absolute beneficial owners of their Notes and related Coupons and may not apply to certain classes of person (such as dealers). Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction outside the United Kingdom should consult their professional advisers.**

1. There will be no United Kingdom withholding tax in relation to interest payments on the Notes while the Notes continue to be listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange.
2. Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.
3. On 13th December 2001 the Council of the European Union published a revised draft directive regarding the taxation of savings income. It is proposed that a Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, except that Austria, Belgium and Luxembourg will instead operate a withholding system for a transitional period in relation to such payments. The proposals are not yet final, and they may be subject to further amendment and/or clarification. Consequently, it is not possible to predict what effect, if any, the adoption of the proposed directive would have on the Notes or on the payments of principal or interest on the Notes.
4. The interest on the Notes will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom tax by direct assessment. However, interest received without deduction or withholding is not chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless the Noteholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom in connection with which the interest is received or to which the Notes are attributable. There are certain exceptions for income received by specified categories of agent (such as some brokers and investment managers).
5. If interest on the Notes were to be paid after deduction of United Kingdom income tax, the terms and conditions of the Notes do not provide for any additional payments to be made in this or any other circumstance. Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
6. 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 as income on any profits (and obtain relief for permitted losses) on the Notes. Any such profits (including interest) or permitted losses on the Notes will generally be chargeable by reference to accounting periods of the company in accordance with an authorised accounting method. For such Noteholders, the provisions described in paragraphs 7 and 8 below will not apply to such a Note.
7. A Noteholder (other than a Noteholder within the charge to corporation tax in respect of the relevant Note) who is subject to United Kingdom income tax will generally be subject to income tax on interest arising in respect of the Notes on a receipts basis. Such Noteholder 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 Income and Corporation Taxes Act 1988) as representing interest accrued on the Note at the time of disposal (determined by the Inland Revenue on a just and reasonable basis). A purchaser of a Note will not be entitled to any allowance under the accrued income scheme to set against any deemed or actual interest it receives in respect of the Notes. If for any reason any interest due on an Interest Payment Date is not paid and a Note is subsequently disposed of with the right to receive accrued interest, special rules may apply for the purposes of the accrued income scheme.
8. 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.

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

## SUBSCRIPTION AND SALE

Barclays Bank PLC, Deutsche Bank AG London, HSBC Bank plc, ING Bank N.V., J.P. Morgan Securities Ltd., Société Générale and The Royal Bank of Scotland plc (the “**Class A Managers**”) have, pursuant to a subscription agreement dated 24th May 2002 (to which PFPLC and PML are also party) (the “**Class A Subscription Agreement**”), jointly and severally agreed, subject to certain conditions, to subscribe for the Class A Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class A Managers for certain of their expenses in connection with the issue of the Class A Notes. The Class A Subscription Agreement entitles the Class A Managers to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A Managers against certain liabilities in connection with the offer and sale of the Class A Notes. The Issuer has agreed to pay the Class A Managers a selling commission of 0.10% of the principal amount of the Class A Notes and a combined management and underwriting commission of 0.075% of the principal amount of the Class A Notes. The Issuer gives certain representations and warranties and undertakings to the Class A Managers in the Class A Subscription Agreement.

Barclays Bank PLC (the “**Class B Manager**”) has, pursuant to a subscription agreement dated 24th May 2002 (to which PFPLC and PML are 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 0.175% of the principal amount of the Class B Notes and a combined management and underwriting commission of 0.125% of the principal amount of the Class B Notes. The Issuer gives certain representations and warranties and undertakings to the Class B Manager in the Class B Subscription Agreement.

Barclays Bank PLC (the “**Class C Manager**”) has, pursuant to a subscription agreement dated 24th May 2002 (to which PFPLC and PML are also party) (the “**Class C Subscription Agreement**”) agreed, subject to certain conditions, to subscribe for the Class C Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class C Manager for certain of its expenses in connection with the issue of the Class C Notes. The Class C Subscription Agreement entitles the Class C Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class C Manager against certain liabilities in connection with the offer and sale of the Class C Notes. The Issuer has agreed to pay the Class C Manager a selling commission of 0.275% of the principal amount of the Class C Notes and a combined management and underwriting commission of 0.175% of the principal amount of the Class C Notes. The Issuer gives certain representations and warranties and undertakings to the Class C Manager in the Class C Subscription Agreement.

