

Paragon Mortgages (No.1) PLC

(Incorporated with limited liability in England and Wales with registered number 3696179)

£168,000,000

Class A Mortgage Backed Floating Rate Notes Due 2030

Issue price: 100%

£17,000,000

Class B Mortgage Backed Floating Rate Notes Due 2041

Issue price: 100%

The £168,000,000 Class A Mortgage Backed Floating Rate Notes Due 2030 of Paragon Mortgages (No.1) PLC (the "Issuer") will be issued by the Issuer (the "Class A Notes") together with the £17,000,000 Class B Mortgage Backed Floating Rate Notes Due 2041 of the Issuer (the "Class B Notes") (the Class A Notes and the Class B Notes together being the "Notes").

Interest on the Notes will be payable in pounds sterling quarterly in arrear on 15th January, 15th April, 15th July and 15th October in each year subject to adjustment in the manner described in this Offering Circular (each date as so adjusted, an "Interest Payment Date"), the first interest payment being made on 15th October 1999. Interest on the Class B Notes will be paid on an Interest Payment Date only to the extent that there are funds available to the Issuer on the Principal Determination Date (as defined herein) applicable to such Interest Payment Date to pay interest on such Notes, as more particularly described herein. To the extent that such funds are insufficient to pay the full amount of interest on the Class B Notes on such Interest Payment Date, payment of the shortfall will be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such shortfall, on which Interest Payment Date payment of the shortfall will be made to the extent of such available funds. Such deferred interest will accrue interest at the rate of interest accruing on the Class B Notes from time to time. The interest rates applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate ("LIBOR") for three month sterling deposits (or, in the case of the first Interest Period, by reference to a linear interpolation between four month and five 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: 0.28% per annum up to and including the Interest Period ending in July 2004 and thereafter 0.56% per annum; and
- (ii) Class B Notes: 0.80% per annum up to and including the Interest Period ending in July 2004 and thereafter 1.60% per annum.

The first Interest Period is expected to commence on (and include) 11th June 1999 and end on (but exclude) 15th October 1999. Interest payments on the Notes will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor.

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

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

The Class A Notes are expected, on issue, to be assigned an Aaa rating by Moody's Investors Service Limited ("Moody's") and a AAA rating by Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc. ("Standard & Poor's" (and together with Moody's, the "Rating Agencies")). The Class B Notes are expected, on issue, to be assigned an A1 rating by Moody's and an A 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 London Stock Exchange Limited (the "London Stock Exchange") for the Notes to be admitted to the Official List. Copies of this Offering Circular, which comprises approved listing particulars with regard to the Issuer and the Notes in accordance with the listing rules made under Part IV of the Financial Services Act 1986, have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act.

The Notes of each class will be initially represented by a Temporary Global Note (as defined in "Summary – Global Notes" below), without coupons or talons, which will be deposited with a common depositary (the "Common Depositary") for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and Cedelbank at the closing of the issues of the Notes (which is expected to be on 11th June 1999). 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 Depositary. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

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

**Class A Notes Managers
J.P. Morgan Securities Ltd.**

ING Barings/BBL

The Royal Bank of Scotland plc

Société Générale

**Class B Notes Manager
J.P. Morgan Securities Ltd.**

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

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

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

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

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

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

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

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

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SUMMARY

The information on the first page, page 2 and the information in this Summary relating to the Notes, the Issuer Mortgages, the PSA2 Mortgages and the Luxembourg Loan Agreement 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 number a capitalised term is defined.

Issuer	Paragon Mortgages (No.1) PLC, a public company incorporated under the laws of England, registered number 3696179 and a subsidiary of The Paragon Group of Companies PLC (“PGC”). The ordinary shares of PGC are listed on the London Stock Exchange.
PFPLC	Paragon Finance PLC (“PFPLC” or the “Administrator”), a public company incorporated under the laws of England and a wholly owned subsidiary of PGC.
PML	Paragon Mortgages Limited (“PML”), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC.
PSA	Paragon Mortgages S.A. (“PSA”), a company incorporated under the laws of Luxembourg and a subsidiary of PGC.
PSA2	Paragon Mortgages (No. 2) S.A. (“PSA2”), a company incorporated under the laws of Luxembourg and a subsidiary of PGC.
PSFL	Paragon Second Funding Limited (“PSFL”), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC.
Mortgage Originator	The Mortgages were, or will have been, originated by PML, a wholly owned subsidiary of PGC.
Administrator	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 and PSA2.
Trustee	Citicorp Trustee Company Limited (the “Trustee”) will act as trustee for the Noteholders and will hold the benefit of the security created by the Issuer on trust for, <i>inter alios</i> , the Noteholders.
Security Trustee	Citicorp Trustee Company Limited (the “Security Trustee”) will act as security trustee for the Issuer under the Security Trust Deed, and will hold the benefit of the security created by PSA2 on trust for, <i>inter alios</i> , the Issuer.
The Notes	<p>£168,000,000 Class A Mortgage Backed Floating Rate Notes Due 2030 and £17,000,000 Class B Mortgage Backed Floating Rate Notes Due 2041.</p> <p>The Notes will be obligations of the Issuer. The Notes will not be obligations or the responsibility of, or be guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations or the responsibility of, or be guaranteed by, PFPLC, PML, PGC, PSA2, any company in the same group of companies as PGC (other than the Issuer), the Trustee, the Security Trustee, any of the Managers or any other person other than the Issuer.</p> <p>No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by PFPLC, PML, PGC, PSA2, any company in the same group of companies as PGC (other than the Issuer), the Trustee, the Security Trustee, any of the Managers or by any other person other than the Issuer.</p> <p>Payments in respect of the Class B Notes will only be made if and to the extent that there are sufficient funds after paying or providing for certain liabilities, including in respect of the Class A Notes. The Class B Notes rank after the Class A Notes in point of security.</p>

Interest

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 four month and five 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: 0.28% per annum up to and including the Interest Period ending in July 2004 and thereafter 0.56% per annum; and

Class B Notes: 0.80% per annum up to and including the Interest Period ending in July 2004 and thereafter 1.60% per annum.

Interest payments on the Class B Notes will be subordinated to interest payments on the Class A Notes (see “Priority of Payments – prior to enforcement” below). Accordingly, Class B Noteholders will not be entitled to receive any payment of interest on an Interest Payment Date unless and until all amounts of interest then due to Class A Noteholders on that Interest Payment Date have been paid in full.

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

Interest is payable in respect of the Notes (provided certification of non-U.S. beneficial ownership by the Noteholders has been received) in pounds sterling quarterly in arrear on 15th January, 15th April, 15th July and 15th October in each year or, if any such day is either a Saturday or Sunday and/or not a day on which banks are generally open for business in London (a “business day”), on the immediately succeeding business day, the first payment being made on 15th October 1999.

The first Interest Period will commence on (and include) the date of the closing of the issues of the Notes, which is expected to be 11th June 1999 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) 15th October 1999. Each subsequent Interest Period applicable to the Notes will commence on (and include) an Interest Payment Date and end on (but exclude) the next succeeding Interest Payment Date.

Interest payments will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor.

Security for the Notes

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

- (i) the Issuer Mortgages to be purchased by the Issuer (including any Non-Verified Mortgages) and mortgage indemnity insurance (if applicable) relating thereto;
- (ii) various other insurance policies relating to the Issuer Mortgages in which the Issuer has an interest;
- (iii) all of the Issuer’s right, title, interest and benefit, present and future in, to and under the Luxembourg Loan Agreement and the Security Trust Deed;

(iv) the Issuer's rights under the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Administration Agreement, the PFPLC Subordinated Loan Agreement, the Fee Letter, the Swap Agreement, the No. 1 Collection Account Declaration of Trust, the Caps and other hedging arrangements entered into by the Issuer, the Substitute Administrator Agreement and the VAT Declaration of Trust;

(v) any investments in which the Issuer may place its cash resources and over payments from the Inland Revenue relating to the Issuer Mortgages under the Mortgage Interest Relief at Source (MIRAS) Scheme; and

(vi) the Issuer's rights to all moneys standing to the credit of the bank account of the Issuer with National Westminster Bank Plc at its branch at 4 High Street, Solihull, West Midlands B91 3TF (or such other bank as the Issuer, subject to certain restrictions and with the consent of the Trustee, may from time to time select for such purpose) into and out of which all payments to and by the Issuer will be made (the "Transaction Account") and any other bank accounts in which the Issuer has an interest.

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

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

Certain other amounts will also have the benefit of the security interests referred to above, including the amounts owing to the Trustee and any receiver, any amounts payable to Guardian Mortgage Services Limited ("GMS") in its capacity as administrator of last resort under the Substitute Administrator Agreement, any amounts payable to the Swap Counterparty (as defined below) under the Swap Agreement, the fees and expenses of, and commissions payable to, and all other amounts owing to, the Administrator and/or any substitute administrator, all amounts owing to PFPLC and PML under, *inter alia*, the UK Mortgage Sale Agreement, the Fee Letter and the Services Letter (as defined in "The Issuer" below) and amounts owing under the PFPLC Subordinated Loan Agreement referred to below.

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 an "Issuer Principal Ledger" and an "Issuer Revenue Ledger".

The Administrator will be required to credit to the Issuer Principal Ledger:

(i) all, principal amounts received from borrowers in respect of the Issuer Mortgages or otherwise paid or recovered in respect of the Issuer Mortgages together with any amounts representing Issuer Pre-Closing Accruals and Arrears; and

(ii) all amounts of principal received by the Issuer from PSA2 pursuant to the Luxembourg Loan Agreement.

The Administrator will be required to credit all other amounts received by the Issuer (apart from drawings under the PFPLC 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) to the Issuer 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 Issuer Mortgages and the PSA2 Mortgages and amounts which are applied in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Issuer Mortgages.

Use of Ledgers – PSA2

The Administrator will also be required to maintain in the books of PSA2 certain ledgers, which shall include the PSA2 Revenue Ledger and the PSA2 Principal Ledger. These Ledgers shall together reflect all amounts from time to time held by PSA2 or the Security Trustee on behalf of PSA2, and shall include amounts standing to the credit of the PSA2 Transaction Account. The Administrator shall also maintain a record, which shall reflect the principal amount from time to time owing under the Luxembourg Loan Agreement to the Issuer.

Priority of Payments – prior to enforcement

Moneys in the Issuer’s Transaction Account representing the credit balance on the Issuer 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 or by the Inland Revenue under the MIRAS Scheme in relation to the Issuer Mortgages) and of sums due to third parties under obligations incurred in the course of the Issuer’s business and in making certain provisions. In addition, such moneys will also be applied in making payment of sums due to third parties under obligations incurred in the course of PSA2’s business, such sums being paid by the Issuer on behalf of PSA2.

Until enforcement of the security for the Notes, the following payments and provisions are required to be made out of such moneys standing to the credit of the Issuer Revenue Ledger of the Transaction Account 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 payable by the Issuer to the Trustee, amounts payable by the Issuer to the Security Trustee, and amounts payable to GMS 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 payable to the Administrator and/or PML and/or any substitute administrator under the Administration Agreement and the commitment fee payable to GMS pursuant to the Substitute Administrator Agreement;

(iii) *pro rata* according to the respective amounts thereof, (a) payment of all amounts (save for any Withholding Compensation Amounts or Swap Termination Amounts) payable to the Swap Counterparty under the Swap Agreement (if any) or to any Permitted Hedge Provider under any other hedging arrangements entered into by the Issuer and (b) payment of interest due or overdue on the Class A Notes together with (if applicable) interest thereon;

(iv) payment of interest due or overdue on the Class B Notes together with (if applicable) interest thereon;

(v) *pro rata* according to the respective amounts thereof, sums due to third parties under obligations incurred in the course of the Issuer's and/or PSA2's business and provision for and payment of the Issuer's and PSA2'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 and the VAT Declaration of Trust (see "The Paragon VAT Group" below);

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

(vii) 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;

(viii) *pro rata* according to the respective amounts thereof, payment of any Withholding Compensation Amounts and any Swap Termination Amounts payable to the Swap Counterparty under the Swap Agreement or to any Permitted Hedge Provider under any other hedging arrangements entered into by the Issuer;

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

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

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

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

(xiii) provision for payment to the Administrator or PFPLC of such fees as the Issuer and the Administrator or PFPLC, as the case may be, may agree in respect of facilities or services provided to the Issuer and/or PSA2 by the Administrator or PFPLC, as the case may be, other than fees provided for above;

(xiv) payment of deferred consideration for the Issuer Mortgages and the PSA2 Mortgages to PFPLC (as described in "Deferred Consideration" below); and

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

all as set out in a deed of sub-charge and assignment to be entered into between, *inter alios*, the Issuer, the Trustee, the Security Trustee, PFPLC, PML, the Administrator, the Swap Counterparty and GMS (the "Deed of Charge"). If and to the extent that the provisions specified in paragraphs (x), (xi), (xii), (xiii) and (xv) are made on such Interest Payment Date, the relevant amounts shall be paid to the

persons entitled thereto on or after the seventh day after such Interest Payment Date to the extent that the amounts credited to the Issuer Revenue Ledger are sufficient for such purpose.

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

- (x) any debit balance on the Principal Deficiency Ledger; and
- (y) the aggregate of the amounts specified in paragraphs (i) to (iii) inclusive above to the extent that such amounts would not be paid or provided for in full following such application,

exceeding the sum of:—

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

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

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

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

**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/or the Security Trust Deed and any costs, charges, liabilities and expenses incurred by such receiver together with interest as provided in the Deed of Charge or the Security Trust Deed (as appropriate), and (b) amounts due from the Issuer to the Trustee and/or the Security Trustee, together with interest thereon as provided in the Deed of Charge or the Security Trust Deed (as appropriate), and (c) amounts due from the Trustee to borrowers relating to Mandatory Further Advances in respect of the Issuer Mortgages or due from the Trustee to the Security Trustee in relation to advancing monies in accordance with the terms of the Luxembourg Loan Agreement in order to permit the Security Trustee to fund Mandatory Further Advances in respect of the PSA2 Mortgages;
- (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 PML, and all moneys due and payable under the Substitute Administrator Agreement (including the commitment fee payable to GMS);

(iii) (a) all amounts due and payable by the Issuer to the Swap Counterparty or to any Permitted Hedge Provider (other than any Withholding Compensation Amounts and any Swap Termination Amounts), (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 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) any Withholding Compensation Amounts and any Swap Termination Amounts due and payable by the Issuer to the Swap Counterparty or to any Permitted Hedge Provider;

(vi) all amounts due and payable by the Issuer (a) to PFPLC under the UK Mortgage Sale Agreement, the PFPLC Subordinated Loan Agreement, the Fee Letter and the Deed of Charge, (b) to PML under the UK Mortgage Sale Agreement, the Administration Agreement, the Fee Letter and the Deed of Charge, (c) to any other lender under the PFPLC Subordinated Loan Agreement and (d) to PSA2 under the Luxembourg Loan Agreement; and

(vii) 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 July 2004 and the Interest Payment Date on which the ratio of the aggregate Principal Amount Outstanding of the Class B Notes to the aggregate Principal Amounts Outstanding of the Notes is 34:185 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 on the immediately preceding Principal Determination Date (a) there is a balance of zero on the Principal Deficiency Ledger and (b) the then outstanding balance, including arrears of interest and all other sums due but unpaid (the "Current Balance") of Mortgages which are more than three months in arrears represents less than 22% of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised within the 12 months immediately preceding such time), Available Redemption Funds will be applied in *pro rata* redemption of the Class A Notes and the Class B Notes, where the Class A Notes have not been redeemed in full, and, where the Class A Notes have been redeemed in full, in redemption solely of the Class B Notes so as to achieve and then maintain the above ratio provided that:—

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

(ii) while any Class A Note remains outstanding the aggregate

Principal Amount Outstanding of the Class B Notes may not be less than £8,500,000.

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 (1) all principal and Issuer Pre-Closing Accruals and Arrears received or recovered in respect of Issuer Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest which does not represent Issuer Pre-Closing Accruals and Arrears) on repurchase or purchase of any Issuer Mortgages pursuant to the terms of the Relevant Documents but excluding any such principal which under the UK Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer) and (2) any amounts of principal paid or prepaid by PSA2 under the Luxembourg Loan Agreement 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 in question (the “relevant Collection Period”);

(ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Notes on issue, (b) the amount drawn down on the Closing Date by the Issuer under the PFPLC Subordinated Loan Agreement and (c) the amount (if any) standing to the credit of the Pre-Funding Reserve Ledger as at the first Principal Determination Date (taking into account any debits and credits made to such ledger on that Principal Determination Date) exceeds the aggregate of (a) the amounts paid by the Issuer to PFPLC by way of purchase price for the Issuer Mortgages purchased by the Issuer on the Closing Date in accordance with the UK Mortgage Sale Agreement, (b) the aggregate principal amount advanced on the Closing Date by the Issuer to PSA2 under the Luxembourg Loan Agreement, (c) the amount applied to establish the First Loss Fund on the Closing Date and (d) an amount equal to the Pre-Funding Reserve credited to the Transaction Account on the Closing Date;

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

(iv) any part of the amount deducted pursuant to (b)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances in respect of the Issuer Mortgages or in making Additional PSA2 Advances or in paying interest on the Class A Notes in each case on or prior to the preceding Interest Payment Date;

less

(b) the aggregate of:

(i) the aggregate principal amount of Discretionary Further Advances in respect of Issuer Mortgages made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the PFPLC Subordinated Loan Agreement;

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

(iii) the aggregate principal amount of Additional PSA2 Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the PFPLC Subordinated Loan Agreement;

(iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes on that Interest Payment Date; and

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

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

Optional Redemption of Class A Notes

All (but not some only) of the Class A Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class A Notes, or in the event that the Issuer or the Swap Counterparty is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under the Swap Agreement, or in the event of certain other United Kingdom taxation changes. The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction), although the Issuer has agreed that, under the Swap Agreement, it will, subject to and in accordance with the agreed order of priority of payments referred to above, pay Withholding Compensation Amounts to the Swap Counterparty (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 July 2003.

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 £37,000,000.

Optional Redemption of Class B Notes

Provided that there are no Class A Notes then outstanding or all the Class A Notes are to be redeemed in full at the same time, all (but not

some only) of the Class B Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class B Notes, or in the event that the Issuer or the Swap Counterparty is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under the Swap Agreement, or in the event of certain other United Kingdom taxation changes. The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction, although the Issuer has agreed that, under the Swap Agreement, it will, subject to and in accordance with the agreed order of priority of payments referred to above, pay Withholding Compensation Amounts to the Swap Counterparty (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 July 2003 or, if earlier, falling on or after the date on which all the Class A Notes 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 October 2030, and (ii) the Class B Notes will be redeemed at their Principal Amount Outstanding (less the amount by which the Principal Deficiency exceeds the then balance of the First Loss Fund) on the Interest Payment Date falling in October 2041.

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 Issuer Mortgages

The beneficial interest in certain mortgages to be acquired by the Issuer on the Closing Date and, if applicable, on or prior to the first Principal Determination Date, and which will form part of the security for the Notes, will comprise mortgages acquired by PFPLC which were originated by PML and, in the case of mortgages of English Properties, which are registered or are required to be registered at H.M. Land Registry and Scottish Mortgages, of which PML remains the legal owner (the “Issuer Mortgages”). The borrowers in respect of the Issuer Mortgages are individuals.

The Issuer Mortgages will be acquired by the Issuer pursuant to a mortgage sale agreement to be dated on or before the Closing Date between the Issuer, PFPLC, PML, the Trustee and PSFL (the “UK Mortgage Sale Agreement”). In addition, the Issuer may purchase Non-

Verified Mortgages from PFPLC at any time up to and including the first Principal Determination Date in accordance with, and to the extent permitted by, the UK Mortgage Sale Agreement and the Administration Agreement, provided that there is a sufficient credit balance on the Pre-Funding Reserve Ledger, and that the other conditions precedent to such further purchase have been met.

The PSA2 Mortgages

The beneficial interest in certain mortgages to be acquired by PSA2 on the Closing Date and, if applicable, on or prior to the first Principal Determination Date, and which will form part of the security for the Luxembourg Loan Agreement, will comprise mortgages acquired by PFPLC which were originated by PML and, in the case of mortgages of English Properties, which are registered or are required to be registered at H.M. Land Registry and Scottish Mortgages, of which PML remains the legal owner (the “PSA2 Mortgages”). The borrowers in respect of the PSA2 Mortgages are limited liability companies incorporated in England and Wales or Scotland.

The PSA2 Mortgages will be acquired by PSA2 pursuant to a mortgage sale agreement to be dated on or before the Closing Date between the Issuer, PFPLC, PML, PSA, PSA2 and the Security Trustee (the “Luxembourg Mortgage Sale Agreement”). In addition, PSA2 may purchase Non-Verified Mortgages from PFPLC at any time up to and including the first Principal Determination Date in accordance with, and to the extent permitted by, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement and the Administration Agreement, in which event the Issuer will make a Non-Verified Mortgage Advance to fund such purchase, as described below in “The Luxembourg Loan Agreement”.

The Luxembourg Loan Agreement

Part of the issue proceeds of the Notes, subject to the satisfaction of certain conditions precedent, will be applied by the Issuer in making a term advance to PSA2 (the “Initial PSA2 Advance”) pursuant to the terms of a loan agreement to be entered into on the Closing Date between, *inter alios*, the Issuer, PSA2, the Trustee and the Security Trustee (the “Luxembourg Loan Agreement”).

The Initial PSA2 Advance to be made by the Issuer to PSA2 on the Closing Date will be an amount sufficient to enable PSA2 to purchase the PSA2 Mortgages, and will be applied by PSA2 solely for the purpose of purchasing PSA2 Mortgages from PFPLC on the Closing Date. PSA2 may purchase Non-Verified Mortgages at any time, and from time to time, up to and including the first Principal Determination Date in accordance with, and to the extent permitted by, the Luxembourg Mortgage Sale Agreement and the Administration Agreement, in which event PSA2, at such time, will request further drawdowns under the Luxembourg Loan Agreement in an aggregate principal amount not exceeding the credit balance in the Pre-Funding Reserve Ledger as at the date of such request. Upon such requests, the Issuer will agree, subject to the satisfaction of certain conditions precedent, to make further advances to PSA2 (“Non-Verified Mortgage Advances”) to fund the purchase by PSA2 of such Non-Verified Mortgages.

In addition, under the terms of the Luxembourg Loan Agreement the Issuer will agree, subject to certain conditions, to make further advances available to PSA2 (“Additional PSA2 Advances”) to enable PSA2 to make any further advances to borrowers under the PSA2 Mortgages if and to the extent that PSA2 is permitted to do so under the terms of the Administration Agreement.

As security for, *inter alia*, its obligations under the Luxembourg Loan Agreement, PSA2 will enter into a security trust deed (the “Security

Trust Deed) pursuant to which it will create in favour of the Security Trustee for the benefit of, *inter alios*, the Security Trustee and the Issuer first ranking security interests over:

- (i) PSA2's right, title and interest in the PSA2 Mortgages and certain insurances relating thereto in which PSA2 has an interest;
- (ii) PSA2's rights under the Luxembourg Mortgage Sale Agreement, the Administration Agreement, the Substitute Administrator Agreement and the No. 2 Collection Account Declaration of Trust;
- (iii) PSA2's rights to all moneys standing to the credit of the bank account of PSA2 with National Westminster Bank Plc at its branch at 4 High Street, Solihull, West Midlands B91 3TF (or such other bank as PSA2, subject to certain restrictions and with the consent of the Security Trustee, may from time to time select for such purpose) and out of which all payments to and by PSA2 will be made (the "PSA2 Transaction Account") and any other bank accounts in which PSA2 has an interest; and
- (iv) any investments in which PSA2 may place its cash resources.

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 Luxembourg Loan Agreement will be secured by a floating charge over all the assets and undertakings of PSA2 other than those covered by fixed security (but extending to all of PSA2's Scottish assets, including those covered by the fixed security).

