

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S.

**IMPORTANT: You must read the following before continuing.** The following applies to the Prospectus attached to this electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES OF THE ISSUER FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS. THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

By accessing the Prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the Prospectus by electronic transmission, (c) you are not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia and (d) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, nor the Arranger, nor the Joint Lead Managers, nor the Transaction Parties or any person who controls any such person or any director, officer, employee or agent of any such person (or affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer, Lloyds TSB Bank PLC, Macquarie Bank Limited, London Branch, and Morgan Stanley & Co. International plc.

## Paragon Mortgages (No.17) PLC

*(Incorporated with limited liability in England and Wales with registered number:6356366)*

### Issue of Mortgage Backed Floating Rate Notes

| Initial Principal Amount | Class                  | Issue price   | Interest Rate/Reference Rate | Margin         | Call Option Date | Expected rating |         |
|--------------------------|------------------------|---------------|------------------------------|----------------|------------------|-----------------|---------|
|                          |                        |               |                              |                |                  | Fitch           | S&P     |
| £175,000,000             | Class A Notes Due 2040 | 100 per cent. | Three-Month GBP LIBOR        | 1.35 per cent. | January 2016     | AAA(sf)         | AAA(sf) |
| £10,500,000              | Class B Notes Due 2040 | 100 per cent. | Three-Month GBP LIBOR        | 1.90 per cent. | January 2016     | AA(sf)          | AA(sf)  |
| £10,000,000              | Class C Notes Due 2040 | 100 per cent. | Three-Month GBP LIBOR        | 2.90 per cent. | January 2016     | A(sf)           | A(sf)   |
| £4,500,000               | Class D Notes Due 2040 | 100 per cent. | Three-Month GBP LIBOR        | 3.25 per cent. | January 2016     | Unrated         | Unrated |

|                                       |  |
|---------------------------------------|--|
| <b>Issue Date</b>                     | The Issuer expects to issue the Notes in the classes set out above on 25 October 2012 (the "Closing Date").  |
| <b>Underlying Assets</b>              | The Issuer will make payments on the Notes from, <i>inter alia</i> , payments of principal and revenue received from a portfolio comprising Mortgages originated by Paragon Mortgages (2010) Limited and secured over residential properties located in England and Wales (the "Mortgage Portfolio") which will be purchased by the Issuer on the Closing Date and on any date up to and including the second Principal Determination Date.<br>Please refer to the section entitled "The Mortgage Portfolio" for further information.  |
| <b>Stand-alone/programme issuance</b> | Stand-alone issuance.  |
| <b>Credit Enhancement</b>             | Credit Enhancement Features <ul style="list-style-type: none"> <li>• First Loss Fund</li> <li>• Excess Available Revenue</li> <li>• Subordination of more junior ranking Notes</li> </ul> See the section entitled "Key Structural Features" for more information.   |
| <b>Liquidity Support</b>              | Liquidity Support Features <ul style="list-style-type: none"> <li>• Margin Reserve Fund</li> <li>• Shortfall Fund (if any)</li> <li>• Further Advance Margin Reserve Amount (if any)</li> <li>• Principal Receipts applied to fund a Potential Interest Shortfall (subject to certain conditions in the case of the Class B Notes and Class C Notes)</li> <li>• Liquidity Amount of First Loss Fund applied to fund a Remaining Potential Interest Shortfall (subject to certain conditions in the case of the Class B Notes and Class C Notes)</li> </ul> See the section entitled "Key Structural Features" for more information.  |
| <b>Redemption Provisions</b>          | Information on any optional and mandatory redemption of the Notes is summarised on page 30 ( <i>Transaction Overview - Summary of the Terms and Conditions of the Notes</i> ) and set out in full in Condition 5 ( <i>Redemption and Purchase</i> ).   |
| <b>Credit Rating Agencies</b>         | Fitch Ratings Limited ("Fitch") and Standard & Poor's Rating Services, a division of Standard & Poor's Credit Market Services Europe Limited ("S&P"), (together the "Rating Agencies"). Each of the Rating Agencies is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "CRA Regulation"), and notification of the corresponding registration decision has been provided by the Financial Services Authority (the "FSA") as the relevant competent authority under the CRA Regulation.  |
| <b>Credit Ratings</b>                 | Ratings are expected to be assigned to the Notes as set out above on or before the Closing Date.<br>The ratings assigned by Fitch and S&P address the likelihood of (a) timely payment of interest due to the Noteholders on each Interest Payment Date and (b) full payment of principal by a date that is not later than the Final Maturity Date.<br>Credit ratings in respect of the Notes or the Issuer are for distribution in Australia only to persons who are not "retail clients" within the meaning of section 761G of the Corporations Act and are also sophisticated investors, professional investors or other investors in respect of whom disclosure is not required under Part 6D.2 of the Corporations Act and, in all cases, in such circumstances as may be permitted by applicable law in any jurisdiction in which an investor may be located. Anyone who is not such a person is not entitled to receive this Prospectus and anyone who receives this Prospectus must not distribute it to any person who is not entitled to receive it.<br><b>The assignment of ratings to the Notes is not a recommendation to invest in the Notes. Any credit rating assigned to the Notes may be revised or withdrawn at any time.</b> |
| <b>Listing</b>                        | This document constitutes a prospectus (the "Prospectus"), for the purpose of Directive 2003/71/EC (the "Prospectus Directive"). This Prospectus has been approved by the FSA as competent authority under the Prospectus Directive.<br>Applications have been made for the Notes to be admitted to listing on the official list of the UK Listing Authority (the "Official List") and to trading on the regulated market of the London Stock Exchange (the "Regulated Market"). The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the "Markets in Financial Instruments Directive").   |
| <b>Eurosystem Eligibility</b>         | The Class A Notes are intended to be held in a manner which would allow Eurosystem eligibility. This means that the Class A Notes are intended upon issue to be deposited with one of the International Central Securities Depositories (the "ICSDs"), as common safekeeper and does not necessarily mean that the Class A Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. The Class B Notes, Class C Notes and Class D Notes are not intended to be held in a manner which would allow Eurosystem eligibility or be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem.   |
| <b>Obligations</b>                    | The Notes will be obligations of the Issuer alone and will not be guaranteed by, or be the responsibility of, any other entity. The Notes will not be obligations of The Paragon Group of Companies PLC ("PGC"), its affiliates or any other party, other than the Issuer, named in the Prospectus.  |
| <b>Definitions</b>                    | Please refer to the section entitled "Glossary".   |
| <b>Retention Undertaking</b>          | The Seller will retain a material net economic interest of at least 5 per cent. in the securitisation in accordance with Article 122a of Directive 2006/48/EC (as amended by Directive 2009/111/EC) referred to as the Capital Markets Directive ("CRD 2"). As at the Closing Date, such interest will consist of an interest in the first loss tranche. Any change to the manner in which such interest is held will be notified to investors. Please refer to the section entitled "Article 122a of the Capital Requirements Directive" for further information.   |

**THE "RISK FACTORS" SECTION CONTAINS DETAILS OF CERTAIN RISKS AND OTHER FACTORS THAT SHOULD BE GIVEN PARTICULAR CONSIDERATION BEFORE INVESTING IN THE NOTES. PROSPECTIVE INVESTORS SHOULD BE AWARE OF THE ISSUES SUMMARISED WITHIN THAT SECTION.**

**Arranger**

**Macquarie Bank Limited, London Branch**

*Joint Lead Managers*

**Lloyds Bank**

**Macquarie Bank Limited, London Branch**

**Morgan Stanley**

The date of this Prospectus is 22 October 2012

## IMPORTANT NOTICE

**THE NOTES WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN THE ISSUER. IN PARTICULAR, THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY OF THE ARRANGER, THE JOINT LEAD MANAGERS, THE SELLER, THE WAREHOUSER, THE ADMINISTRATOR, THE SUBSTITUTE ADMINISTRATOR, THE SUBORDINATED LENDER, THE CORPORATE SERVICE PROVIDER, THE ISSUE SERVICES PROVIDER, THE HEDGE PROVIDER, THE ACCOUNT BANK, THE TRUSTEE, THE PRINCIPAL PAYING AGENT OR THE REGISTRAR (EACH AS DEFINED HEREIN) OR ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ANY SUCH PERSONS OR PARTY TO THE RELEVANT DOCUMENTS (OTHER THAN THE ISSUER). NO LIABILITY WHATSOEVER IN RESPECT OF ANY FAILURE BY THE ISSUER TO PAY ANY AMOUNT DUE UNDER THE NOTES SHALL BE ACCEPTED BY ANY OF THE ANY OF THE ARRANGER, THE JOINT LEAD MANAGERS, THE SELLER, THE WAREHOUSER, THE ADMINISTRATOR, THE SUBSTITUTE ADMINISTRATOR, THE SUBORDINATED LENDER, THE CORPORATE SERVICE PROVIDER, THE ISSUE SERVICES PROVIDER, THE HEDGE PROVIDER, THE ACCOUNT BANK, THE TRUSTEE, THE PRINCIPAL PAYING AGENT OR THE REGISTRAR, OR ANY PERSON OTHER THAN THE ISSUER.**

YOU SHOULD REVIEW AND CONSIDER THE DISCUSSION UNDER "*RISK FACTORS*" BEGINNING ON PAGE 5 IN THIS PROSPECTUS BEFORE YOU PURCHASE ANY NOTES.

THE CLASS A NOTES ARE INTENDED TO BE HELD IN A MANNER WHICH WOULD ALLOW EUROSISTEM ELIGIBILITY. THIS MEANS THAT THE CLASS A NOTES ARE INTENDED UPON ISSUE TO BE DEPOSITED WITH ONE OF EUROCLEAR OR CLEARSTREAM, LUXEMBOURG AS COMMON SAFEKEEPER AND DOES NOT NECESSARILY MEAN THAT THE CLASS A NOTES WILL BE RECOGNISED AS ELIGIBLE COLLATERAL FOR EUROSISTEM MONETARY POLICY AND INTRA-DAY CREDIT OPERATIONS BY THE EUROSISTEM ("**EUROSISTEM ELIGIBLE COLLATERAL**") EITHER UPON ISSUE OR AT ANY OR ALL TIMES DURING THEIR LIFE. SUCH RECOGNITION WILL DEPEND UPON SATISFACTION OF THE EUROSISTEM ELIGIBILITY CRITERIA. IT IS EXPECTED THAT THE CLASS B NOTES, THE CLASS C NOTES AND THE CLASS D NOTES WILL NOT SATISFY THE EUROSISTEM ELIGIBILITY CRITERIA. THE ISSUER GIVES NO REPRESENTATION, WARRANTY, CONFIRMATION OR GUARANTEE TO ANY INVESTOR IN THE CLASS A NOTES THAT THE CLASS A NOTES WILL, EITHER UPON ISSUE OR AT ANY TIME PRIOR TO REDEMPTION IN FULL, SATISFY ALL OR ANY OF THE REQUIREMENTS FOR EUROSISTEM ELIGIBILITY AND BE RECOGNISED AS EUROSISTEM ELIGIBLE COLLATERAL. ANY POTENTIAL INVESTOR IN THE CLASS A NOTES SHOULD MAKE THEIR OWN CONCLUSIONS AND SEEK THEIR OWN ADVICE WITH RESPECT TO WHETHER OR NOT THE CLASS A NOTES CONSTITUTE EUROSISTEM ELIGIBLE COLLATERAL.

THE DISTRIBUTION OF THIS PROSPECTUS AND THE OFFERING OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. NO REPRESENTATION IS MADE BY ANY OF THE TRANSACTION PARTIES THAT THIS PROSPECTUS MAY BE LAWFULLY DISTRIBUTED, OR THAT THE NOTES MAY BE LAWFULLY OFFERED, IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN ANY SUCH JURISDICTION, OR PURSUANT TO AN EXEMPTION AVAILABLE THEREUNDER, AND NONE OF THEM ASSUMES ANY RESPONSIBILITY FOR FACILITATING ANY SUCH DISTRIBUTION OR OFFERING. IN PARTICULAR, SAVE FOR OBTAINING THE APPROVAL OF THIS PROSPECTUS AS A PROSPECTUS FOR THE PURPOSES OF THE PROSPECTUS DIRECTIVE BY THE FSA, NO ACTION HAS BEEN OR WILL BE TAKEN BY ANY OF THE TRANSACTION PARTIES WHICH WOULD PERMIT A PUBLIC OFFERING OF THE NOTES OR DISTRIBUTION OF THIS PROSPECTUS IN ANY JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS PROSPECTUS NOR ANY ADVERTISEMENT OR OTHER OFFERING MATERIAL MAY BE DISTRIBUTED OR PUBLISHED, IN ANY JURISDICTION, EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS. PERSONS INTO WHOSE POSSESSION THIS PROSPECTUS COMES ARE REQUIRED BY THE ISSUER, THE ARRANGER AND THE JOINT

LEAD MANAGERS TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER RELEVANT JURISDICTION. THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS. THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED HEREIN UNDER "*DESCRIPTION OF THE NOTES IN GLOBAL FORM*".

THE NOTES WILL BE SUBJECT TO RESTRICTIONS ON TRANSFER AS DESCRIBED HEREIN. EACH INITIAL PURCHASER AND SUBSEQUENT TRANSFEREE OF THE NOTES WILL BE DEEMED, BY ITS ACQUISITION OR HOLDING OF SUCH NOTES, TO HAVE MADE THE REPRESENTATIONS SET FORTH IN THE PROSPECTUS (IN THE SECTION ENTITLED "*TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS*"), SUCH NOTES AND THE TRUST DEED THAT ARE REQUIRED OF SUCH INITIAL PURCHASERS AND TRANSFEREES. ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER ATTEMPTED TRANSFER, OF NOTES WHICH IS NOT MADE IN COMPLIANCE WITH THE APPLICABLE TRANSFER RESTRICTIONS WILL BE VOID. THE NOTES WILL ALSO BEAR RESTRICTIVE LEGENDS.

NONE OF THE ISSUER OR THE ARRANGER OR ANY JOINT LEAD MANAGER MAKES ANY REPRESENTATION TO ANY PROSPECTIVE INVESTOR OR PURCHASER OF THE NOTES REGARDING THE LEGALITY OF INVESTMENT THEREIN BY SUCH PROSPECTIVE INVESTOR OR PURCHASER UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS.

THE ISSUER ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS AND DECLARES THAT, HAVING TAKEN ALL REASONABLE CARE TO ENSURE SUCH IS THE CASE, THE INFORMATION IN THIS PROSPECTUS, TO THE BEST OF ITS KNOWLEDGE, IS IN ACCORDANCE WITH THE FACTS AND CONTAINS NO OMISSION LIKELY TO AFFECT ITS IMPORT. ANY INFORMATION SOURCED FROM THIRD PARTIES CONTAINED IN THIS PROSPECTUS HAS BEEN ACCURATELY REPRODUCED (AND IS CLEARLY SOURCED WHERE IT APPEARS IN THIS PROSPECTUS) AND, AS FAR AS THE ISSUER IS AWARE AND IS ABLE TO ASCERTAIN FROM INFORMATION PUBLISHED BY THAT THIRD PARTY, NO FACTS HAVE BEEN OMITTED WHICH WOULD RENDER THE REPRODUCED INFORMATION INACCURATE OR MISLEADING.

MACQUARIE BANK LIMITED, LONDON BRANCH ACCEPTS RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTION HEADED "*THE HEDGE PROVIDER*". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF MACQUARIE BANK LIMITED, LONDON BRANCH (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THE SECTION REFERRED TO IN THIS PARAGRAPH IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. NO REPRESENTATION, WARRANTY OR UNDERTAKING, EXPRESS OR IMPLIED, IS MADE AND NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY MACQUARIE BANK LIMITED, LONDON BRANCH AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTIONS REFERRED TO ABOVE) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

NO PERSON IS AUTHORISED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFERING OR SALE OF THE NOTES OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY ANY OF THE TRANSACTION PARTIES OR ANY OF THEIR RESPECTIVE AFFILIATES OR ADVISERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE OR ALLOTMENT MADE IN CONNECTION WITH THE OFFERING OF THE NOTES SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION OR CONSTITUTE A REPRESENTATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE SELLER OR IN THE OTHER INFORMATION CONTAINED HEREIN SINCE THE DATE

HEREOF. THE INFORMATION CONTAINED IN THIS PROSPECTUS WAS OBTAINED FROM THE ISSUER AND THE OTHER SOURCES IDENTIFIED HEREIN, BUT NO ASSURANCE CAN BE GIVEN BY THE ARRANGER, THE JOINT LEAD MANAGERS OR THE TRUSTEE AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. NONE OF THE ARRANGER, THE JOINT LEAD MANAGERS OR THE TRUSTEE HAS SEPARATELY VERIFIED THE INFORMATION CONTAINED HEREIN. ACCORDINGLY, NONE OF THE ARRANGER, THE JOINT LEAD MANAGERS OR THE TRUSTEE MAKES ANY REPRESENTATION, EXPRESS OR IMPLIED, OR ACCEPTS ANY RESPONSIBILITY, WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION IN THIS PROSPECTUS. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE CONTENTS OF THIS PROSPECTUS SHOULD NOT BE CONSTRUED AS PROVIDING LEGAL, BUSINESS, ACCOUNTING OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN LEGAL, BUSINESS, ACCOUNTING AND TAX ADVISERS PRIOR TO MAKING A DECISION TO INVEST IN THE NOTES.

THE DELIVERY OF THIS PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AT ANY TIME SUBSEQUENT TO ITS DATE.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION BY OR ON BEHALF OF, THE ISSUER, THE ORIGINATOR, THE SELLER, THE ARRANGER, THE JOINT LEAD MANAGERS OR ANY OF THEM TO SUBSCRIBE FOR OR PURCHASE ANY OF THE NOTES IN ANY JURISDICTION WHERE SUCH ACTION WOULD BE UNLAWFUL AND NEITHER THIS PROSPECTUS, NOR ANY PART THEREOF, MAY BE USED FOR OR IN CONNECTION WITH ANY OFFER TO, OR SOLICITATION BY, ANY PERSON IN ANY JURISDICTION OR IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORISED OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

NEITHER THIS PROSPECTUS NOR ANY OTHER DISCLOSURE DOCUMENT IN RELATION TO THE NOTES HAS BEEN, OR WILL BE, LODGED WITH THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION OR ANY OTHER GOVERNMENT AGENCY IN AUSTRALIA. THIS PROSPECTUS IS NOT A PROSPECTUS OR OTHER DISCLOSURE DOCUMENT FOR THE PURPOSES OF THE CORPORATIONS ACT 2011 OF AUSTRALIA.

THIS PROSPECTUS IS PERSONAL TO THE OFFEREE WHO RECEIVED IT FROM THE ARRANGER OR A JOINT LEAD MANAGER AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON TO PURCHASE ANY NOTES.

THE NOTES ARE BEING OFFERED ONLY TO A LIMITED NUMBER OF INVESTORS THAT ARE WILLING AND ABLE TO CONDUCT AN INDEPENDENT INVESTIGATION OF THE CHARACTERISTICS OF THE NOTES AND THE RISKS OF OWNERSHIP OF THE NOTES. IT IS EXPECTED THAT PROSPECTIVE INVESTORS INTERESTED IN PARTICIPATING IN THIS OFFERING WILL CONDUCT AN INDEPENDENT INVESTIGATION OF THE RISKS POSED BY AN INVESTMENT IN THE NOTES. PROSPECTIVE PURCHASERS OF THE NOTES MUST BE ABLE TO HOLD THEIR INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

THIS PROSPECTUS IS NOT INTENDED TO FURNISH LEGAL, REGULATORY, TAX, ACCOUNTING, INVESTMENT OR OTHER ADVICE TO ANY PROSPECTIVE PURCHASER OF THE NOTES.

THIS PROSPECTUS SHOULD NOT BE CONSIDERED AS A RECOMMENDATION BY THE ISSUER, THE JOINT LEAD MANAGERS, THE ARRANGER OR ANY OTHER PERSONS THAT ANY RECIPIENT SHOULD PURCHASE ANY OF THE NOTES.

THIS PROSPECTUS SHOULD BE REVIEWED BY EACH PROSPECTIVE PURCHASER AND ITS LEGAL, REGULATORY, TAX, ACCOUNTING, INVESTMENT AND OTHER ADVISERS. PROSPECTIVE PURCHASERS WHOSE INVESTMENT AUTHORITY IS SUBJECT TO LEGAL RESTRICTIONS SHOULD CONSULT THEIR LEGAL ADVISERS TO DETERMINE WHETHER AND TO WHAT EXTENT THE NOTES CONSTITUTE LEGAL INVESTMENTS FOR THEM.

In this Prospectus all references to "**Member State**" are references to a Member State of the European Economic Area, references to "**Sterling**", "**GBP**" and "**£**" are references to the lawful currency of the United Kingdom.

### **Forward-looking Statements**

Some of the statements contained or incorporated by reference in this Prospectus consist of forward-looking statements relating to future economic performance or projections and other financial items. These statements can be identified by the use of forward-looking terminology, such as the words "believes", "expects", "may", "intends", "should" or "anticipates" or the negative or other variations of those terms. These statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results and performance of the Notes, the Paragon Group of Companies PLC or any of its subsidiary undertakings (together, the "**Paragon Group**") or the United Kingdom residential and buy-to-let mortgage industry to differ materially from any future results or performance expressed or implied in the forward-looking statements. These risks, uncertainties and other factors include, among others general economic and business conditions in the United Kingdom, currency exchange and interest rate fluctuations, government, statutory, regulatory or administrative initiatives affecting the Paragon Group or the business carried on by it, changes in business strategy, lending practices or customer relationships and other factors that may be referred to in this Prospectus. Some of the most significant of these risks, uncertainties and other factors are discussed in this Prospectus under the section entitled "*Risk Factors*", and you are encouraged to carefully consider those factors prior to making an investment decision in relation to the Notes.

### **Disclosure of Interests**

In addition to the interests described in this Prospectus, the Joint Lead Managers and their respective related entities, associates, officers or employees (each a "**Relevant Entity**"):

- (a) may from time to time be a Noteholder or have other interests with respect to the Notes and they may also have interests relating to other arrangements with respect to a Noteholder or a Note;
- (b) may receive fees, brokerage and commissions or other benefits, and act as principal with respect to any dealing with respect to any Notes; and
- (c) may be involved in a broad range of transactions including, without limitation, banking, dealing in financial products, credit, derivative and liquidity transactions, investment management, corporate and investment banking and research in various capacities in respect of the Notes, the Issuer or any related entity, both on its own account and for the account of other persons.

Prospective investors should be aware that:

- (i) each Relevant Entity in the course of its business (including in respect of interests described above) may act independently of any other Relevant Entity or any party to a Relevant Document;
- (ii) to the maximum extent permitted by applicable law, the duties of each Relevant Entity in respect of the Notes are limited to the relevant contractual obligations set out in the Relevant Documents and, in particular, no advisory or fiduciary duty is owed to any person;
- (iii) a Relevant Entity may have or come into possession of information not contained in this Prospectus that may be relevant to any decision by a potential investor to acquire the Notes and which may or may not be publicly available to potential investors ("**Relevant Information**");
- (iv) to the maximum extent permitted by applicable law, no Relevant Entity is under any obligation to disclose any Relevant Information to any other Relevant Entity, to any party to a Relevant Document or to any potential investor and this Prospectus and any subsequent conduct by a Relevant Entity should not be construed as implying that the Relevant Entity is not in possession of such Relevant Information; and
- (v) each Relevant Entity may have various potential and actual conflicts of interest arising in the ordinary course of its business, including in respect of the interests described above. For example, a Relevant Entity's dealings with respect to a Note, the Issuer or a party to a Relevant Document may affect the value of a Note. These interests may conflict with the interests of a Noteholder, and the Noteholder may suffer loss as a result. To the maximum extent permitted by

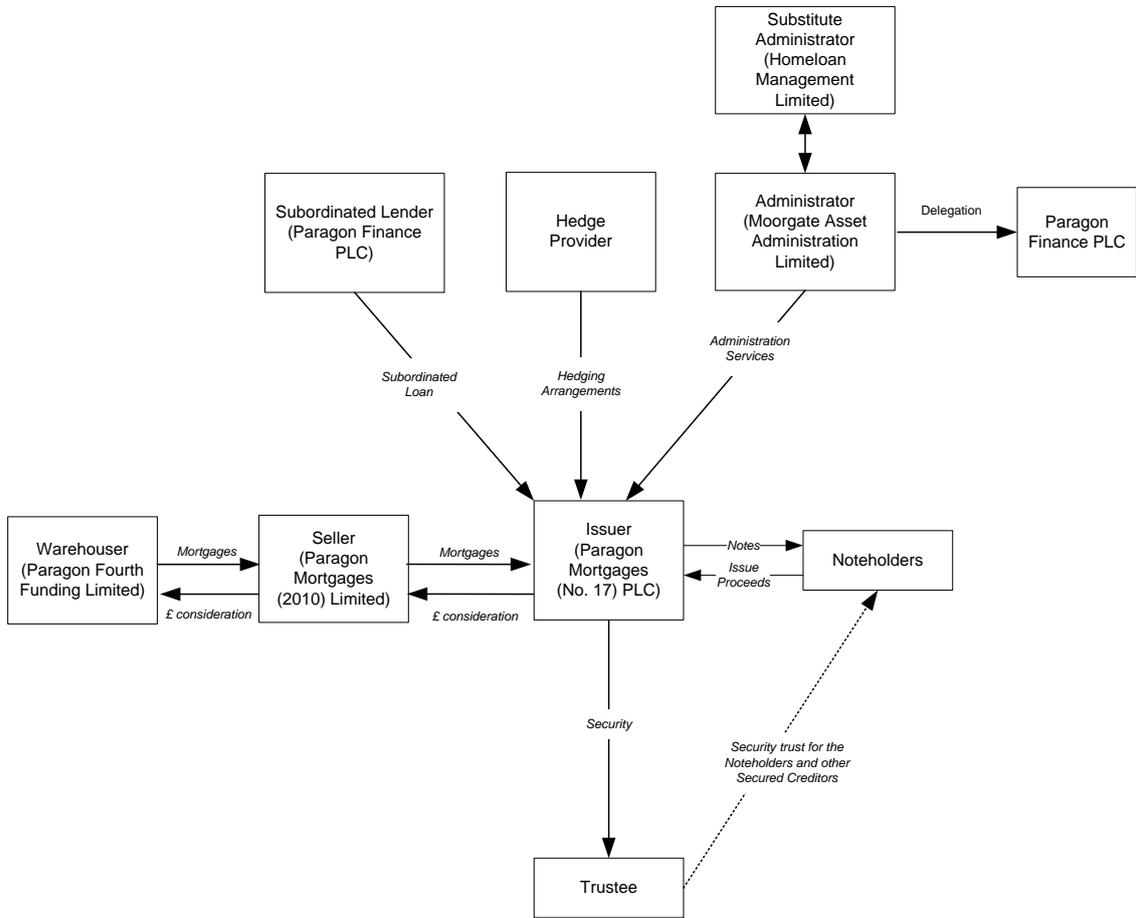
applicable law, a Relevant Entity is not restricted from entering into, performing or enforcing its rights in respect of the Relevant Documents or the interests described above and may otherwise continue or take steps to further or protect any of those interests and its business even where to do so may be in conflict with the interests of Noteholders, and the Relevant Entities may in so doing act without notice to, and without regard to, the interests of any such person.