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

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the registration 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 A Managers, in respect of the Class A Notes, the Class B Manager, in respect of the Class B Notes, and the Class C Manager, in respect of the Class C Notes, has agreed that, except as permitted by the relevant Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date (the “**Restricted Period**”) within the United States or to, or for the account or benefit of, U.S. Persons, and that it will have sent to each dealer to which it sells Notes during the Restricted Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Class A Manager, in respect of the Class A Notes, the Class B Manager, in respect of the Class B Notes, and the Class C Manager, in respect of the Class C Notes, has represented and agreed that (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part VI of FSMA except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or FSMA; (ii) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of FSMA does not apply to the Issuer.

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

Each Class A Manager, in respect of the Class A Notes, the Class B Manager, in respect of the Class B Notes, and the Class C Manager, in respect of the Class C Notes, has undertaken not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Offering Circular, advertisement 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.

Certain of the Managers may hold notes issued by other subsidiaries of PGC in connection with other securitisation transactions.

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 to the Official List of the UK Listing Authority will be granted on or around 29th May 2002 and that the Notes will be admitted to trading on the London Stock Exchange on 29th May 2002, subject only to the issue of the Temporary Global Notes. Prior to the official listing, however, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules. The listing of the Notes will be cancelled if the Temporary Global Notes are not issued.

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

Class A Notes, Common Code Number 014600779; ISIN XS0146007793;

Class B Notes, Common Code Number 014600787; ISIN XS0146007876; and

Class C Notes, Common Code Number 014600795; ISIN XS0146007959.

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

Deloitte & Touche have given and not withdrawn their written consent to the inclusion in the Offering Circular of their report in the form and context in which it is included and authorised the contents of that part of the Listing Particulars with their report on the Issuer and references to their name included herein in the form and context in which they appear for the purposes of section 79(3) of FSMA and regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

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

Since the end of the last financial year on 30th September 2001 there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or (save as disclosed under "The Issuer – Capitalisation and indebtedness" above) financial position of the Issuer.

The Issuer is not, nor has it been, involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of the Issuer or the group of companies of which the Issuer is a member.

The financial information included on pages 98 and 99 of this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Unaudited statutory accounts of the Issuer have been delivered to the Registrar of Companies in respect of the financial year ending 30 September 1999. The Issuer was a dormant company for the period between incorporation and 30 September 1999. Audited statutory accounts of the Issuer on which the Issuer's auditors have given an unqualified report which contains no statement under section 237(2) or (3) of the Companies Act 1985 have been delivered to the Registrar of Companies in respect of the financial years ended 30th September 2000 and 30th September 2001 in accordance with the Companies Act 1985.

Copies of the following documents, in English or accompanied by a translation into English, may be inspected during normal business hours on any weekday (excluding Saturdays and public holidays) at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY during the period of 14 days from the date of this Offering Circular:

- (a) the Memorandum and Articles of Association of the Issuer;
- (b) copies of the Class A Subscription Agreement, the Class B Subscription Agreement and the Class C Subscription Agreement;
- (c) drafts (subject to modification) of the Trust Deed to constitute the Class A Notes, the Class B Notes and the Class C Notes (including the forms of the Global Class A Notes, the Class A Notes, Coupons and Talons, the forms of the Global Class B Notes, the Class B Notes, Coupons and Talons and the forms of the Global Class C Notes, the Class C Notes, Coupons and Talons), the Mortgage Sale Agreement, the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, the Scottish Declarations of Trust, the Agency Agreement, the PFPLC Collection Account Declaration of Trust, the PML Collection Account

Declaration of Trust, the Instrument, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the VAT Declaration of Trust, the POPLC Deed and the Post Enforcement Call Option Deed;

- (d) the accountants' report on the Issuer prepared by Deloitte & Touche, the text of which is set out on pages 97 to 99; and
- (e) the financial statements of the Issuer for the period ended 30th September 2000 and 30th September 2001 respectively.

## GLOSSARY OF KEY TERMS AND DEFINITIONS

The following terms used in this Offering Circular are defined on the page number specified below:

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