Further details of the Luxembourg Loan Agreement and the Security Trust Deed are set out in the section entitled "The Luxembourg Loan".

Location of the properties secured by the Issuer Mortgages and the PSA2 Mortgages

The Issuer Mortgages and the PSA2 Mortgages (together, 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").

The Provisional Mortgage Pool (as defined in "The Provisional Mortgage Pool" below) includes mortgages in respect of which, as at the Provisional Pool Date (as defined in "The Provisional Mortgage Pool" below), payments due from borrowers were in arrears by an amount in excess of one current monthly payment (each such Mortgage being an "Arrears Mortgage" and any Mortgage in respect of which payments were not so in arrears on such date being a "Current Mortgage").

Mortgages purchased by the Issuer or PSA2 may be mortgages which have been originated subsequent to the Provisional Pool Date and on or prior to the first Principal Determination Date.

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

Arrears in respect of the Mortgages

Arrears of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) in respect of any Issuer

Mortgage which, as at the date on which it is purchased by the Issuer is a Current Mortgage, will not be purchased by the Issuer, and any payments received in respect of such Issuer Mortgage after the date of its purchase will be applied first to those arrears, other amounts and accrued interest and will be accounted for to PML.

Arrears of interest, other amounts which have become due but remain unpaid and any interest accrued (but unpaid) in respect of any Issuer Mortgage, which, as at the date on which it is purchased by the Issuer is an Arrears Mortgage (“Issuer Pre-Closing Accruals and Arrears”), will be purchased by the Issuer. Arrears of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) in respect of any PSA2 Mortgage (whether such PSA2 Mortgage is a Current Mortgage or an Arrears Mortgage) (“PSA2 Pre-Closing Accruals and Arrears” and, together with the Issuer Pre-Closing Accruals and Arrears, the “Pre-Closing Accruals and Arrears”) will be purchased by PSA2. Any amount received by the Administrator representing Pre-Closing Accruals and Arrears will be treated as principal moneys received by the Issuer or PSA2, as the case may be.

Selection of Mortgages

The majority of the Issuer Mortgages expected to be purchased by the Issuer, and of the PSA2 Mortgages to be purchased by PSA2, will be selected from a larger pool of mortgages to which the statistical and other information contained in this Offering Circular relates (see “The Provisional Mortgage Pool” below) but Mortgages not included in the Provisional Mortgage Pool may also be purchased by the Issuer, or PSA2, as the case may be at any time on or prior to the first Principal Determination Date, provided that, *inter alia* (i) they meet the lending criteria referred to below (ii) the Rating Agencies confirm that the purchase of such Mortgages will not adversely affect the then current ratings of the Notes, (iii) the conditions precedent relating to the purchase of Mortgages on the Closing Date are satisfied in respect of the purchase of such Mortgages as at the date of such subsequent purchase, (iv) PFPLC gives representations and warranties in a similar form to those it gave as at the Closing Date in respect of the purchase of such Mortgages and (v) have verified receipt of first payment (the “Non-Verified Mortgages”).

All of the Mortgages to be purchased by the Issuer or PSA2, as the case may be, will have had original maturities of no more than 29 years, save in respect of certain Mortgages, with a combined maximum principal amount outstanding of £3,000,000 which will have had original maturities of up to 40 years. The PSA2 Mortgages to be purchased by PSA2 at any time up to and including the first Principal Determination Date will have an aggregate outstanding principal amount of not more than £37,000,000. Principal payments may be made in whole or in part at any time during the term of a Mortgage at the option of the relevant borrower. Any such payments received by the Issuer in respect of an Issuer Mortgage (whether or not scheduled) will form part of the moneys included in the calculation of Available Redemption Funds. Any such payments received by PSA2 in respect of a PSA2 Mortgage (whether or not scheduled) will form part of the moneys included in the calculation of Available Loan Redemption Funds under the Luxembourg Loan Agreement and, to the extent that such moneys are therefore paid into the Issuer’s Transaction Account pursuant to the terms of the Luxembourg Loan Agreement and the Administration Agreement, and accordingly credited to the Issuer Principal Ledger, will thus form part of the moneys included in the calculation of Available Redemption Funds.

All the Mortgages in the Mortgage Pool will comprise Standard Mortgages, Fixed Rate Mortgages, LIBOR-Linked Mortgages and/or Capped Rate Mortgages (see “The Mortgages” below) which met certain lending criteria (see “Lending Guidelines” below) at the time of origination by PML. The Issuer will have the benefit of warranties given by PFPLC in relation to the Issuer Mortgages, and PSA2 will have the benefit of warranties given by PFPLC in relation to the PSA2 Mortgages. PFPLC will be required to repurchase any Issuer Mortgage or PSA2 Mortgage sold by it in relation to which there is a material breach of warranty.

Pre-Funding Reserve

On the Closing Date the Issuer will credit an amount to the Transaction Account, crediting a ledger (the “Pre-Funding Reserve Ledger”) which will equal the balance of the gross proceeds of the issues of the Notes and the drawing under the PFPLC Subordinated Loan Agreement which is not applied on the Closing Date in purchasing Issuer Mortgages or in making the PSA2 Initial Advance or in establishing the First Loss Fund (the “Pre-Funding Reserve”).

It is expected that the Pre-Funding Reserve, as at the Closing Date, will be approximately £22,000,000.

The Issuer will only be entitled to apply such amount in purchasing Non-Verified Mortgages and/or in making a Non-Verified Mortgage Advance (which, in turn, will fund the purchase of Non-Verified Mortgages by PSA2) at any time up to and including the first Principal Determination Date if and to the extent that the Issuer or PSA2, as the case may be, is permitted to do so by, and in accordance with, the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement and the Administration Agreement. In particular, any such purchase of Non-Verified Mortgages by the Issuer or PSA2, as the case may be, will be subject to (i) the confirmation of the Rating Agencies that such purchase will not adversely affect any of the then current ratings of the Notes (ii) the satisfaction as at the date of such purchase of those conditions precedent which are required in respect of the purchase of the Mortgages as at the Closing Date, (iii) the Non-Verified Mortgages meeting the same lending criteria as those which apply to any such Mortgages purchased on the Closing Date, (iv) no Enforcement Notice having been served, (v) the provision, by each of the Issuer, PFPLC, PML, PSA2, PSFL and PSA, as applicable, of solvency certificates, each dated the date of such purchase, of two duly authorised officers of the relevant company, and (vi) there being no existing event of default under the Luxembourg Loan Agreement. PFPLC must provide a certificate to the Trustee and the Security Trustee on the date of such purchase of any Non-Verified Mortgages, to the effect that, *inter alia*, the conditions precedent listed in items (i) to (vi) above in this paragraph have been satisfied as at the date of such certificate. In addition, PFPLC will be required, pursuant to the terms of the UK Mortgage Sale Agreement and the Luxembourg Mortgage Sale Agreement respectively, to make the same representations and warranties in respect of any purchases of Non-Verified Mortgages which PFPLC gave as at the Closing Date.

Any outstanding balance in the Pre-Funding Reserve Ledger as at the first Principal Determination Date (taking into account any credits and debits made on that ledger on such date) will be credited on that Principal Determination Date to the Issuer Principal Ledger and taken into account when determining the Available Redemption Funds on the first Interest Payment Date.

Further Advances in respect of the Mortgages

Each further advance in respect of a Mortgage made to complete any part of the original advance retained pending completion of construction or refurbishment is referred to as a “Mandatory Further Advance”. Any such further advance 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 Issuer Mortgages, and PSA2 may make or fund Discretionary Further Advances on the PSA2 Mortgages, provided in each case that there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date and provided that the sum of (i) Discretionary Further Advances in respect of both Issuer Mortgages and PSA2 Mortgages (other than by way of capitalisation of arrears) and (ii) Mandatory Further Advances in respect of both Issuer Mortgages and PSA2 Mortgages, does not, at the date of the relevant Discretionary Further Advance, exceed a combined aggregate cumulative limit of £20,000,000.

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

Conversion of Mortgages

Any Mortgage 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 for such Converted Mortgages together with any related guarantees if not to do so would adversely affect any of the then current ratings of the Notes (see “The Issuer – Hedging Arrangements” below).

Receipt of Moneys 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 be paid into the PML collection account. All moneys received in respect of the Issuer Mortgages will be transferred on the next following business day, or as soon as practicable thereafter, to the Transaction Account, and all moneys received in respect of the PSA2 Mortgages will be transferred on the next following business day, or as soon as practicable thereafter, to the PSA2 Transaction Account.

Under the No. 1 Collection Account Declaration of Trust, PML will declare that all direct debit payments made by borrowers under the Issuer Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Issuer Mortgages and certain other sums in respect of the Issuer Mortgages which are credited to its collection account are held on trust for the Issuer until they are applied in the manner described above.

Under the No. 2 Collection Account Declaration of Trust, PML will declare that all direct debit payments made by borrowers under the PSA2 Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any PSA2 Mortgages and certain other sums in respect of the PSA2 Mortgages which are credited to its collection account are

held on trust for PSA2 until they are applied to the PSA2 Transaction Account also in the manner described above.

Mortgage Administration

Pursuant to an agreement to be entered into between PFPLC, PML, PSA2, the Issuer, the Trustee and the Security Trustee (the "Administration Agreement"), PFPLC will administer the Issuer Mortgages on behalf of the Issuer and the PSA2 Mortgages on behalf of PSA2. 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 solely 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 GMS (the "Substitute Administrator Agreement"), GMS will agree to be administrator of last resort (the "Substitute Administrator") and, in the event that it became the administrator, an annual fee of 0.30% (exclusive of VAT) on the aggregate interest charging balance of the Mortgages payable quarterly in arrear on each Interest Payment Date would be payable solely by the Issuer.

Under the Administration Agreement, the Administrator is given the duty, on behalf of the Issuer, PSA2, the Trustee and the Security Trustee, of taking all reasonable steps to recover sums due to the Issuer and/or PSA2, as the case may be, including under the Issuer Mortgages and/or the PSA2 Mortgages, respectively, and in respect of the Issuer's, PSA2's, the Trustee's and the Security Trustee's rights in the insurance policies referred to below.

Insurances

Where a Repayment Mortgage or an Interest-only Mortgage (as defined in "The Mortgages" below) has been originated by PML, PML recommends that borrowers or, in the case of PSA2 Mortgages, guarantors arrange term life assurance but no security will be or has been taken over such assurance. Even if such policies were taken out, borrowers or, in the case of PSA2 Mortgages, guarantors may not have been making payment in full or on time of the premiums due on the relevant policies, which may therefore have lapsed and/or no further benefits may be accruing thereunder.

In addition, with respect to Interest-only Mortgages there is no scheduled amortisation of principal, and consequently, upon the maturity of such a 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 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), although the conditions of such Mortgages do not require such borrowers to put in place such alternative funding arrangements.

The Issuer and the Trustee will also have the benefit of a mortgage indemnity insurance policy written by Lloyd's of London ("Lloyd's") insofar as it relates to Issuer Mortgages (see "Special Considerations" below).

First Loss Fund

On the Closing Date the Issuer will draw down under the PFPLC Subordinated Loan Agreement an amount (the "2.5% amount") which equals 2.5% of the sum of (i) the then Current Balance of all of the Mortgages purchased on the Closing Date by the Issuer and PSA2,

and (ii) the amounts standing to the credit of the Pre-Funding Reserve Ledger of the Transaction Account as at the Closing Date for the purpose of establishing a fund (the “First Loss Fund”). The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of the amounts referred to in items (i) to (iii) and, subject to the following paragraph, (iv) and (v) 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 by reason of any Shortfall Fund as described below, is insufficient to pay such amounts.

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

Subject as provided in the next paragraph, the Required Amount will be the amount of the First Loss Fund on the first Principal Determination Date unless otherwise reduced as described in this paragraph. If, on any Interest Payment Date falling in or after July 2004, (a) 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 8% of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised within the 12 months immediately preceding such time) and (c) the amount which is 5% of the then Current Balances of the Mortgages (“the 5% amount”) is less than the amount of the First Loss Fund on the first Principal Determination Date or, as the case may be, any lower figure to which the Required Amount has been reduced on any previous Interest Payment Date as described in this paragraph, the Required Amount will be reduced on such Interest Payment Date to the 5% amount provided that while any of the Notes remain outstanding the Required Amount may not be less than the greater of £500,000 and the amount which is two times the outstanding principal balance of the largest Mortgage owned by the Issuer or PSA2. If on any such Interest Payment Date the conditions in (a), (b) and (c) above are not satisfied, the Required Amount will not be reduced but will remain at the Required Amount on the immediately preceding Interest Payment Date or, in the case of the first Interest Payment Date, the Required Amount on the first Principal Determination Date.

If at any time, as a result of the rate at which amounts are received in respect of Pre-Closing Accruals and Arrears, Moody’s and/or Standard & Poor’s notifies the Issuer that the then current Required Amount would have to be increased to a higher amount (the “Increased Required Amount”) in order to maintain the then current

ratings of the Notes, the Required Amount shall be so increased to such higher amount with effect from the date on which Moody's and/or Standard & Poor's so notifies the Issuer and such Increased Required Amount (or any subsequent Increased Required Amount specified by Moody's and/or Standard & Poor's) shall continue to apply as the Required Amount until such time as Moody's and/or Standard & Poor's confirms to the Issuer that the Required Amount may be reduced to the amount which would otherwise have applied, or otherwise specifies a new Increased Required Amount.

If after application of any funds required to be applied from the First Loss Fund towards the items referred to above, there remains on any Interest Payment Date a surplus over the Required Amount in the First Loss Fund, that surplus will be released from the First Loss Fund and applied in repayment of principal amounts outstanding under the PFPLC Subordinated Loan Agreement.

Shortfall Fund

The Issuer may at any time with the prior consent of PFPLC draw down under the PFPLC Subordinated Loan Agreement for the purpose of establishing a shortfall fund (the "Shortfall Fund"). If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages is less than 1.6% until (and including) the Interest Payment Date falling in July 2004 and 2% thereafter, in each case above the 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 and the Issuer makes a provision in the Shortfall Fund equal to such shortfall.

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

Deferred Consideration

On each Interest Payment Date, after paying or providing in full for items (i) to (xiii) inclusive in "Priority of Payments" above, the Issuer shall pursuant to the UK Mortgage Sale Agreement and the Luxembourg Mortgage Sale Agreement pay to PFPLC by way of deferred consideration for the Issuer Mortgages and the PSA2 Mortgages, an amount equal to the remaining balance of the moneys available on such Interest Payment Date for application in accordance with "Priority of Payments" above less an amount equal to 0.01% of the principal amount outstanding in respect of the Notes on the Principal Determination Date immediately prior to that Interest Payment Date, multiplied by the actual number of days in the relevant Collection Period divided by 365.

Hedging Arrangements

On the Closing Date, the Issuer will have entered into a master interest rate exchange agreement (together with any confirmations for specific transactions, the "Swap Agreement") with Morgan Guaranty Trust Company of New York as swap counterparty (the "Swap Counterparty" or the "Swap Provider") and one or more interest rate swaps or caps or other hedging arrangements thereunder, each in accordance with Moody's and Standard & Poor's requirements to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages that are acquired by it or by PSA2 on the Closing Date.

In relation to any Fixed Rate Mortgages or Capped Rate Mortgages, acquired by the Issuer or by PSA2 following the Closing Date or

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 of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes) and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge (any such bank or financial institution being a “Permitted Hedge Provider”). Hedging arrangements may, but need not, include one or more interest rate caps (each a “Cap”) which will be made available to the Issuer by means of one or more Cap agreements entered into with a counterparty (a “Cap Provider”) or may comprise other hedging arrangements entered into with the Swap Provider under the Swap Agreement.

Reinvestment of Income

Cash in the Transaction Account and the PSA2 Transaction Account must be invested in sterling denominated securities, bank accounts or other obligations of or rights against entities whose long-term debt is rated Aaa by Moody’s and AAA by Standard & Poor’s or whose short-term debt is rated P-1 by Moody’s and 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). Any investments made by the Issuer or PSA2 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 above, save that the relevant short-term debt rating by Standard & Poor’s of the entity in which the investment or investments is or are made must, in such case, be A-1+.

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 depository (the “Common Depository”) for Euroclear and Cedelbank. 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 Depository. 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 Cedelbank.

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

Fee Letter

PFPLC has agreed to arrange the issues of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issues of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Managers. PML will pay, on behalf of the Issuer, or reimburse to the Issuer, the management and underwriting commissions and selling commissions due to the Managers referred to in "Subscription and Sale" below and any expenses payable by the Issuer in connection with the issues of the Notes. The Issuer has agreed under a fee letter dated 11th June 1999 (the "Fee Letter") that it will pay PFPLC an arrangement fee of 0.4% of the aggregate principal amount of the Notes and that it will repay PML such commissions and such expenses in quarterly instalments over a period of four years from the Closing Date. Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR (or such other rate which PML and the Issuer agree to be a fair commercial rate at the time) payable quarterly in arrear.

PFPLC Subordinated Loan Agreement

PFPLC has made available to the Issuer under a subordinated loan agreement dated 11th June 1999 (the "PFPLC Subordinated Loan

Agreement”) a subordinated loan facility under which an amount or amounts will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund and to achieve the initial ratings on the Notes.

PFPLC has also agreed to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances in respect of Issuer Mortgages which it is required to make and, also where PSA2 has insufficient Available Loan Redemption Funds, to fund the obligations of the Issuer to make Additional PSA2 Advances under the Luxembourg Loan Agreement to enable PSA2 to make any Mandatory Further Advances in respect of PSA2 Mortgages. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the PFPLC 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 respect of Issuer Mortgages, or, where PSA2 also has insufficient Available Loan Redemption Funds, to fund any Additional PSA2 Advances under the Luxembourg Loan Agreement, to enable PSA2 to make any Discretionary Further Advances in respect of PSA2 Mortgages. Neither the Issuer nor PSA2 shall be entitled to make a Discretionary Further Advance where it is unable to fund such Discretionary Further Advance accordingly.

PFPLC has also agreed to make further advances to the Issuer under the PFPLC 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 specified in items (i) to (vii) inclusive set out in “Priority of Payments – prior to enforcement” above, to pay any Swap Termination Amounts due and payable to the Swap Provider or any Permitted Hedge Provider on such Interest Payment Date; and (ii) at any time where the Administrator 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 PFPLC Subordinated Loan Agreement, with the prior consent of PFPLC, for the purpose of establishing or increasing the Shortfall Fund, and, in addition, to fund the payment of certain expenses (including any unforeseen expenses) of PSA2. The Issuer may from time to time borrow further sums from PFPLC or other lenders (“Subordinated Lenders”) on the terms of the PFPLC Subordinated Loan Agreement.

In addition, further drawings may be made by the Issuer under the PFPLC Subordinated Loan Agreement in order to fund (if necessary) purchases of amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages by the Issuer, and/or to fund a Non-Verified Mortgage Advance (to enable PSA2 also to purchase amounts represented by unauthorised cashbacks and discounts in relation to Non-Verified Mortgages).

On any Interest Payment Date, sums borrowed under the PFPLC Subordinated Loan Agreement will be repaid to the extent of any amounts released from the First Loss Fund (as described in “First Loss Fund” above), and, to the extent there is outstanding any advance made to establish or increase the Shortfall Fund, sums borrowed for such purposes may be repaid to the extent of the funds available to the Issuer to do so (see “Priority of Payments – prior to enforcement” above). For further details of the PFPLC Subordinated

Loan Agreement see “The Issuer – Subordinated Loan Facility from PFPLC” below.

Post Enforcement Call Option

The Trustee will, on the Issue Date, grant to PFPLC (pursuant to a post enforcement call option deed to be entered into on 11th June 1999 between the Issuer, PFPLC 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 of all (but not some only) of the Class B Notes (together with accrued interest thereon) in the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class B Notes and the Class B 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 (see “Description of the Class B Notes, the Global Class B Notes and the Security – Enforcement and Post Enforcement Call Option”). The Class B Noteholders will be bound by the terms and conditions of the Trust Deed and the Class B 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.

The Issuer will enter into a deed with PFPLC (the “PFPLC Deed”) pursuant to which, *inter alia*, PFPLC agrees with the Issuer to exercise the options granted in its favour pursuant to the Post Enforcement Call Option Deed.

SPECIAL CONSIDERATIONS

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

The Notes will be solely the obligations of the Issuer. The Notes will not be obligations or the responsibility of, or be guaranteed by, PFPLC, PML, PGC or PSA2, any other company in the same group of companies as PGC (other than the Issuer), the Trustee, the Managers or any other person other than the Issuer. Furthermore, none of PFPLC, PML, PGC, PSA2, the Trustee, the Managers nor any person other than the Issuer will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes.

The 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 Issuer Mortgages, the Luxembourg Loan Agreement and the Security Trust Deed the Transaction Account deposit arrangements, any hedging arrangements whether entered into under the Swap Agreement or otherwise, any Caps and any related guarantees, any permitted investments, the PFPLC Subordinated Loan Agreement and the insurances in which the Issuer has an interest.

PSA2's ability to meet its obligations under the Luxembourg Loan Agreement

PSA2's ability to meet its obligations to pay principal of and interest on the Luxembourg Loan will be dependent upon funds being received under the PSA2 Mortgages and the collateral security therefor, the PSA2 Transaction Account deposit arrangements and the insurances in which PSA2 has an interest.

Security for the Luxembourg Loan

Upon enforcement of the security for the Luxembourg Loan, the Security Trustee will have recourse only to the PSA2 Mortgages and any other assets of PSA2 then in existence. All moneys received or recovered by the Security Trustee following the security becoming enforceable will be applied first, in or towards paying, to the extent not previously paid by the Issuer, any fees, costs, expenses or other amounts payable to the Security Trustee or any receiver appointed by it and amounts due from the Security Trustee to borrowers in respect of Mandatory Further Advances in respect of PSA2 Mortgages, thereafter in or towards satisfaction of the amounts due and owing by PSA2 to the Issuer under the terms of the Luxembourg Loan Agreement.

Whilst any of the PSA2 Mortgages are outstanding, the ability of PSA2 to repay the Luxembourg Loan in full will depend upon whether the PSA2 Mortgages and related security and insurances can be realised to obtain an amount sufficient to repay the Luxembourg Loan. If the net proceeds of the security are not sufficient to make all or any payments due in respect of the Luxembourg Loan, the Issuer may, in turn, have insufficient funds to meet its payment obligations under the Notes.

Withholding tax on the Luxembourg Loan

Under the terms of the Luxembourg Loan Agreement PSA2 will be required to make payments of interest without deduction or withholding for or on account of tax unless required to do so by law. Under current legislation applicable in Luxembourg there is no requirement to deduct or withhold Luxembourg tax on payments of interest by PSA2 to the Issuer. The Luxembourg Loan Agreement does not contain any obligation on the part of PSA2 to make any additional payments to the Issuer in respect of any withholding or deduction for or on account of tax which may be imposed in the future and accordingly if the position were to change PSA2 would only make net payments of interest. This would reduce the amount of cash received by the Issuer and therefore potentially affect its ability to meet payments of interest on the Notes on a timely basis. There is, in addition, a possibility that the UK Inland Revenue will regard the interest payable under the Luxembourg Loan Agreement as UK source interest, which would impose on PSA2 a requirement to withhold UK tax in respect of payments of interest at the current rate of 20 per cent..

In such a circumstance, the Issuer would be entitled to a credit for the tax withheld against its UK corporation tax liability and would be entitled to reclaim such tax at the end of each accounting period to the extent that it exceeded its UK corporation tax liability for such accounting period.