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Notes are legal investments for it, (b) Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

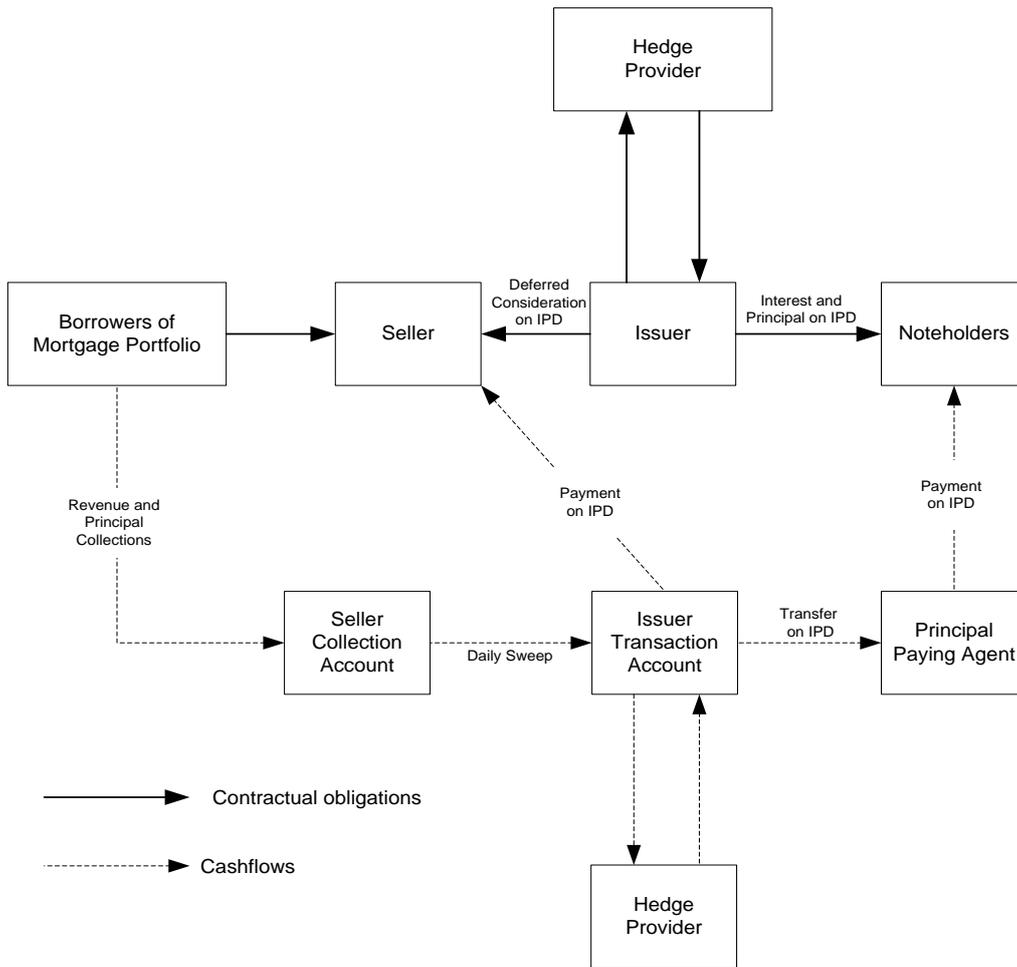
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## DIAGRAMMATIC OVERVIEW OF THE TRANSACTION



## DIAGRAMMATIC OVERVIEW OF CASHFLOWS



## TRANSACTION OVERVIEW – TRANSACTION PARTIES

*The information set out below is an overview of various aspects of the transaction. This overview does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by references to, the detailed information presented elsewhere in this Prospectus.*

| <b>Transaction Party</b>           | <b>Name</b>                           | <b>Address</b>   | <b>Document under which appointed/Further information</b>   |
|------------------------------------|---------------------------------------|--|---|
| <b>Issuer</b>                      | Paragon Mortgages (No.17) PLC         | St. Catherine's Court,<br>Herbert Road,<br>Solihull, West<br>Midlands<br>B91 3QE | N/A   |
| <b>Seller</b>                      | Paragon Mortgages (2010) Limited      | St. Catherine's Court,<br>Herbert Road,<br>Solihull, West<br>Midlands<br>B91 3QE | Mortgage Sale Agreement<br><br>See the sections entitled " <i>The Mortgages</i> " and " <i>The Seller</i> " for further information     |
| <b>Warehouser</b>                  | Paragon Fourth Funding Limited        | St. Catherine's Court,<br>Herbert Road,<br>Solihull, West<br>Midlands<br>B91 3QE | Mortgage Sale Agreement<br><br>See the sections entitled " <i>The Mortgages</i> " and " <i>The Warehouser</i> " for further information |
| <b>Administrator</b>               | Moorgate Asset Administration Limited | St. Catherine's Court,<br>Herbert Road,<br>Solihull, West<br>Midlands<br>B91 3QE | Administration Agreement<br><br>See the section entitled " <i>Mortgage Administration</i> " for further information                     |
| <b>Substitute Administrator</b>    | Homeloan Management Limited           | The Bailey, Skipton,<br>North Yorkshire<br>BD23 1DN                              | Substitute Administrator Agreement<br><br>See the section entitled " <i>Mortgage Administration</i> " for further information           |
| <b>Subordinated Lender</b>         | Paragon Finance PLC                   | St. Catherine's Court,<br>Herbert Road,<br>Solihull, West<br>Midlands<br>B91 3QE | Subordinated Loan Agreement<br><br>See the section entitled " <i>Key Structural Features</i> " for further information                  |
| <b>Corporate Services Provider</b> | Moorgate Asset Administration Limited | St. Catherine's Court,<br>Herbert Road,<br>Solihull, West<br>Midlands<br>B91 3QE | Corporate Services Letter<br><br>See the section entitled " <i>The Issuer</i> " for further information                                 |
| <b>Issue Services Provider</b>     | Paragon Finance PLC                   | St. Catherine's Court,<br>Herbert Road,<br>Solihull, West<br>Midlands<br>B91 3QE | Issue Services Fee Letter<br><br>See the section entitled " <i>Key Structural Features</i> " for further information                    |

| <b>Transaction Party</b>      | <b>Name</b>                            | <b>Address</b>  | <b>Document under which appointed/Further information</b>  |
|-------------------------------|--|---|--|
| <b>Hedge Provider</b>         | Macquarie Bank Limited, London Branch  | Ropemaker Place,<br>28 Ropemaker Street,<br>London<br>EC2Y 9HD            | Hedge Agreement<br><br>See the sections entitled " <i>Key Structural Features</i> ", " <i>Hedging Arrangements</i> " and " <i>The Hedge Provider</i> " for further information |
| <b>Account Bank</b>           | National Westminster Bank Plc          | 4 High Street, Solihull,<br>West Midlands<br>B91 3WL                      | N/A  |
| <b>Trustee</b>                | Citicorp Trustee Company Limited       | Citigroup Centre,<br>Canada Square,<br>Canary Wharf,<br>London<br>E14 5LB | Trust Deed and Deed of Charge<br><br>See the section entitled " <i>Terms and Conditions of the Notes</i> " for further information   |
| <b>Principal Paying Agent</b> | Citibank, N.A., London Branch          | Citigroup Centre,<br>Canada Square,<br>Canary Wharf,<br>London<br>E14 5LB | Agency Agreement<br><br>See the section entitled " <i>Terms and Conditions of the Notes</i> " for further information  |
| <b>Registrar</b>              | Citibank, N.A., London Branch          | Citigroup Centre,<br>Canada Square,<br>Canary Wharf,<br>London<br>E14 5LB | Agency Agreement<br><br>See the section entitled " <i>Terms and Conditions of the Notes</i> " for further information  |
| <b>Arranger</b>               | Macquarie Bank Limited, London Branch  | Ropemaker Place,<br>28 Ropemaker Street,<br>London<br>EC2Y 9HD            | N/A  |
| <b>Joint Lead Managers</b>    | Lloyds TSB Bank plc                    | 25 Gresham Street,<br>London<br>EC2V 7HN                                  | Subscription Agreement<br><br>See the section entitled " <i>Subscription and Sale</i> " for further information  |
|                               | Macquarie Bank Limited, London Branch  | Ropemaker Place,<br>28 Ropemaker Street,<br>London<br>EC2Y 9HD            | Subscription Agreement<br><br>See the section entitled " <i>Subscription and Sale</i> " for further information  |
|                               | Morgan Stanley & Co. International plc | 25 Cabot Square,<br>Canary Wharf,<br>London<br>E14 4QA                    | Subscription Agreement<br><br>See the section entitled " <i>Subscription and Sale</i> " for further information  |

## **RISK FACTORS**

*The following is a description of the principal risks associated with an investment in the Notes. These risk factors are material to an investment in the Notes and in the Issuer. Prospective Noteholders should carefully read and consider all the information contained in this Prospectus, including the risk factors set out in this section, prior to making any investment decision.*

### **Credit Structure**

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

The Notes will be solely the obligations of the Issuer. The Notes will not be the obligations or the responsibility of Paragon Finance PLC ("**PFPLC**"), the Seller, the Warehouser, MAAL, PGC, any other company in the same group of companies as PGC (other than the Issuer), the Trustee, any Joint Lead Manager or any other person other than the Issuer. Furthermore, none of PFPLC, the Seller, the Warehouser, MAAL, PGC, the Trustee and the Joint Lead 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 Notes will not be guaranteed by any person.

#### ***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 administrative expenses will be dependent on funds being received under the Mortgages, the Transaction Account deposit arrangements, any hedging arrangements whether entered into under the Hedge Agreement or otherwise and any related guarantees, any Authorised Investments, the Subordinated Loan Agreement and the insurances in which the Issuer has an interest. If the resources described above cannot provide the Issuer with sufficient funds to enable it to make required payments on the Notes, the Noteholders may incur a loss of the interest and/or principal which would otherwise be due and payable on the Notes. Moreover, the proceeds of the enforcement of the Security for the Notes may be insufficient to pay all interest and principal due on the Notes.

#### ***Limited recourse***

The only assets of the Issuer available to meet the claims of, amongst others, the Noteholders will be the assets subject to the Charged Property. Any claim (other than those for which a provision has been made in accordance with the applicable priority of payments) remaining unsatisfied after the realisation of the Charged Property and the application of the proceeds thereof in accordance with the applicable priority of payments shall cease to be due and payable and the Noteholders shall have no rights in respect of any such claims.

Accordingly, enforcement of the Security over the Charged Property is the only substantive remedy available for the purpose of recovering amounts owed in respect of the Notes and such enforcement may be subject to certain conditions pursuant to the Deed of Charge, including a requirement that the Trustee be indemnified and/or secured and/or prefunded to its satisfaction. The Issuer will have no recourse to the Seller save as provided in the Mortgage Sale Agreement (see further the section entitled "*The Mortgage Loans – Representations and Warranties*"). If the Security created pursuant to the terms of the Deed of Charge is enforced, the proceeds of enforcement may be insufficient to pay all principal and interest and/or other amounts due on the Notes.

#### ***Deferral of interest payments on the Notes***

If, on any Interest Payment Date, the Issuer has insufficient funds to make payment in full of all amounts of interest (including any accrued interest thereon) payable in respect of any class of Notes (other than the Class A Notes), after having paid or provided for items of higher priority in the Revenue Priority of Payments, then that amount shall not be due and payable and the Issuer will be entitled under Condition 4(b) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date or such earlier date on which interest in respect of such class of Notes becomes immediately due and repayable in accordance with the Conditions and it shall not constitute an Event of Default. To the extent that there are insufficient funds on the following Interest Payment Date or such earlier date on which interest in respect of such class of Notes is scheduled to be paid in accordance with the Conditions, the deferral of interest shall continue until the Final Maturity Date.

### ***Credit Risk***

The Issuer is subject to the risk of default in payment by the borrowers under the Mortgages and failure by the Administrator, on behalf of the Issuer, to realise or recover sufficient funds in respect of a Mortgage in order to discharge all amounts due and owing by the relevant Borrower under the relevant Mortgage. This risk is mitigated to some extent by certain credit enhancement features which are described in the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support*".

### ***Liquidity Risk***

The Issuer is subject to the risk of insufficiency of funds on any Interest Payment Date as a result of payments being made late by borrowers under the Mortgages after the end of the relevant Collection Period. This risk is mitigated to some extent by the provision of liquidity from alternative sources as described in the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support*".

### ***Subordination of the Class B Notes, the Class C Notes and the Class D Notes***

The payments of interest and principal on the Class B, the Class C and the Class D Notes are subordinated as follows (as set out in "*Key Structural Features*"):

- (i) the Class D Notes are subordinated at all times in right of payment of interest and principal to the Class A Notes, the Class B Notes and the Class C Notes (together, the "**Rated Notes**") and, on and following the Call Option Date, Available Revenue will be applied to payments of principal on the Rated Notes prior to payment of interest on the Class D Notes.
- (ii) the Class C Notes are subordinated in right of payment of interest and principal to the Class A Notes and the Class B Notes.
- (iii) the Class B Notes are subordinated in right of payment of interest and principal to the Class A Notes.

Further, investors in (a) the Class B Notes and Class C Notes should be aware that in certain circumstances Available Revenue will be applied to credit the Principal Deficiency Ledger prior to the payment of interest on the Class B Notes and the Class C Notes and/or (b) the Class D Notes should be aware that Available Revenue will be applied to credit the Principal Deficiency Ledger, the First Loss Fund, Hedge Provider Subordinated Amounts and certain other fees, expenses and provisions of the Issuer prior to the payment of interest on the Class D Notes (see further the sections entitled "*Key Structural Features*" and "*Cashflows and Cash Management*").

There is no assurance that these subordination provisions will protect the holders of the Rated Notes from all risk of loss.

### ***Interest rate risk***

The Issuer is subject to:

- the risk of the contractual interest rates on the Mortgages (including Mortgages with a fixed rate of interest and rates of interest linked to the Seller's standard variable rate or (as the case may be) GBP LIBOR) being lower than that required by the Issuer in order to meet its commitments under the Notes and its other obligations, which risk is mitigated (but not obviated) by (a) the fixed-floating swap under the Hedge Agreement in respect of Fixed Rate Mortgages and (b) the requirement that the interest rate in respect of the Mortgages, after taking into account any funds made available under the Margin Reserve Fund and Shortfall Fund, must be set by the Administrator at a rate so that the weighted average rate of interest on all Mortgages is a prescribed margin above GBP LIBOR (see further "*Setting of rates of interest in respect of the Mortgages*" below and the sections entitled "*Mortgage Administration – Mortgage Interest Rate*" and "*Mortgage Administration – Mortgage Interest Rate Shortfalls, Minimum Interest Rate and the Shortfall Fund*");
- the risk of the GBP LIBOR rate used to determine the contractual interest rates on the Mortgages with rates of interest linked to the GBP LIBOR being lower than the GBP LIBOR rate

determined for interest payments on the Notes as result of the respective reference rates for GBP LIBOR being determined on different dates;

- the risk that any cash held by or on behalf of the Issuer may earn a rate of return below the rate of interest payable on the Notes, which risk is mitigated by (for so long as the Mortgages are fully performing) the availability of excess Available Revenue, which is available to meet payments of interest due under the Notes and the other expenses of the Issuer and the Transaction Account which pays a rate of interest on funds standing to the credit thereof and from which the Issuer (or the Administrator on its behalf) may invest sums in Authorised Investments; and
- the notional balance on which the rates payable by the Issuer under the Hedge Agreements are determined by reference to a series of individual hedging transactions which may not match the actual payments received under the Fixed Rate Mortgages. As such, there may be circumstances in which the scheduled payable required by the Issuer under a Hedging Agreement exceeds the amount that the Issuer receives in respect of the Fixed Rate Mortgages.

### ***Hedge termination payments***

If a Hedge Agreement terminates, the Issuer may be obliged to pay a termination payment to the relevant Hedge Provider. The amount of such termination payment will be based on the value of any benefit that would otherwise accrue to the Issuer as a result of terminating and replacing the relevant Hedge Agreement. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment under a Hedge Agreement or that the Issuer, following termination of the relevant Hedge Agreement, will have sufficient funds to make subsequent payments to the Noteholders in respect of the relevant class of Notes.

Except where the Hedge Provider has caused the Hedge Agreement to terminate by its default, any termination payment in respect of the relevant Hedge Agreement due from the Issuer will rank in priority to payments of interest due on the Notes under the Revenue Priority of Payments. Therefore, if the Issuer is obliged to make a termination payment to a Hedge Provider or to pay any other additional amount as a result of the termination of a Hedge Agreement, as applicable, this may reduce or otherwise adversely affect the amount of funds which the Issuer has available to make payments on the Notes of any class. Investors should note that under the Administration Agreement the Administrator may be required to terminate Hedge Agreements on behalf of the Issuer in certain circumstances (see "*Hedging Agreements – Interest rate basis hedging arrangements*").

If a Hedge Agreement is terminated, there can be no assurance that the Issuer will be able to enter into a replacement swap, and if one is entered into, there can be no assurance that the credit rating of the replacement hedge provider will be sufficiently high as to prevent a downgrading of the then current ratings of one or more classes of the Notes by the Rating Agencies.

### ***Insolvency of Hedge Providers***

In the event of the insolvency of the Hedge Provider, the Issuer will be treated as a general creditor of the relevant Hedge Provider. Consequently, the Issuer will be subject to the credit risk of the relevant Hedge Provider. To mitigate this risk, under the terms of the relevant Hedge Agreements, in the event that the relevant ratings of the Hedge Provider fail to meet the relevant required ratings, the relevant Hedge Provider will, in accordance with the terms of the relevant Hedge Agreement, be required to elect to take certain remedial measures within the applicable time frame stipulated in the relevant Hedge Agreement (at its own cost), which may include providing collateral for its obligations under the relevant Hedge Agreement, arranging for its obligations under the relevant Hedge Agreement to be transferred to an entity with the relevant required ratings, or procuring another entity with the required ratings to become co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Hedge Agreement or such other action as would result in the Rating Agencies continuing the then current rating of the Notes. However, no assurance can be given that, at the time that such actions are required, sufficient collateral will be available to the relevant Hedge Provider or that another entity with the required ratings will be available to become a replacement hedge provider, co-obligor or guarantor or that the relevant Hedge Provider will be able to take the requisite other action.

Accordingly, if any of the Notes remain outstanding in circumstances where a Hedge Provider is insolvent and fails to make any payment to the Issuer required under the relevant Hedge Agreement, the

Issuer will be subject to the potential variation between the fixed rates of interest payable in respect of the Fixed Rate Mortgages in the Mortgage Portfolio and GBP LIBOR. Unless one or more comparable replacement interest rate swaps are entered into, the Issuer may have insufficient funds to make payments due on the Notes after that date.

#### ***Yield and prepayment considerations***

The yield to maturity of the Notes of each class will depend on, among other things, the amount and timing of payment of principal and interest (including prepayments, sale proceeds arising on enforcement of a Mortgage and any repurchases of Mortgages required to be made under the Mortgage Sale Agreement) on the Mortgages and the price paid by the holders of the Notes of each class. Such yield may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the Mortgages. Furthermore, if the conditions for the purchase of Additional Mortgages and/or Further Advances by the Issuer are not met, then the Issuer will not be able to purchase such Additional Mortgages and/or Further Advances, which may result in Available Principal in the form of amounts standing to the credit of the Pre-Funding Reserve Ledger instead being used to prematurely repay the Notes. See also "*Risk Factors – Further Advances*".

The rate of prepayment of Mortgages is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions and homeowner mobility. No assurance can be given as to the level of prepayments that the Mortgage Portfolio will experience. See also the section entitled "*The Mortgages – Acquisition of Mortgages*".

#### ***Ratings of the Notes***

A rating is not a recommendation to buy, sell or hold securities and there is no assurance that any particular ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by any one or more of the Rating Agencies as a result of changes in or unavailability of information or if, in the judgement of the Rating Agencies, circumstances so warrant. At any time, a Rating Agency may revise its relevant rating methodology, with the result that any rating assigned to the Notes may be lowered. A qualification, downgrade or withdrawal of any of the ratings mentioned above may adversely impact the market value of the Notes.

Agencies other than the Rating Agencies could seek to rate the Notes and if such "unsolicited ratings" are lower than the comparable ratings assigned to the Notes by the Rating Agencies, those unsolicited ratings could have an adverse effect on the market value of the Notes. For the avoidance of doubt and unless the context otherwise requires, any reference to "**ratings**" or "**rating**" in this Prospectus is to the ratings assigned by the specified Rating Agencies only.

Credit ratings included or referred to in this Prospectus have been or, as applicable, may be issued by Fitch and S&P, each of which is a credit rating agency established in the European Community and registered under the CRA Regulation.

#### ***Absence of secondary market; lack of liquidity in the secondary market may adversely affect the market value of the Notes***

No assurance is provided that there is an active and liquid secondary market for the Notes, and no assurance is provided that a secondary market for the Notes will develop or, if it does develop, that it will provide Noteholders with liquidity of investment for the life of the Notes. Any investor in the Notes must be prepared to hold their Notes for an indefinite period of time or until their Final Maturity Date or alternatively such investor may only be able to sell the Notes at a discount to the original purchase price of those Notes.

The secondary market for mortgage-backed securities has experienced disruptions resulting from reduced investor demand for such securities. This has had a material adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities similar to the Notes experiencing limited liquidity. In the future, limited liquidity in the secondary market may have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors.

Whilst central bank schemes such as the Bank of England's Discount Window Facility which was launched in October 2008 and the Eurosystem monetary policy framework of the European Central Bank provide an important source of liquidity in respect of eligible securities, recent restrictions in respect of the relevant eligibility criteria for eligible collateral which apply and will apply in the future under such facilities are likely to adversely impact secondary market liquidity for mortgage-backed securities in general, regardless of whether the Notes are eligible securities.

***Increases in prevailing market interest rates may adversely affect the performance and market value of the Notes***

Although interest rates are currently at a historical low, this may change in the future and an increase in interest rates may adversely affect borrowers' ability to pay interest or repay principal on their Mortgages. Borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, will be exposed to increased monthly payments if the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). This increase in borrowers' monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, may result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid increased monthly payments (caused by, for example, the expiry of an initial fixed rate or low introductory rate, or a rise in the related mortgage interest rate) by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Any decline in housing prices may also leave borrowers with insufficient equity in the relevant properties to permit them to refinance.

These events, alone or in combination, may contribute to higher delinquency rates and losses on the Mortgage Portfolio, which in turn may affect the ability of the Issuer to make payments of interest and principal on the Notes.

**Matters relating to the Mortgages**

***Default by borrowers in paying amounts due on their Mortgages***

Borrowers may default on their obligations under the Mortgages. Defaults may occur for a variety of reasons. The Mortgages are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies.

Other factors in borrowers' personal or financial circumstances may affect the ability of borrowers to repay the Mortgages. Unemployment, loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of borrowers, and could ultimately have an adverse impact on the ability of borrowers to repay the Mortgages. In addition, the ability of a Borrower to sell a property given as security for a Mortgage at a price sufficient to repay the amounts outstanding under that Mortgage will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

If a borrower fails to repay its Mortgage and a receiver of rent is appointed the likelihood of there being a net loss on disposal of the Property may be increased.

***Limited liquidity – Mortgages***

Following the occurrence of an Event of Default in relation to the Notes while any of the Mortgages are still outstanding, the ability of the Issuer to redeem all of the Notes in full will depend upon whether the Mortgages can be realised to obtain an amount sufficient to redeem the Notes. There is not, at present, an active and liquid secondary market for secured residential mortgage loans in the United Kingdom. The Issuer or any receiver appointed in respect of the Issuer may not, therefore, be able to sell Mortgages on appropriate terms should it be required to do so.

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

The Administrator will, on behalf of the Issuer set, where relevant, the rates of interest applicable to the Mortgages (other than Fixed Rate Mortgages and LIBOR-Linked Mortgages during the applicable initial fixed rate period or the LIBOR based initial margin period, each such initial fixed rate period or, as the case may be, LIBOR based initial margin period and including in the case of any Discretionary Further Advance, the "**Reversionary Period**"). The Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages, taking into account all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account, all amounts recovered in respect of early redemption amounts and scheduled releases from the Margin Reserve Fund, is not less than 4 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Noteholders in an investor report) until and including the Interest Payment Date falling in October 2017 and 4.5 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Noteholders in an investor report) thereafter, in each case above GBP LIBOR at that time. The Administrator may set or maintain a lower weighted average mortgage interest rate if and to the extent that the resultant shortfall can be provided for out of an available credit balance in any Shortfall Fund.

In respect of Fixed Rate Mortgages, the Administrator is unable to vary the rate of interest during the initial fixed rate period set out in the relevant Mortgage Conditions; and in respect of LIBOR-Linked Mortgages, the interest rate during the LIBOR based initial margin period is set at a fixed margin over the London Inter-Bank Offered Rate for three-month GBP deposits (determined quarterly in accordance with the Mortgage Conditions). The Administrator is unable to vary the rate of interest during the LIBOR based initial margin period. 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 and LIBOR-Linked Mortgages, on the one hand, and the rate of interest payable on the Notes on the other.

In relation to any Fixed Rate Mortgages that are acquired by the Issuer, the Issuer will on the Closing Date and any date falling prior to the second Principal Determination Date on which the Issuer acquires Fixed Rate Mortgages by utilisation of the Pre-Funding Reserve have entered into hedging arrangements relating thereto. In addition, certain conditions apply in respect of the length of any Reversionary Period applicable to a Mortgage. In particular, any purchase of Additional Mortgages on a purchase date by the Issuer will be subject to (amongst other things): (a) the Reversionary Period in respect of any Additional Mortgages shall not exceed 5.25 years from the Closing Date; and (b), if such purchase were completed, the aggregate Current Balance of Mortgages in the Mortgage Portfolio with a Reversionary Period of 2.25 years or less from the Closing Date, when calculated as a percentage of the aggregate Current Balance of all Mortgages in the Mortgage Portfolio, shall be equal to or greater than 50 per cent.

In limited circumstances and other than in relation to Fixed Rate Mortgages during the applicable fixed rate period and, other than in relation to the LIBOR-Linked Mortgages during the LIBOR based initial margin period, the Trustee or the Issuer or any substitute administrator appointed by the Issuer and, to the extent of its interest, the Trustee or the Substitute Administrator 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 (but is under no obligation to), subject to the terms of the Administration Agreement, terminate the Administrator's authority to set the rates of interest applicable to the Mortgages administered by it and/or terminate the appointment of such Administrator (see "*Mortgage Administration – Termination of the appointment of the Administrator*" below).

In view of the arrangements for setting Mortgage rates and in view of the First Loss Fund, Shortfall Fund and Margin Reserve Fund, the Terms and Conditions of the Notes provide that it will be an Event of Default if one or more interest payments on the Class B Notes, the Class C Notes and the Class D Notes is or are missed or not paid in full only where the Trustee has issued a certificate based on information provided to it by the Administrator or Substitute Administrator to the effect that the Issuer had sufficient funds available for the purpose but did not pay. The Terms and Conditions of the Notes provide that it will be an Event of Default if one or more interest payments on the Class A Notes is or are missed or not paid in full in any circumstances.

### ***Representations and Warranties***

The Seller will warrant in the Mortgage Sale Agreement, among other things, that, prior to making the initial advance to a borrower under a Mortgage sold by the Seller to the Issuer, the Seller received from solicitors or licensed conveyancers acting for it a report on title or certificate of title to the relevant Property which either initially or after further investigation disclosed nothing which would cause a reasonably prudent lender to decline to proceed with the initial advance on the proposed terms or, where the mortgage loan made in relation to a Property is secured by a Mortgage which was made without there being a contemporaneous purchase of such Property by the borrower, carried out all such investigations and searches as would a reasonably prudent mortgage lender and nothing which would cause such a mortgage lender to decline to proceed with the advance on the proposed terms was disclosed. Except as described under the section entitled "*The Mortgages Searches and Warranties in respect of the Mortgages*", neither the Issuer nor the Trustee has undertaken or will undertake any such investigations, searches or other actions in relation to the Mortgages and each will rely instead on the warranties given in the Mortgage Sale Agreement by the Seller. For further information on the representations and warranties to be given by the Seller in respect of the Mortgages sold by it to the Issuer, see "*The Mortgages – Searches and Warranties in respect of the Mortgages*" below.

The sole remedy against the Seller in respect of breach of warranty shall be to require it to repurchase any relevant Mortgage provided that this shall not limit any other remedies available if the Seller fails to repurchase, or procure the repurchase of, a Mortgage when obliged to do so. There can be no assurance that the Seller will have the financial resources to meet its obligations to repurchase, or procure the repurchase of, any Mortgage whether such obligation arises because of a breach of warranty or otherwise.

The Seller will also agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage sold by it to the Issuer is at any time on or after the Closing Date found by a competent court, whether on application of a borrower or the Office of Fair Trading or otherwise, to be an unfair term for the purposes of the Unfair Terms in Consumer Contracts Regulations 1994 or 1999, it shall repurchase or procure the repurchase of the Individual Mortgage concerned.