Withholding tax on the PSA2 Mortgages

Under current UK tax legislation, borrowers under the PSA2 Mortgages will only be entitled to pay interest under the PSA2 Mortgages without deduction of UK tax to PSA2 if PSA2 applies for and obtains an exemption under the UK/Luxembourg Double Tax Treaty. Although PSA2 is in the process of applying for such an exemption, the exemption has not yet been granted and therefore until it is granted borrowers under the PSA2 Mortgages should make payments of interest under the PSA2 Mortgages subject to a deduction of income tax at the current rate of 20 per cent.. If and to the extent that they do so, this will reduce the amount available to PSA2 and therefore the amount available to it to meet its obligations to make payments of interest to the Issuer under the Luxembourg Loan. There is no obligation on the part of the borrowers to make any additional payments in respect of any amounts so deducted and accordingly any deduction may affect the ability of the Issuer to make payments of interest on the Notes on a timely basis.

However, where borrowers are required to make (and do make) interest payments subject to a deduction, as referred to in this paragraph above, such deduction will be taken into account by the Administrator in calculating the weighted average of the interest rates applicable to the Mortgages in connection with the setting of rates pursuant to the Administration Agreement (see “Summary – Shortfall Fund”).

Matters relating to the Mortgages

MIRAS

There is some doubt as to the legal effectiveness of any charge over entitlements under the MIRAS Scheme (which is currently established under sections 369-379 of the Income and Corporation Taxes Act 1988). However, the Inland Revenue have indicated in respect of previous similar transactions that they are prepared to make payments under the MIRAS Scheme to bank accounts similar to the Transaction Account and they will be requested to operate this arrangement in the present case and to give the Trustee advance notice if they wish to change this arrangement. The UK Government has announced its intention to abolish the MIRAS scheme and draft legislation to this effect is included in the Finance Bill 1999. If the Bill is enacted in its present form, the relief will cease to be available in respect of interest payments made on or after 6th April 2000. The effect of this will be that a mortgagor whose mortgage is £30,000 or over will suffer an increase in repayment due of around £25 per month at current interest rates. This may increase the level of defaults on the Mortgages in the Mortgage Pool.

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 Issuer Mortgages, and on behalf of PSA2 and the Security Trustee in respect of the PSA2 Mortgages, set, where relevant, the rates of interest applicable to the relevant Mortgages (other than Fixed Rate Mortgages and Capped Rate Mortgages during the applicable fixed rate or capped rate period). The Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages is not less than 1.6% until and including the Interest Payment Date falling in July 2004 and 2% thereafter above LIBOR applicable to the Notes at that time. The Administrator may set or maintain a lower average mortgage interest rate if and to the extent that the resultant shortfall can be provided for out of an available credit balance in any Shortfall Fund.

In respect of Fixed Rate Mortgages, the Administrator is unable to vary the rate of interest during the fixed rate period set out in the relevant Mortgage Conditions; in respect of Capped Rate Mortgages, the Administrator is unable to increase the rate of interest above the capped rate during the capped rate period set out in the relevant Mortgage Conditions; and in respect of LIBOR-Linked Mortgages, the interest rate is set at a fixed margin over three-month LIBOR. As a result, the Issuer may be exposed to the risk of an adverse interest differential between the rate of interest receivable in respect of the Fixed Rate Mortgages, Capped Rate Mortgages and LIBOR-Linked Mortgages, on the one hand, and the rate of interest payable on the Notes on the other hand. In relation to any Fixed Rate Mortgages and/or Capped Rate Mortgages that are acquired by the Issuer on the Closing Date, the Issuer will on the Closing Date have entered into hedging arrangements relating thereto. If, and to the extent that after the Closing Date Mortgages are converted into Fixed Rate Mortgages or Capped Rate Mortgages, or where the Issuer acquires further Issuer Mortgages, or PSA2 acquires further PSA2 Mortgages, in each case at any time up to and including the first Principal Determination Date, the Issuer will be required to enter into hedging arrangements in respect of the relevant Mortgages but only if not to do so would adversely affect any of the then current ratings of the Notes.

In limited circumstances and other than in relation to Fixed Rate Mortgages and Capped Rate Mortgages during the applicable fixed rate or capped rate period, the Trustee or the Issuer in relation to the

Issuer Mortgages or PSA2 or the Security Trustee in relation to the PSA2 Mortgages or, in relation to any Mortgages, any substitute administrator appointed by the Trustee or GMS (when acting in its capacity as administrator of last resort) will be entitled to set the rates of interest applicable to the Mortgages. These circumstances include a breach by the Administrator of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders. In such circumstances, the Trustee may terminate the Administrator's authority to set the rates of interest applicable to the Mortgages and/or terminate the appointment of the Administrator.

In view of the arrangements for setting Mortgage rates and in view of the First Loss and Shortfall Funds, the terms and conditions of the Class A Notes and the Class B Notes will provide that a Trustee's certificate, to the effect that the Issuer had sufficient funds available for the purpose, will be necessary to constitute an event of default if one or more interest payments on the Class A Notes or the Class B Notes is or are missed or not paid in full.

Representations and Warranties

PFPLC has warranted to the Issuer and the Trustee in the UK Mortgage Sale Agreement and to PSA2 and the Security Trustee in the Luxembourg Mortgage Sale Agreement *inter alia*, that, prior to it making the initial advance to a borrower under a Mortgage, PML carried out all investigations, searches and other actions as would a reasonably prudent lender and nothing which would cause such a lender to decline to proceed with the advance on the proposed terms was disclosed. Except as described under "The Mortgages – Acquisition of Mortgages" below, neither the Issuer nor the Trustee nor PSA2 nor the Security Trustee has undertaken or will undertake any such investigations, searches or other actions and each will rely instead on the warranties given in the relevant Mortgage Sale Agreement by PFPLC. The sole remedy against PFPLC in respect of breach of warranty shall be to require PFPLC to repurchase any relevant Mortgage provided that this shall not limit any other remedies available if PFPLC fails to repurchase a Mortgage when obliged to do so. There can be no assurance that PFPLC will have the financial resources to meet its obligations to repurchase any Mortgage in respect of which such a breach of warranty arises.

Other matters

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, PSA the Issuer, the Trustee, PSA2 or the Security 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.

In respect of certain Mortgages contained in the Mortgage Pool, Mandatory Further Advances are required to be made to borrowers. The Issuer expects to fund Mandatory Further Advances to be made by it for any given period from the moneys referred to in paragraph (A) of the definition of "Available Redemption Funds". The Issuer may not receive sufficient amounts of principal to meet the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set-off the amounts of any Mandatory Further Advances which the Issuer has failed to make against amounts owing by those borrowers and/or to sue the Issuer for damages for breach of contract. Accordingly, if and to the extent that, the Issuer does not have sufficient funds to make any such Mandatory Further Advances, the Issuer will be entitled to borrow further amounts from PFPLC under the PFPLC Subordinated Loan Agreement and PFPLC will be under an obligation to make any such amounts available to the Issuer. Similar considerations apply in relation to the PSA2 Mortgages. PSA2 expects to fund Mandatory Further Advances from principal recoveries or, failing that, from further advances by the Issuer under the Luxembourg Loan Agreement.

Directors' certificates

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

Risks Associated with Non-Owner Occupied Properties

As at the Provisional Pool Date, 2,753 of the Properties relating to the Mortgages, representing approximately 87.54 per cent. by value of the Mortgages in the Provision Mortgage Pool were not owner-occupied. Other Properties relating to Non-Verified Mortgages to be sold to the Issuer or PSA2 may also not be owner-occupied. It is intended that all such Properties will be let by the relevant borrower to tenants but there can be no guarantee that each such Property will be the subject of an existing tenancy when the relevant Mortgage is acquired by the Issuer or PSA2 or that any tenancy which is granted will subsist throughout the life of the Mortgage and/or that the rental income achievable from tenancies of the relevant Property will be sufficient to provide the borrower with sufficient income to meet the borrower's interest obligations in respect of the Mortgage.

Upon enforcement of a Mortgage in respect of a Property which is the subject of an existing tenancy, PFPLC may not be able to obtain vacant possession of the Property in which case PFPLC will only be able to sell the Property as an investment property with one or more sitting tenants. This may affect the amount which PFPLC could realise upon enforcement of the Mortgage and a sale of the Property. However, enforcement procedures in relation to such Mortgages, include appointing a receiver of rent (unless the Property is situated in Scotland), in which case such a receiver must collect any rents payable in respect of the Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage. For further information, see the Section in this Offering Circular entitled "Mortgage Administration – Arrears and defaults procedures".

Risk of Losses Associated with Interest-only Mortgages

Approximately 52.34 per cent. of the Mortgages in the Provisional Mortgage Pool by value constitute Interest-only Mortgages (as defined under "The Mortgages"). 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 pension policies, personal equity plans or endowment policies. 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.

Potential Year 2000 Issues

Many computer software programmes and electronic components that incorporate computer programmes use only two-digit year references for dates and date dependent functions and could therefore require upgrading or replacement prior to the year 2000 to function properly thereafter (the "Year 2000 problem"). All systems related to the origination and tracking of the Mortgages are managed by the Administrator. The Issuer and PSA2 are working in conjunction with the Administrator to access the computer network, systems and processes as necessary to determine the potential impact of the Year 2000 problem on the operations of the Issuer, PSA2, the Administrator and the Mortgages. Based on reports of the Administrator, the Issuer and PSA2 expect that any operational issues related to the Year 2000 problem will be reviewed on a daily basis. Nevertheless, there can be no assurances that the Year 2000 problem will not have an adverse effect on the Issuer, PSA2, the Administrator or the systems related to the Mortgages.

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 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 (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 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 will have on investors in the Notes.

CREDIT STRUCTURE

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

Class of Notes	Rating	
	Moody's	Standard & Poor's
A	Aaa	AAA
B	A1	A

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 Issuer Revenue Ledger

To the extent that such moneys exceed the aggregate of the payments and provisions required to be met in priority to item (v), or, in certain circumstances, item (iii) of the Priority of Payments on the next Interest Payment Date, such excess is available to replenish the First Loss Fund to the Required Amount.

Such moneys standing to the credit balance of the Issuer Revenue Ledger of the Transaction Account may be applied (after making payments or provisions ranking higher in the Priority of Payments) on each Interest Payment Date towards reducing any debit balance on the Principal Deficiency Ledger.

2. First Loss Fund

On the Closing Date, the Issuer will draw down under the PFPLC Subordinated Loan Agreement an amount equal to 2.5% of the sum of (1) the then Current Balance of all of the Mortgages purchased on the Closing Date by the Issuer and PSA2, and (2) the amounts standing to the credit of the Pre-Funding Reserve Ledger of the Transaction Account 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) of the Priority of Payments, and, save where payment of items (iv) and (v) are postponed, towards payment of items (iv) and (v), where the income of the Issuer, and the amount available to the Issuer on such Interest Payment Date by reason of any 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 the provisions specified in item (vi) of the Priority of Payments (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 (vii) of the Priority of Payments (which relates to the provision for an amount reducing any debit balance on the Principal Deficiency Ledger).

If, after application of any funds required to be applied from the First Loss Fund towards the items referred to above, there remains on any Interest Payment Date a surplus over the Required Amount in the First Loss Fund, that surplus will be released from the First Loss Fund and applied in repayment of principal amounts outstanding under the PFPLC Subordinated Loan Agreement.

3. Shortfall Fund

The Issuer may at any time with the prior consent of PFPLC draw down under the PFPLC Subordinated Loan Agreement for the purpose of establishing a Shortfall Fund. If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages is less than 1.6% until (and including) the Interest Payment Date falling in July 2004, and 2% thereafter, in each case above the LIBOR applicable to the Notes at that time, then the Issuer 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, 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 the Priority of Payments.

4. Transfer of Funds from the PML Collection Account

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

to the Transaction Account, and all moneys received in respect of the PSA2 Mortgages will be transferred on the next following business day, or as soon as practicable thereafter, to the PSA2 Transaction Account.

Under the No. 1 Collection Account Declaration of Trust, PML will declare that all direct debit payments made by borrowers under the Issuer Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Issuer Mortgages and certain other sums in respect of the Issuer Mortgages which are credited to its collection account are held on trust for the Issuer until they are applied in the manner described above.

Under the No. 2 Collection Account Declaration of Trust, PML will make a similar declaration as under the No. 1 Collection Account Declaration of Trust, save that it will relate to such moneys which are paid and/or recovered in respect of the PSA2 Mortgages, and that PML will hold such moneys on trust for PSA2.

5. Principal Deficiency Ledger

The Transaction Account will comprise six ledgers, including the Issuer Principal Ledger, the Issuer Revenue Ledger and the Principal Deficiency Ledger.

Amounts will be debited from the Principal Deficiency Ledger representing principal losses incurred on the Issuer Mortgages and the PSA2 Mortgages, and amounts applied in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Issuer Mortgages.

Moneys in the Transaction Account representing the credit balance on the Issuer Revenue Ledger shall, after making the payments or provisions required to be met in priority to item (vi) or, in certain circumstances, item (v) of the Priority of Payments (which relates to amounts for replenishing the First Loss Fund), be applied in an amount necessary to reduce to nil the debit balance on the Principal Deficiency Ledger.

6. The Class B Notes

The Class B Noteholders 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.

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 would result in:

the sum of (x) any debit balance on the Principal Deficiency Ledger, and (y) the aggregate of the amounts specified in items (i) to (iii) inclusive of the Priority of Payments, to the extent that such amounts would not be paid or provided for in full following such application,

exceeding the sum of (a) the then resulting current balance of the First Loss Fund; and (b) the aggregate Principal Amount Outstanding of the Class B Notes (after deducting the amount of any Class B Available Redemption Funds on the Principal Determination Date relating to such Interest Payment Date),

then, to the extent of such excess, the payments or provisions specified in item (iv) (and also item (v) which relates to sums due to third parties and to the Issuer's and PSA2's liability to value added tax and to any corporation tax) of the Priority of Payments shall be postponed and shall instead be paid after any provisions referred to in items (vi) and (vii) (but prior to any provision referred to in item (viii)).

The Class A Notes and the Class B 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.

7. PFPLC Subordinated Loan Agreement

PFPLC has made available to the Issuer a subordinated loan facility under which an amount or amounts will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund and to achieve the initial rating on the Notes.

PFPLC has also agreed to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances in respect of Issuer Mortgages, and, also where PSA2 has insufficient Available Loan Redemption Funds, to

fund the obligations of the Issuer to make Additional PSA2 Advances under the Luxembourg Loan Agreement to enable PSA2 to make any Mandatory Further Advances in respect of PSA2 Mortgages. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the PFPLC 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 respect of Issuer Mortgages, or, where PSA2 also has insufficient Available Loan Redemption Funds, to fund any Additional PSA2 Advances under the Luxembourg Loan Agreement, to enable PSA2 to make any Discretionary Further Advances in respect of PSA2 Mortgages. PFPLC has also agreed to make further advances to the Issuer under the PFPLC 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 specified in items (i) to (vii) inclusive set out in “Priority of Payments – prior to enforcement” above, to pay any Swap Termination Amounts due and payable to the Swap Provider or any Permitted Hedge Provider on such Interest Payment Date; and
- (ii) at any time where the Administrator 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 PFPLC Subordinated Loan Agreement, with the prior consent of PFPLC (1) for the purpose of establishing or increasing the Shortfall Fund, (2) to fund the payment of certain expenses (including any unforeseen expenses) of PSA2, and (3) to fund (if necessary) purchases of amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages by the Issuer, and/or to fund a Non-Verified Mortgage Advance (to enable PSA2 also to purchase amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages).

On any Interest Payment Date, sums borrowed under the PFPLC Subordinated Loan Agreement will be repaid to the extent of any amounts released from the First Loss Fund and, to the extent there is outstanding any advance made to establish or increase the Shortfall Fund, sums borrowed for such purposes may be repaid to the extent of the funds available to the Issuer to do so.

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.

On the Closing Date, the Issuer will have entered into hedging arrangements under the Swap Agreement, in accordance with the requirements of the Rating Agencies to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages which were acquired by it or by PSA2 on the Closing Date. In addition, in relation to any Fixed Rate Mortgages or Capped Rate Mortgages which arise upon conversion of any Mortgages subsequent to the Closing Date, or which are acquired by the Issuer or PSA2 subsequent to the Closing Date, 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.

9. Pre-Funding Reserve

The Issuer will be entitled to apply any amount standing to the credit of the Pre-Funding Reserve Ledger of the Transaction Account in purchasing Non-Verified Mortgages and/or in making a Non-Verified Mortgage Advance (so as to enable PSA2 to purchase Non-Verified Mortgages), if and to the extent that the Issuer or PSA2, as the case may be, is permitted to do so by, and in accordance with, the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement and the Administration Agreement. In particular, any such purchase of Non-Verified Mortgages will require the confirmation from the Rating Agencies, that such purchase will not adversely affect any of the then current ratings of the Notes.

Any outstanding balance in the Pre-Funding Reserve Ledger as at the first Principal Determination Date (taking into account any credits and debits made on that ledger on such date) will be credited on that Principal Determination Date to the Issuer Principal Ledger and taken into account when determining the Available Redemption Funds on the first Interest Payment Date.

THE LUXEMBOURG LOAN

Under the terms of the Luxembourg Loan Agreement the Issuer, on the Closing Date, will make a loan facility available to PSA2 to enable PSA2 to purchase the PSA2 Mortgages (including any Non-Verified Mortgages) and to make further advances in respect of the PSA2 Mortgages. The main terms of the Luxembourg Loan Agreement are summarised below.

Availability and use

Subject to satisfaction of certain conditions precedent contained in the Luxembourg Loan Agreement, the Issuer will make the Initial PSA2 Advance to PSA2 on the Closing Date in an amount sufficient to enable PSA2 to purchase the PSA2 Mortgages on such date. The terms of the Luxembourg Loan Agreement will provide that PSA2 will use the proceeds of the Initial PSA2 Advance solely towards payment of the purchase price for the PSA2 Mortgages to be acquired by PSA2 from PFPLC on the Closing Date pursuant to the Luxembourg Mortgage Sale Agreement. The terms of the Luxembourg Loan Agreement will provide that PSA2 will be entitled to make further drawdowns (each such drawdown, a “Non-Verified Mortgage Advance”) to purchase Non-Verified Mortgages at any time up to and including the first Principal Determination Date, if and to the extent that it is entitled to do so under the Luxembourg Mortgage Sale Agreement and the Administration Agreement.

The Issuer will also agree, subject to the satisfaction of certain conditions, to make Additional PSA2 Advances on any business day to enable PSA2 to make further advances to borrowers under the PSA2 Mortgages. The Issuer will only be obliged to make Additional PSA2 Advances to PSA2 if and to the extent that:

- (a) PSA2 is not able to make such further advances out of funds standing to the credit of the PSA2 Transaction Account;
- (b) the Issuer itself has funds standing to credit of the Transaction Account or the Issuer has drawn down funds from PFPLC under the PFPLC Subordinated Loan Agreement in order to enable it to make such further advance; and
- (c) the cumulative total of Discretionary Further Advances and Mandatory Further Advances in respect of both Issuer Mortgages and PSA2 Mortgages made as at the date of such Additional PSA2 Advance (including any Discretionary Further Advances and/or Mandatory Further Advances to be made on the date of such Additional PSA2 Advance) does not exceed £20,000,000.

Interest

Interest on the outstanding balance of the Initial PSA2 Advance, any Non-Verified Mortgage Advance and any Additional PSA2 Advances (such Advances together constituting the “Luxembourg Loan”) will accrue by reference to successive interest periods corresponding to the Interest Periods applicable to the Notes, and will be payable on each date which is an Interest Payment Date under the Notes (each such date, a “Loan Payment Date”). Interest immediately prior to that Loan Payment Date will be determined by reference to the outstanding credit balance as at the relevant Principal Determination Date, on the PSA2 Revenue Ledger of the PSA2 Transaction Account less an amount equal to a quarter of 0.125 per cent. of the principal amount outstanding in respect of the Luxembourg Loan Agreement on the Principal Determination Date immediately prior to the Loan Payment Date (the “0.125 per cent. Amount”).

Subordinated Loan to the Issuer

On each Loan Payment Date, PSA2 will, in turn, make an advance (each such advance, a “0.125 per cent. Amount Loan”) to the Issuer of an amount equal to the 0.125 per cent. Amount, pursuant to the terms of the Luxembourg Loan Agreement, and such amount shall be credited to the Issuer Revenue Ledger. The 0.125 per cent. Amount Loan will bear interest at a fair commercial rate, and both principal and interest in respect of the 0.125 per cent. Amount Loan will only become due and payable at such time following the date the Notes have been redeemed in full. The Issuer will, in turn, agree, under the Luxembourg Loan Agreement, (i) to discharge any tax liability of PSA2 which arises under Luxembourg law, and (ii) to repay the 0.125 per cent. Amount Loan and any accrued interest thereon to the Issuer on any date after the Notes have been redeemed in full, in each case subject to and in accordance with the agreed order of priority of payments (see “Priority of Payments – prior to enforcement” in the Summary above).

Repayment

To the extent not previously prepaid in accordance with the terms of the Luxembourg Loan Agreement PSA2 will repay the outstanding principal balance of the Luxembourg Loan to the Issuer on the Loan Payment Date falling in October 2030, unless agreed otherwise by the Trustee and the Security Trustee.

Prepayment

Under the terms of the Luxembourg Loan Agreement, PSA2 will be required to make mandatory prepayments of principal of the Luxembourg Loan on each Loan Payment Date in an amount equal to the Available Loan Redemption Funds, as determined by the Administrator on the Principal Determination Date immediately preceding such Loan Payment Date.

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

- (a) the aggregate of:
 - (i) all principal and PSA2 Pre-Closing Accruals and Arrears received or recovered in respect of the PSA2 Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to PSA2 (other than in respect of accrued interest which does not represent PSA2 Pre-Closing Accruals and Arrears) on repurchase or purchase of any PSA2 Mortgages pursuant to the terms of the Relevant Documents but excluding any such principal (if any) which under the Luxembourg Mortgage Sale Agreement is held on trust for, or to be accounted for to, a person other than PSA2 during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Loan Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date in question (the “relevant Collection Period”);
 - (ii) in the case of the first Principal Determination Date, the amount (if any) by which the aggregate principal amount of the Initial PSA2 Advance exceeds the aggregate of the amounts paid by PSA2 to PFPLC by way of purchase price for the PSA2 Mortgages purchased by PSA2 on the Closing Date;
 - (iii) the amount of any Available Loan Redemption Funds on the immediately preceding Principal Determination Date not applied in prepayment of amounts outstanding under the Luxembourg Loan Agreement on the Loan Payment Date relative thereto;
 - (iv) any part of the amount deducted pursuant to (b)(i) and/or (ii) below in determining the Available Loan Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances in respect of the PSA2 Mortgages or Mandatory Further Advances in respect of the PSA2 Mortgages, in each case on or prior to the preceding Loan Payment Date;

less

- (b) the aggregate of:
 - (i) the aggregate principal amount of Discretionary Further Advances made by PSA2 in respect of the PSA2 Mortgages during the relevant Collection Period (or expected to be made on or prior to the Loan Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings pursuant to the Luxembourg Loan Agreement;
 - (ii) the aggregate principal amount of Mandatory Further Advances made by PSA2 in respect of the PSA2 Mortgages during the relevant Collection Period (or expected to be made on or prior to Loan Payment Date immediately succeeding the relevant Collection Period) other than such have been or will be funded by drawings pursuant to the Luxembourg Loan Agreement;
 - (iii) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the PSA2 Mortgages,
in each such case (save for (a)(iii) above) only to the extent that such moneys have not been taken into account in the calculation of Available Loan Redemption Funds on the preceding Principal Determination Date.

Restrictions on activities

PSA2 will covenant to observe restrictions on its activities similar to those restrictions assumed by the Issuer under the terms and conditions of the Notes.

Payments

All payments by PSA2 in respect of the Luxembourg Loan will be made by PSA2 without deduction or withholding for or on account of tax unless such deduction or withholding is required by law. In that event, PSA2 shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amounts so required to be withheld or deducted. PSA2 will not be obliged to make any additional payments to the Issuer in respect of such withholding or deduction.