### ***Perfection of title***

The Issuer's title to the Mortgages it acquires from the Seller will only be perfected in certain circumstances by the execution of transfers and assignments of Mortgages to the Issuer, the carrying out of requisite registrations and recordings and the giving of notice to any borrower or guarantor. In the meantime, neither the Issuer nor the Trustee will acquire legal title to any of the Mortgages and they will not be able to apply to the Land Registry or the Central Land Charges Registry to register transfers or assignments of the Mortgages to perfect and/or protect their interests. Neither the Issuer nor the Trustee will be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages.

The effect of the agreement to transfer the Mortgages from the Seller to the Issuer pursuant to the Mortgage Sale Agreement remaining unperfected is that the rights of the Issuer (and, therefore, in turn, the Trustee) may be, or may become, subject to equities as well as to the interests of third parties who perfect a legal interest prior to the Issuer acquiring and perfecting its respective legal interest. Furthermore, the Issuer's interests will be or become subject to such equitable and other interests of third parties as may rank in priority to its interests in accordance with the normal rules governing the priority of equitable and other interests in the case of both registered and unregistered land. For further information, see "*The Mortgages – Perfection of title*" below.

### ***Risks of losses associated with declining property values***

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

Investors should be aware that, other than the valuation of properties undertaken as at origination or revaluation of the relevant properties for the purposes of making Further Advances (as more fully

described in the section entitled "*Mortgage Administration*"), no revaluation of any property has been undertaken by the Seller, the Issuer, the Administrator, the Trustee or any other person for the purposes of the transactions described in this document.

### **Risks associated with non owner-occupied Properties**

None of the Properties relating to the Mortgages in the Provisional Mortgage Pool are owner-occupied (see "*The Provisional Mortgage Pool – Occupancy*" below). None of the Properties relating to Additional Mortgages to be sold to the Issuer, if applicable, may be owner-occupied. It is intended that the Properties will be let by the relevant borrower to tenants but there can be no guarantee that each such Property will be the subject of an existing tenancy when the relevant Mortgage is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Mortgage and/or that the rental income achievable from tenancies of the relevant Property will be sufficient to provide the borrower with sufficient income to meet the borrower's 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, the Administrator may not be able to obtain vacant possession of the Property, in which case such Administrator will only be able to sell the Property as an investment property with one or more sitting tenants. This may affect the amount which such Administrator 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, 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 "*Mortgage Administration – Arrears and Default Procedures*" below.

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

Approximately 8.60 per cent. by value of the Mortgages in the Provisional Mortgage Pool constitute Interest-only Mortgages (as defined in the section entitled "*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 sell the Property, refinance the Property or obtain funds from another source such as Individual Savings Accounts, a pension policy, personal equity plans or an endowment policy. Neither the Issuer, the Trustee, the Seller, the Administrator nor the Warehouse has verified that the borrower has any such other source of funds and none of them has obtained security over the borrower's right in respect of any such other source of funds. The ability of a borrower to sell or refinance the Property will be affected by a number of factors, including the value of the Property, the borrower's equity in the Property, the financial condition of the borrower, tax laws and general economic conditions at the time. Moreover, the Mortgage Conditions in respect of Interest-only Mortgages do not require a borrower to put in place alternative funding arrangements.

Should residential property values decline further, borrowers under the Mortgages may have insufficient equity to refinance their Mortgages with lenders other than the Seller and may have insufficient resources to pay amounts in respect of their loans as and when they fall due. This could lead to higher delinquency rates and losses which in turn may adversely affect payments on the Notes.

### ***Geographic Concentration Risks***

The Mortgages in the Mortgages Portfolio may be subject to geographic concentration risks. To the extent that specific geographic regions within England and Wales have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions in the United Kingdom, a concentration of the Mortgages in such a region may be expected to exacerbate the risks relating to the Mortgages described in this section. Certain geographic regions within the United Kingdom rely on different types of industries. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of the borrowers in that region or the region that relies most heavily on that industry. Any natural disasters in a particular region may reduce the value of affected Properties. This may result in a loss being incurred upon sale of the Property. These circumstances could affect receipts on the Mortgages and ultimately

result in losses on the Notes. For an overview of the geographical distribution of the Mortgages as at the Provisional Pool Date, see "*The Provisional Mortgage Pool — Geographical Dispersion*".

### ***Additional Mortgages***

Any Additional Mortgage, if applicable, is required as at the date of its acquisition by the Issuer to comply with the representations and warranties specified in the Mortgage Sale Agreement if and to the extent that the Issuer is permitted to do so by and in accordance with the Mortgage Sale Agreement and the Administration Agreement, and the Rating Agencies will have analysed and reviewed data provided to them relating to, among other things, the credit quality and characteristics of any relevant Additional Mortgages being acquired by the Issuer, and the Rating Agencies will have confirmed that such acquisition will not adversely affect any of the then current ratings of the Notes. There can be no certainty that all Additional Mortgages acquired by the Issuer will have similar proportions or similar concentration characteristics as set out in the tables in the section entitled "*The Provisional Mortgage Pool*" below in relation to the Mortgages constituting the Provisional Mortgage Pool. If on the second Interest Payment Date the aggregate amounts applied by the Issuer to purchase Additional Mortgages is less than the initial amount of the Pre-Funding Reserve, a prepayment of the principal to the holders of the Class A Notes will result. See "*The Mortgages – Acquisition of Mortgages*" and "*The Mortgages – Searches and Warranties in respect of Mortgages*" for conditions applicable to the acquisition of Additional Mortgages by the Issuer.

### ***Buildings insurance***

The practice of the Seller in relation to buildings insurance is described under the section entitled "*Insurance Coverage*" below. Where the borrower has specifically requested permission to make his own insurance arrangements in relation to any Mortgage, or where such arrangements are dictated by the existence of a lease, the Administrator will have taken all reasonable steps to ensure that the relevant Property is insured under a policy, however, the Seller cannot be certain that a borrower has maintained such building insurance or that any such cover would be sufficient to cover any loss and/or that the Seller's interest has been advised to the insurer. No assurance can therefore be given that the Issuer will always receive the benefit of any claims made under any applicable buildings insurance contracts. This could adversely affect the Issuer's ability to redeem the Notes.

### ***Other matters***

#### ***Third party rights***

Third party rights (for example, rights of occupation or rights of a subsequent mortgagee or security holder) may arise subsequent to the completion of the initial advance to a borrower. None of the Administrator, the Seller, the Issuer or the Trustee has undertaken or will undertake any investigation or search of any kind prior to the making of a Mandatory Further Advance to a borrower or, in some circumstances, the making of a Discretionary Further Advance.

#### ***Set-off risk in relation to Mandatory Further Advances***

The Issuer expects to fund Mandatory Further Advances to be made by it for any given period from the moneys referred to in paragraph (i)(A) of the definition of "*Available Redemption Funds*" in Condition 5(a) – *Mandatory Redemption in part from Available Redemption Funds*. In respect of certain of the Mortgages, Mandatory Further Advances are required to be made to borrowers (see "*Mortgage Administration – Further Advances*" below). The Issuer may not, however, receive sufficient funds to meet the amounts of Mandatory Further Advances it is required to make.

If the Seller fails to make to a Mandatory Further Advance having agreed to do so prior to the relevant borrower being notified of the assignment of the relevant Mortgage (see "*The Mortgages – Perfection of title*"), set-off rights may arise. The rights of the Issuer may be subject to the direct rights of the borrowers against the Seller, including rights of set-off which occur in relation to transactions made between the borrower and the Seller existing prior to notification to the borrowers of the assignment or assignation (as appropriate) of the Mortgages. For example, the relevant borrower may exercise its rights to set off any claim for damages arising from the Seller's breach of contract against the Seller's (and, as equitable assignee of or holder of the beneficial interest in the relevant Mortgage, the Issuer's) claim for payment of principal and/or interest under the relevant Mortgage as and when it becomes due.

The amount of any such claim against the Seller will, in many cases, be the cost to the borrower of finding an alternative source of funds. The borrower may obtain a mortgage loan elsewhere, in which case the damages awarded could be equal to any difference in the borrowing costs together with any direct losses arising from the Seller's breach of contract, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees).

If the relevant borrower is unable to obtain an alternative mortgage loan, he or she may have a claim in respect of other indirect losses arising from the Seller's breach of contract where there are special circumstances communicated by the borrower to the Seller at the time the borrower entered into the Mortgage or which otherwise were reasonably foreseeable. A borrower may also attempt to set off an amount greater than the amount of his or her damages claim against his or her mortgage payments. In that case, the Administrator will be entitled to take enforcement proceedings against the Borrower, although the period of non-payment by the Borrower is likely to continue until a judgment is obtained.

The exercise of set-off rights by borrowers may adversely affect the realisable value of the Mortgage Portfolio and/or the ability of the Issuer to make payments under the Notes.

#### ***Relationship between classes of Noteholders***

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Noteholders equally 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 holders of the Most Senior Class of Notes if, in the Trustee's opinion, there is a conflict between the interests of holders of different classes of Notes.

#### ***Meetings of Noteholders, modification and waiver***

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Trust Deed provides that, without the consent of the Noteholders, the Trustee may:

- (a) concur with the Issuer in making any modification to the Conditions or the Transaction Documents:
  - (i) which, in the opinion of the Trustee, is of a formal, minor or technical nature, or is to correct a manifest error; or
  - (ii) which (not being a Basic Terms Modification) is requested in writing by the Issuer as necessary to reflect the then current rating criteria of any Rating Agency to the extent necessary to maintain the then current rating of the Most Senior Class provided that
    - (A) a certificate from the Administrator is provided to the Trustee certifying that: (i) such modification is necessary to reflect the then current rating criteria of any Rating Agency to the extent necessary to maintain the then current rating of the Most Senior Class; and (ii) the modification does not constitute a Basic Terms Modification; and
    - (B) either (A) a Ratings Agency Confirmation in respect of the Most Senior Class has been provided by S&P; or (B) only if S&P has not provided such Ratings Agency Confirmation pursuant to (A) above within 20 days of such Ratings Agency Confirmation being requested by the Issuer or Administrator, an Administrator Certification in respect of the Most Senior Class has been provided by the Administrator,

and further provided that any such certificates and/or confirmations may be relied on by the Trustee without further investigation and shall be conclusive and binding on all classes of the Noteholders and on the other Secured Creditors and the Trustee shall not be liable or responsible for any prejudice or losses to any person (including holders of

any class of Notes), howsoever caused, as a result of taking or omitting to take any action whatsoever in relation to any such certificate and/or confirmation, or otherwise; or

- (iii) (other than a Basic Terms Modification) which, in the opinion of the Trustee, will not be materially prejudicial to the interests of the Noteholders and further provided that either (A) a Ratings Agency Confirmation in respect of the Rated Notes has been provided by S&P; or (B) only if S&P has not provided such Ratings Agency Confirmation pursuant to (A) above within 20 days of such Ratings Agency Confirmation being requested by the Issuer or Administrator, an Administrator Certification in respect of the Rated Notes has been provided by the Administrator;
- (b) authorise or waive, on such terms and conditions (if any) as it may decide, any proposed breach or breach of any Relevant Document, if in the Trustee's opinion, the interests of the holders of the then Noteholders will not be materially prejudiced thereby; and
- (c) 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 be treated as such, if in the Trustee's opinion, the interests of the Noteholders will not be materially prejudiced thereby,

provided always that the Trustee shall not exercise any powers under paragraphs (b) or (c) in contravention of any express direction given by an Extraordinary Resolution or by a request under Condition 9 (being, in the case of a direction or request of the Class B Noteholders, the Class C Noteholders or the Class D Noteholders, a request or direction which is binding on the Trustee in accordance with the terms of the Trust Deed) (but no such direction or request shall affect any authorisation, waiver or determination previously given or made).

In paragraph (a) of this risk factor "*Meetings of Noteholders, modification and waiver*":

**"Ratings Agency Confirmation"** means a written confirmation from S&P that the relevant modification will not result in the reduction, qualification, suspension or withdrawal of the then current ratings assigned to any outstanding Rated Notes or, as the case may, the Most Senior Class only, rated by S&P; and

**"Administrator Certification"** means a certification in writing by the Administrator to the Trustee stating that the relevant modification has been notified to S&P and, in the Administrator's opinion, would not cause the then current ratings assigned to any outstanding Rated Notes or, as the case may, the Most Senior Class only, to be reduced, qualified, suspended or withdrawn by S&P and, where S&P was prepared to consult with the Issuer or the Administrator, such opinion is based on such consultation with S&P.

The Trust Deed provides that the Trustee shall, as regards the powers, trusts, authorities, duties and discretions vested in it by the Relevant Documents, except where expressly provided otherwise, solely have regard to the interests of the Noteholders and not to the interests of the other Secured Creditors its only obligation to such other Secured Creditors being to pay to them any monies received by it and available for them in accordance with the applicable Payments Priorities.

In addition, the Trustee shall have regard:

- (x) only to the interests of the Class A Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders, the Class C Noteholders and the Class D Noteholders;
- (y) only to the interests of the Class B Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class B Noteholders and the interests of the Class C Noteholders and the Class D Noteholders; and
- (z) only to the interests of the Class C Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class C Noteholders and the interests of the Class D Noteholders.

See also the section entitled "*Overview of Rights of Noteholders*".

The exercise of the Trustee's powers at its own discretion or at the direction of the Noteholders may affect the interests of a Noteholder of a particular class of Notes. In particular but without limitation, an amendment as referred to in (a)(ii) above to maintain the then current rating of the Most Senior Class may prejudice the holders of Notes of other classes.

### **Servicing and Third Party Risk**

#### ***Administration by the Administrator***

The Administrator will be appointed by the Issuer to administer the Mortgages. The Administrator will have the right to determine the interest rates to be charged under the Mortgages (other than in respect of Fixed Rate Mortgages for the period of time that they are subject to a fixed rate of interest and LIBOR-Linked Mortgages for their LIBOR based initial margin period). The Administration Agreement will require the Administrator to determine the interest rates of the Mortgages in the Mortgage Portfolio so that the weighted average interest rate of such Mortgages is a prescribed rate minimum above GBP LIBOR. The Issuer will be dependent upon the performance by the Administrator of its obligations under the Administration Agreement in order to receive amounts due from borrowers under the Mortgages.

Any failure or delay in collection of payments on the relevant Mortgages and/or calculation of the payments to be made by the Issuer on an Interest Payment Date resulting from the Administrator failing to perform the administration services in accordance with the terms of the Administration Agreement may cause a disruption in the administration of the Mortgages and/or the payments required to be made by the Issuer on an Interest Payment Date that could ultimately adversely affect payments of interest and principal on the Notes. Such risk is mitigated by the provisions of the Substitute Administrator Agreement pursuant to which the Substitute Administrator has agreed to act as Administrator upon the occurrence of an Administrator Termination Event under the Administration Agreement. If the appointment of the Administrator is terminated and the Substitute Administrator is required to perform the duties of the Administrator under the Administration Agreement (subject to and in accordance with the terms of the Substitute Administrator Agreement), the collection of payments on the Mortgages and/or calculation of the payments to be made by the Issuer on an Interest Payment Date could be disrupted during the transitional period in which the performance of the administration services in respect of the Mortgages is transferred to the Substitute Administrator.

The failure of the Substitute Administrator to perform its obligations under the Substitute Administrator Agreement and/or assume performance of the administration services following the occurrence of an Administrator Termination Event could result in the failure or delay in collection of payments on the relevant Mortgages and/or calculation of the payments to be made by the Issuer on the relevant Interest Payment Date that could ultimately adversely affect payments of interest and principal on the Notes. The Substitute Administrator has no obligation itself to advance payments that Borrowers fail to make in a timely fashion.

#### ***Other Third Party Risks***

The Issuer is party to contracts with third parties that have agreed to perform certain services for each of them under the transaction. In particular, but without limitation, the Hedge Provider has agreed to provide hedging to the Issuer, the Administrator has agreed to provide corporate services to the Issuer, and the Principal Paying Agent has agreed to provide payment and calculation services to the Issuer in connection with the Notes. If any relevant third party were to fail to perform its obligations under the respective agreements to which it is a party, payments on the Notes may be adversely affected.

#### ***Change of counterparties***

The parties to the Relevant Documents who receive and hold money or provide support to the transaction pursuant to the terms of such documents (such as the Hedge Provider) are required to satisfy certain criteria in order that they can continue to be a counterparty to the Issuer.

These criteria include requirements imposed by the FSA under the FSMA and requirements in relation to the short-term and long-term unguaranteed and unsecured ratings ascribed to such party by Fitch and S&P. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive money on behalf of the Issuer) may be required to be transferred to another entity which does satisfy the applicable

criteria. No assurance can be given that a replacement entity satisfying the applicable criteria would be appointed in such circumstances. Further, in these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the relevant Relevant Document and the cost to the Issuer may therefore increase. This may reduce amounts available to the Issuer to make payments of interest on the Notes.

In addition, should the applicable criteria cease to be satisfied, then the parties to the applicable Relevant Document may agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. The consent of Noteholders may not be required in relation to such amendments and/or waivers (see section entitled "*Terms and Conditions of the Notes – 13. Meetings of Noteholders; Modifications; Consents; Waiver*" below).

The applicable rating criteria may also change over time, which could have an impact on the ratings of the Notes.

#### ***Ratings confirmation in relation to the Notes in respect of certain actions***

The Rating Agencies may be requested by the Issuer to confirm that certain actions proposed to be taken by the Issuer and the Trustee will not have an adverse effect on the then current rating of the Notes (a "**Ratings Confirmation**") and specifically in the case of any modifications to which the Trustee may concur with the Issuer in making pursuant to the Trust Deed and only in the case of S&P, a Ratings Agency Confirmation (see the risk factor entitled "*Meetings of Noteholders, modification and waiver*" above).

A Ratings Confirmation that any action proposed to be taken by the Issuer or the Trustee will not have an adverse effect on the then current rating of the Notes, or as the case may be, a Ratings Agency Confirmation does not, for example, confirm that such action (i) is permitted by the terms of the Relevant Documents or (ii) is in the best interests of, or not prejudicial to, the Noteholders. While each of the Secured Creditors (including the Noteholders), the Issuer and the Trustee (as applicable) is entitled to have regard to the fact that the Rating Agencies have confirmed that the then current rating of the relevant class of Notes would not be adversely affected, the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Secured Creditors (including the Noteholders), the Issuer, the Trustee or any other person or create any legal relationship between the Rating Agencies and the Secured Creditors (including the Noteholders), the Issuer, the Trustee or any other person whether by way of contract or otherwise.

Any such Ratings Confirmation or, as the case may be, Ratings Agency Confirmation may or may not be given at the sole discretion of each Rating Agency. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Ratings Confirmation or, as the case may be, Ratings Agency Confirmation in the time available or at all, and the Rating Agency should not be responsible for the consequences thereof. A Ratings Confirmation or, as the case may be, Ratings Agency Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time and in the context of cumulative changes since the Closing Date to the transaction of which the securities form part. A Ratings Confirmation or, as the case may be, Ratings Agency Confirmation represents only a restatement of the opinions given as at the Closing Date and cannot be construed as advice for the benefit of any parties to the transaction.

Fitch has indicated that it will no longer provide Ratings Confirmations as a matter of policy. In the absence of a Ratings Confirmation from Fitch, the Issuer or the Trustee may not be able to establish in advance whether or not a proposed action taken in accordance with the provisions of the relevant Relevant Documents (and specifically the relevant modification and waiver provisions) will ultimately adversely affect Fitch's then current ratings of the Rated Notes. Accordingly, no assurance can be given that action taken in accordance with the provisions of the relevant Relevant Documents will not adversely affect Fitch's then current ratings of the Rated Notes.

#### ***The Trustee may assume performance and is not obliged to act in certain circumstances***

The Trustee is under no obligation to monitor or supervise the functions of the Administrator from time to time under the terms of the Administration Agreement or any other person under any other Relevant Document, including but not limited to the Collection Account Declaration of Trust and the VAT

Declaration of Trust and will not do so, and is entitled to assume that the Administrator is properly performing its obligations in accordance with the provisions of the Administration Agreement and that such other person is properly performing its obligations in accordance with each other Relevant Document, and will so assume.

The Trustee is under no obligation to, and shall not, review the information or documents or reports or files or discs which the Mortgage Sale Agreement or the Administration Agreement or other Relevant Documents provide for to be delivered to it.

The Trustee may, at any time, at its discretion and without notice, take such proceedings, actions or steps against the Issuer or any other party to any of the Relevant Documents as it may think fit to enforce the provisions of the Notes or the Relevant Documents (including the Conditions) to which it is a party, and at any time after the service of an Enforcement Notice the Trustee may, at its discretion and without notice, take such proceedings, actions or steps as it may think fit to enforce the Security. However, the Trustee shall not be bound to take any such proceedings, actions or steps (including, but not limited to, the giving of an Enforcement Notice in accordance with Condition 9 (*Events of Default*)) unless it shall have been directed to do so by an Extraordinary Resolution of the Most Senior Class of Noteholders or in writing by the holders of at least 25 per cent. in Principal Amount Outstanding of the Most Senior Class of Notes then outstanding and it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

In relation to the undertakings to be given by MAAL and PGC to the Trustee on behalf of itself and the Noteholders in the Article 122a Deed of Covenant in accordance with Article 122a of CRD 2 regarding the material net economic interest to be retained by PGC or a wholly owned subsidiary of PGC and certain requirements as to providing investor information in connection therewith, the Trustee shall not be under any obligation to monitor the compliance by MAAL or PGC with such undertakings or to investigate any matter which is the subject of such undertaking and shall not be under any obligation to take any action in relation to non-compliance with such undertaking unless and until the Trustee has received actual written notice of the same from any party to a Relevant Document, in which event the only obligation of the Trustee shall be to notify the Issuer (who shall notify the Noteholders and the other Secured Creditors of the same) and, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction, to take such further action as it is directed to take in connection with such non-compliance by an Extraordinary Resolution of the Most Senior Class of outstanding Notes.

## **Regulatory Considerations**

### ***Financial Services and Markets Act 2000***

The Financial Services and Markets Act 2000 ("FSMA") regulates financial services in the United Kingdom. The FSMA states that no person may carry on a regulated activity in the United Kingdom, or purport to do so, unless he is an authorised person or an exempt person. Regulation of residential mortgage business by the FSA came into force on 31 October 2004 (the "**Mortgage Regulation Date**") under the FSMA.

The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "**Regulated Activities Order**") provides that after the Mortgage Regulation Date the following four activities will be regulated activities under the FSMA: (a) entering into as lender, (b) in certain circumstances administering, (c) arranging, and (d) advising on a regulated mortgage contract. Agreeing to carry on any of these activities will also be a regulated activity.

A contract is a "**regulated mortgage contract**" for the purposes of the Regulated Activities Order if it is originated after the Mortgage Regulation Date, or originated prior to the Mortgage Regulation Date but varied after the Mortgage Regulation Date such that a new contract is entered into, and at the time it is entered into, (i) the contract is one under which the lender provides credit to an individual or to trustees, (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage or charge on land (other than timeshare accommodation) in the United Kingdom and (iii) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person. Non-compliance with certain provisions of the FSMA may require a lender to seek a court order to enforce a regulated mortgage. However, Corporate Mortgages, where credit is provided to limited liability companies incorporated in England and Wales and not to an individual or to

trustees, and Investment Home Mortgages, where the relevant Property is not to be used, and is not intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is the beneficiary of the trust or by a related person, should not be regulated mortgage contracts for these purposes. The Provisional Mortgage Pool does not contain any regulated mortgage contracts.

The Regulated Activities Order sets out certain exclusions to these provisions. Among other things, these exclusions state that a person who is not an authorised person does not carry on the regulated activity of administering a regulated mortgage contract where he (i) arranges for another person, being an authorised person with permission to carry on an activity of that kind, to administer the contract or (ii) administers the contract himself during a period of not more than one month beginning with the day on which any such arrangement comes to an end.

The Issuer will not itself be an authorised person under the FSMA. However, in the event that an Individual Mortgage is varied, such that a new contract is entered into and that contract constitutes a regulated mortgage contract, then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity. As a result, the Administration Agreement will contain an undertaking on the part of the Administrator to the effect that, to the extent that the services which it has agreed in the Administration Agreement to perform require it or the Issuer to obtain any authorisation under the FSMA, the Administrator will obtain, and use its reasonable endeavours to keep in force, such an authorisation in respect of itself. The Administration Agreement will also provide that the appointment of the Administrator will, unless the Issuer and the Trustee agree otherwise, be terminated with immediate effect if at any time that Administrator (or any permitted delegate thereof) does not have any authorisation under the FSMA which it is required to have in order to perform the services which it has agreed to perform in the Administration Agreement or the Issuer is carrying on a regulated activity in circumstances where the Issuer is itself not so authorised.

#### ***Unfair Terms in Consumer Contracts Regulations 1994 and 1999***

The Unfair Terms in Consumer Contracts Regulations 1999 (the "UTCCR") will apply to any term of an agreement entered into from 1 October 1999 by a "consumer" within the meaning of the UTCCR where the term has not been individually negotiated. Section 2 of the UTCCR revoked the 1994 Regulations with effect from 1 October 1999. Any term found to be "unfair" within the meaning of the Regulations will not be binding on the consumer.

For example, if a term permitting the lender to vary the interest rate (as the Seller is permitted to do) were to be found by a court to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the Issuer, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the credit agreement or any other credit agreement that the borrower has taken with the lender. Any such claim or set-off may adversely affect the Issuer's ability to make payments in full when due on the Notes.

The Seller will warrant to the Issuer and the Trustee in the Mortgage Sale Agreement that as far as such Seller is aware, no term of any Individual Mortgage to which the UTCCR applies is an unfair term for the purposes of such regulations.

The Seller will agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage sold by it to the Issuer is at any time on or after the Closing Date found by a competent court, whether on application of a borrower or the Office of Fair Trading or otherwise, to be an unfair term for the purposes of the UTCCR, it shall repurchase or procure the repurchase of the Individual Mortgage concerned.

#### ***Financial Ombudsman Service***

Under FSMA, the Financial Ombudsman Service (the "Ombudsman") is required to make decisions on (among other things) complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account (among other things) law and guidance. Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the

Ombudsman. The Ombudsman may make a money award to a borrower, which may adversely affect the value at which loans could be realised and accordingly the ability of the Issuer to make payments in full when due on the Notes.

### ***Consumer Protection from Unfair Trading Regulations 2008***

The Unfair Commercial Practices Directive ("**UCP**"), which took effect on 11 May 2005, seeks to regulate unfair commercial practices across the EU by establishing rules for the protection of consumers. The UCP applies to all consumer contracts and contains a wide prohibition on "unfair commercial practices" with examples of practices which would violate this principle by virtue of being "misleading" or "aggressive". Examples of such conduct include the dissemination of false information at any stage of the relationship or conduct involving harassment, coercion or undue influence.

In the UK the UCP was implemented through the Consumer Protection from Unfair Trading Regulations 2008 (the "**CPUTR**"), which came into force on 26 May 2008. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. Consequently, there is a risk that breach of the CPUTRs would initiate intervention by a regulator and may lead to criminal sanctions.

### ***Mortgage repossession***

A protocol for mortgage repossession cases in England and Wales came into force on 19 November 2008, and sets out the steps that judges will expect any lender to take before starting a claim. The protocol applies to arrears on all residential mortgages, including where the property is let by the relevant borrower to a tenant. The Mortgage Repossessions (Protection of Tenants etc) Act 2010 came into force on 1 October 2010, and gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. This protocol and this Act may have adverse effects in markets experiencing above average levels of repossession claims. Delays in the initiation of responsive action in respect of the Mortgages may result in lower recoveries and a lower repayment rate on the Notes.

### ***Consumer Credit Act 1974***

Certain Individual Mortgages may be regulated credit agreements within the meaning of the Consumer Credit Act 1974 ("**CCA**"). Non-compliance with certain provisions of the CCA may render a regulated credit agreement totally unenforceable or unenforceable without a court order, or may render the borrower not liable to pay interest or charges in relation to the period of non-compliance.