Events of default

The Luxembourg Loan Agreement will contain events that may lead to a default and acceleration of the amounts outstanding. These include events for non-payment, breach of covenant and insolvency of PSA2. In addition, an Event of Default under the Notes will trigger a default under the Luxembourg Loan Agreement. However, an event of default under the Luxembourg Loan Agreement will not trigger automatically an Event of Default under the Notes (although such an event of default may result in the amounts which are credited to the Issuer Revenue Ledger or the Issuer Principal Ledger of the Transaction Account being insufficient to enable the Issuer to meet its payment obligations on the Notes).

Governing Law

The Luxembourg Loan Agreement will be governed by English Law.

Security Trust Deed

The Security Trust Deed will be entered into on the Closing Date by, *inter alios*, PFPLC, the Issuer, PML, PSA2, the Trustee and Security Trustee.

Under the terms of the Security Trust Deed, amounts payable by PSA2 to the Issuer under the Luxembourg Loan Agreement will be secured by first ranking security interests over:

- (1) certain mortgages (or the beneficial interest therein) to be purchased by PSA2 on the Closing Date and on any date following the Closing Date up to and including the first Principal Determination Date;
- (2) various other insurance policies relating to the PSA2 Mortgages in which PSA2 has an interest;
- (3) PSA2's rights under the Luxembourg Mortgage Sale Agreement, the Administration Agreement, the No. 2 Collection Account Declaration of Trust and the Substitute Administrator Agreement;
- (4) any investments in which PSA2 may place its cash resources;
- (5) PSA2's rights to all moneys standing to the credit of the the PSA2 Transaction Account (or such other bank as PSA2, subject to certain restrictions and with the consent of the Security Trustee, may from time to time select for such purpose) into and out of which all payments to and by PSA2 will be made and any other bank accounts in which PSA2 has an interest.

The 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, amounts payable by PSA2 to the Issuer under the Luxembourg Loan Agreement will be secured by a floating charge over all the assets and undertaking of PSA2 other than those covered by fixed security (but extending to all PSA2's Scottish assets, including those covered by the fixed security).

Priority of Payments - Prior to Enforcement

PSA2 will be able to make certain payments out of the PSA2 Transaction Account otherwise than on a Loan Payment Date to the extent permitted by the Security Trust Deed. Until enforcement of the security in respect of the Luxembourg Loan Agreement, moneys in the PSA2 Transaction Account and credited to the PSA2 Revenue Ledger will be applied on each Loan Payment Date in making (i) to the extent not previously paid by the Issuer, payment of amounts payable to the Security Trustee, (ii) to the extent not previously paid by the Issuer, provision for any payment payable to the tax authorities of Luxembourg, (iii) payment of interest due on the Luxembourg Loan, and (iv) the 0.125 per cent. Amount Loan in respect of such Loan Payment Date.

Priority of Payments - Post-Enforcement

The terms on which the security interests referred to above will be held will provide that all moneys received or recovered by or on behalf of Security Trustee after the security constituted by the Security Trust Deed has become enforceable shall (subject as provided therein) be applied in the following order of priority:

- (i) (a) fees, costs, expenses or other amounts payable to the Security Trustee and remuneration then payable to any receiver and any costs, charges, liabilities and expenses then incurred by such receiver together with interest, to the extent not previously paid by the Issuer, as provided in the Security Trust Deed; and
- (b) amounts due from the Security Trustee to borrowers in respect of Mandatory Further Advances in respect of the PSA2 Mortgages;
- (ii) all principal, interest and any other amounts due and payable in respect of the Luxembourg Loan Agreement; and
- (iii) the surplus (if any) to PSA2.

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 10th and 11th June 1999. The Class A Notes will be constituted by a trust deed (the "Trust Deed") expected to be dated 11th June 1999 between the Issuer and Citicorp Trustee Company Limited (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class A Notes (the "Class A Noteholders") and the holders for the time being of the Class B Notes (the "Class B Noteholders"). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to Paragon Finance PLC ("PFPLC") of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement dated 11th June 1999 (the "UK Mortgage Sale Agreement") and in making a term advance to Paragon Mortgages (No. 2) S.A. ("PSA2") pursuant to the terms of a loan agreement between, *inter alios*, the Issuer and PSA2 (the "Luxembourg Loan Agreement").

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PFPLC, PML, PSA2 the Administrator, Guardian Mortgage Services Limited ("GMS") and the Swap Provider (the "Deed of Charge"). The Trust Deed will include the form of the Global Class A Notes and the definitive Class A Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the "Agency Agreement") expected to be dated 11th June 1999 between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the "Principal Paying Agent", which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the "Reference Agent", which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the "Paying Agents", which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class A Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class A Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof 11 Old Jewry, London EC2R 8DU, and at the specified offices for the time being of the Paying Agents.

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

Global Class A Notes

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 £168,000,000. The Temporary Global Class A Note will be deposited on behalf of the subscribers of the Class A Notes with a common depositary for Euroclear and Cedelbank (the "Common Depositary") on the Closing Date. Upon deposit of the Temporary Global Class A Note, Euroclear or Cedelbank 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 Permanent Global Class A Note, as the context may require). On the exchange of the Temporary Global Class A Note for the Permanent Global Class A Note, the Permanent Global Class A

Note will also be deposited with the Common Depositary. The Global Class A Notes will be transferable by delivery. The Permanent Global Class A Note will be exchangeable for definitive Class A Notes in bearer form in certain circumstances described below. Interest and principal on each Global Class A Note will be payable against presentation of that Global Class A Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Class A Noteholders has been received by Euroclear or Cedelbank. Each of the persons appearing from time to time in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear, or of Cedelbank, 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, Cedelbank. 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, Cedelbank.

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 Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear or of Cedelbank 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 Cedelbank 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 10th June 1999, 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 (*inter alios*) the Class A Noteholders:

- (1) a sub-charge over the Issuer Mortgages which comprise English Mortgages and an assignation in security of the Issuer's interest in the Issuer Mortgages which comprise Scottish Mortgages purchased by the Issuer from PFPLC under the UK Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment of the benefit of the guarantee;
- (2) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Issuer Mortgages;

- (3) an assignment by way of first fixed security over all of the Issuer's right, title, interest and benefit, present and future, in, to and under the Luxembourg Loan Agreement and the Security Trust Deed (as defined in the Trust Deed);
- (4) an assignment of the Issuer's rights under the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, under the PFPLC Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the No. 1 Collection Account Declaration of Trust, under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (5) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at 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);
- (6) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors);
- (7) as far as possible, a charge over the Issuer's entitlement to receive payments from the Inland Revenue under the Mortgage Interest Relief at Source Scheme (the "MIRAS Scheme") until the abolition of the MIRAS Scheme; and
- (8) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class A Notes, are referred to as the "Security". The Security will also stand as security for any amounts payable by the Issuer to the Class B Noteholders and to any Receiver, the Trustee, GMS, the Administrator, PML, PFPLC, any Subordinated Lender and the Swap Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the UK Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the Services Letter, the PFPLC Subordinated Loan Agreement and the Swap Agreement. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto.

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 £168,000,000 Class A Mortgage Backed Floating Rate Notes Due 2030 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 11th June 1999 between the Issuer and Citicorp Trustee Company Limited (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (the "Class A Noteholders") and the holders for the time being of the Class B Notes (as defined below) (the "Class B Noteholders") may treat the holder of any Class A Note, Coupon or Talon as the absolute owner thereof (whether or not such Class A Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

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

The Class A Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “Deed of Charge”) dated 11th June 1999 between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, Paragon Mortgages (No. 2) S.A., GMS and the Swap Provider) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

The £17,000,000 Class B Mortgage Backed Floating Rate Notes Due 2041 of the Issuer (the “Class B Notes”) are constituted by the Trust Deed and are secured by the same security as secures the Class A Notes but the Class A Notes will rank in priority to the Class B Notes in the event of the security being enforced. The Trust Deed and Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class A Noteholders and the Class B Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders or the other persons entitled to the benefit of the Security.

3. Covenants of the Issuer

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

- (1) carry on any business other than as described in the Offering Circular dated 10th June 1999 relating to the issues of the Class A Notes and the Class B Notes (and then only in relation to the Issuer 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 in relation to the Issuer Mortgages;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Class A Notes, the Coupons and Talons and the Class B Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes and the Class B Notes and the other agreements relating to the issues of the Class A Notes and the Class B Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the PFPLC Subordinated Loan Agreement, the Transfers, the Issuer Mortgages, the Deed of Charge, the No. 1 Collection Account Declaration of Trust, the Security Trust Deed, the Luxembourg Loan Agreement, the Swap Agreement, any Caps, the VAT Declaration of Trust, the Services Letter, the Assignment of Insurances and the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declaration of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes and the Class B Notes (all as defined in the Trust Deed, the Deed of Charge or the UK Mortgage Sale Agreement) (together the “Relevant Documents”);
 - (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, *inter alia*, make claims, payments and surrenders in respect of certain tax reliefs;
 - (d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem Class A Notes or the Class B Notes in accordance with their respective terms and conditions; and
 - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;

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

(B) So long as any of the Class A Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the “Administrator”). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales and Scotland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, Guardian Mortgage Services Limited (“GMS”) will act as administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the PFPLC Subordinated Loan Agreement or the UK 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 11th June 1999 or such later date as may be agreed between the Issuer and the Managers for the issue of the Class A Notes (the "Closing Date"). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class A Notes, interest in respect of such Class A Notes is payable quarterly in arrear on 15th October 1999 and, thereafter, on 15th January, 15th April, 15th July and 15th October in each year (or, if such date is not a Business Day, the next succeeding day) (each, including 15th October 1999, 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 15th October 1999 in respect of the period from (and including) the Closing Date to (but excluding) 15th October 1999.

Interest shall cease to accrue on any part of the Principal Amount Outstanding of a Class A Note as from (and including) the due date for redemption of such part unless, upon due presentation of the relevant Principal Coupon, payment of principal due is improperly withheld or refused, whereupon interest shall continue to accrue on such principal at the rate from time to time applicable to the Class A Notes 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 four months and sterling deposits for a period of five 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 such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.28% per annum up to and including the Interest Period ending in July 2004 and thereafter 0.56% per annum.

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

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

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable on, a Class A Note (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 on the Official List of the London Stock Exchange Limited (the “London Stock Exchange”), the London Stock Exchange, and will cause the same to be published in accordance with Class A Condition 12 on or as soon as possible after the date of commencement of the relevant Interest Period. The Interest Payment and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a shortening of the Interest Period.

(f) Determination or Calculation by Trustee

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

(g) *Reference Banks and Reference Agent*

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

5. Redemption and Purchase

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

The Class A Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Principal Determination Date (as defined below) relating thereto there are any Available Redemption Funds (as defined below). The principal amount so redeemable in respect of each Class A Note prior to the service of an Enforcement Notice (each a "Principal Payment") on any Interest Payment Date shall be the amount of the Class A Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date divided by the number of Class A Notes then outstanding (as defined in the Trust Deed) (rounded down to the nearest pound sterling); provided always that 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 (1) all principal and Issuer Pre-Closing Accruals and Arrears (as defined in the Trust Deed) received or recovered in respect of the Issuer Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest which does not represent Issuer Pre-Closing Accruals and Arrears) on repurchase or purchase of any Issuer Mortgages pursuant to the terms of the Relevant Documents but excluding any such principal which under the UK Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer) and (2) any amounts of principal paid or prepaid by PSA2 under the Luxembourg Loan Agreement 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 in question (the "relevant Collection Period");
 - (ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Class A Notes and the Class B Notes on issue, (b) the amount drawn down on the Closing Date by the Issuer under the PFPLC Subordinated Loan Agreement and (c) the amount (if any) standing to the credit of the Pre-Funding Reserve Ledger as at the first Principal Determination Date (taking into account any debits and credits made to such ledger on that Principal Determination Date) exceeds the aggregate of (a) the amounts paid by the Issuer to PFPLC by way of purchase price for the Issuer Mortgages purchased by the Issuer on the Closing Date in accordance with the UK Mortgage Sale Agreement, (b) the aggregate principal amount advanced on the Closing Date by the Issuer to PSA2 under the Luxembourg Loan Agreement, (c) the amount applied to establish the First Loss Fund on the Closing Date and (d) an amount equal to the Pre-Funding Reserve credited to the Transaction Account on the Closing Date;
 - (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes or Class B Notes on the Interest Payment Date relative thereto; and

- (iv) any part of the amount deducted pursuant to (B)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances in respect of Issuer Mortgages or Mandatory Further Advances in respect of Issuer Mortgages or Additional PSA2 Advances, or in paying interest on the Class A Notes, in each case on or prior to the preceding Interest Payment Date;

less

(B) the aggregate of:

- (i) the aggregate principal amount of Discretionary Further Advances in respect of Issuer Mortgages made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the PFPLC Subordinated Loan Agreement;
- (ii) the aggregate principal amount of Mandatory Further Advances in respect of Issuer Mortgages made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the PFPLC Subordinated Loan Agreement;
- (iii) the aggregate principal amount of Additional PSA2 Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the PFPLC Subordinated Loan Agreement; and
- (iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes on that Interest Payment Date;
- (v) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Issuer Mortgages,

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

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the later of the Interest Payment Date falling in July 2004 and the first Interest Payment Date on which the ratio of (I) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes is 34:185 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Class B Available Redemption Funds determined as at such date.

The Class B Available Redemption Funds shall equal:

- (i) where such Principal Determination Date falls prior to the occurrence of the Determination Event or (thereafter) if on such Principal Determination Date (a) there is any balance on the Principal Deficiency Ledger or (b) the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 22% or more of the then Current Balances of all of the Mortgages, nil; and

- (ii) on any other Principal Determination Date, provided (a) there is a balance of zero on the Principal Deficiency Ledger and (b) the then Current Balances of Mortgages which are more than three months in arrears represent less than 22% 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, would cause the ratio of (I) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 34:185; provided that the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £8,500,000.

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 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 the Swap Provider or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under the Swap Agreement or 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 the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class A Condition 12 redeem all, but not some only, of the Class A Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date.

(d) Optional Redemption in Full

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class A Noteholders, and provided no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, the Issuer may redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after July 2003.

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, and (2) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes is less than £37,000,000.

(e) Redemption on Maturity

If not otherwise redeemed or purchased and cancelled, the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in October 2030.

(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 0PA.

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

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

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

10. Enforcement

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

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

11. 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 PGCA) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Class A Noteholders (the "Relevant Screen"). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class A Condition shall be given in accordance with the preceding paragraph.

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

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

The Trust Deed contains provisions for convening meetings of Class A Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class A Noteholders of a modification of the Class A Notes (including these Class A Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class A Notes, or a modification which would have the effect of postponing any day for payment of interest in respect of 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, *inter alia*, to request or direct the Trustee to take any action or to pass an effective

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

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

14. Indemnification of the Trustee

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

15. Notifications and Other Matters to be Final

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

16. Governing Law

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

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

The issue of the Class B Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on 10th and 11th June 1999. The Class B Notes will be constituted by a trust deed (the "Trust Deed") expected to be dated 11th June 1999 between the Issuer and Citicorp Trustee Company Limited (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class B Notes (the "Class B Noteholders") and the holders for the time being of the Class A Notes (the "Class A Noteholders"). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to Paragon Finance PLC ("PFPLC") of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement dated 11th June 1999 (the "UK Mortgage Sale Agreement") and in making a term advance to Paragon Mortgages (No. 2) S.A. ("PSA2") pursuant to the terms of a loan agreement between, *inter alios*, the Issuer and PSA2 (the "Luxembourg Loan Agreement").

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PFPLC, PML, PSA2, the Administrator, Guardian Mortgage Services Limited ("GMS") and the Swap Provider (the "Deed of Charge"). The Trust Deed will include the form of the Global Class B Notes and the definitive Class B Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the "Agency Agreement") expected to be dated 11th June 1999 between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the "Principal Paying Agent", which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the "Reference Agent", which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the "Paying Agents", which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class B Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class B Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof 11 Old Jewry, London EC2R 8DU, and at the specified offices for the time being of the Paying Agents.

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

Global Class B Notes

The Class B Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class B Note in bearer form, without coupons or talons, in the principal amount of £17,000,000. The Temporary Global Class B Note will be deposited on behalf of the subscribers of the Class B Notes with a common depositary for Euroclear and Cedelbank (the "Common Depositary") on the Closing Date. Upon deposit of the Temporary Global Class B Note, Euroclear or Cedelbank will credit each subscriber of Class B Notes with the principal amount of Class B Notes for which it has subscribed and paid. Interests in the Temporary Global Class B Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received) for interests in the Permanent Global Class B Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class B Note (the expression "Global Class B Notes" and "Global Class B Note" meaning, respectively, (i) both of the Temporary Global Class B Note and the Permanent Global Class B Note or (ii) either of the Temporary Global Class B Note or Permanent Global Class B Note, as the context may require). On the exchange of the Temporary Global Class B Note for the Permanent Global Class B Note, the Permanent Global Class B Note will also be deposited with the Common Depositary. The Global Class B Notes will be transferable by delivery. The Permanent Global

Class B Note will be exchangeable for definitive Class B Notes in bearer form in certain circumstances described below. Interest and principal on each Global Class B Note will be payable against presentation of that Global Class B Note by the Common Depository to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received by Euroclear or Cedelbank. Each of the persons appearing from time to time in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear, or of Cedelbank, 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, Cedelbank. 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, Cedelbank.

For so long as the Class B Notes are represented by a Global Class B Note, each person who is for the time being shown in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear or of Cedelbank 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 Cedelbank 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 10th June 1999, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class B Notes which would not be required were the Class B Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class B Notes represented by the Permanent Global Class B Note in exchange for the whole outstanding interest in the Permanent Global Class B Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

Security

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

- (1) a sub-charge over the Issuer Mortgages which comprise English Mortgages and an assignation in security of the Issuer's interest in the Issuer Mortgages which comprise Scottish Mortgages purchased by the Issuer from PFPLC under the UK Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment of the benefit of the guarantee;
- (2) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Issuer Mortgages;

- (3) an assignment by way of first fixed security over all of the Issuer's right, title, interest and benefit, present and future, in, to and under the Luxembourg Loan Agreement and the Security Trust Deed (as defined in the Trust Deed);
- (4) an assignment of the Issuer's rights under the UK Mortgage Sale Agreement, under the Luxembourg Mortgage Sale Agreement, under the PFPLC Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the No. 1 Collection Account Declaration of Trust, under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (5) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at 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);
- (6) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors);
- (7) as far as possible, a charge over the Issuer's entitlement to receive payments from the Inland Revenue under the Mortgage Interest Relief at Source Scheme (the "MIRAS Scheme"); and
- (8) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class B Notes, are referred to as the "Security". The Security will also stand as security for any amounts payable by the Issuer to the Class A Noteholders and to any Receiver, the Trustee, GMS, the Administrator, PML, PFPLC, any Subordinated Lender and the Swap Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the UK Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the Services Letter, the PFPLC Subordinated Loan Agreement and the Swap Agreement. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto.

Terms and Conditions

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

1. Form, Denomination and Title

The £17,000,000 Class B Mortgage Backed Floating Rate Notes Due 2041 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 11th June 1999 between the Issuer and Citicorp Trustee Company Limited (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (as defined below) (the "Class A Noteholders") and the holders for the time being of the Class B Notes (the "Class B Noteholders")) may treat the holder of any Class B Note, Coupon or Talon as the absolute owner thereof (whether or not such Class B Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

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

The Class B Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “Deed of Charge”) dated 11th June 1999 between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, Paragon Mortgages (No. 2) S.A., GMS and the Swap Provider) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

Payments of principal and interest on the Class B Notes are subordinated to, *inter alia*, payments of principal and interest on the £168,000,000 Class A Mortgage Backed Floating Rate Notes Due 2030 of the Issuer (the “Class A Notes”) in accordance with the provisions of Class B Condition 7, the Trust Deed and the Deed of Charge.

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

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

3. Covenants of the Issuer

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

- (1) carry on any business other than as described in the Offering Circular dated 10th June 1999 relating to the issues of the Class A Notes and the Class B Notes (and then only in relation to the Issuer 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 in relation to the Issuer Mortgages;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Class B Notes, the Coupons and Talons and the Class A Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes and the Class B Notes and the other agreements relating to the issues of the Class A Notes and the Class B Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the PFPLC Subordinated Loan Agreement, the Transfers, the Issuer Mortgages, the Deed of Charge, the No. 1 Collection Account Declaration of Trust, the Security Trust Deed, the Luxembourg Loan Agreement the Swap Agreement, any Caps, the VAT Declaration of Trust, the Services Letter, the Assignment of Insurances and the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declaration of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes and the Class B Notes (all as defined in the Trust Deed, the Deed of Charge or in the UK Mortgage Sale Agreement) (together the “Relevant Documents”);
 - (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, *inter alia*, make claims, payments and surrenders in respect of certain tax reliefs;

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

(B) So long as any of the Class B Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the “Administrator”). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales and Scotland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full,

the Class B Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, Guardian Mortgage Services Limited (“GMS”) will act as administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the PFPLC Subordinated Loan Agreement or the UK Mortgage Sale Agreement.

4. Interest

(a) Interest Payment Dates

Each Class B Note bears interest on its Principal Amount Outstanding (as defined in Condition 5(b)) from and including 11th June 1999 or such later date as may be agreed between the Issuer and the Manager for the issue of the Class B Notes (the “Closing Date”). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class B Notes, interest in respect of the Class B Notes is (subject to Class B Condition 7) payable quarterly in arrear on 15th October 1999 and, thereafter, on 15th January, 15th April, 15th July and 15th October in each year (or, if such date is not a Business Day, the next succeeding day) (each, including 15th October 1999, an “Interest Payment Date”). To the extent that the funds available to the Issuer 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 applicable from time to time to the Class B Notes and, subject to Class B Condition 7, payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest to the extent of such available funds. To the extent that any such Deferred or Additional Interest is not subsequently paid, the Issuer’s obligation to the Class B Noteholders in respect of any such Deferred Interest and/or Additional Interest will be subject to Class B Condition 7. As used in these Class B Conditions except Class B Condition 6, “Business Day” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an “Interest Period”. Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on 15th October 1999 in respect of the period from (and including) the Closing Date to (but excluding) the 15th October 1999.

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

(b) Coupons and Talons

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

(c) Rate of interest

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

- (i) On the Closing Date (an “Interest Determination Date”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on a linear interpolation between sterling deposits for a period of four months and sterling deposits for a period of five 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 for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.80% per annum up to and including the Interest Period ending in July 2004 and thereafter 1.60% per annum.
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds Bank Plc, Midland Bank plc and National Westminster Bank Plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “Reference Banks”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for four-month and five-month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.
- (iii) There shall be no maximum or minimum Rate of Interest.

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

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

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

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

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

(f) Determination or Calculation by Trustee

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

(g) Reference Banks and Reference Agent

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

5. Redemption and Purchase

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

The Class B Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Principal Determination Date (as defined below) relating thereto there are any Class B Available Redemption Funds (as defined below). The principal amount so redeemable in respect of each Class B Note prior to the service of an Enforcement Notice (each a "Principal Payment") on any Interest Payment Date shall be the amount of the Class B Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date divided by the number of Class B Notes then

outstanding (as defined in the Trust Deed) (rounded down to the nearest pound sterling); provided always that no Principal Payment may exceed the Principal Amount Outstanding of a Class B Note.