However, in general, "buy to let" credit agreements entered into on or after 31 October 2008 are typically treated as being exempt agreements under the CCA. This is due to the enactment of the Legislative Reform (Consumer Credit) Order 2008 ("**LRO**") that came into force on 31 October 2008. Article 3 of the LRO inserted a new Section 16C into the CCA, which exempts investment properties (i.e. buy-to-let properties) from most CCA regulation. This exemption applies to properties for which at the time the agreement is entered into any sums due under it are secured by a land mortgage and where less than 40 per cent. of the land is used, or is intended to be used, as or in connection with a dwelling by the borrower or a person connected to the borrower (including beneficiaries of a trust). Individual Mortgages relating to credit agreements entered into on or after 31 October 2008 which satisfy the conditions set out under CCA Section 16(C) are likely to be treated as exempt agreements under the CCA but there is a risk if such conditions are not satisfied that such Individual Mortgages will be treated as regulated mortgage contracts under FSMA or regulated credit agreements under the CCA.

A court order under Section 126 of the CCA is necessary to enforce a land mortgage securing a regulated credit agreement, or securing a regulated mortgage contract or a buy to let loan that would, apart from the relevant exemption, be a regulated credit agreement.

### ***Consumer Credit Act 2006***

The Consumer Credit Act 2006 (the "**CCA 2006**"), which amends and updates the CCA, was enacted on 30 March 2006 and was fully implemented by 31 October 2008. The CCA 2006 contains a number of provisions which may affect the Individual Mortgages. In particular the CCA 2006 contains a power for

a court to alter the terms of a credit agreement where it considers that the relationship between the creditor and the debtor arising out of the agreement is "unfair" because of one or more of the following:

- (a) any of the terms of the agreement or of any related agreement;
- (b) the way in which the creditor exercised or enforced any of his rights under the agreement or any related agreement; and
- (c) any other thing done (or not done) by, or on behalf of, the creditor (either before or after the making of the agreement or any related agreement).

In this context "credit agreement" includes all agreements which would otherwise be exempt agreements under the CCA (other than regulated mortgage contracts under the terms of the FSMA regime). The provisions have the scope to be applied with full retrospective effect. An order made by the court where a creditor-debtor relationship is found to be "unfair" may, among other things, order a creditor, and any assignee such as the Issuer, to repay sums already paid by the debtor, reduce the amount of future payments or otherwise alter the terms of the credit or related agreement. The sections relating to the "unfair relationship test" came into force on 6 April 2007. Credit agreements entered into after 6 April 2007 will be subject to the unfair relationship test. Credit agreements which were entered into prior to 6 April 2007 and which will continue in force after 6 April 2008 were subject to the extortionate credit bargain test until 6 April 2007. Thereafter, such credit agreements became subject to the unfair relationship test. Credit agreements which were in force prior to 6 April 2007 and which expired prior to 6 April 2008 continued to be subject to the extortionate credit bargain test.

#### ***Financial Services (Distance Marketing) Regulations 2004***

The Financial Services (Distance Marketing) Regulations 2004 (the "**DMR**") apply to, among other things, credit agreements entered into from 31 October 2004 by a "consumer" within the meaning of the DMR by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator or intermediary and the borrower). A regulated mortgage contract under the FSMA, if originated by a UK lender from an establishment in the UK, is not cancellable under the DMR but is subject to pre-contract disclosure requirements under the FSMA. Other credit agreements secured by a legal mortgage on land are cancellable under the DMR if the borrower does not receive the prescribed disclosures at the prescribed time, and in that case the borrower may send notice of cancellation generally at any time before the end of the 14th day after the day on which he receives the last of the prescribed disclosures.

If the borrower cancels the credit agreement under the DMR, he is liable to repay the principal, and he is liable to pay interest and any other charges for credit only if certain conditions are satisfied, and the security is treated as never having had effect for the cancelled agreement. If a significant portion of the Individual Mortgages are characterised as being cancellable under the DMR, then this may adversely affect the Issuer's ability to make payments in full when due on the Notes.

#### ***Proposed changes to United Kingdom and EU mortgage regulation***

##### *Proposed expansion of mortgage regulation*

In November 2009, the UK Government launched a consultation on mortgage regulation, which sets out proposals to extend the scope of FSA regulation to include buy-to-let mortgages and introduce a regulated activity of managing regulated mortgage contracts which is intended to protect consumers when mortgage loans are sold. The consultation followed the announcements on mortgage regulation made in the July 2009 "Reforming financial markets" consultation paper, which set out the Government's proposals for reform of the financial system.

A follow-up paper, "Mortgage regulation: summary of responses", was published by the Treasury in March 2010. On 26 January 2011, the Treasury announced revised proposals in respect of the sale of mortgage books, having taken the decision not to introduce a regulated activity of managing regulated mortgage contracts but instead to extend the regulated activity of administering regulated mortgage contracts to exercising specified rights such as changing interest rates or taking action to repossess the property. The January 2011 revised proposals suggested that the government had decided not to proceed with the regulation of buy-to-let mortgages, as originally outlined in the November 2009 consultation. However, until the Statutory Instruments introducing the Treasury's proposals are published, a degree of

uncertainty is likely to remain regarding the regulation of buy-to-let mortgages. The Statutory Instruments were expected to be published during the course of 2011. However, the relevant Statutory Instruments are yet to be published.

#### *EU proposal for a directive on credit agreements relating to residential property*

On 31 March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The proposed directive applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a Member State on residential immovable property, or secured by a right relating to residential immovable property; (b) credit agreements, the purpose of which is to purchase or retain rights in land or in an existing or proposed residential building; and (c) credit agreements, the purpose of which is to renovate residential immovable property and which are outside the Consumer Credit Directive (2008/48/EC). The proposed directive does not apply to credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

The proposed directive requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. The proposed directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

Furthermore, the proposal does not appear to distinguish the status of buy-to-let loans made to individual borrowers from residential mortgages. On 23 May 2012, the Presidency of the Council of the European Union announced its compromise proposal for the general approach to its negotiations with the European Parliament on the proposed directive. The European Parliament has announced a revised indicative date of 10 to 13 December 2012 for its first plenary session on the proposed directive. It is currently proposed that Member States will be required to implement the directive into national law within two years after the directive enters into force. Until the proposed directive is considered and adopted by the European Parliament and the Council, and implemented into UK law, it is not possible to tell what effect the directive and the implementation of the directive into UK law would have on the Seller, the Issuer and/or the Administrator and their respective businesses and operations.

#### *Proposed changes to the UK regulatory structure*

The way in which providers of credit and related companies are licensed is expected to change in the United Kingdom, as demonstrated by a policy paper published by HM Government on 27 January 2012 (following numerous consultations) announcing its decision to include provisions in the Financial Services Bill 2012-13 enabling it to transfer responsibility for the regulation of consumer credit from the OFT to a new regulatory body, the Financial Conduct Authority (the "FCA"). The FCA will be responsible for the conduct of business and ensuring that business across financial services and markets is conducted in a way which advances the interests of all users and participants.

The Financial Services Bill also provides for the creation of a new Prudential Regulation Authority (the "PRA"), which will be responsible for the prudential supervision of deposit takers, insurers and a small number of significant investment firms.

HM Treasury has announced that, subject to the Parliamentary timetable, the UK Government's aim is for the Financial Services Bill to become law by the end of 2012, and the FSA to be replaced by the PRA and FCA in early 2013, and consumer credit regulation to be transferred to the FCA in 2014.

HM Treasury proposes, *inter alia*, that the FCA will have power to render unenforceable contracts made in contravention of its product intervention rules, and that formalised cooperation will exist between the FCA and the Financial Ombudsman Service, particularly where issues identified potentially have wider implications with a view to the FCA requiring affected firms to operate consumer redress schemes. Until such changes take effect it is not certain what effect such proposals would have on the Seller, the Issuer and/or the Administrator and their respective businesses and operations (including, for example, whether the FCA's product intervention roles may apply to buy-to-let mortgages). This may adversely affect the Issuer's ability to make payments under the Notes.

***Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes***

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in securitisation exposures and/or the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the Notes are responsible for analysing their own regulatory position and none of the Issuer, the Joint Lead Managers, the Arranger, the Seller, or any party to a Relevant Document makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment in the Notes on the Closing Date or at any time in the future.

***Potential effects of any additional regulatory changes***

No assurance can be given that changes will not be made to the regulatory regime and developments described above in respect of the mortgage market in the United Kingdom generally, the Seller's particular sector in that market or the Seller specifically. Any such action or developments, affecting in particular, but not only, the cost of compliance, may have a material adverse effect on the Seller, the Issuer and/or the Administrator and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full when due on the Notes.

***Payments Priorities***

The revenue receipts and the principal receipts in respect of the Mortgage Portfolio shall be applied by the Administrator (on behalf of the Issuer) in accordance with the relevant priorities of payment which sets out the priority in which Secured Creditors will be paid. To the extent there are funds available, certain fees, costs and expenses and other liabilities of the Issuer will rank ahead of payments to the Noteholders in accordance with the relevant priorities of payment.

The validity of contractual priorities of payments such as those contemplated in this transaction has been challenged in the English and U.S. courts. The hearings have arisen due to the insolvency of a secured creditor (in that case a swap counterparty) and have considered whether such payment priorities breach the "anti-deprivation" principle under English and U.S. insolvency law. This principle prevents a party from agreeing to a provision that deprives its creditors of an asset upon its insolvency. It was argued that where a secured creditor subordinates itself to noteholders in the event of its insolvency, that secured creditor effectively deprives its own creditors. The Supreme Court of the United Kingdom in *Belmont Park Investments PTY Limited (Respondent) v BNY Corporate Trustee Services Limited and Lehman Brothers Special Financing Inc. [2011] UK SC 38* unanimously upheld the decision of the Court of Appeal in dismissing this argument and upholding the validity of similar priorities of payment, stating that, provided that such provisions form part of a commercial transaction entered into in good faith which does not have as its predominant purpose, or one of its main purposes, the deprivation of the property of one of the parties on bankruptcy, the anti-deprivation principle was not breached by such provisions.

In parallel proceedings in New York, Judge Peck of the U.S. Bankruptcy Court for the Southern District of New York granted Lehman Brothers Special Finance Inc.'s ("**LBSF**") motion for summary judgment on the basis that the effect was that the provisions infringed the anti-deprivation principle in a U.S. insolvency. Judge Peck acknowledged that this resulted in the U.S. courts coming to a decision "directly at odds with the judgement of the English Courts". In New York, whilst leave to appeal was granted, the case was settled before an appeal was heard. It should be noted that on 8 February 2012, Belmont Park Investments PTY Limited and others commenced proceedings in the U.S. Bankruptcy Court in relation to Lehman Brothers Special Financing Inc. seeking an order recognising and enforcing the English judgment on noteholder priority. Declaratory relief that the noteholder priority is valid and that the collateral can be distributed accordingly and without liability to the trustee, is also being sought. Those proceedings remain pending and are subject to a request to be transferred to the District Court. This is an aspect of cross border insolvency law which remains untested. Therefore, whilst the priority issue is considered largely resolved in England and Wales, concerns still remain that the English and U.S. courts will diverge in their approach which, in the case of an unfavourable decision in the U.S., may adversely affect the Issuer's ability to make payments on the Notes. There remains the issue whether in respect of the foreign insolvency proceedings relating to a creditor located in a foreign jurisdiction, an English court will exercise its discretion to recognise the effects of the foreign insolvency proceedings, whether under

the Cross Border Insolvency Regulations 2006 or any similar common law principles. Given the current state of U.S. law, this is likely to be an area of continued judicial focus particularly in respect of multi-jurisdictional insolvencies.

If a creditor of the Issuer (such as the Hedge Provider) or a related entity becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the U.S.), and it is owed a payment by the Issuer (such as a termination payment due under a swap agreement which has been subordinated as a result of that swap counterparty's insolvency), a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of subordination provisions included in the Relevant Documents (such as a provision relating to the ranking of the Hedge Provider's payment rights under the swap agreement). In particular, based on the decision of the U.S. Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under U.S. bankruptcy law. More generally, there can be no assurance that such subordination provisions would be upheld under the insolvency laws of any relevant jurisdiction outside England and Wales.

If the courts of a jurisdiction outside England and Wales do not uphold such provisions, it is unclear whether and to what extent the relevant proceedings and corresponding findings would be recognised by the English courts. Whilst the English courts have been supportive of subordination arrangements generally thus far, there can be no assurance that this position would be unaffected in the context of co-operation between courts in a cross-border insolvency case. As such, if a subordination provision included in the Relevant Documents were successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Noteholders, the market value of the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

In addition, given the general relevance of the issues under discussion in the judgments referred to above and that the Relevant Documents include terms providing for the subordination of certain termination payments due to the Hedge Provider, there is a risk that the final outcome of the dispute (including any recognition action by the English courts) may result in negative rating pressure in respect of the Notes. If any rating assigned to the Notes is lowered, the market value of the Notes may reduce.

#### ***English law security and insolvency considerations***

The Issuer will enter into the Deed of Charge pursuant to which it will grant the Security in respect of certain of its obligations, including its obligations under the Notes as to which, see "*Security for the Notes*". If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Security may be delayed and/or the value of the Security impaired.

The provisions of the Insolvency Act 1986 (the "**Insolvency Act**") allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. Although there is as yet no case law on how these provisions will be interpreted, such provisions should apply to the floating charge created by the Issuer and assignment by way of security in favour of the Trustee. However, as this is partly a question of fact, were it not possible to appoint an administrative receiver in respect of the Issuer, the Issuer would be subject to administration if it became insolvent.

In addition, it should be noted that, to the extent that the assets of the Issuer are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the Insolvency Act, certain floating charge realisations which would otherwise be available to satisfy the claims of secured creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the Issuer in the Relevant Documents are intended to ensure it has no significant creditors other than the secured creditors under the Deed of Charge, it will be a matter of fact as to whether the Issuer has any other such creditors at any time. There can be no assurance that the Noteholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

While the transaction structure is designed to minimise the likelihood of the Issuer becoming insolvent, there can be no assurance that the Issuer will not become insolvent and/or the subject of insolvency proceedings and/or that the Noteholders would not be adversely affected by the application of insolvency laws.

### ***Fixed charges may take effect under English law as floating charges***

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer may take effect under English law as floating charges only if, for example, it is determined that the Relevant Documents do not permit the Trustee to exert sufficient control over the Charged Property. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Trustee in respect of the floating charge assets.

The interest of the Secured Creditors in property and assets over which there is a floating charge will rank behind the expenses of any administration or liquidation and the claims of certain preferential creditors on enforcement of the Security. Section 250 of the Enterprise Act 2002 abolishes crown preference in relation to all insolvencies (and thus reduces the categories of preferential debts that are to be paid in priority to debts due to the holder of a floating charge) but Section 176A of the Insolvency Act requires a "prescribed part" (up to a maximum amount of £600,000) of the floating charge realisations available for distribution to be set aside to satisfy the claims of unsecured creditors. This means that the expenses of any administration, the claims of preferential creditors and the beneficiaries of the prescribed part will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to Noteholders. The prescribed part will not be relevant to property subject to a valid fixed security interest or to a situation in which there are no unsecured creditors.

### ***Liquidation expenses***

Prior to the House of Lords' decision in the case of *Re Leyland Daf* in 2004, the general position was that in a liquidation of a company, the liquidation expenses ranked ahead of unsecured debts and floating chargees' claims. *Re Leyland Daf* reversed this position so that liquidation expenses could no longer be recouped out of assets subject to a floating charge. However, Section 176ZA of the Insolvency Act, which came into force on 6 April 2008, effectively reversed by statute the House of Lords' decision in *Re Leyland Daf*. As a result, it is now the case that the costs and expenses of a liquidation will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to the approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to rules 4.218A to 4.218E of the Insolvency Rules 1986. In general, the reversal of *Re Leyland Daf* applies in respect of all liquidations commenced on or after 6 April 2008. Therefore, floating charge realisations upon the enforcement of the floating charge security to be granted by the Issuer would be reduced by the amount of all, or a significant proportion, of any liquidation expenses.

### ***Conflicts of interests***

Certain of the parties to the transaction, including, without limitation, the Seller and the Warehouser, may effect transactions in which they may have, directly or indirectly, a material interest or a relationship of any description with another party to such transaction or a related transaction, which may involve a potential conflict with an existing contractual duty to the Issuer under this transaction. In addition, two of the Joint Lead Managers have also been involved in warehouse financing for the Paragon Group, and in respect of one Joint Lead Manager, specifically for the purposes of originating the mortgages to be purchased by the Issuer under the Mortgage Sale Agreement. Any such warehouse financing would expect to be repaid by the proceeds of the Notes.

### ***Clearing and Settlement***

#### ***Euroclear and Clearstream, Luxembourg - Book-Entry Interests***

Unless and until Definitive Notes are issued in exchange for Book-Entry Interests, holders and beneficial owners of Book-Entry Interests will not be considered the legal owners or holders of the Notes under the Trust Deed. After payment to the Principal Paying Agent, the Issuer will not have responsibility or liability for the payment of interest, principal or other amounts in respect of the Notes to Euroclear or Clearstream, Luxembourg or to holders or beneficial owners of Book-Entry Interests.

A nominee of the Common Depositary will be considered the registered holder of the Notes (other than the Class A Notes) as shown in the records of Euroclear or Clearstream, Luxembourg and will be the sole legal Noteholder of each Global Note (other than in respect of the Class A Notes) under the Trust Deed

while the Notes (other than the Class A Notes) are represented by a Global Note. A nominee of the Common Safekeeper will be considered the registered holder of the Class A Notes and will be the sole legal Noteholder of each Global Note in respect of the Class A Notes under the Trust Deed while the Class A Notes are represented by a Global Note. Accordingly, each person owning a Book-Entry Interest must rely on the relevant procedures of Euroclear and Clearstream, Luxembourg and, if such person is not a participant in such entities, on the procedures of the participant through which such person owns its interest, to exercise any right of a Noteholder under the Trust Deed.

Unlike Noteholders, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by or on behalf of the Issuer for consents or requests by or on behalf of the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg (as the case may be) and, if applicable, their participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Event of Default under the Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear and Clearstream, Luxembourg unless and until Definitive Notes are issued in accordance with the relevant provisions described herein in the section entitled "*Terms and Conditions of the Notes*". There can be no assurance that the procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee, any Paying Agent, the Registrar or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants or account holders of their respective obligations under the rules and procedures governing their operations.

#### ***Lack of physical form***

The lack of Notes in physical form could also make it difficult for a Noteholder to pledge such Notes if Notes in physical form are required by the party demanding the pledge and could hinder the ability of the Noteholder to resell such Notes because some investors may be unwilling to buy Notes that are not in physical form.

Certain transfers of Notes or interests therein may only be effected in accordance with, and subject to, certain transfer restrictions and certification requirements and in accordance with the rules and regulations of any applicable clearing system.

#### ***Change of Law***

The structure of the Notes and the ratings which are to be assigned to the Notes are based on English law, and tax, regulatory and administrative practice in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible changes to English law or administrative practice (including in relation to tax) in the United Kingdom after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Notes.

#### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg are required to apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. unless they elect otherwise. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

#### ***Withholding Tax under the Notes***

In the event that withholding taxes are imposed by or in any jurisdiction in respect of payments to Noteholders of amounts due pursuant to the Notes (including under the EU Savings Directive or otherwise), neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person is obliged to gross up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of the imposition of such withholding taxes.

#### ***Securitisation Company Tax Regime***

The Issuer has been advised that it should fall within the UK permanent regime for the taxation of securitisation companies (as introduced by the Taxation of Securitisation Companies Regulations 2006 SI 2006/3296 (the "**Securitisation Regulations**")), and as such should be taxed only on the amount of its small cash profit which it is entitled to retain under the Relevant Documents. Investors should note, however, that the Securitisation Regulations are in short form and advisers rely significantly upon guidance from the United Kingdom's tax authorities when advising on the scope and operation of the Securitisation Regulations, including as to whether a company falls within the new regime. If the Issuer does not (or subsequently will not) satisfy the conditions of the Securitisation Regulations, then depending on the accounting treatment, the Issuer's profits or losses for tax purposes might be different from its cash position and there might be a risk of the Issuer incurring unfunded tax liabilities. In addition, the interest paid on the Notes could well be disallowed for United Kingdom corporation tax purposes which could cause a significant divergence between the cash profits and the taxable profits in the Issuer. Any unforeseen taxable profits in the Issuer could have an adverse affect on its ability to make payments to Noteholders.

#### ***VAT***

The Issuer is a member of a VAT group (the "**Paragon VAT Group**"), the representative member of which is PFPLC.

As a general matter, where companies are treated as members of a VAT group, any supply of goods or services made by or to any member of such group (other than such supply which is made to or by another member of such group) is treated as a supply made by or to the representative member of such group. PFPLC (in its capacity as the representative member of the Paragon VAT Group) is, therefore, the person required to account to H.M. Revenue & Customs ("**HMRC**") for any VAT chargeable on any supply made by or to any member of the Paragon VAT Group (to or by any person other than another member of the Paragon VAT Group). All the other members of the Paragon VAT Group are jointly and severally liable for any VAT due from PFPLC (in its capacity as the representative member of the Paragon VAT Group) to HMRC during their period of membership of such group.

On this basis, the Issuer will have joint and several liability for all VAT liabilities of the Paragon VAT Group during its period of membership of such group. The Issuer will continue to be jointly and severally liable for any VAT liability of the Paragon VAT Group which has arisen during its period of membership of such group even if it subsequently leaves the Paragon VAT Group.

For further information in respect of the Paragon VAT Group, see the section entitled "*The Paragon VAT Group*".

### *Secondary Tax Liabilities*

Where a company fails to discharge certain taxes due and payable by it within a specified period of time, United Kingdom tax law imposes in certain circumstances a secondary liability for those overdue taxes on other companies which are or have been members of the same group of companies for tax purposes or are or have been under common control with the company that has not discharged its primary liability to pay that tax.

Under a deed of covenant dated on or about the Closing Date (the "**Tax Deed of Covenant**"), the Issuer and the Trustee benefit from certain representations and covenants in relation to taxation made by Paragon Group of Companies PLC, the Issuer's ultimate parent company. These include a covenant to indemnify the Issuer against certain tax liabilities (other than VAT) for which another member of the Paragon Group is primarily liable but for which the Issuer becomes secondarily liable.

The imposition of any secondary tax liability on the Issuer may affect the ability of the Issuer to make payments on the Notes.

### *U.S. Foreign Account Tax Compliance Withholding*

Sections 1471 through 1474 of the U.S. Internal Revenue Code ("**FATCA**") impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to any non-U.S. financial institution (a foreign financial institution, or "FFI" (as defined by FATCA)) that (i) does not become a "Participating FFI" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide certain information on its account holders or (ii) is not otherwise exempt from or in deemed-compliance with FATCA. The new withholding regime will be phased in beginning in 2014 for payments received from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 2017. If the Issuer does not enter into an agreement with the IRS and comply with these reporting requirements, it may become subject to a 30% U.S. withholding tax on the receipt of certain payments, which may reduce amounts available to the Issuer to make payments on the Notes.

After consultation with a number of potential partner countries, the United States has recently released a model intergovernmental agreement ("**model IGA**") to facilitate the implementation of FATCA. Pursuant to FATCA and the model IGA, an FFI in a signatory country could be treated as a deemed-compliant FFI, an exempt FFI or a "Reporting FFI" not subject to FATCA withholding on any payments it receives. It is not yet certain whether a Reporting FFI would be required to withhold on foreign passthru payments that it makes. A Reporting FFI would, however, be required to report certain information on its account holders to its home government. On 12 September 2012, the United States and the United Kingdom entered into an agreement (the "**US-UK IGA**") based largely on the model IGA.

The Issuer expects to be treated as a Reporting FFI pursuant to the US-UK IGA and does not anticipate being obliged to withhold any amounts under FATCA from payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FFI or that it would not be required to withhold under FATCA. If the Issuer is not a Reporting FFI and becomes a Participating FFI, it may be required to withhold amounts under FATCA if an investor or person through which payments on the Notes is made is not able to receive payments free of withholding under FATCA. This withholding would apply to (i) any Note characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued after 31 December 2012 or are materially modified after that date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued.

If an amount in respect of FATCA withholding were to be deducted or withheld from interest, principal or other payments on the Notes, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. If any FATCA withholding is imposed, a beneficial owner of Notes that is not a foreign financial institution generally will be entitled to a refund of any amounts withheld by filing a U.S. federal income tax return, which may entail significant administrative burden. A beneficial owner of Notes that is a foreign financial institution will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles it to an exemption from, or reduced rate of, tax on the payment that was subject to withholding under FATCA.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations, official guidance and the model IGA, all of which are subject to change or may be implemented in a materially different form.

## TRANSACTION OVERVIEW – SUMMARY OF THE TERMS AND CONDITIONS OF THE NOTES

The information set out below is an overview of various aspects of the transaction. This overview does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by references to, the detailed information presented elsewhere in this Prospectus.

### FULL CAPITAL STRUCTURE OF THE NOTES

|   | Class A   | Class B  | Class C  | Class D  |
|---|---|--|--|--|
| <b>Initial Principal Amount</b>         | £175,000,000  | £10,500,000  | £10,000,000  | £4,500,000   |
| <b>Note Credit Enhancement Features</b> | Excess Available Revenue (including First Loss Liquidity Excess Amount), subordination of Class B Notes, Class C Notes and Class D Notes  | Excess Available Revenue (including First Loss Liquidity Excess Amount), subordination of Class C Notes and Class D Notes  | Excess Available Revenue (including First Loss Liquidity Excess Amount) subordination of Class D Notes   | Excess Available Revenue   |
| <b>Liquidity Support Features</b>       | Margin Reserve Fund, First Loss Liquidity Excess Amount applied to fund a Revenue Shortfall, Principal Receipts applied to fund a Potential Interest Shortfall and Liquidity Amount of First Loss Fund applied to fund a Remaining Potential Interest Shortfall | Margin Reserve Fund, First Loss Liquidity Excess Amount applied to fund a Revenue Shortfall, Principal Receipts applied to fund a Potential Interest Shortfall and Liquidity Amount of First Loss Fund applied to fund a Remaining Potential Interest Shortfall (subject to conditions as set out in "Overview of Credit Structure and Cashflow Potential Interest Shortfall") | Margin Reserve Fund, First Loss Liquidity Excess Amount applied to fund a Revenue Shortfall, Principal Receipts applied to fund a Potential Interest Shortfall and Liquidity Amount of First Loss Fund applied to fund a Remaining Potential Interest Shortfall (subject to conditions as set out in "Overview of Credit Structure and Cashflow Potential Interest Shortfall") | Margin Reserve Fund  |
| <b>Issue Price</b>                      | 100%  | 100%   | 100%   | 100%   |
| <b>Reference Rate</b>                   | Three-Month GBP LIBOR (interpolation of two-month and three-month GBP LIBOR in respect of the first Interest Payment Date)  | Three-Month GBP LIBOR (interpolation of two-month and three-month GBP LIBOR in respect of the first Interest Payment Date)   | Three-Month GBP LIBOR (interpolation of two-month and three-month GBP LIBOR in respect of the first Interest Payment Date)   | Three-Month GBP LIBOR (interpolation of two-month and three-month GBP LIBOR in respect of the first Interest Payment Date) |
| <b>Margin</b>                           | 1.35% per annum   | 1.90% per annum  | 2.90% per annum  | 3.25% per annum  |
| <b>Interest Accrual</b>                 | ACT/365 (fixed)   | ACT/365 (fixed)  | ACT/365 (fixed)  | ACT/365 (fixed)  |

|  | Class A  | Class B   | Class C   | Class D   |
|--|--|---|---|---|
| <b>Interest Determination Date</b>                                   | 8 <sup>th</sup> day of January, April, July and October  |   |   |   |
| <b>Interest Payment Dates</b>  | Interest will be payable quarterly in arrears on the Interest Payment Date falling on or around the 8 <sup>th</sup> day of January, April, July and October, commencing on the First Interest Payment Date.  |   |   |   |
| <b>Business Day Convention</b>                                       | Following  | Following                                       | Following                                       | Following                                       |
| <b>First Interest Payment Date</b>                                   | 8 January 2013   |   |   |   |
| <b>First Interest Period</b>   | The period from the Closing Date to 8 January 2013   |   |   |   |
| <b>Call Option Date</b>  | 8 January 2016   | 8 January 2016                                  | 8 January 2016                                  | 8 January 2016                                  |
| <b>Principal Determination Date</b>                                  | Last Business Day of December, March, June and September   |   |   |   |
| <b>Pre-Enforcement Redemption Profile prior to Call Option Date</b>  | Sequential pass-through redemption by seniority of the Notes on each Interest Payment Date to the extent of Available Redemption Funds subject to and in accordance with the Principal Priority of Payments.   |   |   |   |
| <b>Pre-Enforcement Redemption Profile following Call Option Date</b> | Sequential pass-through redemption by seniority of the Notes on each Interest Payment Date to the extent of: (i) Available Redemption Funds subject to and in accordance with the Principal Priority of Payments; and (ii) in the case of the Rated Notes only, the Additional Available Redemption Funds subject to and in accordance with the Revenue Priority of Payments.<br><br>If the call option is exercised on the Call Option Date or any Interest Payment Date thereafter, the Notes will be redeemed in full on such date. Please refer to Condition 5 ( <i>Redemption and Purchase</i> ). |   |   |   |
| <b>Post-Enforcement Redemption Profile</b>                           | Sequential pass-through redemption by seniority of the Notes in accordance with the Enforcement Priority of Payments. Please refer to " <i>Cashflows and Cash Management</i> ".  |   |   |   |
| <b>Other Early Redemption in Full Events</b>                         | Tax/Clean-up call. Please refer to Condition 5 ( <i>Redemption and Purchase</i> ).   |   |   |   |
| <b>Final Maturity Date</b>   | The Interest Payment Date falling in April 2040  | The Interest Payment Date falling in April 2040 | The Interest Payment Date falling in April 2040 | The Interest Payment Date falling in April 2040 |
| <b>Form of the Notes</b>   | Registered Notes   | Registered Notes                                | Registered Notes                                | Registered Notes                                |
| <b>Application for</b>   | London   | London  | London  | London  |

|  | <b>Class A</b>                            | <b>Class B</b>                            | <b>Class C</b>                            | <b>Class D</b>                            |
|--|---|---|---|---|
| <b>Listing</b>                                   |   |   |   |   |
| <b>ISIN</b>                                      | XS0843322594                              | XS0843326314                              | XS0843328286                              | XS0843328443                              |
| <b>Common Code</b>                               | 084332259                                 | 084332631                                 | 084332828                                 | 084332844                                 |
| <b>Clearance/<br/>Settlement</b>                 | Euroclear /<br>Clearstream,<br>Luxembourg | Euroclear /<br>Clearstream,<br>Luxembourg | Euroclear /<br>Clearstream,<br>Luxembourg | Euroclear /<br>Clearstream,<br>Luxembourg |
| <b>Minimum<br/>Denomination</b>                  | £100,000                                  | £100,000                                  | £100,000                                  | £100,000                                  |
| <b>Minimum<br/>Incremental<br/>Denominations</b> | £1,000                                    | £1,000                                    | £1,000                                    | £1,000                                    |
| <b>Regulation</b>                                | Reg S                                     | Reg S                                     | Reg S                                     | Reg S                                     |

## OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

See the section entitled "Terms and Conditions of the Notes" for further information in respect of the terms of the Notes.

### **Ranking of Payments of Interest:**

Payments of interest on the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes will be made in Sequential Order.

"**Sequential Order**" means the following order in respect of any payments of interest or principal to be made to the Notes:

- (a) *first*, to the Class A Notes;
- (b) *second*, to the Class B Notes;
- (c) *third*, to the Class C Notes; and
- (d) *fourth*, to the Class D Notes.

### **Ranking of Payments of Principal:**

Payments of principal on the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes will be made in Sequential Order.

The Notes within each class will rank *pari passu* among themselves at all times in respect of payments of principal to be made to such class.

For a more detailed overview of the Payments Priorities, see the sections entitled "*Transaction Overview - Overview of Credit Structure and Cashflow - Overview of Payments Priorities*" or "*Cashflows and Cash Management*".

### **Security:**

The Notes are secured and share the same Security together with other Secured Amounts of the Issuer in accordance with the Deed of Charge as described in further detail in the section entitled "*Security for the Notes*". The security granted by the Issuer includes:

- (a) a first fixed sub-charge over the benefit of the Issuer in the Mortgages;
- (b) an assignment by way of security of all right, title, interest and benefit of the Issuer in certain insurance policies relating to the Mortgages;
- (c) an assignment by way of security of the benefit under each Relevant Document;
- (d) an assignment by way of security of issuer of all monies standing to the credit of the Transaction Account and any other account of the Issuer;
- (e) a first fixed charge over any Authorised Investments and any other investments of the Issuer; and
- (f) a floating charge with full title guarantee over the Issuer's whole undertaking and all of its property, assets and rights whatsoever other than those subject to a fixed charge or assignment.

Some of the other Secured Amounts rank senior to the Issuer's obligations under the Notes in respect of the allocation of proceeds as set out in the Enforcement Priority of Payments.

On or about the Closing Date, the Seller will enter into the Collection Account Declaration of Trust under which the Seller will declare that all

direct debit payments made by Borrowers under the Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Mortgages and certain other sums in respect of the Mortgages which are credited to the Collection Account are held on trust for the Issuer until they are applied in the manner described above.

**Interest payable on the Notes:**

The interest rate applicable to each class of Notes is described in the sections entitled "*Full Capital Structure of the Notes*" and Condition 4 (*Interest*).

**Interest Deferral:**

Interest due and payable on each class of Notes (other than payments of any Normal Interest on the Class A Notes) may be deferred in accordance with Condition 4 (*Interest*).

**Withholding Tax:**

None of the Issuer, the Trustee or any Agent will be obliged to gross up payments to the Noteholders if there is any withholding or deduction for or on account of taxes from any payments made to the Noteholders.

**Redemption:**

The Notes are subject to the following optional or mandatory redemption events:

- (a) mandatory redemption in part on any Interest Payment Date subject to availability of Available Redemption Funds (including, in the case of the Rated Notes, following the Call Option Date, Additional Available Redemption Funds), as fully set out in Condition 5(a) (*Mandatory Redemption in Part from Available Redemption Funds*);
- (b) optional redemption in whole exercisable by the Issuer for tax reasons, as fully set out in Condition 5(c) (*Redemption for Taxation or Other Reasons*);
- (c) optional redemption in whole exercisable on any Interest Payment Date on or after the Call Option Date, as fully set out in Condition 5(d) (*Optional Redemption in Full*);
- (d) optional redemption in whole exercisable by the Issuer on any Interest Payment Date where the Principal Liability Outstanding of all the Notes on the related Interest Payment Date is equal to or less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date, as fully set out in Condition 5(d) (*Optional Redemption in Full*); and
- (e) mandatory redemption in whole on the Final Maturity Date, as fully set out in Condition 5(e) (*Redemption on Maturity*).

Subject to the Issuer having sufficient funds available for this purpose, each Note redeemed will be redeemed in an amount equal to the Principal Liability Outstanding of the relevant Note together with any accrued (and unpaid) interest. Redemption will include amounts of "**Additional Interest**" which is interest on Deferred Interest – but not capitalised up to (but excluding) the date of redemption.

**Event of Default:**

As fully set out in Condition 9 (*Events of Default*), which broadly includes:

- non-payment by the Issuer of principal in respect of the Notes

within 7 days following the due date;

- non-payment by the Issuer of any interest amount on the Notes within 15 days following the due date;
- breach of contractual obligations by the Issuer under the Relevant Documents which is materially prejudicial to the interests of the holders of the Most Senior Class of Notes; or
- an Issuer Insolvency Event.

**Limited Recourse:**

All the Notes are ultimately limited recourse obligations of the Issuer and, if the Issuer has insufficient funds to pay amounts in full, amounts outstanding will cease to be due and payable as described in more detail in Condition 10 (*Enforcement and Limited Recourse*).

**Governing Law:**

English law.

## OVERVIEW OF RIGHTS OF NOTEHOLDERS

*See the sections entitled "Terms and Conditions of the Notes" for further detail in respect of the rights of Noteholders, conditions for exercising such rights and relationship with other Secured Creditors.*

**Prior to an Event of Default:** Noteholders holding not less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes then outstanding of the relevant Class are entitled to request the Trustee to hold a Meeting, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction. Noteholders of each Class are also entitled to participate in a Meeting convened by the Issuer or Trustee to consider any matter affecting their interests.

**Following an Event of Default:** If an Event of Default occurs and is continuing, the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of the Notes then outstanding may by written notice or an Extraordinary Resolution of the Most Senior Class of Notes direct the Trustee to give an Enforcement Notice to the Issuer pursuant to which Notes of each Class shall become immediately due and repayable at its respective Principal Liability Outstanding together with any accrued (and unpaid) interest, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction.

| <b>Noteholders meeting provisions:</b>      | <i>Initial Meeting</i>   | <i>Adjourned Meeting</i>   |
|---|--|--|
| Notice period for Ordinary Resolution:      | 21 clear days for the initial meeting.   | Adjourned meeting held on same day in the next week (or if such day is a public holiday, the next succeeding business day).  |
| Notice period for Extraordinary Resolution: | 21 clear days for initial meeting.   | Not less than 14 days and not more than 42 days for the adjourned meeting.   |
| Quorum for Ordinary Resolution:             | Two or more persons holding or representing not less than 5 per cent. of the Principal Amount Outstanding of the relevant class or classes of Notes outstanding for the initial meeting.   | At an adjourned meeting, two or more persons being or representing Noteholders of the relevant class or classes of Notes outstanding, whatever the Principal Amount Outstanding of the Notes then outstanding held or represented by such person(s). |
| Quorum for Extraordinary Resolution:        | Two or more persons holding or representing over 50 per cent. of the Principal Amount Outstanding of the relevant class or classes of Notes outstanding for the initial meeting, (other than a Basic Terms Modification (which must be | At an adjourned meeting two or more persons being or representing Noteholders of the relevant class or classes of Notes outstanding, whatever the Principal Amount Outstanding of the Notes then outstanding held or represented by such             |

|   |   |
|---|---|
| proposed separately to each Class of Noteholders), which requires two or more persons holding or representing in aggregate greater than 75 per cent. of the Principal Amount Outstanding of the relevant class or classes of Notes then outstanding). | person(s) (other than a Basic Terms Modification (which must be proposed separately to each Class of Noteholders), which requires two or more persons holding or representing greater than in aggregate 25 per cent. of the Principal Amount Outstanding of the relevant class or classes of Notes then outstanding). |
|---|---|

|   |   |
|---|---|
| Required majority of an Extraordinary Resolution: | Not less than 75 per cent. of votes cast. |
|---|---|

**Basic Terms Modification:** Broadly speaking, the following matters are Basic Terms Modifications: changes to payments (timing, method of calculation, reductions or cancellations of amounts due and currency), to effect the exchange, conversion or substitution of the Notes, changes to Payments Priorities, changes to quorum and majority requirements and amendments to the definition of Basic Terms Modification.

**Relationship between Classes of Noteholders:** Subject to the provisions in respect of Basic Terms Modification, an Extraordinary Resolution of Noteholders of the Most Senior Class of Notes is binding on all other Classes and will override any resolutions to the contrary of the Classes ranking behind the Most Senior Class.

Amendments in respect of Basic Terms Modification require an Extraordinary Resolution of each class of Notes then outstanding.

**Seller as Noteholder:** For the purposes of, *inter alia*, the right to attend and vote at any meeting of Noteholders, any Extraordinary Resolution in writing and any direction made by Noteholders, those Notes (if any) which are held by or on behalf of or for the benefit of the Seller or any holding company of the Seller or any subsidiary of such holding company, in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except where the Seller or any such other company holds all the Notes of any class and there is no other class of Notes ranking *pari passu* with, or junior to, such Notes, which is not wholly beneficially owned by the Seller or any such other company.

**Relationship between Noteholders and other Secured Creditors:** So long as any Notes are outstanding the Trustee shall, except where expressly provided otherwise, have regard solely to the interests of the Noteholders and not to the interests of the other Secured Creditors, its only obligation to such other Secured Creditors being to pay to them any monies received by it and available for them in accordance with the applicable Payments Priorities.

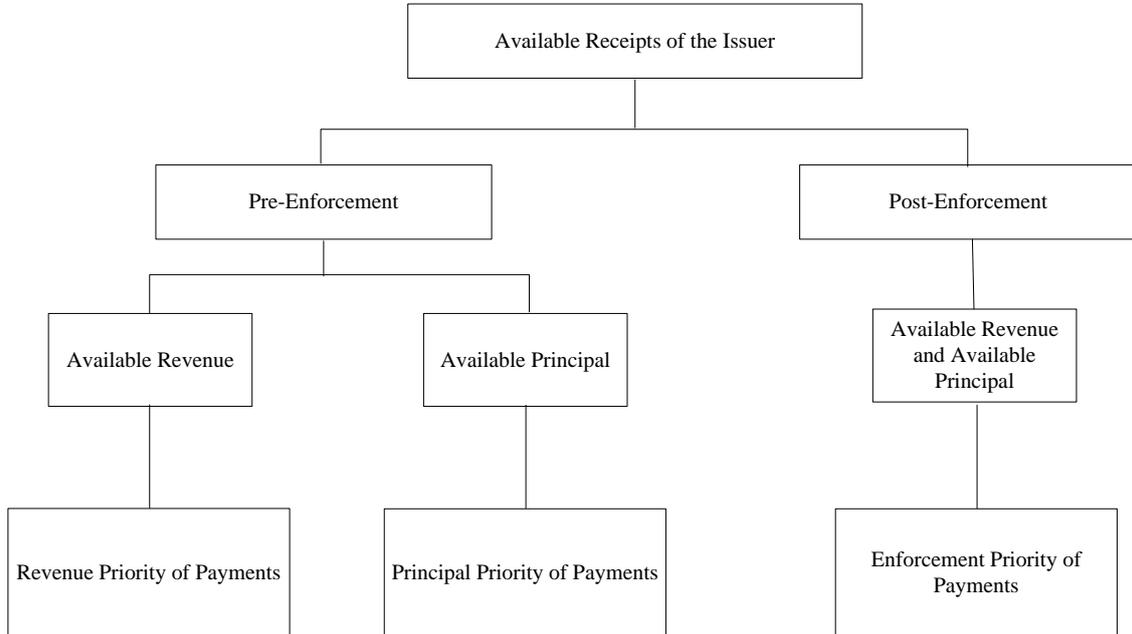
**Provision of Information to the Noteholders:**

The Issuer shall provide the following information to investors:

- (a) on a monthly basis, certain data in respect of the Mortgage Portfolio; and
- (b) on a quarterly basis, information in respect of the Mortgages, details relating to any repurchases of Mortgages by the Seller pursuant to the Mortgage Sale Agreement and details with respect to the rates of interest, Note principal and interest payments and other payments by the Issuer.

## TRANSACTION OVERVIEW - OVERVIEW OF CREDIT STRUCTURE AND CASHFLOW

See the section entitled "Key Structural Features" for further information in respect of the credit structure and cash flow of the transaction.



**Available Receipts of the Issuer:** The Issuer will have Available Revenue and Available Principal for the purposes of making interest payments and principal payments in respect of the Notes and paying the amounts due and payable to other parties under the Relevant Documents in accordance with the relevant Payments Priorities.

Available Revenue will include, for each Interest Payment Date, the following:

- (a) all revenue received by the Issuer during the immediately preceding Collection Period less any fees and expenses comprised in such revenue amounts which properly belong to third parties;
- (b) interest received by the Issuer on the Transaction Account and income from any Authorised Investments;
- (c) amounts received by the Issuer under the Hedge Agreement (subject to certain exceptions as set out in full in the section entitled "Cashflows and Cash Management" below);
- (d) any other net income of the Issuer received during the immediately preceding Collection Period (other than, among other things, principal receipts and amounts payable to certain third parties);
- (e) amounts credited to the Revenue Ledger from the Shortfall Ledger and the Margin Reserve Fund and (if required) any Further Advance Margin Reserve Amount credited to the Revenue Ledger;
- (f) if required, the First Loss Liquidity Excess Amount applied to fund a Revenue Shortfall;

- (g) if required, Principal Receipts applied to fund a Potential Interest Shortfall (subject to, in the case of a Potential Interest Shortfall in respect of interest payable on the Class B Notes and the Class C Notes, the debit balance of the Principal Deficiency Ledger not exceeding certain limits); and
- (h) if required, the Liquidity Amount applied to fund a Remaining Potential Interest Shortfall (subject to, in the case of a Remaining Potential Interest Shortfall in respect of interest payable on the Class B Notes and the Class C Notes, the debit balance of the Principal Deficiency Ledger not exceeding certain limits).

Available Principal will include, for each Interest Payment Date:

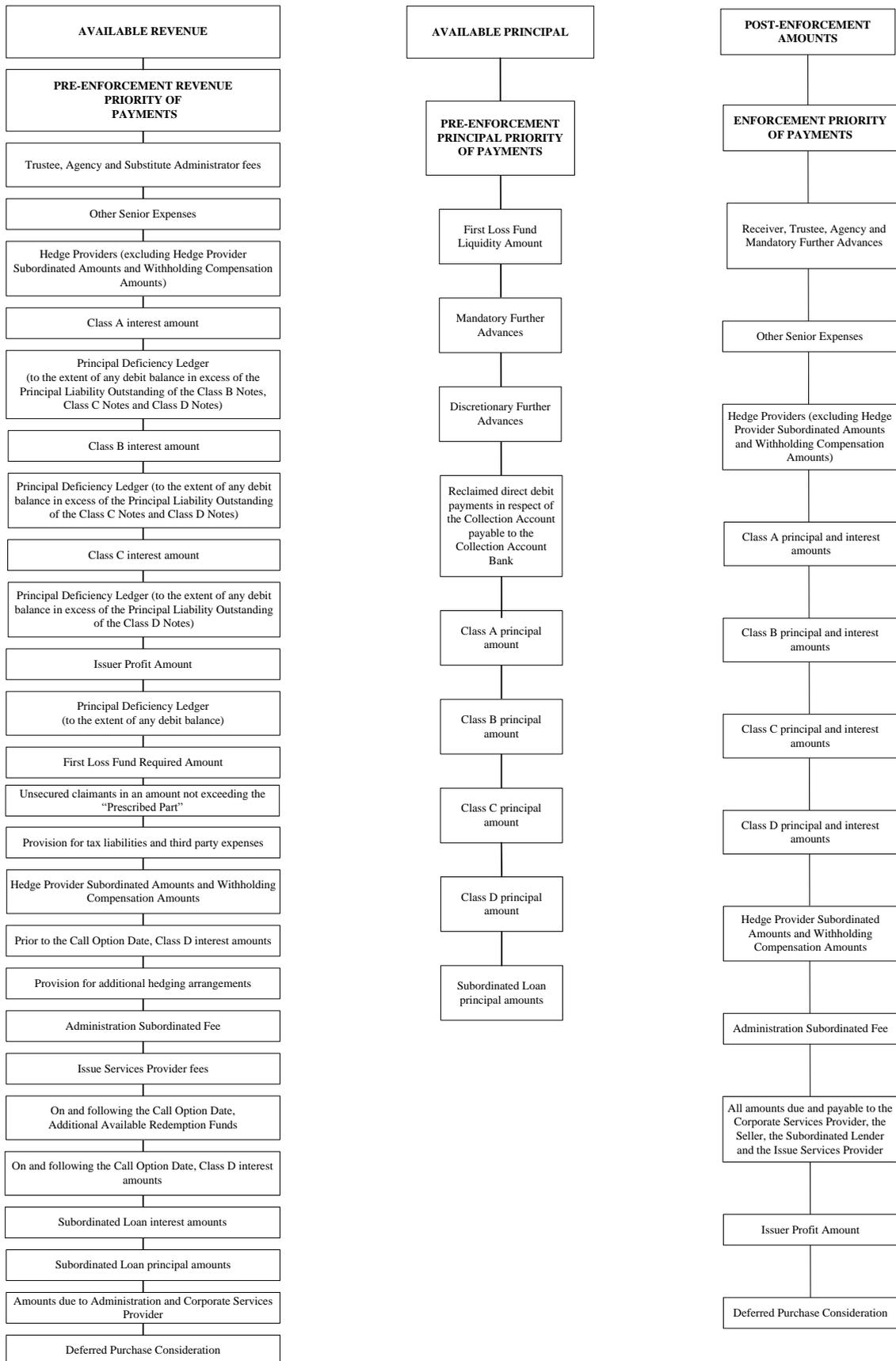
- (a) all principal amounts received by the Seller in respect of the Mortgages in the Mortgage Portfolio during the immediately preceding Collection Period (including the consideration representing principal paid by the Seller in respect of the repurchase of any Mortgages and their related security and recoveries (representing principal amounts) received in relation to the enforcement of any Mortgages);
- (b) on the Interest Payment Date immediately following the second Principal Determination Date, any amounts standing to the credit of the Pre-Funding Reserve Ledger;
- (c) any Revenue Receipts credited to the Principal Deficiency Ledger on the immediately preceding Principal Determination Date;
- (d) any funds retained by the Issuer to be applied to the redemption of the Notes on the immediately preceding Interest Payment Date which were not applied to the redemption of the Notes on such Interest Payment Date; and
- (e) any estimated amounts deducted by the Issuer in respect of a Potential Interest Shortfall, amounts required to replenish the Liquidity Amount or fund Mandatory Further Advances and Discretionary Further Advances on immediately previous Interest Payment Date which were not so applied on the immediately preceding Interest Payment Date;

less

- (f) Principal Receipts to be applied to fund a Potential Interest Shortfall.

## Overview of Payments Priorities:

Below is an overview of the priorities of payment:



See the sections entitled "*Key Structural Features – Cashflows and Cash Management*" for further information on the Payments Priorities.

**Key Structural Features:** The credit enhancement, liquidity support and other key structural features of the transaction include, broadly, the following:

- during the life of the Notes, the Available Revenue is expected to be sufficient to pay the interest amounts payable in respect of all the classes of Notes and senior costs and expenses of the structure and retain the Issuer Profit Amount;
- availability of the First Loss Fund, initially funded by an advance under the Subordinated Loan Agreement on the Closing Date in amount up to the Required Amount (being an amount equal to 3 per cent. of the Initial Principal Amount of the Notes) and replenished on each Interest Payment Date up to the Required Amount from Available Revenue in accordance with the Revenue Priority of Payments. Amounts standing to the credit of the First Loss Fund will be applied as follows:
  - (i) the First Loss Liquidity Excess Amount will be applied to fund a Revenue Shortfall;
  - (ii) the Liquidity Amount of the First Loss Fund (being an amount equal to 3.0 per cent. of the then current Principal Liability Outstanding of the Class A Notes and, if the debit balance of the Principal Deficiency Ledger does not exceed certain limits, the Principal Liability Outstanding of the Class B Notes and/or Class C Notes, to the extent of available funds) will be applied to make-up any shortfall in Available Revenue to fund a Remaining Potential Interest Shortfall (subject to, in the case of the Class B Notes and Class C Notes, the debit balance of the Principal Deficiency Ledger not exceeding certain limits);
- following a Required Amount Trigger, the Required Amount of the First Loss Fund will be increased to 4 per cent. of the Initial Principal Amount of the Notes;
- availability of Principal Receipts to make up any shortfall in Available Revenue to fund a Potential Interest Shortfall (subject to, in the case of the Class B Notes and the Class C Notes, the debit balance of the Principal Deficiency Ledger not exceeding certain limits);
- availability of Available Principal to replenish the Liquidity Amount of the First Loss Fund;
- following the Call Option Date, all Available Revenue after provision for or payment of items (i) to (xix) of the Revenue Priority of Payments will be

applied to the redemption of the Rated Notes;

- availability of investment income provided by the returns in respect of Authorised Investments to be applied as Available Revenue;
- availability of a Margin Reserve Fund to supplement:
  - (i) payments of interest on cash amounts representing the Pre-Funding Reserve held by the Issuer in the Transaction Account or in Authorised Investments;
  - (ii) interest payments in respect of Mortgages purchased on the Closing Date which are subject to an initial fixed or introductory low interest rate period; and (iii) interest payments in respect of Additional Mortgages which are subject to an initial fixed or introductory low interest rate period. The Margin Reserve Fund will be funded in an initial amount of £1,283,748 (being equal to 0.64 per cent. of the aggregate Initial Principal Amount of the Notes) by drawings under the Subordinated Loan Agreement on the Closing Date and, to the extent required, on any date falling on or prior to the second Principal Determination Date on which Additional Mortgages are acquired by the Issuer. Amounts will be released from the Margin Reserve Fund and applied as Available Revenue according to the schedules set out the Administration Agreement (modified to the extent necessary from time to time to take into account any additional releases required in respect of Additional Margin Reserve Amounts);
- the Subordinated Lender shall fund the Further Advance Margin Reserve Amount on each Principal Determination Date to supplement interest payments in respect of Discretionary Further Advances made in the immediately preceding Collection Period which are subject to an initial fixed or introductory low interest rate period. On each Principal Determination Date, the Administrator shall draw down under the Subordinated Loan Agreement and credit to the Transaction Account and the Margin Reserve Fund Ledger an amount sufficient to ensure that amounts referable to the Further Advance Margin Reserve Amount are standing to the credit of the Transaction Account and the Margin Reserve Fund Ledger. On each Interest Payment Date, certain amounts referable to the Further Advance Margin Reserve Amount will be released from the Margin Reserve Fund Ledger and applied as Available Revenue;
- any excess Available Revenue will be applied on each Interest Payment Date as Deferred Purchase Consideration in accordance with the Revenue Priority of Payments;
- availability of a Pre-Funding Reserve to fund the purchase of Mortgages by the Issuer on any date following the Closing Date up to and including the second Principal Determination Date;

- subject to the discretion of the Subordinated Lender, a Shortfall Fund (if any) which may be funded by drawings under the Subordinated Loan Agreement at any time. The Shortfall Fund (if any) will be applied to meet any shortfall arising from the interest rates set by the Administrator for the Mortgages averaging less than the Minimum Mortgage Rate and will be applied as Available Revenue; and
- availability of an interest hedging arrangement provided by the Hedge Provider to hedge against the possible variance between the interest rates payable in respect of the Fixed Rate Mortgages and the LIBOR-based interest payable in respect of the Notes.

See the section entitled "*Key Structural Features*" for further information.

**Revenue Shortfall:**

If Available Revenue following the application of any Shortfall Fund and any scheduled release from the Margin Reserve Fund is insufficient to pay or provide for the amounts referred to in items (i) to (xi) of the Revenue Priority of Payments (such insufficient amount being a "**Revenue Shortfall**"), the Issuer shall pay or provide for that Revenue Shortfall by the application of the First Loss Liquidity Excess Amount.

See the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support*" for further information.

**Potential Interest Shortfall:**

If Available Revenue following the application of any Shortfall Fund, any scheduled release from the Margin Reserve Fund and the First Loss Liquidity Excess Amount is insufficient to pay or provide for all amounts in items (i) to (iv), (vi) and (viii) of the Revenue Priority of Payments (such insufficient amount being a "**Potential Interest Shortfall**"), the Issuer shall pay or provide for that Potential Interest Shortfall by the application of Principal Receipts provided that such amounts shall not be used to pay interest on the Class B Notes and Class C Notes if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, exceeds the aggregate of: (i) 50 per cent. or more than the Principal Liability Outstanding of such class of Notes; and (ii) the Principal Liability Outstanding of all classes of Notes ranking junior to such class of Notes.

See the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support*" for further information.

**Remaining Potential Interest Shortfall:**

If Available Revenue following the application of any Shortfall Fund, any scheduled release from the Margin Reserve Fund, the First Loss Liquidity Excess Amount and Principal Receipts is insufficient to pay or provide for all amounts in items (i) to (iv), (vi) and (viii) of the Revenue Priority of Payments (such insufficient amount being a "**Remaining Potential Interest Shortfall**"), the Issuer shall pay or provide for that Remaining Potential Interest Shortfall by the application of the Liquidity Amount provided that such amounts shall not be used to pay interest on the Class B Notes

and Class C Notes if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, together with any Liquidity Amount to be applied to pay items in the Revenue Priority of Payments ranking *pari passu* with or in priority to payments of interest on such class of Notes exceeds the aggregate of: (i) 50 per cent. or more than the Principal Liability Outstanding of such class of Notes; and (ii) the Principal Liability Outstanding of all classes of Notes ranking junior to such class of Notes.