The Principal Determination Date relating to an Interest Payment Date means the 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 (1) all principal and Issuer Pre-Closing Accruals and Arrears (as defined in the Trust Deed) received or recovered in respect of the Issuer Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest which does not represent Issuer Pre-Closing Accruals and Arrears) on repurchase or purchase of any Issuer Mortgages pursuant to the terms of the Relevant Documents but excluding any such principal which under the UK Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer) and (2) any amounts of principal paid or prepaid by PSA2 under the Luxembourg Loan Agreement 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 in question (the “relevant Collection Period”);
- (ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Class A Notes and the Class B Notes on issue, (b) the amount drawn down on the Closing Date by the Issuer under the PFPLC Subordinated Loan Agreement and (c) the amount (if any) standing to the credit of the Pre-Funding Reserve Ledger as at the first Principal Determination Date (taking into account any debits and credits made to such ledger on that Principal Determination Date) exceeds the aggregate of (a) the amounts paid by the Issuer to PFPLC by way of purchase price for the Issuer Mortgages purchased by the Issuer on the Closing Date in accordance with the UK Mortgage Sale Agreement, (b) the aggregate principal amount advanced on the Closing Date by the Issuer to PSA2 under the Luxembourg Loan Agreement, (c) the amount applied to establish the First Loss Fund on the Closing Date and (d) an amount equal to the Pre-Funding Reserve credited to the Transaction Account on the Closing Date;
- (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes or Class B Notes on the Interest Payment Date relative thereto; and
- (iv) any part of the amount deducted pursuant to (B)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances in respect of Issuer Mortgages or Mandatory Further Advances in respect of Issuer Mortgages or Additional PSA2 Advances, or in paying interest on the Class A Notes, in each case on or prior to the preceding Interest Payment Date;

less

(B) the aggregate of:

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

Collection Period) other than such as have been or will be funded by drawings under the PFPLC Subordinated Loan Agreement;

- (iii) the aggregate principal amount of Additional PSA2 Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the PFPLC Subordinated Loan Agreement; and
- (iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes on that Interest Payment Date;
- (v) the aggregate amount of principal applied during the relevant Collection Period in refunding direct debit payments, in respect of the Issuer Mortgages,

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

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the later of the Interest Payment Date falling in July 2004 and the first Interest Payment Date on which the ratio of (I) the aggregate Principal Amount Outstanding of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes and the aggregate Principal Amount Outstanding of the Class B Notes is 34:185 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Class B Available Redemption Funds determined as at such date.

The Class B Available Redemption Funds shall equal:

- (i) where such Principal Determination Date falls prior to the occurrence of the Determination Event or (thereafter) if on such Principal Determination Date (a) there is any balance on the Principal Deficiency Ledger or (b) the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 22% or more of the then Current Balances of all of the Mortgages nil; and
- (ii) on any other Principal Determination Date, provided (a) there is a balance of zero on the Principal Deficiency Ledger and (b) the then Current Balances of Mortgages which are more than three months in arrears represent less than 22% 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, would cause the ratio of (I) the aggregate Principal Amount Outstanding of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes and the aggregate Principal Amount Outstanding of the Class B Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 34:185; provided that the aggregate Principal Amount Outstanding of the Class B Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £8,500,000.

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

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

- (i) On (or as soon as practicable after) each Principal Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment in respect of each Class B Note due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class B Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class B Note on the next Interest Payment Date) and (z) the fraction in respect of each Class B Note expressed as a decimal to the sixth point (the "Pool Factor"), of which the numerator is the Principal Amount Outstanding of a Class B Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class B Note and the Pool Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The "Principal Amount Outstanding" of a Class B Note on any date shall be the principal amount of that Class B Note upon issue less the aggregate amount of all Principal Payments in respect of that Class B Note that have become due and payable (whether or not paid) prior to such date.
- (ii) The Issuer, 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 on the London Stock Exchange) the London Stock Exchange and will immediately cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class B Condition 13 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Class B Notes on any Interest Payment Date a notice to this effect will be given to the Class B Noteholders.
- (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) *Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class B Notes, or the Issuer or the Swap Provider or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under the Swap Agreement or 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 that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class B Condition 7(a)) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes, or the Trustee is otherwise directed by Extraordinary Resolution (as defined in the Trust Deed) of the Class B Noteholders, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class B Condition 13, redeem all, but not some only, of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date subject, in the case of a redemption pursuant to such an Extraordinary Resolution, to Class B Condition 7.

(d) *Optional Redemption in Full*

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class B Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class B Condition 7(a)) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes or the Trustee is otherwise directed by Extraordinary Resolution of the Class B Noteholders, the Issuer may, on any Interest Payment Date falling in or after July 2003 or, if earlier, falling on or after the date on which all the Class A Notes are redeemed in full, redeem all (but not some only) of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption, subject, in the case of a redemption pursuant to such an Extraordinary Resolution, to Class B Condition 7.

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in October 2041, subject to Class B Condition 7.

(f) *Purchases*

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

(g) *Cancellation*

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

(h) *Certification*

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

6. **Payments**

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

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

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

Upon the date on which the Principal Amount Outstanding of a Class B Note is due to be reduced to zero, unmatured and unused Coupons and Talons relating thereto (whether or not attached) shall

become void and no payment or exchange shall be made in respect thereof. If the due date for redemption in full of a Class B Note is not an Interest Payment Date, the interest accrued in respect of the period from the preceding Interest Payment Date (or from the Closing Date as the case may be) shall be payable only against presentation or surrender of the relevant Class B Note.

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

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

7. Subordination

(a) Interest

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

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

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

(b) Principal

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

(c) General

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

8. Taxation

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

9. Prescription

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

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

10. Events of Default

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

- (i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Class B Notes or any of them or for a period of 15 days or more in the payment on the due date of any interest upon the Class B Notes or any of them; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class B Noteholders; or
- (iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the Court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets

of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or

- (iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Class B Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Class B Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the PFPLC Subordinated Loan Agreement and the Fee Letter) or otherwise becomes insolvent; or
- (vi) notice is given to the Issuer pursuant to the Trust Deed that the Class A Notes are immediately due and repayable.

11. Enforcement and Post Enforcement Call Option

At any time after the Class B Notes become due and repayable at their Principal Amount Outstanding, subject to Class B Condition 7, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the security for the Class B Notes and Coupons and to enforce repayment of the Class B Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class B Noteholders or so requested in writing by Class B Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing but provided that all of the Class A Notes have been redeemed in full, so long as any of the Class B Notes remains outstanding, if the Class B Notes have become due and payable pursuant to Class B Condition 10 otherwise than by reason of a default in payment of any amount due on the Class B Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class B Noteholders and the Couponholders and to other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class B Noteholders and the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class B Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

In the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class B Notes and the Class B 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 Class B Permanent Global Note will be automatically exchanged for equivalent interests in an equivalent amount of Class B Notes in definitive form and such

Class B Permanent Global 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 Finance PLC (“PFPLC”), transfer for a consideration of £0.01 per Class B Note (but not some only) of the Class B Notes to PFPLC 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 11th June 1999 between the Issuer, PFPLC and the Trustee, PFPLC will agree pursuant to a deed (the “Deed”) dated on or about 11th June 1999 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 PGCA) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Class B Noteholders (the “Relevant Screen”). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class B Condition shall be given in accordance with the preceding paragraph.

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

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

The Trust Deed contains provisions for convening meetings of Class B Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class B Noteholders of a modification of the Class B Notes (including these Class B Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class B Notes, or a modification which would have the effect of postponing any day for payment of interest on the Class B Notes, reducing or cancelling the amount of principal payable in respect of the Class B Notes or the rate of interest applicable to the Class B Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Class B Notes or the Coupons or any alteration of the date or priority of redemption of the Class B Notes (any such modification being referred to below as a “Basic Terms Modification”) shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class B Noteholders as described below. The quorum at any meeting of Class B Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50% of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class B Noteholders

whatever the aggregate Principal Amount Outstanding of the Class B Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing 75%, or at any adjourned such meeting 25%, or more of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding. The Trust Deed contains provisions limiting the powers of the Class B Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class B Noteholders shall not be effective for any purpose unless either (i) the Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders or (ii) it is sanctioned by an Extraordinary Resolution of the Class A Noteholders but, subject thereto, it shall be binding on all Class B Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution. An Extraordinary Resolution passed at any meeting of the Class A Noteholders (or any particular class of Class A Noteholders) shall be binding on all Class B Noteholders and Couponholders, irrespective of its effect upon such holders or their interests.

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

15. Indemnification of the Trustee

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

16. Notifications and Other Matters to be Final

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

17. Governing Law

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

USE OF PROCEEDS

The gross proceeds from the issue of the Class A Notes will be £168,000,000 and those from the issue of the Class B Notes will be £17,000,000. Commissions of 0.175% of the principal amount of the Class A Notes and of 0.30% of the principal amount of the Class B Notes will be payable on the issues of the Notes. These commissions, together with certain other expenses of the issues, will be paid on behalf of or reimbursed to the Issuer by PML as described in “The Issuer – Fee Letter” below. The net proceeds from the issue of the Notes, which will be approximately £184,655,000, and the sums paid by PML to the Issuer in respect of such commissions on the Closing Date will be applied towards payment to PFPLC of the purchase price for the Issuer Mortgages to be purchased pursuant to the UK Mortgage Sale Agreement, and in making the Initial PSA2 Advance to PSA2 to enable PSA2 to purchase the PSA2 Mortgages on the Closing Date pursuant to the Luxembourg Mortgage Sale Agreement, subject to and in accordance with the provisions of the Luxembourg Loan Agreement, and, in addition (subject to certain conditions), in enabling the Issuer to purchase Non-Verified Mortgages and/or to make, pursuant to the Luxembourg Loan Agreement, any Non-Verified Mortgages Advances (so as to enable PSA2 to purchase Non-Verified Mortgages pursuant to the Luxembourg Mortgage Sale Agreement).

RATINGS

The Class A Notes are expected on issue to be assigned a Aaa rating by Moody’s and a AAA rating by Standard & Poor’s. The Class B Notes are expected on issue to be assigned a A1 rating by Moody’s and a A 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 in England (registered number 3696179) as a private limited company under the Companies Act 1985 on 15th January 1999 under the name Finance for People (No. 5) PLC. It changed its name to Paragon Mortgages (No. 1) PLC on 28th April 1999. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The Issuer is a subsidiary of PGC, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The ordinary share capital of PGC is listed on the London Stock Exchange.

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

The Issuer is a special purpose vehicle for issuing the Notes, purchasing the Issuer Mortgages and making term loan advances under the Luxembourg Loan Agreement.

The Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its registration as a public company under the Companies Act 1985, obtaining a certificate from the Registrar of Companies pursuant to section 117 of the Companies Act 1985, the authorisation and issue of the Notes, the agreement to purchase the Issuer Mortgages and the matters contemplated in this Offering Circular, obtaining approval as a qualifying lender under the provisions of the Income and Corporation Taxes Act 1988 relating to the MIRAS Scheme, obtaining a standard licence under the Consumer Credit Act 1974, registering under the Data Protection Act 1984, applying to join the Paragon VAT Group and the authorisation and execution of the other documents referred to in this document to which it is a party.

Directors and Secretary

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

Name	Business Address	Principal activities
Nicholas Keen	6 Greencoat Place London SW1P 1PL	Finance Director of PGC and PFPLC
Adem Mehmet	6 Greencoat Place London SW1P 1PL	Director of Treasury and Structured Finance
Richard Shelton	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Solicitor and Company Director of PFPLC
John Gemmell	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Director of Financial Accounting and PGC Company Secretary
Anthony Raikes	Cannon Centre 78 Cannon Street London EC4P 5LN	Managing 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 dated 11th June 1999 (the "Services Letter"), PFPLC will, unless and until certain events occur, undertake the day to day management and administration of the business of the Issuer.

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

Fee Letter

PFPLC has agreed to arrange the issues of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issues of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Managers. PML will pay, on behalf of the Issuer, or reimburse to the Issuer, the management and underwriting commissions and selling commissions due to the Managers referred to in “Subscription and Sale” below and any expenses payable by the Issuer in connection with the issues of the Notes. The Issuer has agreed under the Fee Letter, dated on or before 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 PML such commissions and such expenses in quarterly instalments over a period of four years from the date of issue of the Notes. Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR (or such other rate which is a fair commercial rate at the relevant time) payable quarterly in arrear. Amounts owing to PFPLC and PML under the Fee Letter will be subordinated in the manner described in “Summary – Priority of Payments” above.

Subordinated Loan Facility from PFPLC

By the PFPLC Subordinated Loan Agreement (which is made between PFPLC, the Issuer and the Trustee and to be dated the Closing Date) PFPLC has agreed to make available to the Issuer a loan facility, under which an amount or amounts will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund and to achieve the initial ratings on the Notes. Under the terms of the PFPLC Subordinated Loan Agreement, PFPLC has also agreed to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make, or, where PSA2 also has insufficient Available Loan Redemption Funds, to fund any Additional PSA2 Advances under the Luxembourg Loan Agreement to enable PSA2 to make any Mandatory Further Advances in respect to PSA2 Mortgages. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the PFPLC 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 respect of Issuer Mortgages, or, where PSA2 also has insufficient Available Loan Redemption Funds, to fund any Additional PSA2 Advances under the Luxembourg Loan Agreement, to enable PSA2 to make any Discretionary Further Advances in respect of PSA2 Mortgages. Further drawings may be made by the Issuer under the PFPLC Subordinated Loan Agreement, with the prior consent of PFPLC, for the purpose of establishing or increasing the Shortfall Fund and, in addition, to fund the payment of certain expenses of PSA2. PFPLC may lend further sums to the Issuer under the PFPLC Subordinated Loan Agreement to be used by the Issuer to purchase Caps or other hedging arrangements and related guarantees (where required) in respect of Converted Mortgages. The Issuer may from time to time borrow further sums from PFPLC or others on the terms of the PFPLC Subordinated Loan Agreement. Amounts owing to PFPLC and any Subordinated Lenders under the PFPLC Subordinated Loan Agreement will be subordinated in the manner described in “Summary – Priority of Payments – prior to enforcement” above.

PFPLC has also agreed to make further advances to the Issuer under the PFPLC 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 the Swap Provider or any Permitted Hedge Provider on such Interest Payment Date; and (ii) at any time where the Administrator waives any prepayment charges applicable to any Mortgage, in an amount equal to such waived prepayment charge.

In addition, further drawings may be made by the Issuer under the PFPLC Subordinated Loan Agreement in order to fund (if necessary) purchases of amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages by the Issuer, and/or to fund a Non-Verified Mortgage Advance (to enable PSA2 also to purchase amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages).

Interest under the PFPLC Subordinated Loan Agreement is payable by the Issuer quarterly on or after the seventh day after each Interest Payment Date commencing with the Interest Payment Date falling in October 1999 on the amount of the loan at the rate of 4% per annum above LIBOR (or such other rate which is 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 October 2041 and (ii) the first day on which there are no Notes outstanding except that on any Interest Payment Date (a) sums borrowed under the PFPLC Subordinated Loan Agreement will be repaid to the extent of any amount released from the First Loss Fund (as described in “Summary – First Loss Fund” above); and (b) to the extent there is outstanding any advance made to establish or increase the Shortfall Fund, sums borrowed for such purposes may be repaid

to the extent of the funds available to the Issuer to do so (see “Summary – Priority of Payments” above). Payments of interest under the PFPLC Subordinated Loan Agreement may only be made by the Issuer if, after applying its net income (other than principal receipts in respect of the Mortgages) in making a number of other payments or provisions, the Issuer still has sufficient funds for the purpose as more particularly described in “Summary – Priority of Payments” above.

Hedging Arrangements

On the Closing Date, the Issuer will have entered into hedging arrangements under the Swap Agreement, all in accordance with the Rating Agencies requirements to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages which are acquired by it or by PSA2 on the Closing Date.

In relation to any Fixed Rate Mortgages or, as the case may be, Capped Rate Mortgages, arising upon conversion of any Mortgages which are not as at the Closing Date Fixed Rate Mortgages, or, as the case may be, Capped Rate Mortgages, into Fixed Rate Mortgages or, as the case may be, Capped Rate Mortgages, or in relation to any Fixed Rate Mortgages or Capped Rate Mortgages acquired by the Issuer or PSA2 on a date following the Closing Date and on or prior to the first Principal Determination Date, 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 of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge. Hedging arrangements may, but need not, include one or more Caps which will be made available to the Issuer by means of one or more cap agreements entered into with a Cap Provider or may comprise other hedging arrangements entered into with the Swap Provider under the Swap Agreement.

Under the terms of the Administration Agreement the Issuer may be required to terminate all or part of any swap or other hedging arrangement entered into with the Swap Provider or 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 the Swap Provider or to a Permitted Hedge Provider (a “Swap Termination Amount”) will rank in priority behind payments on the Notes. Any such payment due to the Issuer will not be paid in full immediately but will be paid to the Issuer in the form of an annuity on each Interest Payment Date until the date on which the relevant swap or hedging agreement would have expired had it not been terminated early.

If the Issuer or the Swap Counterparty is required to make any deduction or withholding for or on account of United Kingdom tax from any amounts payable by it under the Swap Agreement on any Interest Payment Date, then under the terms of the Swap Agreement, (i) the Swap Counterparty 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 Swap Counterparty 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 Swap Counterparty in respect of such withholding or deduction.

However, under the Swap Agreement, the Issuer has agreed that on each Interest Payment Date it will, subject to and in accordance with the agreed order of priority of payments referred to in the Summary above, pay to the Swap Counterparty an amount or amounts (“Withholding Compensation Amounts”) equal to (i) any Additional Amounts so paid by the Swap Counterparty to the Issuer on such Interest Payment Date together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the Swap Counterparty under the Swap Agreement 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.

Any hedging arrangement entered into with a Permitted Hedge Counterparty will contain provisions similar to those described in the previous two paragraphs and any references in this Offering Circular to Withholding Compensation Amounts include amounts payable by the Issuer to any Permitted Hedge Counterparty in similar circumstances to those so described.

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

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

Capitalisation

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

Share capital	£
Authorised	
26 ‘A’ Ordinary Shares of £1 each	
74 ‘B’ Ordinary Shares of £1 each.....	
49,900 Preference Shares of £1 each.....	
Issued	
26 ‘A’ Ordinary Shares of £1 each (all 25p paid).....	6.50
74 ‘B’ Ordinary Shares of £1 each (2 fully paid and 72 25p paid)	20.00
49,900 Preference Shares of £1 each (all 25p paid).....	12,475.00
	12,501.50
Loan capital	
£168,000,000 Class A Mortgage Backed Floating Rate Notes Due 2030.....	168,000,000
(now being issued)	
£17,000,000 Class B Mortgage Backed Floating Rate Notes Due 2041	17,000,000
(now being issued)	
Advance under the PFPLC Subordinated Loan Agreement.....	4,600,000 ⁽¹⁾
	189,600,000
Total capitalisation	189,600,000

Note:

(1) This figure is illustrative only. An advance under the PFPLC Subordinated Loan Agreement will be made on the Closing Date in an amount sufficient, *inter alia*, to enable the Issuer to achieve the initial ratings on the Notes.

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

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

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

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

The current financial period of the Issuer will end on 30th September 1999. The balance sheet of the Issuer as at 30th April 1999 is set out below.

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 Board of Directors
Paragon Mortgages (No. 1) PLC
St. Catherine’s Court
Herbert Road
Solihull
West Midlands
B91 3QE

10th June 1999

Dear Sirs

Paragon Mortgages (No. 1) PLC

We report on the financial information set out below. This financial information has been prepared for inclusion in the Offering Circular to be dated 10th June 1999, relating to the issue of £168,000,000 Class A Mortgage Backed Floating Rate Notes Due 2030 and £17,000,000 Class B Mortgage Backed Floating Rate Notes Due 2041 (the “Offering Circular”).

Basis of preparation

Paragon Mortgages (No. 1) PLC (the “Company”) was incorporated on 15 January 1999 under the name of Finance for People (No. 5) PLC. The name of the Company was changed to Paragon Mortgages (No. 1) PLC on 28th April 1999.

The Company has issued 50,000 shares for a consideration of £12,501. The directors of the Company have represented to us that no material contracts or transactions have been entered into save for a number of contracts in connection with the issues of the £168,000,000 Class A Mortgage Backed Floating Rate Notes Due 2030 and £17,000,000 Class B Mortgage Backed Floating Rate Notes Due 2041.

The directors of the Company have represented to us that the Company has not yet traded and no dividends have been declared or paid.

We have been auditors of the Company since 14th May 1999.

The financial information set out in this report is based on the audited non-statutory accounts of the Company for the period from incorporation on 15th January 1999 to 30th April 1999, to which no adjustments were considered necessary.

No audited statutory financial statements have been prepared for submission to the members of the Company in respect of any period. The first audited statutory financial statements of the Company will be prepared for the period ending 30th September 1999.

Responsibility

Such financial statements are the responsibility of the directors of the Company who approved their issue.

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

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

Basis of Opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included

an assessment of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company as at 30th April 1999.

Balance sheet of the Company at 30th April 1999

Current assets	
Amount owed by parent company	2
	<hr/>
Capital and reserves	
Called up share capital	2
	<hr/>

Notes to the accounts

1. The financial information has been prepared in accordance with applicable accounting standards. The particular accounting policy adopted is described below.

The financial information has been prepared using the historic cost basis of accounting.

2. Authorised share capital consists of 50,000 shares of £1 each. Two ordinary shares of £1 each were issued on 15th January 1999 to provide the initial working capital of the Company. On 20th May 1999 a further 49,998 shares were issued at a consideration of £1 each, 25p paid, to provide further working capital for the Company.

3. The Company has not traded since incorporation and has received no income and has incurred no expenditure. Consequently, during the period the Company has made neither a profit nor a loss.

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

Yours faithfully

Deloitte & Touche
Chartered Accountants"

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

PARAGON MORTGAGES (No. 2) S.A.

Introduction

Paragon Mortgages (No. 2) S.A. (“PSA2”) was incorporated as a company in Luxembourg with registered number B69035. PSA2 is a subsidiary of PGC. The registered office of PSA2 is at 35 rue Glesener, L-1631 Luxembourg. PSA2 was incorporated on 16th March 1999 and operates as a “Professional of the Financial Sector” authorised under the Luxembourg Law of 5th April 1993 on the Financial Sector.

The principal objects of PSA2 are to purchase receivables, to raise or borrow money and to grant security over its assets for such purposes, to lend money, to invest in and acquire loans and other similar investments and to manage or administer loans, and are set out in Article 3 of its Articles of Incorporation.

PSA2’s only business is to draw down advances under the Luxembourg Loan Agreement and to purchase the PSA2 Mortgages.

PSA2 has not engaged, since its incorporation, in any material activities other than those incidental to the authorisation and entering into of the Luxembourg Loan Agreement, the Security Trust Deed, the Luxembourg Mortgage Sale Agreement and the matters contemplated in this Offering Circular, and the authorisation and execution of the other documents referred to in this document to which it is a party.

PSA2 will enter into contractual arrangements which will restrict it from engaging in business other than as is necessary for it to fulfil its obligations arising from matters contemplated in this Offering Circular, and under the documentation to which it will be a party in connection with this transaction. These restrictions will be similar in nature to those into which the Issuer will enter under the Notes.

Directors and Secretary

The Directors of PSA2 and their respective business addresses and principal activities are:

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
John Gemmell	St Catherine’s Court Herbert Road Solihull West Midlands B91 3QE	Director of Financial Accounting and PGC Company Secretary
Michel Waringo	22 rue de Dommeldange L-7222 Walferdange Luxembourg	Director
Philippe Hoss	2 Place Winston Churchill L-1340 Luxembourg	Director

PSA2 has no employees.

Management and Activities

Pursuant to the Administration Agreement, PFPLC will, unless and until certain events occur, undertake the administration of the PSA2 Mortgages and will act on behalf of PSA2 in relation to the Luxembourg Loan Agreement.

PSA2 will covenant to observe certain restrictions on its activities which are similar to those detailed in respect of the Issuer and are described in “Description of the Class A Notes, the Global Class Notes and the Security – Covenants of the Issuer” above.

Capitalisation

The capitalisation of PSA2 as at 10th June is as follows:

Share Capital	£
Issued	
100,000 Ordinary Shares of £1 each (all fully paid)	100,000
Total Capitalisation	100,000

PSA2 has no loan capital, borrowings, indebtedness and/or contingent liabilities.

PGC beneficially holds 99,999 Ordinary Shares and PFPLC holds one ordinary share of PSA2. There are no subsidiaries of PSA2.