See the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support*" for further information.

**Principal Deficiency Ledger:**

The Principal Deficiency Ledger will be established to record as a debit:

- (a) any principal losses incurred on the Mortgages;
- (b) the use of any Principal Receipts to fund a Potential Interest Shortfall;
- (c) certain expenses of the Issuer in respect of reclaimed direct debt payments; and
- (d) the use of Available Principal to increase the First Loss Fund up to the Liquidity Amount.

Available Revenue will be credited to the Principal Deficiency Ledger on each Interest Payment Date to reduce the debit balance (if any) of the Principal Deficiency Ledger (and form part of the Available Redemption Funds) in accordance with the Revenue Priority of Payments.

The principal losses incurred on the Mortgages and/or the amount of principal (constituting Available Principal) used to fund a Potential Interest Shortfall will be allocated to the Notes and recorded as a debit to the Principal Deficiency Ledger.

**Issuer Accounts and Cash Management:**

Revenue receipts and principal receipts in respect of the Mortgages are received by the Seller in the Collection Account. The Seller (and where relevant, the Administrator) is obliged to transfer collections in respect of the Mortgages to the Transaction Account on the Business Day following the date of collection or as soon as practicable thereafter. On or prior to each Interest Payment Date, all amounts standing to the credit of the Transaction Account will be applied in accordance with the relevant priority of payments.

**Summary of key terms of Hedge Agreement:**

The swaps entered into under the Hedge Agreement to hedge the Fixed Rate Mortgages on the Closing Date have in summary the following key commercial terms:

- Total swap notional amount: £38,600,000
- Frequency of payment: Quarterly on each Interest Payment Date
- Weighted average swap rate: 1.20% per annum

- Weighted average swap maturity date: 2 February 2014

See the section "*Hedging Arrangements – Interest rate basis hedging arrangements*" for further information.

## TRANSACTION OVERVIEW - OVERVIEW OF THE MORTGAGE PORTFOLIO AND ADMINISTRATION

See the sections entitled "The Mortgages", "The Provisional Mortgage Pool" and "Mortgage Administration" for further information in respect of the Mortgages.

**Mortgage Portfolio:** The mortgages to be sold to the Issuer on the Closing Date and on any date up to and including the second Principal Determination Date will consist of the Mortgages, the related security and all money derived therefrom from time to time.

Each Mortgage and its related security is governed by English law.

There will be no substitution of the Mortgages as existing Mortgages repay or are repurchased in accordance with the terms of the Mortgage Sale Agreement. See the section entitled "Mortgage Administration" for more information.

**Features of Mortgages:** The following is a summary of certain features of the Mortgages included in the Provisional Mortgage Pool as at the Provisional Pool Date and investors should refer to, and carefully consider, further details in respect of the Mortgages included in the Provisional Mortgage Pool as set out in the section entitled "The Provisional Mortgage Pool".

The Mortgages are all secured by first priority charges over freehold and leasehold properties in England and Wales.

|   |  |
|---|--|
| Type of Borrower  | Corporate and individual   |
| Type of Mortgage  | Buy-to-let repayment loans<br><br>Buy-to-let Interest-only loans which in certain circumstances convert to a repayment mortgage on the fifth anniversary of the mortgage |
| Total Mortgages   | £140,249,017.12  |
| Repayment Mortgages   | £8,705,788.25  |
| Interest-only Mortgages (Optional switch to a repayment basis)  | £36,658,430.18   |
| Interest-only Mortgages (Mandatory switch to a repayment basis) | £82,828,113.64   |
| Interest-only   | £12,056,685.05   |

|                                     | <b>Weighted average</b> | <b>Minimum</b> | <b>Maximum</b> |
|-------------------------------------|-------------------------|----------------|----------------|
| Outstanding Current Balance (£)     | £170,205.12             | £35,775.00     | £1,395,787.50  |
| LTV Ratio at origination (%)        | 68.98%                  | 12.37%         | 77.43%         |
| Current LTV Ratio (%)               | 68.97%                  | 12.38%         | 77.46%         |
| Current Interest Rate (% per annum) | 4.84%                   | 3.40%          | 6.24%          |

|                        | <b>Weighted average</b> | <b>Minimum</b> | <b>Maximum</b> |
|------------------------|-------------------------|----------------|----------------|
| Seasoning (months)     | 4.96                    | 0.07           | 22.60          |
| Remaining Term (years) | 19.05                   | 4.50           | 25.00          |

See the section entitled "*The Provisional Mortgage Pool*" for further information and for an explanation of the terms and figures used in the table above.

**Consideration:**

The consideration payable by the Issuer to the Seller in respect of its acquisition of each Mortgage shall be equal to the aggregate of:

- (a) the Initial Purchase Consideration equal to the principal balance, the FRS 26 Adjustment Amount (which will be wholly funded by drawings under the Subordinated Loan Agreement) less, in respect of any Arrears Mortgage, the amount of any provision which has been made against recovery of amounts due under that Arrears Mortgage of the Mortgages on the date such Mortgage is purchased by the Issuer; and
- (b) Deferred Purchase Consideration payable in accordance with the Mortgage Sale Agreement and the relevant priority of payments.

Deferred Purchase Consideration will be due and payable by the Issuer to the Seller from the Closing Date and prior to the service of an Enforcement Notice on each Interest Payment Date, out of excess Available Revenue (after application of Available Revenue in accordance with the Revenue Priority of Payments).

Deferred Purchase Consideration will be due and payable by the Issuer to the Seller following the service of an Enforcement Notice from Post-Enforcement Amounts in accordance with the Enforcement Priority of Payments.

See the section entitled "*The Mortgages – Acquisition of Mortgages*" for further information.

**Pre-Funding Reserve:**

On the Closing Date the Issuer will credit an amount equal to the balance of the gross proceeds of the issue of the Notes and any drawing under the Subordinated Loan Agreement which is not applied on the Closing Date in purchasing Mortgages or in establishing the First Loss Fund and the Margin Reserve Fund to the Pre-Funding Reserve Ledger of the Transaction Account.

The Mortgages purchased on the Closing Date will be selected from the Provisional Mortgage Pool and from the mortgages not included in the Provisional Mortgage Pool.

It is expected that the Pre-Funding Reserve, as at the Closing Date, will be £56,765,679.

The Issuer will only be entitled to apply amounts standing to the credit of the Pre-Funding Reserve in purchasing Additional Mortgages at any time up to and including the second Principal Determination Date if and to the extent that the Issuer is permitted to do so by, and in accordance with, the Mortgage Sale Agreement and the Administration Agreement. In particular, any such purchase of Additional Mortgages, where applicable, by the Issuer will be subject to certain conditions including (amongst other things):

- (i) the confirmation of S&P and Fitch that such purchase will not adversely affect the then current ratings of the Notes;
- (ii) the provision, by each of the Issuer, the Seller and the Warehouse, of solvency certificates, each dated the date of such purchase, signed by an authorised officer of the relevant company;
- (iii) the Additional Mortgages were originated in accordance with the Lending Guidelines;
- (iv) no Enforcement Notice having been served;
- (v) certain conditions in respect of the Reversionary Period and the interest rate applicable following the Reversionary Period in respect of the Additional Mortgages are satisfied;
- (vi) each of the Mortgage Condition Tests are satisfied; and
- (vii) there being no Event of Default under (and as defined in) Condition 9 (*Events of Default*) of the Notes, nor any termination event in relation to the Administrator under the Administration Agreement which, in any such case, is continuing.

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

See the section entitled "*The Mortgages – Acquisitions of Mortgage – Acquisition of Additional Mortgage following the Closing Date*" for further information.

**Representations and Warranties:**

The Seller will make the Seller Asset Warranties to the Issuer and the Trustee on the Closing Date and each subsequent date on which Mortgages are purchased by the Issuer, in respect of the Mortgages purchased by the Issuer on such date.

The Seller Asset Warranties include the following warranties in respect of each Mortgage:

- first ranking security in respect of properties located in England or Wales;
- satisfaction of the Seller's lending criteria as at the Closing Date and each further purchase date;

- final maturity date of each Mortgage no later than 31 March 2038;
- the Seller is beneficial owner of each Mortgage;
- no right of set-off has been created or exists; and
- no obligation to make Further Advance if a borrower is in breach of the Mortgage Conditions.

See the section entitled "*The Mortgages – The Searches and Warranties in respect of the Mortgages*" for further information.

**Repurchases of the Mortgages:**

The Seller shall repurchase the Mortgages and their related security in the following circumstances:

- upon breach of any Seller Asset Warranty either which is not capable of remedy or, which, if capable of remedy, the Seller failed to remedy within 28 days;
- in order for the Administrator to make a Product Switch;
- if certain determinations are made in respect of the Mortgage by a court, other competent authority or any ombudsman; and/or
- the first two payments due in respect of any Mortgage have fallen due and have not been received in full.

The Seller shall repurchase the Issuer's interest in the relevant Mortgages and their related security if the Issuer exercises a call option.

See the section entitled "*Transaction Overview - Overview of the Terms and Conditions of the Notes – Redemption*" and Condition 5 (*Redemption and Purchase*).

**Consideration for repurchase:**

Consideration payable by the Seller in respect of the repurchase of a Mortgage shall be equal to the Current Balance of that Mortgage as at the date of the completion of the repurchase and accrued interest relating thereto.

**Perfection Events:**

Legal title to the Mortgages will not be vested in the Issuer on the Closing Date and will not take place until certain perfection events occur under the terms of the Mortgage Sale Agreement. See the section entitled "*Perfection Events*" under "*Triggers Tables – Non-Rating Triggers Tables*" below for further information.

Prior to the completion of the transfer of the legal title to the Mortgages, the Issuer will be subject to certain risks as set out in the section entitled "*Risk Factors – matters relating to the Mortgages – Perfection of title*".

**Accruals and arrears in respect of the Mortgages:**

As at the Closing Date there may be Mortgages which are to be sold to the Issuer which will have outstanding arrears in excess of one current monthly payment under such Mortgages ("**Arrears Mortgages**"). As at the Provisional Pool Date, Arrears Mortgages constituted £NIL by aggregate Provisional Balance of the Provisional Mortgage Pool. Any arrears of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) in respect of any Mortgage will not be purchased by the Issuer, and any payments received in respect of such 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 the Seller.

The cumulative maximum aggregate principal amount of Arrears Mortgages which may be purchased by the Issuer is £1,000,000 as determined at the time of purchase of the relevant Arrears Mortgage.

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

The Issuer may be required to make Mandatory Further Advances in respect of the Mortgages. The Issuer expects to fund Mandatory Further Advances from Available Principal in accordance with the Principal Priority of Payments. If, and to the extent that, the Issuer does not have sufficient Available Principal to make any such Mandatory Further Advances the Issuer will be entitled to borrow further amounts from the Subordinated Lender under the Subordinated Loan Agreement.

The Administrator on behalf of the Issuer may make and fund Discretionary Further Advances in respect of any Mortgage from Available Principal in an aggregate amount up to 8 per cent. of the aggregate Initial Principal Amount of the Notes if the lending criteria, so far as applicable and subject to such waivers as might be within the discretion of a reasonably prudent mortgage lender, and certain other conditions are satisfied at the relevant time (including the Mortgage Condition Tests) (see "*Mortgage Administration – Further Advances – Discretionary Further Advances*"). The Issuer expects to fund any Discretionary Further Advances from Available Principal moneys in accordance with the Principal Priority of Payments.

The Issuer may also make Discretionary Further Advances and Mandatory Further Advances to the extent that these are funded by advances made to it under the Subordinated Loan Agreement (see "*Key Structural Features - Subordinated Loan Agreement*" below).

See the section entitled "*Mortgage Administration – Further Advances*" for further information.

**Conversion of Mortgages:**

The Administrator may as part of an arrears management programme agree to convert a Mortgage administered by it from an Interest-only Mortgage or, as the case may be, Optional Repayment Mortgage to a Repayment Mortgage (but not any other type of mortgage) or from a Repayment Mortgage to an Interest-only Mortgage or, as the case may be, Optional Repayment Mortgage (but not any other type of mortgage) at any time without limit and without any further condition or consent being required.

The Administrator may elect to convert a Mortgage administered by it from an Interest-only Mortgage or, as the case

may be, Optional Repayment Mortgage to a Repayment Mortgage (but not any other type of mortgage), but not from a Repayment Mortgage to an Interest-only Mortgage or, as the case may be, Optional Repayment Mortgage (for any reason other than as part of an arrears management programme) (each such converted Mortgage being a "**Converted Mortgage**") provided that following such conversion either (i) the aggregate Current Balance of Converted Mortgages in the Mortgage Portfolio does not exceed 1 per cent. of the sum of (x) the aggregate Current Balance of the Mortgages included in the Mortgage Portfolio on the Closing Date and (y) the aggregate Current Balance of Additional Mortgages in the Mortgage Portfolio on the relevant purchase date in respect of any such Additional Mortgage or (ii) where the aggregate Current Balance of such Converted Mortgage does exceed 1 per cent. of the sum of (x) the aggregate Current Balance of the Mortgages included in the Mortgage Portfolio on the Closing Date and (y) the aggregate Current Balance of Additional Mortgages in the Mortgage Portfolio on the relevant purchase date in respect of any such Additional Mortgage, S&P have confirmed that the conversion of such Mortgages will not adversely affect the then current ratings of the Rated Notes.

Any Five-year Interest-only Mortgage may become a Repayment Mortgage pursuant to the Mortgage Conditions thereof without any further condition or permission being required.

Accordingly, any Converted Mortgage or Mortgages converted as part of an arrears management programme may differ from the Mortgages described under the section entitled "*The Mortgages*".

**Insurances:**

The Seller recommends that, in the case of Individual Mortgages, borrowers or, in the case of Corporate Mortgages, guarantors arrange term life assurance but, in the majority of cases, no security will be or has been taken over such assurance. Even if such policies were taken out, in the case of Individual Mortgages, borrowers or, in the case of Corporate Mortgages, guarantors may not have been making payment in full or on time of the premium due on the relevant policies, which may therefore have lapsed and/or no further benefits may be accruing thereunder.

The Issuer will be noted on the Block Policy and named as insured in the Mortgage Impairment Contingency Policy. See the section entitled "*Insurance Coverage*" for further information.

**Administration of the Mortgage Portfolio:**

The Administrator will be appointed by the Seller and the Issuer (and to the extent of its interest as sub mortgagee, in certain circumstances the Trustee) to administer the Mortgage Portfolio on a day-to-day basis. The appointment of the Administrator may be terminated by the Issuer or the Trustee upon the occurrence of an Administrator Termination Event, which includes:

- material non-performance;
- payment default; and

- an Insolvency Event in relation to the Administrator.

The Administrator may also resign upon giving 6 months' notice provided a replacement administrator has been appointed by the Issuer.

In the absence of an Administrator Termination Event, Noteholders have no right to instruct the Trustee to terminate the appointment of the Administrator. Once an Administrator Termination Event has occurred, the Most Senior Class of Noteholders may, by Extraordinary Resolution, instruct the Trustee to terminate the appointment of the Administrator (any instruction to the Trustee being subject to its prior indemnification, security or pre-funding to its satisfaction).

See the section entitled "*Mortgage Administration*" and the risk factor "*Administration by the Administrator*" for further information.

**Delegation by  
Administrator:**

The Administrator may in some circumstances delegate or sub-contract some or all of its responsibilities and obligations under the Administration Agreement. However, the Administrator remains liable at all times for servicing the Mortgages and for the acts or omissions of any delegate or sub-contractor. The sub-contracting and delegation arrangements in respect of the performance of the administration services by the Administrator described in this paragraph shall also apply to HML upon HML (in its capacity as Substitute Administrator) assuming the performance of the administration services as successor Administrator following the occurrence of an Administrator Termination Event.

It is expected that the Administrator will sub contract its obligations to PFPLC following the Closing Date.

See the sections entitled "*Mortgage Administration – Delegation by the Administrator*" and "*Mortgage Administration – Termination of the Appointment of the Administrator*" for further information.

**TRANSACTION OVERVIEW - TRIGGERS TABLES**

**Rating Triggers Table**

| <b>Transaction Party</b> | <b>Required Ratings</b>   | <b>Possible effects of Ratings Trigger being breached include the following:</b>   |
|--------------------------|---|--|
| Account Bank             | <p>(a)(i) Short-term, unsecured, unguaranteed and unsubordinated debt obligations must be rated at least F1 by Fitch; and (ii) long-term, unsecured and unsubordinated debt must be rated at least (x) A by Fitch; and (y) either (1) A by S&amp;P with respect to the long term unsecured, unguaranteed and unsubordinated debt obligations (if the short term, unsecured, unguaranteed and unsubordinated debt obligations of the Account Bank or are also rated at least as high as A-1 by S&amp;P) or (2) A+ by S&amp;P with respect to the long term unsecured, unguaranteed and unsubordinated debt obligations of the Account Bank (if the short term, unsecured, unguaranteed and unsubordinated debt obligations of the Account Bank are not rated or are rated below A-1 by S&amp;P); or (b) such other ratings as are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Rated Notes.</p> | <p>The Administrator will use reasonable endeavours to, within 30 days or such longer period as the Trustee and S&amp;P may agree, procure the transfer of the Transaction Account and/or Collection Account to another bank.</p> <p>If there is no bank which meets the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Rated Notes, the Transaction Account and/or Collection Account need not be transferred until such time as there is a bank which meets such criteria.</p> <p>See sections entitled "<i>Mortgage Administration – Reinvestment</i>" and "<i>Mortgage Administration – Payments from Borrowers</i>" for further information.</p> |
| Hedge Provider           | <p>(a)(i) Short-term, unsecured, unguaranteed and unsubordinated debt obligations must be rated at least F1 by Fitch; and (ii) long-term, unsecured and unsubordinated debt must be rated at least (x) A by Fitch; and (y) either (1) A by S&amp;P with respect to the long term unsecured, unguaranteed and unsubordinated debt obligations (if the short term, unsecured, unguaranteed and unsubordinated debt obligations of the Hedge Provider are also rated at least as high as A-1 by S&amp;P) or (2) A+ by S&amp;P with respect to the long term unsecured, unguaranteed and unsubordinated debt obligations of the Hedge Provider (if the short term, unsecured, unguaranteed and unsubordinated debt obligations of the Hedge Provider are not rated or are rated below A-1 by S&amp;P); or</p> <p>(b) such other ratings as are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to</p>  | <p>The consequences of breach under the Hedge Agreement include a requirement for the Hedge Provider to post collateral, replace the Hedge Provider or obtain a guarantee of the Hedge Provider's obligations.</p> <p>See section entitled "<i>Hedging Arrangements – Ratings of Hedge Provider and transfer of Hedge Agreements</i>" for further information.</p>   |

| <b>Transaction Party</b> | <b>Required Ratings</b>  | <b>Possible effects of Ratings Trigger being breached include the following:</b> |
|--------------------------|--|--|
|                          | support the then rating of the Most Senior Class of Rated Notes. |  |

**Non-Rating Triggers Table**

| Nature of Trigger   | Description of Trigger  | Consequence of Trigger  |
|---|---|---|
| <p>Perfection Events</p>  | <p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> <li>(a) the valid service of an Enforcement Notice or a Protection Notice (as defined in the Deed of Charge);</li> <li>(b) the termination of the appointment of MAAL as Administrator under the Administration Agreement;</li> <li>(c) perfection is required by an order of a court or regulatory authority;</li> <li>(d) perfection is required as a result of any change in law;</li> <li>(e) the security created under or pursuant to the Deed of Charge or any material part of such security being in jeopardy in the opinion of the Trustee and the Trustee deciding to take action to reduce materially such jeopardy; and</li> <li>(f) the Final Maturity Date.</li> </ul> | <p>Borrowers under the Mortgages will be notified of the sale of Mortgages to the Issuer and legal title to the Mortgages will be transferred to the Issuer.</p>  |
| <p>Administrator Termination Events</p> <p>See the section entitled "<i>Mortgage Administration – Termination of the Appointment of the Administrator</i>" for further information.</p> | <p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> <li>(a) default in payment or transfer of amount due and unremedied for 2 Business Days after the earlier of the Administrator becoming aware of such default and the receipt of written notice from the Issuer, the Seller and/or the Trustee requiring the default to be remedied;</li> <li>(b) material non-compliance with other covenants or obligations unremedied for 14 days after the earlier of the Administrator becoming aware of such default and the receipt of written notice from the Trustee requiring the default to be remedied;</li> </ul>  | <p>Issuer may (in the case of events (a), (b) and (c)) and shall (in the case of events (d) and (e)):</p> <ul style="list-style-type: none"> <li>(a) appoint the Substitute Administrator as successor Administrator; and</li> <li>(b) appoint a successor Substitute Administrator.</li> </ul> |

| Nature of Trigger   | Description of Trigger  | Consequence of Trigger  |
|---|---|---|
|   | <p>(c) an Insolvency Event in relation to the Administrator;</p> <p>(d) the Administrator (or any sub-contractor or delegate of the Administrator which performs the relevant services) does not have the necessary authorisations required under the FSMA in order to enable it to perform the administration services under the Administration Agreement; or</p> <p>(e) the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of the FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.</p>   |   |
| <p>Substitute Administrator mandatory termination events</p> <p>See the section entitled "<i>Mortgage Administration – Substitute Administrator</i>" for further information.</p> | <p>The occurrence of any of the following:</p> <p>(a) the default by the Substitute Administrator in the performance or observance of any of its covenants and obligations under the Substitute Administrator Agreement, which is materially prejudicial to the interests of the holders of the Most Senior Class of Notes, and such default is not remedied for a period of 30 days after the earlier of the Substitute Administrator becoming aware of such default and receipt by the Substitute Administrator of written notice from the Issuer or, after delivery of an Enforcement Notice, the Trustee requiring the same to be remedied;</p> <p>(b) it is or will become unlawful for the Substitute Administrator to perform or comply with any of its obligations under the Substitute Administrator Agreement; or</p> <p>(c) an Insolvency Event in</p> | <p>Issuer or the Trustee may:</p> <p>(a) appoint a successor Substitute Administrator; and</p> <p>(b) terminate the appointment of the existing Substitute Administrator.</p> |

| Nature of Trigger   | Description of Trigger   | Consequence of Trigger   |
|---|--|--|
|   | relation to the Substitute Administrator.  |  |
| <p>Substitute Administrator voluntary termination events</p> <p>See the section entitled "<i>Mortgage Administration – Substitute Administrator</i>" for further information.</p> | <p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> <li>(a) the Issuer fails to make any payment due to HML on the due date for payment thereof or within 20 Business Days thereafter;</li> <li>(b) any amendment, addition or modification is made without HML's consent to the Relevant Documents which is materially prejudicial to HML without an appropriate increase in its fees being agreed by HML;</li> <li>(c) HML no longer holds the authorisations required for it lawfully to carry out all the obligations of the Administrator contemplated by the Administration Agreement and/or the Substitute Administrator Agreement; or</li> <li>(d) the Administrator fails to provide: (i) certain information to HML and such failure is not remedied within 15 business days of the date on which such information is required to be delivered or requested; (ii) any access to, amongst other things, the Administrator's office space, facilities, equipment, systems, software, and staff then in use by the Administrator; and (iii) any co-operation to HML,</li> </ul> <p>each as required under the Substitute Administrator Agreement.</p> | <p>HML may terminate its appointment as Substitute Administrator.</p> <p>Issuer shall appoint successor Substitute Administrator.</p> <p>See the section entitled "<i>Mortgage Administration – Substitute Administrator</i>" for further information.</p> |

| Nature of Trigger       | Description of Trigger   | Consequence of Trigger   |
|-------------------------|--|--|
| Required Amount Trigger | <p>If on any Principal Determination Date:</p> <p>(a) the then Current Balances of Mortgages which are more than two months in arrears in aggregate represents more than 3 per cent. of the then Current Balances of all of the Mortgages in the Mortgage Portfolio; or</p> <p>(b) the aggregate amount debited to the Principal Deficiency Ledger in respect of enforcement of Mortgages since the Closing Date exceeds 2 per cent. of the Initial Principal Amount of the Notes.</p> | The Required Amount of the First Loss Fund will be increased to 4 per cent. of the Initial Principal Amount of the Notes   |
| Call Option Date        | The occurrence of the Interest Payment Date falling in January 2016.   | On each Interest Payment Date falling after the Call Option Date, all Available Revenue after provision or payment of items (i) to (xix) of the Revenue Priority of Payments to be applied to the redemption of the Rated Notes. |

## TRANSACTION OVERVIEW - FEES

The following table sets out the on-going fees to be paid by the Issuer to the parties to the Relevant Documents.

| <u>Type of Fee</u>                      | <u>Amount of Fee</u>  | <u>Priority in Cashflow</u>           | <u>Frequency</u>  |
|---|---|---------------------------------------|---|
| Administration Senior Fee               | 0.15 per cent. per annum of Interest Charging Balance of Mortgages in the Mortgage Portfolio (inclusive of any VAT where the Administrator is MAAL and exclusive of any VAT upon the appointment of the Substitute Administrator) | Ahead of all outstanding Notes        | Quarterly in arrear on each Interest Payment Date   |
| Substitute Administrator Commitment Fee | The greater of (a) £8,000 per annum and (b) 0.004 per cent. per annum of the daily average Interest Charging Balance of Mortgages in the Mortgage Portfolio during the relevant annual period (exclusive of any VAT)              | Ahead of all outstanding Notes        | Annually in advance on the Closing Date and thereafter (following the anniversary of the Closing Date) on the Interest Payment Date falling in January of each year |
| Administration Subordinated Fee         | 0.15 per cent. per annum of Interest Charging Balance of Mortgages in the Mortgage Portfolio (inclusive of any VAT where the Administrator is MAAL and exclusive of any VAT upon the appointment of the Substitute Administrator) | Subordinated to all outstanding Notes | Quarterly in arrear on each Interest Payment Date   |
| Issue Services Provider Fees            | 0.4 per cent. of the aggregate Initial Principal Amount of the Notes (inclusive of any VAT) and the repayment of the expenses paid by the Issue Services Provider in connection with the issue of the Notes                       | Subordinated to all outstanding Notes | Quarterly in arrear on each Interest Payment Date over a period of four years from the Closing Date   |
| Other fees and expenses of the Issuer   | Estimated at £20,000 each year (exclusive of VAT)   | Ahead of all outstanding Notes        | Quarterly in arrear on each Interest Payment Date   |

United Kingdom value added tax ("VAT") is currently chargeable at 20 per cent.

## ARTICLE 122A OF THE CAPITAL REQUIREMENTS DIRECTIVE

The Seller will retain a material net economic interest of not less than 5 per cent. in the securitisation in accordance with the text of Article 122a of CRD 2 (which does not take into account any implementing rules of the Capital Requirements Directive in a relevant jurisdiction) ("**Article 122a**"). As at the Closing Date, such interest will be comprised of an interest in the first loss tranche as required by Article 122a. Such retention requirement will be satisfied by holding the Class D Notes and the funding of the First Loss Fund by PFPLC. Any change to the manner in which such interest is retained will be notified to Noteholders in the immediately following investor report.

Each prospective investor is required independently to assess and determine the sufficiency of the information described above and in this Prospectus generally for the purposes of complying with Article 122a and none of the Issuer, the Arranger, any Joint Lead Managers or any party to a Relevant Document makes any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes. In addition, each prospective Noteholder should ensure that they comply with the implementing provisions in respect of Article 122a in their relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

The Issuer will make available (i) post issuance information in relation to each Mortgage and (ii) post issuance transaction information in the form of monthly and quarterly investor reports via the following website: [www.paragon-group.co.uk](http://www.paragon-group.co.uk). The website and the contents thereof do not form part of this Prospectus.

Moorgate Asset Administration Limited ("**MAAL**") has provided a corresponding undertaking with respect to the provision of such investor information and Paragon Group of Companies PLC ("**PGC**") has provided a corresponding undertaking with respect to the interest to be retained by PGC or a wholly owned subsidiary of PGC as specified to (i) the Trustee on behalf of the Noteholders pursuant to the deed of covenant dated on or about the Closing Date and made between MAAL, PGC and the Trustee (the "**Article 122a Deed of Covenant**") and (ii) the Joint Lead Managers in the Subscription Agreement. The Trustee shall have the benefit of certain protections contained in the Trust Deed in relation to the compliance of MAAL and PGC with their respective undertakings. For further information please refer to the risk factor entitled "*The Trustee is not obliged to act in certain circumstances*".

## KEY STRUCTURAL FEATURES

### CREDIT ENHANCEMENT AND LIQUIDITY SUPPORT

The Notes are obligations of the Issuer only and will not be the obligations of, or the responsibility of, or guaranteed by, any other party. However, there are a number of features of the transaction which enhance the likelihood of timely receipt of payments by the Noteholders, as follows:

- Available Revenue is expected to exceed interest due and payable on the Notes and senior costs and expenses of the Issuer.
- A Revenue Shortfall may be funded by the First Loss Liquidity Excess Amount.
- A Potential Interest Shortfall may be funded by (subject to, in the case of the Class B Notes and Class C Notes, the debit balance of the Principal Deficiency Ledger not exceeding certain limits) Principal Receipts.
- A Remaining Potential Interest Shortfall may be funded by (subject to, in the case of the Class B Notes and Class C Notes, the debit balance of the Principal Deficiency Ledger not exceeding certain limits) the Liquidity Amount of the First Loss Fund.
- The subordination of payments of interest and principal on the junior classes of Notes and the deferral of interest payments on the junior classes of Notes where the Issuer has insufficient funds to pay such amounts.
- Following the Call Option Date, all Available Revenue after provision for or payment of items (i) to (xix) of the Revenue Priority of Payments will be applied to the redemption of the Rated Notes.
- Principal losses on the Mortgage Portfolio and/or the application of Principal Receipts to fund any Potential Interest Shortfall on an Interest Payment Date will be allocated to the Notes by an entry in the Principal Deficiency Ledger.
- Principal losses recorded in the Principal Deficiency Ledger may be reduced to the extent of excess Available Revenue (which includes for these purposes the First Loss Fund but only to the extent of the First Loss Liquidity Excess Amount) or by drawings under the Subordinated Loan Agreement.
- Amounts may be drawn under the Subordinated Loan Agreement to, amongst other things: (i) fund the First Loss Fund up to an amount of £6,000,000 on the Closing Date and the Required Amount thereafter; (ii) fund the Margin Reserve Fund on the Closing Date and on any date on which Additional Mortgages are purchased by the Issuer; (iii) fund the Further Advance Margin Reserve Amount (if required) and (iv) fund the Shortfall Fund from time to time. The repayment of the amounts drawn under the Subordinated Loan Agreement is subordinated to payments on the Notes.
- Scheduled releases of amounts standing to the credit of the Margin Reserve Fund will be applied as Available Revenue.
- The Further Advance Margin Reserve Amount (if any) will be applied as Available Revenue.
- The Shortfall Fund (if any) will be applied to meet any shortfall arising from the interest rates set by the Administrator for the Mortgages averaging less than the Minimum Mortgage Rate and will be applied as Available Revenue.
- The Issuer will enter into the Hedge Agreement to hedge against the possible variance between the fixed interest rates due and payable by borrowers on the Mortgages and the GBP LIBOR-based interest payments in respect of the Notes.

Each of these factors is considered in more detail below.

***Credit Support for the Notes provided by credit balance on the Revenue Ledger***

It is anticipated that, during the life of the Notes, the interest payable by borrowers on the Mortgages will be sufficient so that the Available Revenue will cover the amounts payable under items (i) to (x) (inclusive) of the Revenue Priority of Payments.

To the extent that on any Interest Payment Date prior to the service of an enforcement notice in respect of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions required to be met in priority to item (v) of the Revenue Priority of Payments, such excess (after making payments or provisions of a higher priority) is available to be applied towards reducing any debit balance on the Principal Deficiency Ledger to the extent that such debit balance exceeds the aggregate Principal Liability Outstanding of the Class B Notes, the Class C Notes and the Class D Notes.

To the extent that on any Interest Payment Date prior to the service of an enforcement notice in respect of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions required to be met in priority to item (vii) of the Revenue Priority of Payments, such excess (after making payments or provisions of a higher priority) is available to be applied towards reducing any debit balance on the Principal Deficiency Ledger to the extent that such debit balance exceeds the aggregate Principal Liability Outstanding of the Class C Notes and the Class D Notes.

To the extent that on any Interest Payment Date prior to the service of an enforcement notice in respect of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions required to be met in priority to item (ix) of the Revenue Priority of Payments, such excess (after making payments or provisions of a higher priority) is available to be applied towards reducing any debit balance on the Principal Deficiency Ledger to the extent that such debit balance exceeds the aggregate Principal Liability Outstanding of the Class D Notes.

To the extent that on any Interest Payment Date prior to the service of an enforcement notice in respect of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions required to be met in priority to item (xi) of the Revenue Priority of Payments, such excess (after making payments or provisions of a higher priority) is available to be applied towards reducing any remaining debit balance on the Principal Deficiency Ledger (taking into account any reduction of the debit balance of the Principal Deficiency Ledger under items (v), (vii) and (ix) of the Revenue Priority of Payments).

To the extent that on any Interest Payment Date prior to the enforcement of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions (required to be met in priority to item (xii)) in the Revenue Priority of Payments, such excess (after making payments or provisions of a higher priority), to the extent that it is sufficient, is available to replenish the First Loss Fund to the Required Amount.

***Liquidity support provided by use of Available Principal to fund replenishment of First Loss Fund up to Liquidity Amount***

On each Principal Determination Date, if there will be insufficient Available Revenue to replenish the First Loss Fund up to the Liquidity Amount, such amount will be replenished under item (i) of the Principal Priority of Payments.

For more information about the application of Available Principal to fund replenishment of the First Loss Fund, see the section entitled "*Cashflows and Cash Management*".

***Subordination of the junior classes of Notes***

Payments of interest on the Notes will be paid in Sequential Order (so that payments on the Class D Notes, the Class C Notes and the Class B Notes will be subordinated to payments on the Class A Notes, payments on the Class D Notes and the Class C Notes will be subordinated to payments on the Class B Notes and payments on the Class D Notes will (i) at all times be subordinated to payments on the Class C Notes and (ii) on each Interest Payment Date falling on or after the Call Option Date and/or following enforcement of the security constituted by or pursuant to the Deed of Charge, be subordinated to payments of principal on the Rated Notes) in accordance with the relevant payments priorities.

Payments of principal on the Notes will at all times be paid in Sequential Order (so that payments on the Class D Notes, the Class C Notes and the Class B Notes will be subordinated to payments on the Class A

Notes, payments on the Class D Notes and the Class C Notes will be subordinated to payments on the Class B Notes and payments on the Class D Notes will be subordinated to payments on the Class C Notes) in accordance with the relevant payments priorities.

***Deferral of interest payments on the Notes***

On each Interest Payment Date interest will be due and payable on each class of Notes.

Any shortfall in payments of Normal Interest on a class of Notes (other than Normal Interest in respect of the Most Senior Class of Notes) that arises as a result of the Issuer not having sufficient funds to pay the relevant Normal Interest on such class of Notes will be deferred until the Interest Payment Date on which the Issuer has sufficient funds to pay such shortfall and the Normal Interest scheduled to be paid on such Interest Payment Date for that class of Notes will be increased to take account of any such deferral and the payment of Additional Interest. Payments of Normal Interest on the Class A Notes cannot be deferred and, if they remain unpaid 15 days following the relevant Interest Payment Date, will trigger an Event of Default.

The deferral of Normal Interest on the Class B Notes, the Class C Notes and the Class D Notes will continue until the Final Maturity Date of the Notes, at which point all deferred amounts (including interest thereon) will become due and payable, at which point if there is insufficient money available to pay interest on the Class B Notes, the Class C Notes and the Class D Notes, the Class B Noteholders, the Class C Noteholders and the Class D Noteholders may not receive all interest amounts payable on the Class B Notes, the Class C Notes and the Class D Notes. Until such date, the deferral of Normal Interest (other than Normal Interest on the Class A Notes) will not constitute an Event of Default.

If there is insufficient money available to the Issuer to pay interest on any class of Notes, then the relevant Noteholders may not receive all Normal Interest.

***Application of Available Revenue to redeem the Rated Notes following the Call Option Date***

On each Interest Payment Date falling on or after the Call Option Date, all Available Revenue after provision for or payment of items (i) to (xix) of the Revenue Priority of Payments will not be applied to payment of items (xxi) to (xxiv) of the Revenue Priority of Payments but shall instead be applied as Additional Available Redemption Funds to fund the redemption of the Rated Notes in Sequential Order until each class of Rated Notes have been redeemed in full (as provided in item (xx) of the Revenue Priority of Payments).

***Principal losses are allocated in the Principal Deficiency Ledger***

On each Principal Determination Date, the Administrator will determine the amount of principal losses on the Mortgage Portfolio.

A Principal Deficiency Ledger will be established on the Closing Date in order to record the Issuer principal losses on the Mortgages and/or the application of Available Principal to fund any payments of interest on the Rated Notes on an Interest Payment Date.

Principal losses on the Mortgages in the Mortgage Portfolio and the amount of any Principal Receipts applied to fund a Potential Interest Shortfall will be recorded as a debit to the Principal Deficiency Ledger.

Amounts allocated to the Principal Deficiency Ledger shall be reduced to the extent of Available Revenue available for such purpose on each Interest Payment Date in accordance with the Revenue Priority of Payment to reduce the debit balance to zero.

Available Revenue allocated as described above will be applied in or towards redemption of the relevant class of Notes as Available Principal in accordance with the Principal Priorities of Payment.

***Credit and liquidity support provided by First Loss Fund***

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount which equals 3 per cent. of the aggregate Initial Principal Amount of the Notes and will credit such amount to the First Loss Ledger for the purpose of establishing a fund (the "**First Loss Fund**").

To the extent any Rated Note remains outstanding, the "**Liquidity Amount**" on each relevant Interest Payment Date will be equal to 3.0 per cent. of the aggregate of (each of the amounts below to be determined on the immediately preceding Determination Date):

- (a) the Principal Liability Outstanding of the Class A Notes;
- (b) the Principal Liability Outstanding of the Class B Notes only if and to the extent that the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of: (i) 50 per cent. or more than the Principal Liability Outstanding of the Class B Notes; and (ii) the aggregate of the Principal Liability Outstanding of the Class C Notes and the Class D Notes; and
- (c) the Principal Liability Outstanding of the Class C Notes only if and to the extent that the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of: (i) 50 per cent. or more than the Principal Liability Outstanding of the Class C Notes; and (ii) the Principal Liability Outstanding of the Class D Notes.

Following the redemption in full of the Rated Notes, the Liquidity Amount will equal zero.

The amount by which the First Loss Fund exceeds the Liquidity Amount (the "**First Loss Liquidity Excess Amount**") will be applied by the Issuer on any Interest Payment Date towards the payment of the amounts referred to in items (i) to (xi) inclusive in the Revenue Priority of Payments where the Available Revenue (for these purposes excluding any Principal Receipts to applied to fund a Potential Interest Shortfall) of the Issuer on such Interest Payment Date is insufficient to pay such amounts following the application of any Shortfall Fund and any scheduled release from the Margin Reserve Fund, as described below.

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

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 the First Loss Fund will be replenished to the Required Amount from Available Revenue in accordance with the Revenue Priority of Payments.

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

#### *Definition and calculation of Required Amount*

The "**Required Amount**" of the First Loss Fund on the Closing Date will be an amount equal to 3 per cent. of the Initial Principal Amount of the Notes unless otherwise increased as described in the following paragraph.

The Required Amount will be increased to equal 4 per cent. of the Initial Principal Amount of the Notes if on any Principal Determination Date (the occurrence of such event being the "**Required Amount Trigger**"):

- (a) the then Current Balances of Mortgages which are then more than two months in arrears in aggregate constitute more than 3 per cent. of the then aggregate Current Balance of all Mortgages in the Mortgage Portfolio (and for these purposes a Mortgage will be more than two months in arrears at any time if, at such time, amounts totalling in aggregate more than two 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); or

- (b) the aggregate amount debited to the Principal Deficiency Ledger in respect of enforcement of Mortgages since the Closing Date exceeds 2 per cent. of the Initial Principal Amount of the Notes.

"**Current Balance**" means, in respect of a Mortgage, the outstanding balance, including arrears of interest and all other sums due and payable but unpaid in relation to such Mortgage.

***Liquidity support provided by use of Principal Receipts to fund Potential Interest Shortfall***

On each Principal Determination Date, the Administrator will calculate whether Available Revenue following the application of any Shortfall Fund, any scheduled release from the Margin Reserve Fund and the First Loss Liquidity Excess Amount is insufficient to pay or provide for all amounts in items (i) to (iv), (vi) and (viii) of the Revenue Priority of Payments (such insufficient amount being a Potential Interest Shortfall). If there will be a Potential Interest Shortfall, then the Administrator shall pay or provide for that Potential Interest Shortfall by the application of Principal Receipts on the following Interest Payment Date towards the payment in order of priority of:

- (a) the amounts referred to in items (i) to (iv) in the Revenue Priority of Payments (in the same order of priority as set out in the Revenue Priority of Payments);
- (b) the amounts referred to in item (vi) in the Revenue Priority of Payments only if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of: (i) 50 per cent. or more than the Principal Liability Outstanding of the Class B Notes; and (ii) the aggregate of the Principal Liability Outstanding of the Class C Notes and the Class D Notes; and
- (c) the amounts referred to in item (viii) in the Revenue Priority of Payments only if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of: (i) 50 per cent. or more than the Principal Liability outstanding of the Class C Notes; and (ii) the Principal Liability Outstanding of the Class D Notes.

The Principal Deficiency Ledger will be debited on each Interest Payment Date by an amount equal to the amount of any Principal Receipts applied to fund a payment of a Potential Interest Shortfall arising on that Interest Payment Date.

For more information about the application of Available Principal to fund payments of senior expenses and interest on the Rated Notes see the section entitled "*Cashflows and Cash Management*".

***Liquidity support provided by use of Liquidity Amount to fund Remaining Potential Interest Shortfall***

On each Principal Determination Date, the Administrator will calculate whether Available Revenue following the application of any Shortfall Fund, any scheduled release from the Margin Reserve Fund, the First Loss Liquidity Excess Amount and Principal Receipts is insufficient to pay or provide for all amounts in items (i) to (iv), (vi) and (viii) of the Revenue Priority of Payments (such insufficient amount being a Remaining Potential Interest Shortfall). If there will be a Remaining Potential Interest Shortfall, then the Administrator shall pay or provide for that Remaining Potential Interest Shortfall by the application of the Liquidity Amount on the following Interest Payment Date towards the payment in order of priority of:

- (a) the amounts referred to in items (i) to (iv) in the Revenue Priority of Payments (in the same order of priority as set out in the Revenue Priority of Payments);
- (b) the amounts referred to in item (vi) in the Revenue Priority of Payments only if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, and such payments in sub-paragraph (a) above and this sub-paragraph (b) do not together exceed: (i) 50 per cent. or more than the Principal Liability Outstanding of the Class B Notes; and (ii) the aggregate of the Principal Liability Outstanding of the Class C Notes and Class D Notes; and
- (c) the amounts referred to in item (viii) in the Revenue Priority of Payments only if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a

positive amount, and such payments in sub-paragraphs (a) and (b) above and this sub-paragraph (c) do not together exceed the aggregate of: (i) 50 per cent. or more than the Principal Liability outstanding of the Class C Notes; and (ii) the Principal Liability Outstanding of the Class D Notes.

For more information about the application of the Liquidity Amount to fund payments of senior expenses and interest on the Rated Notes see the section entitled "*Cashflows and Cash Management*".

#### ***Liquidity support provided by Shortfall Fund***

The Subordinated Lender may at any time (but is not obliged) advance amounts under the Subordinated Loan Agreement at the request of the Issuer which are to be credited to the Transaction Account for the purpose of establishing a shortfall fund (the "**Shortfall Fund**"). If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account (as to which see "*Mortgage Administration – Reinvestment of Income*" below), all amounts recovered in respect of early redemption amounts and scheduled releases from the Margin Reserve Fund is less than 4 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Noteholders in an investor report) until (and including) the Interest Payment Date falling in October 2017 and 4.5 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Noteholders in an investor report) thereafter, in each case above GBP LIBOR for the period from and including the immediately preceding Interest Payment Date up to but excluding the following Interest Payment Date (such rate being the "**Minimum Mortgage Rate**"), then the Administrator may do so only if there is a sufficient credit balance in the Shortfall Fund (net of all provisions previously made in the period from and including the immediately preceding Interest Payment Date up to but excluding the following Interest Payment Date) in order to provide for the shortfall which would arise at the end of the then current Interest Period and the Issuer makes a provision in the Shortfall Fund equal to such shortfall.

In this Prospectus, "**GBP LIBOR**" means in respect of any Interest Period, the Reference Rate in respect of the Notes in respect of that Interest Period as determined in accordance with Condition 4(c)(ii) or, in the event that no Notes are outstanding, determined by the Administrator using the same method set out in Condition 4(c)(ii).

On each Interest Payment Date, the full amount of the Shortfall Fund (if any) will be available to the Issuer to be applied as Available Revenue in accordance with the Revenue Priority of Payments.

#### ***Liquidity support provided by Margin Reserve Fund***

On the Closing Date the Issuer will establish a margin reserve fund (the "**Margin Reserve Fund**") which shall be used to supplement payments received by the Issuer in respect of:

- (i) accrued interest on amounts credited to the Transaction Account representing the Pre-Funding Reserve;
- (ii) interest payments in respect of Mortgages purchased on the Closing Date which are set at rate which is less than 3.75 per cent. above GBP LIBOR (after taking into account all hedging arrangements entered into by the Issuer) for an initial fixed or introductory low interest rate period applicable to such Mortgages until the expiry of the applicable initial fixed or introductory low interest rate period; and
- (iii) interest payments in respect of any Additional Mortgage which are set at rate which is less than 3.75 per cent. above GBP LIBOR (after taking into account all hedging arrangements entered into by the Issuer) for an initial fixed or introductory low interest rate period applicable to such Additional Mortgage until the expiry of the applicable initial fixed or introductory low interest rate period (the "**Additional Margin Shortfall**").

The Margin Reserve Fund will be funded by the Issuer drawing down under the Subordinated Loan Agreement: (i) an amount of £1,283,748 (being equal to 0.64 per cent. of the aggregate Initial Principal Amount of the Notes) on the Closing Date; and (ii) to the extent required, an amount equal to the

applicable Additional Margin Shortfall in respect of such Additional Mortgage on the date such Additional Mortgage is purchased by the Issuer (the applicable "**Additional Margin Reserve Amount**"). All drawings under the Subordinated Loan Agreement to fund the Margin Reserve Fund will be credited to the Transaction Account and the Margin Reserve Fund Ledger.

The Administrator will, on each of the first six Interest Payment Dates, cause amounts representing the Initial Margin Reserve Fund to be debited from the Margin Reserve Fund Ledger and credited to the Revenue Ledger for application as Available Revenue in accordance with the Revenue Priority of Payment according to the schedules set out the Administration Agreement (modified to the extent necessary from time to time to take into account any additional releases required in respect of Additional Margin Reserve Amounts).

The Administrator will, on each relevant Interest Payment Date, cause amounts representing the Additional Margin Reserve Amount in respect of an Additional Mortgage to be debited from the Margin Reserve Fund Ledger and credited to the Revenue Ledger for application as Available Revenue in accordance with the Revenue Priority of Payment to extent required to make-up the relevant Additional Margin Shortfall in respect of such Additional Mortgage on such Interest Payment Date.

***Liquidity Support provided by Further Advance Margin Reserve Amount in respect of Discretionary Further Advances***

If on any Principal Determination Date, amounts referable to the Further Advance Margin Reserve Amount standing to the credit of the Transaction Account and the Margin Reserve Fund Ledger (if any) are not at least equal to the Further Advance Margin Reserve Amount (as determined on such Principal Determination Date), the Administrator shall draw down under the Subordinated Loan Agreement and credit to the Transaction Account and the Margin Reserve Fund Ledger an amount sufficient to ensure that the Further Advance Margin Reserve Amount is standing to the credit of the Transaction Account and the Margin Reserve Fund Ledger.

On each Interest Payment Date, the Administrator will debit from the Margin Reserve Fund Ledger and credit to the Revenue Ledger an aggregate amount representing, in respect of each Discretionary Further Advance (if applicable), the Further Advance Margin Reserve Contribution divided by the number of the remaining Collection Periods in the remaining initial fixed or introductory low interest rate period applicable to such Discretionary Further Advance.

If on any Interest Payment Date to the extent an amount referable to any Further Advance Margin Reserve Contribution credited to the Transaction Account and the Margin Reserve Fund Ledger in respect of any Discretionary Further Advance made in any Collection Period and remaining to the credit of the Transaction Account and the Margin Reserve Fund Ledger (if any) exceeds the remaining Further Advance Margin Shortfall in respect of such Discretionary Further Advance, then such amounts shall be released from the Margin Reserve Fund Ledger and applied in repayment of principal amounts outstanding under the Subordinated Loan Agreement

In this Prospectus:

**"Further Advance Margin Reserve Amount"** means an amount equal to the aggregate Further Advance Margin Reserve Contributions calculated on each Principal Determination Date in respect of the immediately preceding Collection Period.

**"Further Advance Margin Reserve Contribution"** means, on each Principal Determination Date, in respect of each Discretionary Further Advance advanced by the Administrator in the immediately preceding Collection Period, on behalf of the Issuer, which is set at a rate which is less than 3.75 per cent. above GBP LIBOR (after taking into account all hedging arrangements entered into by the Issuer) for an initial fixed or introductory low interest rate period of no more than 5.25 years until the expiry of such applicable initial fixed or introductory low interest rate period, an amount equal to the current balance of such Discretionary Further Advance multiplied by the difference between the rate of interest applicable to that Discretionary Further Advance and three month GBP LIBOR plus 3.75 per cent for the remaining initial fixed or introductory low interest rate period (such amount, the "**Further Advance Margin Shortfall**").

## ***Hedge Agreements***

On the Closing Date, the Issuer will have entered into an agreement (the "**Hedge Agreement**", which expression shall include any replacement of such agreement and including the relevant confirmation to such agreements and replacements) with Macquarie Bank Limited, London Branch, as the hedge provider (the "**Hedge Provider**") and one or more interest rate swaps or other hedging arrangements thereunder, each in accordance with the applicable criteria of each Rating Agency on the Closing Date to hedge the risk of a differential between the rate of interest receivable in respect of the Fixed Rate Mortgages acquired by it on the Closing Date, on the one hand, and the rate of interest payable on the Notes on the other hand.

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 current ratings of the Notes) and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge (any such bank or financial institution being a "**Permitted Hedge Provider**" and any hedging agreement being entered into by the Issuer with such financial institution being a "**Permitted Hedge Agreement**").

In this Prospectus:

"**Hedge Agreement**" means the Hedge Agreement and any Permitted Hedge Agreement; and

"**Hedge Provider**" means the Hedge Provider and any Permitted Hedge Provider.

## **OTHER STRUCTURAL FEATURES**

### **Pre-Funding Reserve**

On or prior to the second Principal Determination Date following the Closing Date, the Issuer will be entitled to apply any amount standing to the credit of the Pre-Funding Reserve Ledger of the Transaction Account (the "**Pre-Funding Reserve**") in purchasing Additional Mortgages if and to the extent that the Issuer is permitted to do so by, and in accordance with, the Mortgage Sale Agreement, the Additional Mortgage Criteria and the Administration Agreement (see "*The Mortgages - Acquisition of Additional Mortgages following the Closing Date*").

The Additional Mortgages which may be purchased by the Issuer on each further purchase date after the Closing Date using amounts standing to the credit of the Pre-Funding Reserve Ledger will be selected in accordance with the terms of the Mortgage Sale Agreement from the mortgages not included in the Provisional Mortgage Pool.

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

### **Subordinated Loan Agreement**

Paragon Finance PLC (in such capacity, the "**Subordinated Lender**") will make available to the Issuer under a subordinated loan agreement to be entered into on or before the Closing Date a subordinated loan facility (the "**Subordinated Loan Agreement**").

An amount or amounts will be drawn down by the Issuer under the Subordinated Loan Agreement on the Closing Date to:

- (i) establish and fund the First Loss Fund at the initial Required Amount;
- (ii) fund the FRS 26 Adjustment in respect of Mortgages purchased on the Closing Date; and
- (iii) establish and fund the Margin Reserve Fund on the Closing Date.

The Subordinated Lender will also agree to make advances available to the Issuer:

- (i) if and to the extent that the Issuer does not have sufficient Available Principal, to enable it to make any Mandatory Further Advances which it is required to make;
- (ii) 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 (xv) inclusive in the Revenue Priority of Payments, by paying directly to each Hedge Provider any Hedge Provider Subordinated Amounts due and payable on such Interest Payment Date;
- (iii) if and to the extent that the Issuer or the Administrator on the Issuer's behalf waives any right to prepayment charges in an amount equal to the relevant waived prepayment charge;
- (iv) on the date any Additional Mortgage is purchased by the Issuer, to fund the Margin Reserve Fund in an amount equal to the applicable Additional Margin Shortfall (if any);
- (v) to fund any Further Advance Margin Reserve Amount if required; and
- (vi) to enable the Issuer to pay that part of the purchase price for Mortgages equal to the FRS 26 Adjustment.

In addition, but without prejudice thereto, the Subordinated Lender may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement:

- (i) if and to the extent that the Issuer does not have sufficient Available Principal to enable it to make any Discretionary Further Advances;
- (ii) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances;
- (iii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Ledger, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances;
- (iv) to enable the Issuer to make any Discretionary Further Advances when it would otherwise be unable to do so;
- (v) to establish or increase the Shortfall Fund; and
- (vi) to fund (if necessary) purchases by the Issuer of additional hedging arrangements (and any related guarantee) to hedge the Issuer's interest rate exposure on Fixed Rate Mortgages.

The Issuer may from time to time borrow further sums from the Subordinated Lender or other lenders (each being an "**Additional Subordinated Lender**") under the terms of the Subordinated Loan Agreement. The aggregate amount of all outstanding advances made to the Issuer under the Subordinated Loan Agreement may not (a) at any time exceed 10 per cent. of the aggregate Initial Principal Amount of the Notes and (b) at the time any advance is made or requested exceed 20 per cent. of the Principal Amount Outstanding of the Notes at that time.

On any Interest Payment Date, sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of the funds available to the Issuer to do so (in accordance with the Revenue Priority of Payments, the Principal Priority of Payments and the Enforcement Priority of Payments (as applicable)) provided that while any Notes remain outstanding no such repayment may be made if it would result in the principal amount outstanding in respect of the Subordinated Loan Agreement being less than the Required Amount and provided further that the Subordinated Lender and the Issuer may agree that any such repayment may be waived or deferred in whole or in part.

### **Issue Services Fee Letter**

Paragon Finance PLC (in such capacity, the "**Issue Services Provider**") has agreed to arrange the issue of the Notes on behalf of the Issuer. In particular, the Issue Services Provider has negotiated the terms of the issue of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Joint Lead Managers. The Issue Services Provider will pay, on behalf of the Issuer, or reimburse to the Issuer, any expenses payable by the Issuer in connection with the issue of the Notes.

The Issuer will agree under a fee letter to be entered into on the Closing Date between the Issuer, the Issue Services Provider and the Trustee (the "**Issue Services Fee Letter**") that it will pay the Issue Services Provider an arrangement fee (inclusive of any VAT) of 0.4 per cent. of the aggregate Initial Principal Amount of the Notes and that it will repay the Issue Services Provider all expenses paid by the Issue Services Provider in connection with the issue of the Notes in instalments on the Business Day following each Interest Payment Date over a period of 4 years from the Closing Date (the "**Issue Services Provider Fees**"). Amounts to be paid under the Issue Services Fee Letter will bear interest at a rate of 4 per cent. per annum above the Reference Rate applicable to the Notes during the Interest Period relating to the Notes ending on (but excluding) that Interest Payment Date as determined under Condition 4 (*Interest*) (or such other rate as the Issue Services Provider and the Issuer agree to be a fair commercial rate at the time) payable in arrear on the business day following each Interest Payment Date (including any value added tax chargeable thereon as applicable). Amounts owing to the Issue Services Provider under the Issue Services Fee Letter will be subordinated in the manner described in the section entitled "*Cashflows and Cash Management*" below.