The current financial period of PSA2 will end on 30th September 1999. The balance sheet of PSA2 as at 31st March 1999 is set out below.

The following is the text of a report received by the Directors of PSA2 from Deloitte & Touche, Réviseur d'entreprises, the Auditors to PSA2:

“The Board of Directors
Paragon Mortgages (No. 2) S.A.
35 rue Glesener
L-1631 Luxembourg

10th June 1999

Dear Sirs

Paragon Mortgages (No. 2) S.A.

We report on the financial information set out below. This financial information has been prepared for inclusion in the Offering Circular to be dated 10th June 1999, relating to the issue of £168,000,000 Class A Mortgage Backed Floating Rate Notes Due 2030 and £17,000,000 Class B Mortgage Backed Floating Rate Notes Due 2041 by Paragon Mortgages (No. 1) PLC (the “Offering Circular”).

Basis of preparation

Paragon Mortgages (No. 2) S.A. (the “Company”) was incorporated on 16th March 1999.

At incorporation the Company has issued 24,000 shares for a consideration of £6,000. On 21st May 1999, the initial subscribed share capital was fully paid up and an additional 76,000 shares were issued at £1 each, resulting in a share capital of £100,000. The directors have represented to us that no material contracts or transactions have been entered into, or have been contemplated being entered into, save for the Luxembourg Loan Agreement (as defined in the Offering Circular) and the other documents described in the Offering Circular to which the Company is a party.

The directors have represented to us that the Company has not yet traded and no dividends have been declared or paid.

We have been auditors of the Company since its incorporation on 16th March 1999.

The financial information set out in this report is based on the audited non-statutory accounts of the Company for the period from incorporation on 16th March 1999 to 31st March 1999, to which no adjustments were considered necessary.

No audited statutory financial statements have been prepared for submission to the members of the Company in respect of any period. The first audited statutory financial statements of the Company will be prepared for the period ending 30th September 1999.

Responsibility

The financial information is the responsibility of the directors of the Company who approved their issue.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of Opinion

Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment 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 unless caused by fraud or other irregularity.

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 Company as at 31st March 1999.

Balance sheet of the Company at 31st March 1999

Assets	£
Unpaid and uncalled share capital	18,000.00
Current assets	
Cash at bank	6,000.00
Loss for the period.....	1,283.23
Total	25,283.23
<hr/>	
Liabilities	
Capital and reserves	
Subscribed share capital	24,000.00
Provisions	1,283.23
Total	25,283.23
<hr/>	

Profit and loss account of the Company for the period from 16th March 1999 to 31st March 1999

	£
Incorporation expenses.....	1,283.23
Loss for the period	1,283.23
<hr/>	

Notes to the accounts

1. The financial information has been prepared in accordance with applicable accounting standards. The particular accounting policy adopted is described below.

The financial information has been prepared using the historic cost basis of accounting.

2. The subscribed share capital, as at 31st March 1999, consisted of 24,000 shares of £1 each, 25p paid, which were issued on 16th March 1999 to provide the initial working capital of the Company. On 21st May 1999, the initial subscribed share capital was fully paid up and an additional 76,000 shares were issued at £1 each, resulting in a share capital of £100,000.
3. The Company's ultimate parent company is the Paragon Group of Companies PLC, a company registered in England and Wales. Copies of the Group's financial statements are available from that company's registered office at St Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE.

Yours faithfully

Deloitte & Touche
Réviseur d'entreprises

Benoît Schaus
Director"

Deloitte & Touche S.A. have given and not withdrawn their written consent to the inclusion of their report on PSA2 set out above in this Offering Circular and authorised contents of that part of the Listing Particulars and references to their name included therein in the form and context in which they appear for the purposes of section 152(1)(e) of the Financial Services Act 1986.

Since 31st March 1999 there has been no material adverse change in the financial position or prospects of PSA2 and no significant change in the trading or (save as disclosed under "Paragon Mortgages (No. 2) S.A. – Capitalisation" above) financial position of PSA2.

PSA2 is not and has not been involved in any legal or arbitration proceedings which may have, or have had during the twelve months proceeding the date of this Offering Circular, a significant effect on PSA's financial position nor, so far as PSA2 is aware, are any such proceedings pending or threatened.

THE PARAGON VAT GROUP

The Issuer is a member of the Paragon VAT Group (consisting of PFPLC and certain of its related companies, as more particularly described in the Administration Agreement). At present, PFPLC as representative member of the Paragon VAT Group is the entity primarily responsible for the VAT affairs of the Paragon VAT Group. However, for such period as the Issuer is a member of the Paragon VAT Group it will be, under current VAT legislation, jointly and severally liable with the other members of the Paragon VAT Group for any amount of VAT due from the Paragon VAT Group to H.M. Customs & Excise. PFPLC has established a VAT fund held in an account at National Westminster Bank Plc (the "VAT Account") to be used to pay amounts owing to H.M. Customs & Excise if the company primarily responsible fails to pay the relevant amount. The amount required to be maintained in the VAT Account is dependent upon, *inter alia*, the actual VAT liability for the Paragon VAT Group in the current and next succeeding accounting periods, and as a result of a property sale by a subsidiary of PGC in March 1999, the Paragon VAT Group has incurred a corresponding VAT liability of £3,635,625. This amount will become due and payable in August 1999. Accordingly, until such time as this VAT liability is discharged and the liability falls out of the calculation (which will then reduce the amount required to be maintained in the VAT Account), the balance in the VAT Account amounts to £4,788,750. However, upon discharge of this VAT liability and the removal of the liability from the calculation, the amount required to be maintained in the VAT Account will reduce to approximately £400,000.

Morgan Guaranty Trust Company of New York is the trustee of the fund. The Issuer will on the Closing Date become one of the beneficiaries of the trust over the VAT Account, such trust being constituted by a declaration of trust dated 19th March 1993, as subsequently amended (the "VAT Declaration of Trust"). Neither PSA nor PSA2 is a member of the Paragon VAT Group.

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Morgan Guaranty Trust Company of New York, acting through its London Branch (“Morgan Guaranty”), is the Swap Counterparty.

Morgan Guaranty is a wholly owned subsidiary and the principal asset of J.P. Morgan & Co. Incorporated (“Morgan”), a Delaware corporation whose principal office is located in New York, New York. Morgan Guaranty is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities. As of 31st March 1999, Morgan Guaranty and its subsidiaries had total assets of U.S.\$183.8 billion, total net loan of U.S.\$25.6 billion, total deposits of U.S.\$58.6 billion, and stockholder’s equity of U.S.\$10.7 billion. As of 31st December 1998, Morgan Guaranty and its subsidiaries has total assets of U.S.\$175.2 billion, total net loans of U.S.\$24.9 billion, total deposits of U.S.\$56.2 billion, and stockholder’s equity of U.S.\$10.5 billion.

THE MORTGAGES

Origination of the Issuer Mortgages

All of the Issuer Mortgages forming part of the initial security for the Notes have been originated by PML and sold by it to PSFL. PML will repurchase such Mortgages on the Closing Date and sell them to PFPLC prior to their sale by PFPLC to the Issuer. PML is a private company and both PFPLC and PML are wholly owned subsidiaries of PGC. The ordinary share capital of PGC is listed on the London Stock Exchange. The registered address of both PFPLC and PML is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. PML's principal activities are to invest in mortgage loans secured on residential or other properties within the British Isles or elsewhere and to acquire mortgage loans from third parties.

Origination of the PSA2 Mortgages

All the PSA2 Mortgages forming part of the initial security for the Luxembourg Loan Agreement have been originated by PML and sold by it to PSA, a company incorporated in Luxembourg with registered number B67 925. PML will repurchase such PSA2 Mortgages on the Closing Date and sell them to PFPLC prior to their sale by PFPLC to PSA2.

All of the PSA2 Mortgages comprise Lettings Mortgages, as described below, where the borrower is a limited liability company, incorporated in either England and Wales or Scotland. The properties in respect of such PSA2 Mortgages will be used for residential purposes.

Introduction of Mortgage Business

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

Information on the Mortgages

General

The Mortgages will all have had original maturities of between 5 years and 29 years, save in respect of certain Mortgages with a maximum principal amount outstanding of £3,000,000, which will have had original maturities of between 5 years and 40 years. However, no Mortgage falls to be repaid later than October 2039.

The Mortgages will comprise standard variable rate mortgages ("Standard Mortgages") and/or other types of mortgages ("Non-Standard Mortgages") described below. All the Mortgages upon origination consist, or will consist, of mortgage loans which meet or will meet certain lending criteria, and are secured by charges over freehold or leasehold properties located in England or Wales ("English Mortgages") or by standard securities over feudal or long leasehold residential properties located in Scotland ("Scottish Mortgages"). The Issuer will have the benefit of warranties by PFPLC in relation to the Issuer Mortgages, and PSA2 will have the benefit of warranties by PFPLC in relation to the PSA2 Mortgages, including in each case, warranties in relation to the lending criteria applied in advancing the loans.

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

All of the Mortgages are subject to standard mortgage conditions ("Mortgage Conditions"). These contain various covenants and undertakings by the borrower including covenants to make the monthly interest payments as notified to the borrower and to pay premiums on buildings insurance policies effected in relation to the Property. The Mortgage Conditions also contain provisions for the usual remedies of a mortgagee in the event of default by the borrower.

The Income and Corporation Taxes Act 1988 provides that a person who pays certain categories of loan interest on which tax relief is due will normally be entitled to deduct and retain from his payments a sum equal to 10% of the loan interest payable on up to the first £30,000 of the amount of the loan. The Inland Revenue will repay to the lender an amount equal to the amount of the deduction made. In practice, the Administrator will inform borrowers of the net amount of their monthly payments although the

borrowers covenant to pay the gross amount. The UK Government has announced its intention to abolish this relief, and if the Finance Bill 1999 is enacted in its current draft form, this abolition will take effect with respect to interest payments on or after 6th April 2000 (see “Special Considerations: Matters relating to the Mortgages – MIRAS” above).

Repayment Types

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

Some Mortgages, when originated, provided for interest only to be paid monthly during their term, with no scheduled payment of principal prior to maturity (“Interest-only Mortgages”). PML recommends (but does not require) that borrowers arrange term life assurance in connection with Interest-only Mortgages. The ability of any particular borrower to repay an Interest-only Mortgage may depend on such borrower’s ability to refinance the Property or obtain funds from another source (such as a pension policy or unit trust).

Particular Mortgage Types

Standard Mortgages originated by PML may include the following:

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

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

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

- (iii) Lettings Mortgages, which relate to property purchased by the borrower and occupied by tenants. Lettings Mortgages will include loans to non-UK nationals and ex-patriates, or, in the case of PSA2 Mortgages, limited liability companies incorporated in England and Wales or Scotland. It will normally be the intention that these properties will normally be let under an assured shorthold tenancy (or, in Scotland, a short assured tenancy) and in all cases that the occupier will have no statutory security of tenure. However, if the occupier’s tenancy has been approved by the lender, the lender will not be able to sell with vacant possession if it wishes to enforce its security, until such time as the tenancy comes to an end (see “Special

Considerations – Matters relating to the Mortgages – Risks associated with Non-Owner Occupied Properties”).

- (iv) Right-to-Buy Mortgages, which relate to property purchased by borrowers from a local authority pursuant to statutory entitlement under “right-to-buy” legislation, consolidated in the Housing Act 1985 or the Housing (Scotland) Act 1987.
- (v) Variable Discount Mortgages under which, during a specified discount period running from the date of the advance and ending on the date stated in the Mortgage Conditions, PML agrees to accept interest payments at a stated percentage below the rate which would have been applicable to its Standard Mortgages.

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

- (i) a Fixed Rate Mortgage under which for a fixed initial period or periods the rate of interest payable by the borrower is not capable of being reset monthly or quarterly at will by the Issuer or the Administrator but the borrower is required to pay interest at a fixed rate or a series of fixed rates. After the fixed initial period(s) the mortgage rate chargeable becomes the rate applicable to PML’s Standard Mortgages and can be reset normally;
- (ii) a LIBOR-Linked Mortgage under which the borrower is required to pay interest at a fixed margin over three month LIBOR determined quarterly; or
- (iii) a Capped Rate Mortgage under which the borrower is required to pay interest at a rate equal to three month LIBOR plus a fixed margin up to a specified rate for a specified period from origination of the loan. After that specified period the borrower is required to pay interest at a variable rate.

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

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

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

Redemption Provisions

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

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

The Administrator will be given the right, in its discretion (acting as a prudent mortgage lender), to waive any repayment charges payable by a borrower.

Scottish Mortgages

A proportion of the Mortgages are Scottish Mortgages. These are secured over the relevant Properties by way of standard security, being the only means of creating a fixed charge or security over heritable property in Scotland. In respect of Scottish Mortgages, references in this Offering Circular to a

“mortgage” and a “mortgagee” are to be read as references to such a standard security and the heritable creditor thereunder, respectively.

A statutory set of “Standard Conditions” is automatically imported into all standard securities, although the majority of these Conditions may be varied by agreement between the parties. For most major lenders in the residential mortgage market the Standard Conditions are varied by a “Deed of Variation”, the terms of which are in turn imported into each standard security. PML has executed a Deed of Variation of Standard Conditions with a view to conforming as far as possible its Scottish Mortgages and English Mortgages from an operational viewpoint (subject to such limitations as are inherent to the differences between Scots and English law).

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

Acquisition of Issuer Mortgages

Pursuant to the UK Mortgage Sale Agreement, PML has agreed to re-purchase the Issuer Mortgages from PSFL on the Closing Date. PFPLC has, in turn, agreed to purchase and PML has agreed to sell on the Closing Date these Issuer Mortgages. The Issuer has, in turn, agreed to purchase (and PFPLC has agreed to sell) these Issuer Mortgages on the Closing Date. In addition, the Issuer may, subject to certain conditions specified in the UK Mortgage Sale Agreement and the Administration Agreement, purchase further Non-Verified Mortgages on any date following the Closing Date up to and including the first Principal Determination Date. Any such Non-Verified Mortgages purchased by the Issuer must meet the lending criteria referred to below under “Lending Guidelines”.

The purchase consideration (other than the deferred consideration element) in respect of the Mortgages purchased on the Closing Date will be paid on the Closing Date, and in respect of the Non-Verified Mortgages purchased on any date following the Closing Date up to and including the first Principal Determination Date, will be paid on such date of purchase. The deferred consideration will be paid as follows: on each Interest Payment Date, after paying or providing in full for items (i) to (xiii) inclusive in “Summary – Priority of Payments – prior to enforcement” above, the Issuer shall pay to PFPLC an amount equal to the remaining balance of the moneys available on such Interest Payment Date for application in accordance with “Summary – Priority of Payments – prior to enforcement” above less an amount equal to 0.01% of the principal amount outstanding in respect of the Notes on the Principal Determination Date immediately prior to that Interest Payment Date.

The UK Mortgage Sale Agreement provides that, on the Closing Date and/or on the date of any purchase of Non-Verified Mortgages, PML will receive transfers (or, in the case of Scottish Mortgages, releases from trust) and subsequently PFPLC will receive transfers (in respect of English Mortgages) of the Issuer Mortgages which it has agreed to acquire (in each case, together with all other rights and interests agreed to be sold to it). In the case of Issuer Mortgages over land which is registered at H.M. Land Registry or over land in Scotland, the legal estate and title in the Issuer Mortgages will remain vested in PML.

Simultaneously, PFPLC will deliver to the Issuer transfers and assignments of all its right, title and interest in and to all the Issuer Mortgages then to be sold to the Issuer and all other rights and interests agreed to be sold to the Issuer. In addition, PML with the consent of PFPLC, will declare a trust or, as the case may be, a supplemental trust, in favour of the Issuer over the Scottish Mortgages to be sold to the Issuer (a “Scottish Declaration of Trust”) and the Issuer will thereby under Scots law acquire the beneficial interest in the Scottish Mortgages and their related security.

In respect of Issuer Mortgages of English Properties which are neither registered at H.M. Land Registry nor required to be registered, the transfers will operate to transfer legal title to the Issuer Mortgages to the Issuer. For the remainder of the Issuer Mortgages of English Properties, legal title will not be transferred unless and until application is made to H.M. Land Registry to register the Issuer as the new

proprietor of the Issuer Mortgages. In relation to Scottish Mortgages, the transfer of the beneficial interest therein will be effected by a Scottish Declaration of Trust, and otherwise legal title thereto will not be affected and will remain with PML. Save in the circumstances to be set out in the Administration Agreement, neither the Issuer nor the Trustee will apply to H.M. Land Registry or to the Registers of Scotland to register or record the Issuer as the new registered heritable proprietor of any Mortgages, and accordingly in relation to the relative Issuer Mortgages the situation described above as regards title thereto will continue to apply (see “Special Considerations” above).

Acquisition of PSA2 Mortgages

Pursuant to the Luxembourg Mortgage Sale Agreement, PML has agreed to re-purchase the PSA2 Mortgages from PSA on the Closing Date. PFPLC has, in turn, agreed to purchase and PML has agreed to sell on the Closing Date these PSA2 Mortgages. PSA2 has, in turn, agreed to purchase (and PFPLC has agreed to sell) these PSA2 Mortgages on the Closing Date. In addition, subject to the satisfaction of certain conditions specified in the Luxembourg Mortgage Sale Agreement and the Administration Agreement, PSA2 may purchase Non-Verified Mortgages on any date following the Closing Date up to and including the first Principal Determination Date, and such purchase will be funded by way of a Non-Verified Mortgage Advance by the Issuer under the Luxembourg Loan Agreement. Any such Non-Verified Mortgages must meet the lending criteria referred to below under “Lending Guidelines”.

The arrangements for closing sales of PSA2 Mortgages and the execution of transfers, releases and declarations of trust in the Luxembourg Mortgage Sale Agreement will be similar to those which will apply to the Issuer Mortgages to be purchased by the Issuer under the UK Mortgage Sale Agreement.

Searches and Warranties in respect of the Mortgages

Neither PFPLC nor PML nor the Issuer nor the Trustee nor PSA2 nor the Security 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 or PSA2 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 in respect of the Issuer Mortgages, and PSA2 in respect of the PSA2 Mortgages only) a search, prior to completion of the purchase by the Issuer of the Issuer Mortgages, and by PSA2 of the PSA2 Mortgages, on the Closing Date and on any date following the Closing Date up to and including the first Principal Determination Date upon which Non-Verified Mortgages are purchased by the Issuer, or by PSA2, as the case may be, against PFPLC, PML and PSFL in the relevant file held by the Registrar of Companies and in the Register of Inhibitions and Adjudications in Scotland. Neither the Issuer nor the Trustee nor PSA2 nor the Security Trustee has made nor will make any enquiry, search or investigation prior to the making of any Mandatory Further Advance or Discretionary Further Advance or at any time in relation to compliance by PFPLC, PML, the Administrator or any other person with any applicable lending guidelines, criteria or procedures or the adequacy thereof or with the provisions of the UK Mortgage Sale Agreement, the Administration Agreement, the Deed of Charge, the Luxembourg Mortgage Sale Agreement, the Security Trustee Deed 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 date following the Closing Date up to and including the first Principal Determination 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 or PSA2 of the relevant Mortgages, the Issuer, the Trustee, PSA2 and/or the Security Trustee will rely entirely on the warranties given by PFPLC to the Issuer, the Trustee, PSA2 and the Security Trustee contained in the UK Mortgage Sale Agreement and the Luxembourg Mortgage Sale Agreement, as the case may be. These include warranties in respect of Mortgages to be purchased on the Closing Date or, if applicable, on any date following the Closing Date up to and including the first Principal Determination Date as to the following: that, subject to registration, each such Mortgage constitutes a valid and binding obligation of the borrower and is a valid and subsisting first legal mortgage except for certain Mortgages which are secured by way of second charge over the relevant Property where the Issuer or PSA2 also purchases on the Closing Date the first charge over such Property; as to the procedures followed prior to completion of the relevant Mortgage; as to the terms upon which each such Mortgage was granted; that the mortgage guarantee indemnity insurance policy is in full force and effect with respect to the Issuer Mortgages; and as to the satisfaction of requirements of the Inland Revenue in relation to interest relief on the Issuer Mortgages.

The Class A Subscription Agreements and the Class B Subscription Agreement referred to in “Subscription and Sale” below contain warranties by PFPLC and PML to the effect that the information

in this Offering Circular with regard to the Mortgages to be purchased by the Issuer and PSA2, the Properties, the insurance contracts relating to the Properties and the Mortgages, PFPLC and its business and PML and its business is true and accurate in all material respects.

LENDING GUIDELINES

1. Personal Details

- 1.1 The maximum number of applicants who may be party to the mortgage is four.
- 1.2 All applicants must be a minimum of 18 years of age at completion.
- 1.3 Other than where Title Insurance is in force, the Solicitor acting should establish the identity of each applicant or guarantor (where applicable) in accordance with the Law Society's Green Card warning, dated May 1993.

2. Mortgage Requirements

- 2.1 All loans will be limited in accordance with the following table:

<i>Loan Size</i>	<i>Maximum Loan to Value</i>
£1,000 – £250,000	100% excluding fees 105% including fees
£250,000 – £1,100,000	75% excluding fees

- 2.2 In the case of a let property, the loan will not usually exceed 80% of the lower of the purchase price or valuation. Applications in respect of a single let property for £250,000 or more will not usually exceed 60% of the lower of the purchase price or valuation. Multiple applications for let properties will be considered up to a total of £1,100,000 per borrower(s).
- 2.3 The maximum term for a loan is 40 years, the minimum is 5 years.
- 2.4 Where an owner occupation residential loan exceeds 70% of the lower of purchase price or valuation (where applicable), PML will normally charge an Additional Security Fee.
- 2.5 Loans may be taken on either a capital repayment or an interest only basis, or a combination of the two.

3. Property Details

- 3.1 Loans must be secured on residential property which, following a valuation by the PML valuer or a valuer appointed to act on PML's behalf, is considered to be suitable security.
- 3.2 The following are unacceptable to PML:
 - Properties located other than in England, Wales and Scotland
 - Freehold flats and maisonettes
 - Properties designated under the Housing Act 1985
 - Property having agricultural restrictions
 - Properties subject to notice of mineral extraction, or previous mining subsidence and land fill
 - Local Authority Flats being purchased under the Right to Buy Scheme
- 3.3 The following will be considered by PML on an individual basis:
 - Properties used for part commercial purposes
 - Properties with adjoining land used for commercial purposes or having agricultural or other planning restrictions
 - Properties on which buildings insurance is not available on block policy terms
 - Flats directly attached to or directly above commercial premises
 - Properties with an element of Flying Freehold
 - Self-build properties (pre and post completion).

- 3.4 Properties under 10 years old must have the benefit of an NHBC Certificate or any other approved guarantee from an acceptable body. Architects' Certificates must also be provided for each stage of construction together with Local Authority approval in respect of properties under 10 years old that do not have the benefit of an NHBC Certificate. Similar requirements may be imposed for converted properties.
- 3.5 Where loans are required on properties which are not to be used for owner occupation, they may be let on an assured shorthold tenancy basis or in circumstances where the occupier (which may include a body corporate, charitable institution or public sector body) has no statutory security of tenure. Where the occupier is a body corporate, the maximum length of lease will normally be for a period no longer than 3 years. Where the occupier is a charitable institution or a public sector body, the maximum length of lease will normally be for a period of no longer than 5 years.
- 3.6 Where the tenure of the property is leasehold, the minimum length of the lease at the end of the mortgage term must be 35 years.
- 3.7 All properties must be insured for a minimum of the reinstatement amount shown on the valuation report, under either PML's block insurance policy, or through an equivalent index linked policy with an alternative insurance company.

4. Credit History

- 4.1 A credit search will be carried out in respect of all applicants which, with the exception of the PML's Freshstart product, must show no evidence of adverse credit which is material to the assessment of the case.
- 4.2 Where the applicant(s) has an existing first charge on a property(s) occupied by them, PML requires satisfactory evidence of proof of payment. This may take the form of either a lender's reference, mortgage statements or credit bureau information.
Where the applicant(s) has an existing first charge on property(s) not occupied by them, PML will obtain either a lender's reference, mortgage statements or credit bureau information on a sufficient number of properties to enable a satisfactory payment record to be established.

5. Income and Employment Details

- 5.1 Salaried applicants must derive their income from permanent or contracted employment which, other than in exceptional circumstances, is non-probationary. PML will seek a reference from the applicants' current employer and any previous employers where this is considered appropriate.
In addition to the above, independent written verification of earnings is normally required. This may include, for example, the latest or most recent P60.
- 5.2 Where an applicant is defined as self-employed (see 5.3 below), PML will require proof of income over an extended period of time. Acceptable forms of proof of income include audited accounts, personal tax returns, bank statements, or an accountant's reference. Such proof will normally be expected to cover a 3 year period, but this may be reduced where the information submitted is deemed sufficient to establish a usable income figure.
- 5.3 Applicants are defined as self employed where any of the following circumstances occur unless PML can be provided with proof that this is inappropriate:
 - An applicant has a liability to tax under any schedule of the Inland Revenue criteria other than schedule E
 - An applicant owns 20% or more of the shares of the company providing their employment
 - An applicant is related to the family which owns the company providing their employment
- 5.4 Where income is based upon self employed, salaried, or contracted employment, the maximum loan available is calculated as follows:
 - Single applicant – up to 4.25 x income
 - Multiple applicants – up to 4.25 x 1st income plus 1 x 2nd income
 - up to 3.25 x joint income

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

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

6. PSA2 Mortgages

- 6.1 All of the above, with the exception of 1.3, 2.2, 2.3, 2.5, 3, 4 and 5.5, do not apply to corporate applicants.
- 6.2 The borrower must be an unlisted limited liability company incorporated and trading under the laws of England and Wales or Scotland.
- 6.3 PML may request references and/or any other information deemed necessary in connection with an application (such as company accounts, corporate searches at Companies Registry, the computerised index of winding up petitions and the manual index of High Court petitions for administration orders at the Central Registry of Winding Up Petitions).

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 PSA2 and the activities of the Issuer, PSA2 and the Administrator.

Mortgage Indemnity Insurance

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

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

The benefit of PML's interests in the Lloyd's mortgage indemnity insurance policy as it relates to Properties which are subject to the Issuer Mortgages will extend 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.

Buildings Insurance

The following is a summary of the principal types of buildings insurance of which the Issuer and PSA2 will have the benefit from the date of completion of the acquisition of the Mortgages, which benefit will be charged to the Trustee pursuant to the Deed of Charge and to the Security Trustee pursuant to the Security Trust Deed, respectively.

All freehold Properties (or the Scottish equivalent) except those mentioned in the next paragraph will be insured under the comprehensive block policies in the name of PML, the benefit of which will be assigned to the Issuer and/or PSA2, as the case may be on the Closing Date with the interest of the Trustee and/or the Security Trustee, as the case may be, noted thereon, unless it is unnecessary because the Issuer and the Trustee and/or PSA2 and the Security Trustee, as the case may be, otherwise become insured thereunder, for their reinstatement value, as recommended by the relevant valuer, from the date of completion of the acquisition of the Mortgages by the Issuer or PSA2, as the case may be. The relevant block policies are with Legal & General or CGU. The premiums will be collected monthly by the Administrator with the interest payments due on the Mortgages.

In cases involving freehold Properties (or the Scottish equivalent) where the borrower specifically requested permission to make his own insurance arrangements PML has ensured that it has become a named insured or that its interest has been noted on the policy taken out by the borrower. The Issuer and PSA2 will have the benefit of insurance to provide cover in the event that such Properties are not, or are not adequately, insured. PML has policies with CIGNA which cover losses arising from a failure by an insurer under a buildings policy arranged by a borrower to pay in full the amount of any otherwise valid claim under such policy by such borrower or by PML as a result of acts or omissions unknown to, or beyond the control of, PML.

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

In cases involving leasehold Property where the lease requires insurance to be effected by the landlord, the Issuer and/or PSA2, as the case may be, will have the benefit of insurance, the effect of which will be to provide cover if the leasehold Property is not, or is not adequately, insured under the terms of the lease. The Administrator may instruct a valuer to check that satisfactory reinstatement has taken place and to review the value of the Property for security purposes.

The Issuer and/or PSA2, as the case may be, will be or become a named insured under the insurance policies referred to above. The Issuer's and/or PSA2's interest, as the case may be, in all of the insurance policies referred to above will, if the Trustee and/or the Security Trustee, as the case may be, is not itself insured thereunder, be assigned to the Trustee and/or the Security Trustee, as the case may be, 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, and/or PSA2 and the Security Trustee, as the case may be, pursuant to the Administration Agreement.

Other Miscellaneous Insurances

PML has insurance which covers loss arising from negligent acts, errors or omissions and dishonesty or fraud by the insured's staff, negligence or breach of duty by its directors and officers and fraudulent interference with computer systems or data. The Issuer and/or PSA2, as the case may be, will be endorsed as a named insured under each of these policies, and the Trustee's and/or the Security Trustee's interest, as the case may be, interest is expected to be noted on the policies, with effect from the completion of the acquisition of the Mortgages by the Issuer and/or PSA2 as the case may be, and execution of the Deed of Charge and/or the Security Trust Deed, as the case may be.

The solicitors who acted on behalf of PML in relation to the Mortgages are all covered by the professional indemnity scheme established by The Law Society or The Law Society of Scotland. This scheme should provide compensation in the event that PML or the Issuer and/or PSA2 as the case may be, has a claim against such solicitors for negligence which is not satisfied by such solicitors out of their own resources. Licensed conveyancers who acted on behalf of PML in relation to the Mortgages are all covered by a similar indemnity scheme established under the Administration of Justice Act 1985.

PML has the benefit of receipts of claims payments from an insurance with the London General Insurance Company Limited which provides for certain payments to be made to PML in the event of the total disability, unemployment or hospitalisation of a particular borrower. Such receipts by PML are applied by it in reducing the borrower's indebtedness to PML. The benefit of any receipts of this insurance will extend to the Issuer and the Trustee.

HISTORICAL DATA RELATING TO PARAGON MORTGAGES LIMITED'S MORTGAGE BUSINESS

The information given in the following tables relates to the whole of the mortgage business originated by PML. There has been no adjustment for the selection criteria used in compiling the Provisional Mortgage Pool and as such there can be no assurance that the experience of the Mortgages acquired by the Issuer or PSA2 will be similar.

Write Off Recovery Analysis

<i>Financial period</i>	<i>Average outstanding current balance £'000</i>	<i>Current balance write-off £'000</i>	<i>Bad debts recovered £'000</i>	<i>net balances written off £'000</i>
Quarter to September 1998	372,640	0	0	0
Quarter to June 1998	306,572	1	0	1
Quarter to March 1998	260,558	4	0	4
Quarter to December 1997	221,976	4	0	4
Quarter to September 1997	182,767	0	0	0
Quarter to June 1997	150,265	0	0	0
Quarter to March 1997	125,278	0	0	0
Quarter to December 1996	104,490	0	0	0
Quarter to September 1996	87,907	0	0	0
Quarter to June 1996	74,316	0	0	0
Quarter to March 1996	58,880	0	0	0
Quarter to December 1995	38,528	0	0	0
Quarter to September 1995	19,007	0	0	0
Quarter to June 1995	8,168	0	0	0
Quarter to March 1995	3,454	0	0	0
Quarter to December 1994	871	0	0	0
Quarter to September 1994	25	0	0	0
Quarter to June 1994	0	0	0	0
Quarter to March 1994	0	0	0	0
Quarter to December 1993	0	0	0	0

Paragon's accounting policies ensure that all mortgages greater than three months in arrears are provisioned for as required based upon the outstanding balance, potential sale proceeds and borrower payment history. When an account has been taken into possession the net loss, after any disposal proceeds and insurance receipts, is provided for in full, and when the loss is crystallised, the balance outstanding is written off.

Delinquency Analysis

<i>Date</i>	<i>Total out- standing current balance £'000</i>	<i>Performing</i>		<i>>1<=3 months in arrears</i>		<i>>3<=6 months in arrears</i>		<i>>6<=9 months in arrears</i>		<i>>9<=12 months in arrears</i>		<i>>12 months in arrears</i>		<i>Possession accounts</i>	
		<i>£'000</i>	<i>%</i>	<i>£'000</i>	<i>%</i>	<i>£'000</i>	<i>%</i>	<i>£'000</i>	<i>%</i>	<i>£'000</i>	<i>%</i>	<i>£'000</i>	<i>%</i>	<i>£'000</i>	<i>%</i>
As at September 1998	410,662	405,528	98.7	4,038	1.0	746	0.2	62	0	28	0.01	0	0	259	0.1
As at June 1998	334,619	329,978	98.6	3,579	1.1	651	0.2	243	0.1	0	0	0	167	0	0
As at March 1998	278,525	275,306	98.8	2,463	0.9	592	0.2	64	0	0	0	0	99	0	0
As at December 1997	242,591	239,736	98.8	2,365	1.0	410	0.2	79	0	0	0	0	0	0	0
As at September 1997	201,361	198,439	98.5	2,361	1.2	396	0.2	58	0	0	0	0	106	0.1	0
As at June 1997	164,174	162,778	99.1	1,037	0.6	117	0.1	56	0	0	0	0	185	0.1	0
As at March 1997	136,357	135,264	99.2	771	0.6	242	0.2	0	0	0	0	0	79	0.1	0
As at December 1996	114,199	113,264	99.2	693	0.6	165	0.1	35	0	41	0.04	0	0	0	0
As at September 1996*	94,782	93,987	99.2	794	0.8	0	0	0	0	0	0	0	0	0	0
As at June 1996*	81,033	80,492	99.3	540	0.7	0	0	0	0	0	0	0	0	0	0
As at March 1996*	67,600	67,456	99.8	143	0.2	0	0	0	0	0	0	0	0	0	0
As at December 1995*	50,161	50,078	99.8	82	0.2	0	0	0	0	0	0	0	0	0	0
As at September 1995	26,895	26,894	100.0	0	0	0	0	0	0	0	0	0	0	0	0
As at June 1995	11,120	11,119	100.0	0	0	0	0	0	0	0	0	0	0	0	0
As at March 1995	5,216	5,215	100.0	0	0	0	0	0	0	0	0	0	0	0	0
As at December 1994	1,692	1,691	99.9	0	0	0	0	0	0	0	0	0	0	0	0
As at September 1994	51	51	0	0	0	0	0	0	0	0	0	0	0	0	0
As at June 1994	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
As at March 1994	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
As at December 1993	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

*Delinquencies up to and including September 1996 are included in the ">1<3 months in arrears" category.

THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool, evidenced by the mortgages described below (the “Provisional Mortgage Pool”) as at 30th April 1999 (the “Provisional Pool Date”) consisted of 3,147 Mortgages having a Provisional Balance (as defined below) of £156,686,113.07.

The Provisional Mortgage Pool includes (a) 3,123 Current Mortgages which comprise both Issuer Mortgages and PSA2 Mortgages having an outstanding balance as at the Provisional Pool Date, excluding, in the case of the Issuer Mortgages, amounts which had accrued and become due and payable but which remained unpaid (“Accrued Arrears”) and excluding, in the case of both the Issuer Mortgages and the PSA2 Mortgages, any accrued interest thereon (the “Current Mortgage Provisional Balance”), of £155,688,309.77 and (b) 24 Arrears Mortgages which comprise Issuer Mortgages and PSA2 Mortgages having a balance outstanding as at the Provisional Pool Date, including Accrued Arrears but excluding any accrued interest thereon (the “Arrears Mortgage Provisional Balance”), of £997,803.30 (the Current Mortgage Provisional Balance and the Arrears Mortgage Provisional Balance being together, the “Provisional Balance”).

The Mortgages to be purchased by the Issuer and PSA2, as the case may be, on the Closing Date form part only of the Provisional Mortgage Pool which contains other mortgage loans that will not be sold by PFPLC to the Issuer and PSA2, as the case may be. In addition, Mortgages originated after the Provisional Pool Date which were not included in the Provisional Mortgage Pool may be included in the Mortgages sold to the Issuer and PSA2, as the case may be, on the Closing Date and at any time up to and including the first Principal Determination Date. Therefore the information set out below in relation to the Provisional Mortgage Pool may not necessarily correspond to that for the Mortgages sold to the Issuer and PSA2 (see “Summary – Selection of Mortgages” above).

All of the Mortgages forming part of the Provisional Mortgage Pool were originated between January 1998 and April 1999.

The majority of the Mortgages to be purchased by the Issuer and PSA2, as the case may be, have a remaining term of less than 25 years although certain Mortgages with a maximum principal amount of £3,000,000 may have maturities of up to 40 years with the latest scheduled maturity of any mortgage loan in the Provisional Mortgage Pool, or of any Non-Verified Mortgage, being not later than October 2039. Certain Mortgages to be purchased by the Issuer or PSA2 may have maturities of more than 29 years but the Issuer and PSA2 together will not be permitted to purchase Mortgages with such maturities if the aggregate principal amount of all such Mortgages purchased by the Issuer and PSA2 on purchase would be greater than £3,000,000.

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

Loan-to-Value Ratios (“LTV”)

<i>Loan-to-Value Ratios (%)</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
> 0 < = 25	646,129.81	0.41	20	0.64
> 25 < = 50	13,392,595.60	8.55	331	10.52
> 50 < = 55	7,327,033.21	4.68	134	4.26
> 55 < = 60	7,706,082.44	4.92	152	4.83
> 60 < = 65	13,627,865.12	8.70	250	7.94
> 65 < = 70	17,239,938.48	11.00	347	11.03
> 70 < = 75	38,234,137.12	24.40	713	22.66
> 75 < = 80	38,451,671.39	24.54	817	25.96
> 80 < = 85	18,481,314.16	11.80	355	11.28
> 85 < = 90	191,838.70	0.12	4	0.13
> 90 < = 95	490,391.48	0.31	8	0.25
> 95 < = 97	325,906.60	0.21	6	0.19
> 97 < = 100	571,208.96	0.36	10	0.32
Over 100.....	0.00	0.00	0	0.00
Total.....	156,686,113.07		3,147	

Average LTV weighted by Provisional Balance: 68.88%.

Product Summary by Rate Fixing Method

<i>Product</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Variable Rate.....	51,961,896.50	33.16	1,024	32.54
Fixed Rate.....	86,688,706.77	55.33	1,766	56.12
LIBOR-Linked.....	2,415,944.50	1.54	52	1.65
Capped Rate	15,619,565.30	9.97	305	9.69
Total.....	156,686,113.07		3,147	

Product Summary by Repayment Method

<i>Product</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Repayment	74,673,506.92	47.66	1,614	51.29
Interest-only	82,012,606.15	52.34	1,533	48.71
Total.....	156,686,113.07		3,147	

Loan Size

<i>(£)</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
0.00 –15,000	294,450.85	0.19	21	0.67
15,000.01 – 30,000	22,933,623.92	14.64	948	30.12
30,000.01 – 45,000	34,585,206.98	22.07	942	29.93
45,000.01 – 60,000	26,548,588.10	16.94	515	16.36
60,000.01 – 70,000	12,456,638.66	7.95	193	6.13
70,000.01 – 80,000	9,571,244.01	6.11	129	4.10
80,000.01 – 90,000	7,071,701.97	4.51	84	2.67
90,000.01 – 100,000	7,223,976.86	4.61	76	2.42
100,000.01 – 110,000	5,136,732.59	3.28	49	1.56
110,000.01 – 120,000	3,899,422.53	2.49	34	1.08
120,000.01 – 130,000	4,210,313.62	2.69	34	1.08
130,000.01 – 140,000	2,399,846.15	1.53	18	0.57
140,000.01 – 150,000	2,475,625.57	1.58	17	0.54
150,000.01 – 175,000	4,586,691.90	2.93	29	0.92
175,000.01 – 200,000	3,766,332.92	2.40	20	0.64
200,000.01 – 250,000	5,846,501.19	3.73	26	0.83
Over 250,000	3,679,215.25	2.35	12	0.38
Total	156,686,113.07		3,147	

Average loan size: £49,789.04.

Property Tenure

	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Freehold	101,863,667.45	65.01	1,922	61.07
Leasehold	52,389,362.70	33.44	1,171	37.21
Feudal	2,433,082.92	1.55	54	1.72
Total	156,686,113.07		3,147	

Seasoning of Mortgages

<i>Month of Completion</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
1998:				
January	88,842.97	0.06	2	0.06
February	73,748.00	0.05	2	0.06
March	192,828.69	0.12	5	0.16
April	1,527,134.14	0.97	26	0.83
May	1,162,051.86	0.74	26	0.83
June	1,458,856.93	0.93	27	0.86
July	3,673,329.75	2.34	51	1.62
August	2,137,798.53	1.36	49	1.56
September	6,371,302.14	4.07	125	3.97
October	21,465,269.21	13.70	447	14.20
November	20,437,362.30	13.04	405	12.87
December	19,861,382.50	12.68	376	11.95
1999:				
January	16,121,307.09	10.29	334	10.61
February	19,275,219.98	12.30	389	12.36
March	21,720,694.64	13.86	450	14.30
April	21,118,984.34	13.48	433	13.76
Total	156,686,113.07		3,147	

Weighted average seasoning: 4.60 months.

Maturity of Mortgage

<i>Years to Maturity⁽¹⁾</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
> 0 < 5	3,091,009.56	1.97	52	1.65
>= 5 < 10.....	18,402,277.80	11.74	397	12.62
>= 10 < 15	32,110,599.55	20.49	680	21.61
>= 15 < 20	38,977,538.06	24.88	748	23.77
>= 20 < 25.....	55,377,182.02	35.34	1,078	34.25
>= 25 < 30	7,529,399.81	4.81	150	4.77
>= 30 < 35	1,047,556.27	0.67	40	1.27
Over 35	150,550.00	0.10	2	0.06
Total	156,686,113.07		3,147	

Weighted average years to maturity: 18.636.

Note:

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

Loan Purpose

<i>Use of Proceeds</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
House/Flat Purchase.....	75,502,389.06	48.19	1,565	49.73
Remortgage.....	81,183,724.01	51.81	1,582	50.27
Total.....	156,686,113.07		3,147	

Type of Occupancy

<i>Occupancy</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Owner Occupier.....	19,524,173.79	12.46	394	12.52
Letting (Non-Corporate).....	112,543,627.44	71.83	2,302	73.15
Letting (Corporate).....	24,618,311.84	15.71	451	14.33
Total.....	156,686,113.07		3,147	

Geographical Dispersion

<i>Defined Area</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
North.....	3,731,182.14	2.38	101	3.21
North West.....	8,080,859.90	5.16	231	7.34
Yorkshire.....	13,940,870.38	8.90	374	11.88
East Midlands.....	5,848,632.33	3.73	161	5.12
West Midlands.....	9,262,953.20	5.91	222	7.05
East Anglia.....	4,332,266.84	2.76	116	3.69
South East (excl. Greater London).....	53,073,692.38	33.87	1,013	32.19
South West.....	13,603,809.86	8.68	279	8.87
Greater London.....	37,870,372.36	24.17	480	15.25
Wales.....	4,508,390.76	2.88	116	3.69
Scotland.....	2,433,082.92	1.55	54	1.72
Total.....	156,686,113.07		3,147	

Properties in Possession

There are no properties in possession.

Number of Months in Arrears

<i>No. of Months</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>	<i>Accrued Arrears (£)</i>
0 <= 1	155,688,309.77	99.36	3,123	99.24	28,891.14
> 1 <= 2	640,097.45	0.41	17	0.54	6,365.75
> 2 <= 3	314,843.66	0.20	6	0.19	4,656.80
> 3 <= 4	0.00	0.00	0	0.00	0
> 4 <= 5	0.00	0.00	0	0.00	0
> 5 <= 6	0.00	0.00	0	0.00	0
> 6 <= 7	0.00	0.00	0	0.00	0
> 7 <= 8	42,862.19	0.03	1	0.03	1,874.49
> 8	0.00	0.00	0	0.00	0
Total	156,686,113.07		3,147		41,788.18

Average number of months in arrears weighted by Provisional Balance: 0.34 months.

Analysis of percentage of subscription⁽¹⁾ paid (in aggregate) for Arrears Mortgages

<i>Percentage of Subscription</i>	<i>Paid During Last Month</i>	<i>% of Total</i>	<i>Paid During Last Three Months</i>	<i>% of Total</i>	<i>Paid During Last Six Months</i>	<i>% of Total</i>
= 0%	628,093.04	62.95	101,227.81	10.15	101,227.81	10.15
> 0% <= 50%	76,189.70	7.64	382,952.19	38.38	0.00	0.00
> 50% <= 100%	130,141.99	13.04	435,603.29	43.66	896,575.49	89.85
= 100%	89,680.44	8.99	32,498.30	3.26	0.00	0.00
> 100% <= 150%	28,176.42	2.82	45,521.71	4.56	0.00	0.00
> 150%	45,521.71	4.56	0.00	0.00	0.00	0.00
Total	997,803.30		997,803.30		997,803.30	

Note:

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

This table shows the Provisional Balance of accounts which have paid in aggregate the percentage of the subscription due over the relevant period e.g. the accounts with a Provisional Balance of £130,141.99 have paid in aggregate between 50% – 100% of their subscriptions for the last month, and the accounts with a Provisional Balance of £896,575.49 have paid in aggregate between 50% – 100% of their total subscriptions for the last six months, in each case prior to the Provisional Pool Date.

MORTGAGE ADMINISTRATION

Introduction

PFPLC will be appointed by each of the Issuer and the Trustee in respect of the Issuer Mortgages, and by each of PSA2 and the Security Trustee in respect of the PSA2 Mortgages, under the Administration Agreement to be its agent to administer the Mortgages. PFPLC will administer the Mortgages with the diligence and skill that a reasonably prudent mortgage lender would apply in administering its own mortgages subject to the provisions of the Administration Agreement. PFPLC will undertake that in its role as administrator it will comply with any proper directions, orders and instructions which the Issuer, PSA2, the Trustee or the Security 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 UK Mortgage Sale Agreement and the Luxembourg Mortgage Sale Agreement taking place. PFPLC's appointment as administrator can be terminated by the Trustee and the Security Trustee, acting together, in the event of a breach by PFPLC of the terms of the Administration Agreement which, in the opinion of the Trustee is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or in the event of PFPLC's insolvency.

As at 30th April 1999, PFPLC employed approximately 365 people in mortgage origination and administration.

Mortgage Interest Rate

After completion of the UK Mortgage Sale Agreement and the Luxembourg Mortgage Sale Agreement and pursuant to the Administration Agreement, PFPLC (on behalf of the Issuer and the Trustee in respect of the Issuer Mortgages, and on behalf of PSA2 and the Security Trustee in respect of the PSA2 Mortgages) will set or calculate the rates of interest applicable to the Mortgages purchased by the Issuer and PSA2, in accordance with the Mortgage Conditions except in the case of Fixed Rate Mortgages and Capped Rate Mortgages and except in certain limited circumstances when the Trustee or the Issuer in respect of the Issuer Mortgages, or the Security Trustee or PSA2 in respect of the PSA2 Mortgages, or a substitute administrator or GMS acting in its capacity as administrator of last resort will be entitled to do so.

Interest in relation to the Mortgages is calculated on the basis of the amount owing by a borrower immediately after the initial advance or on the last day of the preceding month (adjusted in respect of further advances and/or principal payments).

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

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

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

If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages is less than 1.6% until (and including) the Interest Payment Date falling in July 2004 and 2% thereafter, in each case, above the LIBOR applicable to the Notes at that time, it may do so only if and to the extent that there is a credit balance in the Shortfall Fund (if any) (net of all provisions previously made during the then current Interest Period) at least equal to the shortfall which would arise at that time and it makes a provision in such Shortfall Fund equal to such shortfall.

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

Payments from Borrowers

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages purchased by the Issuer and PSA2 (including cheque payments and redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) will

generally be paid first into the PML collection account and then will be transferred on the next following business day, or as soon as practicable thereafter, to the Transaction Account in respect of such moneys which relate to the Issuer Mortgages, and to the PSA2 Transaction Account in respect of such moneys which relate to the PSA2 Mortgages. 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 “No. 1 Collection Account Declaration of Trust”) under which PML shall declare that all direct debit payments, cheque payments, redemption moneys and certain other sums of money in respect of the Issuer Mortgages purchased by the Issuer which are credited to its collection account are held on trust for the Issuer until they are applied in the manner described above. Similarly, the declaration of trust dated 13th May 1994 shall be further amended by a supplemental declaration of trust to be dated the Closing Date (the “No.2 Collection Account Declaration of Trust”) under which PML shall declare that all direct debit payments, cheque payments, redemption moneys and certain other sums of money in respect of the PSA2 Mortgages purchased by PSA2 which are credited to PML’s collection account are held on trust for PSA2 until they are applied in the manner described above.

Arrears and Default Procedures

The Administrator will regularly give details to the Issuer, PSA2, the Trustee and/or the Security 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, the Security Trustee, the Issuer and PSA2 but having regard to the circumstances of the borrower in each case. In the case of a Mortgage other than a Lettings Mortgage, 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.

In the case of a Lettings Mortgage the procedures may include one or more of appointing a receiver of rent, unless the Property is situated in Scotland, making arrangements whereby a borrower’s payments may be varied, pursuing (including taking legal action against) one or more guarantors of the sums owing under the Mortgage, sale of the relevant Property with sitting tenants as an investment and taking legal action for possession and subsequent sale of the relevant Property with vacant possession.

Where appointed, a receiver of rent, unless the Property is situated in Scotland, is deemed to be the agent of the borrower and must collect any rents payable in respect of the Property and apply them (after payment of certain statutorily prescribed outgoings) in payment of any interest and arrears accruing under the Mortgage and thereafter any surplus shall either be applied in discharge of principal if required by the lender, or paid to the borrower.

Any action for possession of a Property would include a claim not only against any tenants but also the borrower for, although not in occupation of the relevant Property, an order against the borrower would assist in defeating any subsequent attempt by the borrower to assert a right of occupation. In broad terms, a lender has the same rights against a tenant as are enjoyed by the borrower as landlord. Where the tenant is an individual, he will, as an assured shorthold tenant (or, if in Scotland, as a short assured tenant), have a limited right to security of tenure in that although an order for possession must be made against the tenant (provided, in certain cases, prescribed notices have been served) it cannot take effect earlier than six months after the beginning of the tenancy in the case of a periodic tenancy, or, in the case of a fixed term tenancy, before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement. Where the tenant is other than an individual, an order for possession cannot take effect before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement.

Whether the lender adopts one or more of these options for a Lettings Mortgage will depend upon a number of considerations including the existence of guarantors, the existence of tenants within the Property and their propensity to pay rent, the ratio of rent received to monthly instalments due under the Mortgage, the security of tenure enjoyed by any tenants and the anticipated net receipts from a sale of the Property with vacant possession or with sitting tenants.

The net proceeds of sale of the Property (after payment of the costs and expenses of the sale) would be applied against the sums owing from the borrower to the extent necessary to discharge the Mortgage.

Where such funds are insufficient to redeem the Mortgage in full a claim would be made under any applicable mortgage guarantee indemnity insurance. Where the funds arising from application of the above procedures are insufficient to pay all amounts owing in respect of a Mortgage, such funds will be applied first in paying interest and costs, and secondly in paying principal owing in respect of such Mortgage. If there is no applicable mortgage guarantee indemnity insurance or if, after a claim has been paid, an amount is still outstanding (the “outstanding amount”) in respect of the Mortgage, a provision will be made for the outstanding amount (to the extent that it represents principal owing in respect of a Mortgage) in the Principal Deficiency Ledger, forming part of the Issuer’s accounts, although circumstances may arise in which this provision is subsequently reduced.

Mortgage Interest Relief at Source (MIRAS)

On behalf of the Issuer, PFPLC will administer the recovery from the Inland Revenue, under the MIRAS Scheme, of sums equal to tax relief at the appropriate rate (currently 10% of the loan interest payable on up to the first £30,000 of the amount of the loan) which have been deducted by borrowers from monthly payments of interest due in respect of their Mortgages while the MIRAS Scheme continues in operation. The UK Government has announced its intention to abolish the MIRAS Scheme, and if the Finance Bill 1999 is enacted in its current draft form, this abolition will take effect with respect to interest payments on or after 6th April 2000.

Further Advances

Mandatory Further Advances are currently only required to be made to borrowers for the purpose of advancing any part of the original advance which was retained pending completion of construction or refurbishment.

In all cases where a Mandatory Further Advance in respect of an Issuer Mortgage is to be made, the Issuer expects to fund such Mandatory Further Advance from the principal moneys then held by it referred to in paragraph (a) of the definition of Available Redemption Funds (see “Summary – Mandatory Redemption in Part”). In all cases where a Mandatory Further Advance in respect of a PSA2 Mortgage is to be made, PSA2 expects to fund such Mandatory Further Advance from the principal moneys then held by it referred to in paragraph (a) of the definition of Available Loan Redemption Funds (see “The Luxembourg Loan”). Where such principal moneys are insufficient to fund a Mandatory Further Advance in respect of a PSA2 Mortgage, PSA2 is entitled to request a further drawdown under the Luxembourg Loan Agreement and the Issuer will agree, subject to certain conditions, to make an Additional PSA2 Advance for such purposes. The Issuer will fund such Additional PSA2 Advance from the principal moneys then held by itself and referred to in the first sentence of this paragraph. The Issuer may not receive sufficient amounts of principal to meet the amounts of Mandatory Further Advances and/or Additional PSA2 Advances it is required to make. If, and to the extent that, the Issuer or PSA2 fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set-off the amounts of any Mandatory Further Advances which the Issuer or PSA2 has failed to make against amounts owing by those borrowers and/or to sue the Issuer or PSA2 for damages for breach of contract. Accordingly if, and to the extent that, the Issuer does not have sufficient funds to make any such Mandatory Further Advances and/or Additional PSA2 Advances, the Issuer will be entitled to borrow further amounts from PFPLC under the PFPLC Subordinated Loan Agreement and PFPLC will be under an obligation to make any such amounts available to the Issuer.

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

The Issuer or PSA2 may, at its discretion but subject to certain conditions in the Administration Agreement and provided that there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date, decide to make a Discretionary Further Advance, in respect of an Issuer Mortgage or PSA2 Mortgage, respectively, on the security of the Property subject to the Mortgage on the request of a borrower. Such Discretionary Further Advance may only be made if it is secured on the relevant Property owned by the borrower but subject to the Mortgage. In addition, the Issuer may make a Discretionary Further Advance in respect of an Issuer Mortgage, and PSA2 may make a Discretionary Further Advance in respect of a PSA2 Mortgage, 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 in respect of an Issuer Mortgage, 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 PFPLC Subordinated Loan Agreement, although PFPLC shall be under no obligation to make available any such advance so requested. The Issuer is not entitled to agree to make any Discretionary Further Advance in respect of an Issuer Mortgage 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 PFPLC Subordinated Loan Agreement for such purpose.

In addition, PSA2 will fund any Discretionary Further Advance in respect of a PSA2 Mortgage out of its Available Loan Redemption Funds, and where such funds are insufficient, it is entitled to request a further drawdown under the Luxembourg Loan Agreement. The Issuer is entitled to make such an Additional PSA2 Advance provided that it itself has sufficient Available Redemption Funds, or where these funds are insufficient, PFPLC has agreed to make available an advance under the PFPLC Subordinated Loan Agreement (which PFPLC may agree to do so at its discretion).

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”), and PSA2 may use principal moneys referred to in paragraph (a) of the definition of Available Loan Redemption Funds (see “The Luxembourg Loan”), but only after the Issuer or PSA2, as the case may be, has met Mandatory Further Advances required to be made by it at that time.

If the Issuer or PSA2 does not wish, or is unable, to make a Discretionary Further Advance, PML or, as the case may be, PFPLC may (but is not obliged to) make that further advance on the security of a second mortgage over the Property in question (postponed to the relevant Mortgage). Discretionary Further Advances may only be made on a Mortgage if PML’s lending criteria as far as applicable are satisfied at the relevant time subject to such waivers as might be within the discretion of a reasonably prudent lender, as will be provided in the Administration Agreement.

Discretionary Further Advances and Mandatory Further Advances on the Mortgages in the Mortgage Pool (other than by way of capitalisation of arrears) are subject to an aggregate cumulative limit of £20,000,000.

Conversion of Mortgages

The Administrator may agree or elect to convert a Mortgage from an Interest-only Mortgage to a Repayment Mortgage (but not any other type of Mortgage) or from a Repayment Mortgage to an Interest-only Mortgage (but not any other type of Mortgage). Save as aforesaid, the Administrator is not permitted to make a conversion to any other type of mortgage (or to any combination of such other types of mortgage other than a Repayment Mortgage) unless certain conditions, including the following, are first satisfied:

- (a) no Enforcement Notice or Protection Notice (as defined in the Deed of Charge) has been given by the Trustee which remains in effect at the date of the relevant conversion;
- (b) such conversion would not adversely affect the then current ratings of the Notes;
- (c) if, and to the extent that, Mortgages are converted into Mortgages which are Fixed Rate Mortgages or Capped Rate Mortgages, the Issuer having entered into Caps or other hedging arrangements on or before the date of the conversion (and (where appropriate) obtained related guarantees) in respect of the Converted Mortgages if not to do so would adversely affect the then current ratings of the Notes;
- (d) on the date of the relevant conversion, there having been no failure by PFPLC to repurchase any Mortgage which it is required to repurchase under the terms of either the UK Mortgage Sale Agreement or the Luxembourg Mortgage Sale Agreement, as the case may be, in the event of there being a breach of warranty in respect of that Mortgage;
- (e) no conversion must extend the final maturity date of the relevant Mortgage beyond October 2039, and at any time the maximum principal amount in aggregate of Mortgages with a final maturity date of later than October 2028 but not beyond October 2039 must be £3,000,000; and
- (f) on the date of and immediately following the relevant conversion, PML’s lending criteria are satisfied so far as applicable, subject to such waivers as might be within the discretion of a reasonably prudent lender.

Neither the Trustee nor the Security Trustee will make any investigation as to the manner in which any converted Mortgages or Non-Verified Mortgages differ from the Standard and Non-Standard

Mortgages purchased by the Issuer or PSA2, respectively on the Closing Date, or on the date of such purchase of any Non-Verified Mortgages, or as to the compliance thereof with the criteria referred to herein.

Insurance

PFPLC will, on behalf of the Issuer and PSA2, administer and maintain the arrangements for insurance in respect of, or in connection with, the Mortgages to which the Issuer and PSA2 is a party or in which the Issuer and PSA2 has an interest and will make claims on behalf of the Issuer or PSA2 under any such insurance policies when necessary.

Reinvestment of Income

The Transaction Account and the PSA2 Transaction Account shall at all times be maintained with a bank either the long term unsecured and unguaranteed debt of which is rated Aaa by Moody's and/or AAA by Standard & Poor's or whose short term debt is rated P-1 by Moody's and A-1 by Standard & Poor's or any of the long term unsecured and unguaranteed debt of which is rated by Moody's and Standard & Poor's as high as or higher than the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes and shall not be changed without the prior consent of the Trustee. If such bank ceases to satisfy the criteria mentioned above, the Administration Agreement will contain provisions requiring the Administrator to arrange for the transfer of the Transaction Account and/or the PSA2 Transaction Account to another bank which does satisfy such criteria.

Sums held to the credit of the Transaction Account and the PSA2 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 and PSA2, respectively, are to be made must be invested (a) in sterling denominated securities, bank accounts or other obligations of or rights against entities either the long term unsecured and unguaranteed debt of which is rated Aaa by Moody's and AAA by Standard & Poor's or whose short term unsecured and unguaranteed debt is rated P-1 by Moody's and 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 are outstanding, the Class B Notes provided that monies 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. 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 to the extent that such investments and deposits are acquired or made by or on behalf of the Issuer, and will be charged to the Security Trustee and form part of the security for the payment of principal and interest under the Luxembourg Loan Agreement, to the extent that such investments and deposits are acquired or made by or on behalf of PSA2. No investment shall be made unless such investment is an asset which a building society (as defined in The Building Societies Act 1986, as amended by The Building Societies Act 1997, if applicable) has power to acquire, as will be more particularly described in the Administration Agreement. In addition, funds of the Issuer and PSA2 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 Standard & Poor's of the entity in which the investment or investments is or are made must, in such case, be A-1+.

Delegation by the Administrator

The Administrator may, in certain circumstances, with the consent of the Issuer and the Trustee in respect of the Issuer Mortgages, and with the consent of PSA2 and the Security Trustee in respect of the PSA2 Mortgages, sub-contract or delegate its obligations under the Administration Agreement. The Administrator may not sub-contract or delegate all or substantially all of its obligations under the Administration Agreement if the then current ratings of the Notes would be adversely affected.

Administration Fee

The Administration Agreement will make provision for payments to be made to the Administrator. The Issuer will pay, on behalf of itself and PSA2, to PFPLC as Administrator an administration fee of not more than 0.3% (inclusive of VAT) per annum on the aggregate interest charging balances of the Mortgages at the beginning of each Interest Period which will be due quarterly in arrear on each Interest Payment Date. A higher fee at a rate agreed by the Trustee (but which does not exceed the rate then commonly charged by providers of mortgage administration services) may be payable to any substitute administrator appointed (other than as administrator of last resort) following termination of PFPLC's appointment. If no substitute administrator can be found, GMS will act as administrator of last resort receiving a fee, calculated in the same manner as stated above for PFPLC, at a rate of 0.3% (exclusive of VAT) per annum.

PML will be entitled to receive from the Issuer and PSA2 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 GMS 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, PSA2, 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, the Issuer, the Security Trustee and PSA2 will be required to execute powers of attorney in favour of the Administrator which will enable it to discharge the Issuer 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, and to discharge the PSA2 Mortgages from the security created over them in favour of the Security Trustee under the Security Trust Deed, without reference to the Security Trustee or PSA2.

ESTIMATED AVERAGE LIVES OF THE NOTES AND ASSUMPTIONS

The average lives of the Notes cannot be predicted, as the actual rate at which Mortgages will be repaid and a number of other relevant factors (including the effect of conversions between different types of Mortgages) are unknown.

Calculations of the possible average lives of the Notes can be made based on certain assumptions. For example, based on the assumptions that:

- (a) the Mortgages are subject to a constant annual rate of prepayment (including scheduled and unscheduled payments) and no Mandatory Further Advances and Discretionary Further Advances are made;
- (b) the Issuer exercises its option to redeem the Notes of a given class when the margin on the Notes of such class is increased;
- (c) no Issuer Mortgages or PSA2 Mortgages are sold by the Issuer or PSA2, respectively, except such number of Mortgages as may be necessary to enable the Issuer to realise sufficient funds to exercise its option to redeem each class of Notes when the margin on such class of Notes is increased;
- (d) no Mortgages are converted;
- (e) no principal losses are realised on any of the Mortgages; and
- (f) all sums standing to the credit of the Pre-Funding Reserve Ledger of the Transaction Account are applied by the Issuer either in purchasing Non-Verified Mortgages or in making a Non-Verified Mortgage Advance to PSA2 (to enable PSA2 to purchase Non-Verified Mortgages).

The approximate average life of the Notes, at various assumed rates of prepayment for the Mortgages, would be as follows:

Constant Prepayment Rate (% per annum)	Possible Average Life of Class	
	A Notes (years)	B Notes (years)
7.5	4.17	5.10
10	3.89	5.10
12.5	3.63	5.10
15	3.39	5.10
17.5	3.16	5.10

Assumption (a) is stated as an average annualised prepayment rate as the prepayment rate for one Interest Period may be substantially different from that for another. The constant prepayment rates shown above are purely illustrative and do not represent the full range of possibilities for constant prepayment rates.

Assumption (b) reflects the current intention of the Issuer but no assurance can be given that redemption of the Notes will occur as described.

Assumption (c), (d), (e) and (f) relate to circumstances which are not predictable.

In calculating the average lives of the Notes referred to above, no account has been taken of the possible effect on the prepayment profile of the Mortgages of (i) the Issuer not purchasing the Issuer Pre-Closing Accruals and Arrears in respect of Issuer Mortgages which are Current Mortgages, or (ii) the Issuer purchasing, in respect of Issuer Mortgages which are Arrears Mortgages, and of PSA2 purchasing, in respect of PSA2 Mortgages which are Current Mortgages and Arrears Mortgages, Issuer Pre-Closing Accruals and Arrears and PSA2 Pre-Closing Accruals and Arrears, as the case may be.

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

UNITED KINGDOM TAXATION

Taxation of Interest Paid

Under current Inland Revenue practice the Notes will be regarded as bearer securities for the purposes of section 124 of the Income and Corporation Taxes Act 1988 (the “Act”) notwithstanding that they are represented by the Global Notes. Accordingly interest payments on each Note will be treated as interest paid on a “quoted Eurobond” within the meaning of section 124 of the Act, so long as the Notes are represented by the Global Notes and continue to be listed on a recognised stock exchange within the meaning of section 841 of the Act (the London Stock Exchange is currently a recognised stock exchange). Accordingly where the Notes represented by the Global Notes are held within a recognised clearing system within the meaning of section 841A of the Act (Euroclear, Cedelbank, European Settlements Office, First Chicago Clearing Centre and the Depository Trust Company of New York have each been designated as a recognised clearing system for this purpose) payments of interest on the Notes by any Paying Agent (as defined in the Trust Deed) may, under current law and practice, be made without withholding or deduction for or on account of United Kingdom income tax, provided that:

- (a) payment is made directly to the recognised clearing system; or
- (b) payment is made to, or at the direction of a depository for the recognised clearing system and the person by or through whom the interest is paid has obtained a valid declaration PA3 from a depository for the recognised clearing system; or
- (c) the person by or through whom the interest is paid has obtained a notice from the Inland Revenue instructing that person to pay the interest with no tax deducted.

This paragraph will not apply if the Notes cease to be represented by the Global Notes.

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

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

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

Where:

- (a) any person in the United Kingdom, in the course of a trade or profession:
 - (i) acts as custodian of a Note or Coupon in respect of which he receives any interest or such interest is paid to another person at his direction or with his consent; or
 - (ii) by means of Coupons (including any warrant for or bill of exchange purporting to be drawn or made in payment of interest) collects or secures payment of or receives

interest for another person or otherwise arranges to collect or secure payment for such a person; or

- (b) any bank in the United Kingdom sells or otherwise realises Coupons (including any warrant or bill of exchange, as above) and pays over the proceeds or carries them into an account; or
- (c) any dealer in coupons in the United Kingdom purchases any Coupons (including any warrant or bill of exchange, as above) otherwise than from a bank or another dealer in coupons

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

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

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

The interest will have a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment even if the interest is paid without deduction. However, except for any income tax deducted as described above (and except in the case of non-United Kingdom resident trustees of a trust having any ordinarily resident or resident beneficiary) a person not resident in the United Kingdom will not be liable to United Kingdom tax on interest on a Note unless it is chargeable to income tax or corporation tax on a branch or agency in the United Kingdom through which the non-resident person carries on a trade, profession or vocation. However, exemption from or reduction of, such United Kingdom tax liability may be available under the provisions of an applicable double taxation treaty.

Proposed EU Directive on the Taxation of Savings Income

In May 1998, the European Commission presented to the Council of Ministers of the European Union a proposal to oblige Member States to adopt either a “withholding tax system” or an “information reporting system” in relation to interest, discounts and premiums. It is unclear whether this proposal will be adopted, and if it is adopted, whether it will be adopted in its current form. The “withholding tax system” would require a paying agent established in a Member State to withhold tax at a minimum rate of 20 per cent. from any interest, discount or premium paid to an individual resident in another Member State unless such an individual presents a certificate obtained from the tax authorities of the Member State in which he is resident confirming that those authorities are aware of the payment due to that individual. The “information reporting system” would require a Member State to supply, to other Member States, details of any payment of interest, discount or premium made by paying agents within its jurisdiction to an individual resident in another Member State. For these purposes, the term “paying agent” is widely defined and includes an agent who collects interest, discounts or premiums on behalf of an individual beneficially entitled thereto. If this proposal is adopted, it will not apply to payments of interest, discounts and premiums made before 1st January 2001.

Capital Gains and Income Profits

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

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

Accrued Income

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

Stamp Duty

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

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

SUBSCRIPTION AND SALE

J.P. Morgan Securities Ltd., Banque Bruxelles Lambert S.A., The Royal Bank of Scotland plc and Société Générale (the “Class A Managers”) have, pursuant to a subscription agreement dated 10th June 1999 (to which PFPLC, PML and PSA2 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.

J.P. Morgan Securities Ltd., (the “Class B Manager”) has, pursuant to a subscription agreement dated 10th June 1999 (to which PFPLC, PML and PSA2 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 Class A Managers and the Class B Manager are together referred to in this Offering Circular as the “Managers”.

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

Each Class A Manager, in respect of the Class A Notes, and the Class B Manager, in respect of the Class B Notes, has represented and agreed that (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part IV of the Financial Services Act 1986 (the “Act”) except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the Act; (ii) it has complied and will comply with all applicable provisions of the Act with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issues of the Notes, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Act, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended by the

Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1997) or is a person to whom such document may otherwise lawfully be issued or passed on.

Other than admission of the Notes to the Official List of the London Stock Exchange 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 and the Class B Manager, in respect of the Class B Notes has undertaken not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Offering Circular or any other material relating to the Notes, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

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 on the London Stock Exchange will be granted on 10th June 1999, subject only to the issue of the Temporary Global Notes. The listing of the Notes will be cancelled if the Temporary Global Notes are not issued.

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

Class A Notes, Common Code Number 9858814; ISIN XS0098588147; and

Class B Notes, Common Code Number 9858822; ISIN XS0098588220.

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

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

Since 30th April 1999 there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or (save as disclosed under "The Issuer – Capitalisation" above) financial position of the Issuer.

The Issuer is not and has not been involved in any legal or arbitration proceedings which may have, or have had since the date of incorporation of the Issuer, a significant effect on the Issuer's financial position nor, so far as the Issuer is aware, are any such proceedings pending or threatened.

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

Copies of the following documents, in English where appropriate, may be inspected during normal business hours on any weekday (excluding Saturdays and public holidays) at the offices of Clifford Chance, 200 Aldersgate Street, London EC1A 4JJ during the period of fourteen days from the date of this Offering Circular:

- (a) the Memorandum and Articles of Association of the Issuer and PSA2;
- (b) the consent letters of Deloitte & Touche referred to above;
- (c) copies of the Class A Subscription Agreement and the Class B Subscription Agreement;
- (d) drafts (subject to modification) of the Trust Deed to constitute the Class A Notes and the Class B Notes (including the forms of the Global Class A Notes, the Class A Notes, Coupons and Talons and the forms of Global Class B Notes, the Class B Notes, Coupons and Talons), the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement, the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, the Security Trust Deed, the Scottish Declaration of Trust, the Agency Agreement, the No. 1 Collection Account Declaration of Trust, the No. 2 Collection Account Declaration of Trust, the Swap Agreement, the PFPLC Subordinated Loan Agreement, the Fee Letter, the Services Letter and the Post Enforcement Call Option Deed;
- (e) the accountants' report on the Issuer set out on page 74; and
- (f) the accountants' report on PSA2 set out on page 77.

GLOSSARY OF KEY TERMS AND DEFINITIONS

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

Defined Term	Page No.
“Additional Amounts”	72
“Additional PSA2 Advances”	14
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