### **Agency Agreement**

Each payment of principal and interest in respect of the Notes shall be made in accordance with an agency agreement (the "**Agency Agreement**") expected to be dated the Closing Date among the Issuer, the Trustee and Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**", which expression shall include its successors as principal paying agent under the Agency Agreement), as reference agent (the "**Reference Agent**", which expression shall include its successors as reference agent under the Agency Agreement), and as registrar for the Notes (the "**Registrar**", which expression shall include its successors as registrar under the Agency Agreement). 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, and together with the Reference Agent and Registrar, the "**Agents**"). Payments in respect of the Notes will be made by the Paying Agents and the Reference Agent will make the determinations specified in the Agency Agreement.

## CASHFLOWS AND CASH MANAGEMENT

### Transfer of Funds from the 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 Collection Account of the Seller. All moneys received in respect of the Mortgages will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

In this Prospectus:

**"Collection Account"** means an account in the name of the Seller at National Westminster Bank plc at 4 High Street, Solihull, West Midlands B91 3WL, specified as such in the Trust Deed (or such other bank account as the Seller, subject to certain restrictions and with the consent of the Trustee, may from time to time select for such purpose).

**"Transaction Account"** means an account of the Issuer with National Westminster Bank plc at its branch at 4 High Street, Solihull, West Midlands B91 3WL (or such other bank account as the Issuer, subject to certain restrictions and with the consent of the Trustee, may from time to time select for such purpose) into and out of which all payments to and by the Issuer will be made.

The Collection Account and/or the Transaction Account may be transferred from National Westminster Bank plc to Barclays Bank PLC following the Closing Date by the Administrator and/or the Seller without the consent of the Trustee or any other party, provided that at such time Barclays Bank PLC has the requisite ratings and subject to certain conditions (see the section entitled "*Mortgage Administration*" for further details).

### Use of Ledgers – the Issuer

The Administrator will maintain in the books of the Issuer the following ledgers in which the Administrator will record all amounts received by or on behalf of the Issuer.

#### *Principal Ledger*

The Administrator will credit to the "**Principal Ledger**" all principal amounts received from borrowers in respect of the Mortgages or otherwise paid or recovered in respect of the Mortgages (including the consideration representing principal paid by the Seller in respect of the repurchase of any Mortgages) (such receipts being "**Principal Receipts**").

#### *Revenue Ledger*

The Administrator will be required to credit all amounts received by the Issuer to the "**Revenue Ledger**" (such receipts being "**Revenue Receipts**") apart from:

- (i) amounts credited to the Principal Ledger;
- (ii) drawings under the Subordinated Loan Agreement which are to be used for the purposes of establishing or increasing the First Loss Fund, the Shortfall Fund and the Margin Reserve Fund;
- (iii) drawings under the Subordinated Loan Agreement in order to reduce to zero any debit balance on the Principal Deficiency Ledger;
- (iv) drawings under the Subordinated Loan Agreement in order to fund the Issuer when making any Mandatory Further Advances or Discretionary Further Advances (to the extent entered into by the Issuer);
- (v) drawings under the Subordinated Loan Agreement to fund the FRS 26 Adjustment;
- (vi) any Hedge Collateral received from a Hedge Provider from time to time in respect of any Hedge Agreement; and
- (vii) amounts retained by the Issuer in accordance with paragraph (x) of the Revenue Priority of Payments.

Amounts in respect of items (iii), (iv) and (v) above will be credited to the Principal Ledger.

*Pre Funding Reserve Ledger*

The Administrator will credit to the "**Pre-Funding Reserve Ledger**" an amount equal to the gross proceeds of the issue of the Notes and any drawings under the Subordinated Loan Agreement not applied on the Closing Date in purchasing Mortgages, establishing the First Loss Fund and the Margin Reserve Fund.

*First Loss Ledger*

The Administrator will deposit drawings under the Subordinated Loan Agreement to be used for the purposes of establishing the First Loss Fund or to replenish the First Loss Fund to the Required Amount in a separate ledger under the Transaction Account (the "**First Loss Ledger**").

*Shortfall Ledger*

The Administrator will deposit drawings under the Subordinated Loan Agreement to be used for the purposes of establishing the Shortfall Fund from time to time in a separate ledger under the Transaction Account (the "**Shortfall Ledger**"). The Administrator will, on each Interest Payment Date, cause an amount to be debited from the Shortfall Ledger and be credited to the Revenue Ledger for application in accordance with the Revenue Priority of Payments.

*Interest Shortfall Ledger*

The Administrator will, on any Principal Determination Date while any Rated Note remains outstanding, debit an amount equal to the expected Potential Interest Shortfall on the immediately following Interest Payment Date to the Principal Ledger and credit such amount in a separate ledger under the Transaction Account (the "**Interest Shortfall Ledger**").

The Administrator will, on each Interest Payment Date, cause an amount to be debited from the Interest Shortfall Ledger and credited to the Revenue Ledger to fund the Potential Interest Shortfall in accordance with the Administration Agreement.

*Margin Reserve Fund Ledger*

The Administrator will deposit drawings under the Subordinated Loan Agreement to be used for the purposes of establishing the Margin Reserve Fund on the Closing Date and from time to time (including in respect of any Further Advance Margin Reserve Amount) in a separate ledger under the Transaction Account (the "**Margin Reserve Fund Ledger**").

The Administrator will, on each Interest Payment Date, cause an amount to be debited from the Margin Reserve Fund Ledger and credited to the Revenue Ledger in accordance with a schedule set out in the Administration Agreement (modified to the extent necessary from time to time to take into account any additional releases required in respect of Additional Margin Reserve Amounts) for application in accordance with the Revenue Priority of Payments.

*Hedge Collateral Ledger*

In the event that any Hedge Collateral is received by the Issuer from a Hedge Provider, the Administrator will maintain a "**Hedge Collateral Ledger**" to which will be credited amounts representing that Hedge Collateral. The Hedge Collateral Ledger will be debited by the relevant amount in the event that Hedge Collateral is returned to the relevant Hedge Provider or is applied (or is realised and applied) towards satisfaction of obligations of that Hedge Provider, in each case in accordance with the relevant Hedge Agreement. In the event that such Hedge Collateral is applied towards satisfaction of obligations of such Hedge Provider, such amount shall be credited to the Revenue Ledger for application in accordance with the Revenue Priority of Payments.

*Principal Deficiency Ledger*

The Administrator will maintain a "**Principal Deficiency Ledger**" to which will be debited amounts representing principal losses incurred on the Mortgages, Principal Receipts which are credited to the

Interest Shortfall Ledger and applied in making up a Potential Interest Shortfall, Principal Receipts applied to increase the First Loss Fund up to the Liquidity Amount, amounts applied in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Mortgages and other amounts payable to the Account Bank and in increasing the First Loss Fund up to the Liquidity Amount. The Principal Deficiency Ledger will be credited if and to the extent that funds standing to the credit of the Revenue Ledger are applied in making such reduction in accordance with the Revenue Priority of Payments.

### **Revenue Priority of Payments**

Until the security for the Notes becomes enforceable, the following payments and provisions are required to be made out of the moneys standing to the credit of the Transaction Account and representing the credit balance on the Revenue Ledger ("**Available Revenue**") on each Interest Payment Date, (including all amounts received from each Hedge Provider on that Interest Payment Date except for any Hedge Collateral or proceeds thereof (until such time as and to the extent permitted by the relevant Hedge Agreement such Hedge Collateral is applied (or is realised and applied) towards satisfaction of the obligations of that Hedge Provider) and including the First Loss Fund where required and permitted as described in "*Key Structural Features – Credit and Liquidity Support*" below), 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) (the "**Revenue Priority of Payments**"):

- (i) *pro rata* according to the respective amounts thereof, payment of any amounts due and payable by the Issuer to the Trustee, payment of any costs or expenses properly claimed (including, without limitation, the reimbursement of such fees costs and expenses properly paid by any agent on behalf of the Issuer) by the Agents under the Agency Agreement, and payment of amounts due and payable by the Issuer to the Substitute Administrator pursuant to the Substitute Administrator Agreement (other than the Administration Subordinated Fee, if applicable, and the commitment fee referred to therein);
- (ii) *pro rata* according to the respective amounts thereof, payment of: (a) all fees (other than the Administration Subordinated Fee), costs, expenses and commissions due and payable to the Administrator and/or the Seller and/or any substitute administrator under the Administration Agreement; and/or any other person appointed to perform the services specified in the Administration Agreement (b) the commitment fee due and payable to the Substitute Administrator under the Substitute Administrator Agreement and/or any person appointed to perform the services specified in the Substitute Administrator Agreement; and (c) surveillance fees to the Rating Agencies (in each case, together with any VAT thereon in accordance with the relevant agreement);
- (iii) *pro rata* according to the respective amounts thereof, payment of any amounts due and payable to the Hedge Provider under the Hedge Agreement or to any Permitted Hedge Provider under any other hedging arrangements entered into by the Issuer, in each case other than (a) any Hedge Provider Subordinated Amounts, and (b) any Withholding Compensation Amounts;
- (iv) payment of interest due and payable and all arrears of interest remaining unpaid on the Class A Notes together with (if applicable) interest thereon;
- (v) if on that Interest Payment Date any Class A Note remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate Principal Liability Outstanding of the Class B Notes, Class C Notes and the Class D Notes then an amount up to that excess shall be applied in making a 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;
- (vi) payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest) on the Class B Notes together with (if applicable) interest thereon;
- (vii) if on that Interest Payment Date, any Class B Note remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum)

exceeds the aggregate Principal Liability Outstanding of the Class C Notes and the Class D Notes, then an amount up to that excess shall be applied in making a 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;

- (viii) payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest) on the Class C Notes together with (if applicable) interest thereon;
- (ix) if on that Interest Payment Date, any Class C Note remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate Principal Liability Outstanding of the Class D Notes, then an amount up to that excess shall be applied in making a 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;
- (x) provision for payment to the Issuer to retain as profit in the Transaction Account an amount equivalent to £250 (the "**Issuer Profit Amount**");
- (xi) (taking into account any reduction of the debit balance on the Principal Deficiency Ledger under paragraphs (v), (vii) and (ix) above) 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;
- (xii) provision for an amount necessary to replenish the First Loss Fund to the Required Amount;
- (xiii) to the extent not already paid in full over one or more Interest Payment Dates, payment to any unsecured claimants of the Issuer of amounts not contemplated by item (xiv) below (such amounts being towards full and final settlement of a claim that is due and payable and remains unpaid and not exceeding the amount prescribed as the "prescribed part" in The Insolvency Act (Prescribed Part) Order 2003 (as amended, varied or supplemented from time to time) were the Issuer to be declared insolvent);
- (xiv) *pro rata* according to the respective amounts thereof (except as otherwise provided for in this Revenue Priority of Payments), payment of sums due and payable to third parties (each including any value added tax chargeable thereon) under obligations incurred in the course of the Issuer's business and provision for and payment of the Issuer's liability (if any) to VAT and to corporation tax (to the extent that such corporation tax is not paid out of amounts retained by the Issuer in the Transaction Account as profit in accordance with paragraph (x) and the balance, if any, of the value added tax liability of the Paragon VAT Group following a demand being made by H.M. Revenue & Customs on the Issuer where the value added tax liability is not satisfied in full in accordance with the Deed of Charge, the Administration Agreement and the VAT Declaration of Trust (see the section entitled "*The Paragon VAT Group*") below;
- (xv) *pro rata* according to the respective amounts thereof, payment of any Withholding Compensation Amounts and any Hedge Provider Subordinated Amounts, if any, due and payable to each Hedge Provider in respect of any Hedge Agreement;
- (xvi) on any Interest Payment Date falling prior to the Call Option Date, payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest on the Class D Notes together with (if applicable) interest thereon;
- (xvii) provision for, at the option of the Issuer, a reserve to fund any purchases of hedging arrangements and/or related guarantees in the next Interest Period;
- (xviii) provision for any Administration Subordinated Fee then due or overdue to the Administrator and/or any substitute administrator under the Administration Agreement (together with any VAT thereon in accordance with the Administration Agreement);

- (xix) provision for any amounts then due or overdue to the Issue Services Provider under the Issue Services Fee Letter (each including any value added tax chargeable thereon, as applicable);
- (xx) on any Interest Payment Date falling on or after the Call Option Date, in or towards repaying principal due on the Rated Notes in accordance with the Conditions (see Condition 5(a) (*Mandatory Redemption in Part from Available Redemption Funds*));
- (xxi) on any Interest Payment Date falling on or after the Call Option Date payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest on the Class D Notes together with (if applicable) interest thereon;
- (xxii) provision for interest due under the Subordinated Loan Agreement;
- (xxiii) provision for the repayment of the outstanding amount of all advances from the Subordinated Lender and any Additional Subordinated Lender made under the Subordinated Loan Agreement, subject to a maximum provision of the lesser of (a) the aggregate outstanding amount of all such advances less the Required Amount, and (b) the amount available for application after all provisions and payments referred to in paragraphs (i) to (xxii) inclusive above have been made in full;
- (xxiv) provision for payment to the Administrator or Corporate Services Provider of such fees as the Issuer and the Administrator or Corporate Services Provider, as the case may be, may agree (including, without limitation, in the Corporate Services Letter) in respect of facilities or services provided to the Issuer by the Administrator or Corporate Services Provider, as the case may be, other than fees provided for above (each including any value added tax chargeable thereon, as applicable); and
- (xxv) provision for payment to the Seller in respect of Deferred Purchase Consideration,

all as set out in a deed of sub-charge and assignment to be entered into between the Issuer, the Trustee, the Corporate Services Provider, the Seller, the Administrator, the Issue Services Provider, the Subordinated Lender, the Hedge Provider and the Substitute Administrator and others (the "**Deed of Charge**").

If and to the extent that the provisions specified in paragraphs (xix) and (xxii) to (xxv) inclusive above are made on an Interest Payment Date, the relevant amounts shall be paid to the persons entitled thereto on or (with the prior consent of the Administrator, the Issue Services Provider, the Corporate Services Provider, the Subordinated Lender and the Seller, as applicable) after the first Business Day after such Interest Payment Date to the extent that the amounts credited to the Transaction Account representing a credit balance on the Revenue Ledger are sufficient for such purpose.

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

### **Principal Priority of Payments**

Until the security for the Notes becomes enforceable, the following payments and provisions are required to be made out of the moneys standing to the credit of the Transaction Account and representing the credit balance on the Principal Ledger less any amount to be applied to fund a Potential Interest Shortfall ("**Available Principal**") on each Interest Payment Date, in the following order of priority (except to the extent that any of items (i)(a), (ii), (iii) and (iv) is identified as being due and payable prior to the determination of amounts due in priority thereto, in which case amounts shall be allocated to payment of such items upon identification) (the "**Principal Priority of Payments**"):

- (i) (a) up to (and including) the second Principal Determination Date, in or towards making payment of when due (debiting the Principal Ledger) the Initial Purchase Consideration of any Additional Mortgages (excluding any FRS 26 Adjustment Amount) and (b) the amount estimated by the Issuer to be, on the immediately succeeding Interest Payment Date, the extent to which the First Loss Fund will be less than the Liquidity Amount following the application of the Revenue Priority of Payments (such principal amounts being used to increase the First Loss Fund up to the Liquidity Amount and a corresponding debit being made to the Principal Deficiency Ledger);

- (ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) to the extent that such principal amount has been funded using amounts on the Principal Ledger;
- (iii) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;
- (iv) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages and/or reimbursement of any amount payable to the Account Bank in accordance with the direct debiting scheme and debited to the Principal Ledger;
- (v) in or towards repaying principal due on the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes in accordance with the Conditions and the provisions of the Trust Deed (see Condition 5(a) (*Mandatory Redemption in Part from Available Redemption Funds*)); and
- (vi) provided the Notes have been repaid in full (but without prejudice to any provision of the Subordinated Loan Agreement providing for the earlier repayment of principal), in or towards repaying any remaining principal outstanding to each Subordinated Lender or any Additional Subordinated Lender under the terms of the Subordinated Loan Agreement.

#### **Enforcement Priority of Payments**

The terms on which the security interests, referred to below in "*Security for the Notes*", will be held will provide that all moneys received or recovered after the security constituted by or pursuant to the Deed of Charge has become enforceable ("**Post-Enforcement Amounts**") shall (subject as provided therein) be applied in the following order of priority (in each case, *pro rata* according to the respective amounts thereof) (the "**Enforcement Priority of Payments**" and, together with the Revenue Priority of Payments and the Principal Priority of Payments, the "**Payments Priorities**") on such dates from time to time as the Trustee may decide:

- (i) (a) the remuneration then payable to any receiver appointed under the Deed of Charge and any costs, charges, liabilities and expenses incurred by such receiver together with interest as provided in the Deed of Charge; (b) amounts due from the Issuer to the Trustee together with interest thereon as provided in the Deed of Charge; (c) any costs, fees or expenses properly claimed (including, without limitation, the reimbursement of such costs, fees and expenses properly paid by any agent on behalf of the Issuer) by the Agents under the Agency Agreement; (d) amounts due to Borrowers under the Mortgages in respect of Mandatory Further Advances (in each case, together with any VAT thereon in accordance with the relevant agreement); and (e) surveillance fees to the Rating Agencies;
- (ii) (a) certain fees (other than the Administration Subordinated Fee) and out-of-pocket expenses and commissions of the Administrator; (b) certain commissions previously received by the Issuer which have not previously been paid to the Seller; and (c) all moneys due and payable to the Substitute Administrator under the Substitute Administrator Agreement (including the commitment fee payable to the Substitute Administrator) (in each case, together with any VAT thereon in accordance with the relevant agreement);
- (iii) any amounts due and payable by the Issuer to the Hedge Providers or to any Permitted Hedge Provider, in each case other than (a) any Hedge Provider Subordinated Amount and (b) any Withholding Compensation Amounts;
- (iv) (a) all interest unpaid in respect of the Class A Notes (together with any unpaid interest thereon); (b) all principal moneys due in respect of the Class A Notes; and (c) any other amounts due in respect of the Class A Notes;
- (v) (a) all interest unpaid in respect of the Class B Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default 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;

- (vi) (a) all interest unpaid in respect of the Class C Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class C Notes; and (c) any other amounts due in respect of the Class C Notes;
- (vii) (a) all interest unpaid in respect of the Class D Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class D Notes; and (c) any other amounts due in respect of the Class D Notes;
- (viii) payment of any Withholding Compensation Amounts and any Hedge Provider Subordinated Amounts, if any, due and payable to each Hedge Provider in respect of any Hedge Agreement;
- (ix) provision for any Administration Subordinated Fee then due or overdue to the Administrators and/or any substitute administrator under the Administration Agreement (together with any VAT thereon in accordance with the Administration Agreement);
- (x) all amounts due and payable by the Issuer: (a) to the Corporate Services Provider under the Corporate Services Letter and the Deed of Charge; (b) to the Seller under the Mortgage Sale Agreement, the Administration Agreement and the Deed of Charge (other than from Deferred Purchase Consideration); (c) to the Subordinated Lender and any Additional Subordinated Lender under the Subordinated Loan Agreement; and (d) to the Issue Services Provider under the Issue Services Fee Letter (each including any value added tax chargeable thereon, as applicable);
- (xi) provision for payment to the Issuer of the Issuer Profit Amount; and
- (xii) payment to the Seller in respect of Deferred Purchase Consideration.

#### **Application of Excess Hedge Collateral and Hedge Replacement Premium**

Any amount attributable to the return of collateral to a Hedge Provider and any Hedge Replacement Premium will be paid directly to the relevant Hedge Provider and not in accordance with the Revenue Priority of Payments or the Enforcement Priority of Payments (see further the section entitled "*Hedging Arrangements*").

## DESCRIPTION OF THE NOTES IN GLOBAL FORM

The issue of the Notes is authorised by resolutions of the Board of Directors of the Issuer passed on 16 October 2012. The Notes will be constituted by a trust deed (the "**Trust Deed**") expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee for the Noteholders (as defined in Condition 1(a)). The proceeds of the Notes will be applied by the Issuer as described in "*Use of Proceeds*" below.

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Deed of Charge.

The 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 Relevant Documents.

### General

The Notes of each Class, as at the Closing Date, will be represented by a Global Note. All capitalised terms not defined in this paragraph shall be as defined in the Conditions of the Notes.

In a press release dated 22 October 2008, "*Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations*", the ECB announced that it has assessed the new holding structure and custody arrangements for registered notes which the ICSDs had designed in co-operation with market participants and that notes to be held under the new structure (the "**New Safekeeping Structure**" or "**NSS**") would be in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the central banking system for the Euro (the "**Eurosystem**"), subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2010 and that registered debt securities in global registered form held issued through Euroclear and Clearstream, Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the New Safekeeping Structure is used.

The Global Notes will be deposited on or about the Closing Date with a common depositary for both Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") and, in the case of Notes to be held under the NSS, will be deposited with the common safekeeper for Euroclear and Clearstream, Luxembourg (the "**Common Safekeeper**"). It is intended that the Class A Notes which are to be held under the NSS will be held in a manner to enable Eurosystem eligibility, however, it cannot be confirmed that the Class A Notes to be held under NSS will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria has been met.

The Global Notes will be registered in the name of a nominee for the Common Depositary for both Euroclear and Clearstream, Luxembourg and, in the case of Notes to be held under the NSS, will be deposited with the Common Safekeeper and registered in the name of a nominee of Euroclear and Clearstream. The Registrar will maintain a register in which it will register the nominee for the Common Depositary, or in the case of Notes to be held under the NSS, the Common Safekeeper, as applicable, as the owner of the Global Notes.

Upon confirmation by the Common Depositary or the Common Safekeeper (as applicable) that it has custody of each Global Note, Euroclear or Clearstream, Luxembourg, as the case may be, will record the beneficial interests in such Global Note (the "**Book-Entry Interests**") attributable thereto.

Book-Entry Interests in respect of each Global Note will be recorded in denominations of £100,000 and for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000 respectively (an "**Authorised Denomination**"). Ownership of Book-Entry Interests is limited to persons that have accounts with Euroclear or Clearstream, Luxembourg (the "**Participants**") or persons that hold interests in the Book-Entry Interests through Participants (the "**Indirect Participants**"), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly.

Indirect Participants shall also include persons that hold beneficial interests through such Indirect Participants. Book-Entry Interests will not be held in definitive form. Instead, Euroclear and Clearstream, Luxembourg, as applicable, will credit the Participants' accounts with the respective Book-Entry Interests beneficially owned by such Participants on each of their respective book-entry registration and transfer systems. The accounts initially credited will be designated by the Joint Lead Managers. Ownership of Book-Entry Interests will be shown on, and transfers of Book-Entry Interests or the interests therein will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg (with respect to the interests of their Participants) and on the records of Participants or Indirect Participants (with respect to the interests of Indirect Participants). The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may therefore impair the ability to own, transfer or pledge Book-Entry Interests.

So long as a nominee for the Common Depository or, in the case of Notes held under the NSS, the Common Safekeeper, is the registered holder of each Global Note underlying the Book-Entry Interests, the nominee for the Common Depository or the Common Safekeeper (in the case of Notes held under the NSS), will be considered the sole Noteholder of such Global Note for all purposes under the Trust Deed. Except as set forth in the section entitled "*Issuance of Definitive Notes*", below, Participants or Indirect Participants will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive registered form and will not be considered the holders thereof under the Trust Deed. Accordingly, each person holding a Book-Entry Interest must rely on the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and Indirect Participants must rely on the procedures of the Participants or Indirect Participants through which such person owns its interest in the relevant Book-Entry Interests, to exercise any rights and obligations of a holder of Notes under the Trust Deed. See the section entitled "*Action in Respect of the Global Notes and the Book-Entry Interests*", below.

Unlike legal owners or holders of the Notes, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by the Issuer or consents or requests by the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg, as the case may be, and, if applicable, their Participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Event of Default under any Global Note, holders of Book-Entry Interests will be restricted to acting through Euroclear or Clearstream, Luxembourg unless and until Definitive Notes are issued in accordance with the Conditions. There can be no assurance that the procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

In the case of each Global Note, unless and until Book-Entry Interests are exchanged for Definitive Notes, such Global Note held by the Common Depository or, in the case of Notes held under the NSS, the Common Safekeeper, may not be transferred except as a whole by the Common Depository or, in the case of Notes held under the NSS, the Common Safekeeper, to a successor of the Common Depository or, in the case of Notes held under the NSS, the Common Safekeeper.

Purchasers of Book-Entry Interests in a Global Note will hold Book-Entry Interests in such Global Note relating thereto. Investors may hold their Book-Entry Interests in respect of the Global Notes directly through Euroclear or Clearstream, Luxembourg (in accordance with the provisions set forth under "*Transfers and Transfer Restrictions*", below), if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. Euroclear and Clearstream, Luxembourg will hold Book-Entry Interests in the Global Notes on behalf of their account holders through securities accounts in the respective account holders' names on Euroclear's and Clearstream, Luxembourg's respective book-entry registration and transfer systems.

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Arranger, any Joint Lead Manager, the Trustee or any of their respective agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective Participants or account holders of their respective obligations under the rules and procedures governing their operations.

## **Payments on the Global Notes**

Payment of principal and interest on, and any other amount due in respect of, the Global Notes will be made in Sterling by Citibank, N.A., London Branch, as the Principal Paying Agent on behalf of the Issuer to the order of the Common Depositary or its nominee, or, in the case of Notes held under the NSS, the Common Safekeeper or its nominee as the registered holder thereof with respect to the Global Notes. Each holder of Book-Entry Interests must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of any amounts paid by or on behalf of the Issuer to the order of the Common Depositary, or their nominees or, in the case of Notes held under the NSS, the Common Safekeeper or their nominees, in respect of those Book-Entry Interests. All such payments will be distributed without deduction or withholding for or on account of any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer, the Paying Agents nor any other person will be obliged to pay additional amounts in respect thereof.

In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment from the Principal Paying Agent to the order of the Common Depositary or, in the case of Notes held under the NSS, the Common Safekeeper, the respective systems will promptly credit their Participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown in the records of Euroclear or Clearstream, Luxembourg. On each record date (the "**Record Date**") Euroclear and Clearstream, Luxembourg will determine the identity of the Noteholders for the purposes of making payments to the Noteholders. The Record Date, in respect of the Notes shall be as at the close of business on the Business Day prior to the relevant Interest Payment Date. The Issuer expects that payments by Participants to owners of interests in Book-Entry Interests held through such Participants or Indirect Participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants or Indirect Participants. None of the Issuer, any agent of the Issuer, the Arranger, any Joint Lead Manager, the Trustee, the Paying Agents or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of a Participant's ownership of Book-Entry Interests or for maintaining, supervising or reviewing any records relating to a Participant's ownership of Book-Entry Interests.

## **Information Regarding Euroclear and Clearstream, Luxembourg**

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg have advised the Issuer as follows:

Euroclear and Clearstream, Luxembourg each hold securities for their account holders and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risk from lack of simultaneous transfers of securities.

Euroclear and Clearstream, Luxembourg each provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deal with domestic securities markets in several countries through established depositary and custodial relationships. An electronic bridge has been established between the two systems of Euroclear and Clearstream, Luxembourg across which their respective account holders may settle trades with each other.

Account holders in both Euroclear and Clearstream, Luxembourg are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to both Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

An account holder's overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under such rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective account holders.

The Issuer understands that under existing industry practices, if either of the Issuer or the Trustee requests any action of owners of Book-Entry Interests or if an owner of a Book-Entry Interest desires to give instructions or take any action that a holder is entitled to give or take under the Trust Deed or the Deed of Charge, Euroclear or Clearstream, Luxembourg, as the case may be, would authorise the Participants owning the relevant Book-Entry Interests to give instructions or take such action, and such Participants would authorise Indirect Participants to give or take such action or would otherwise act upon the instructions of such Indirect Participants.

### ***Redemption***

In the event that any Global Note (or portion thereof) is redeemed, the Principal Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to the nominee of the Common Depository or, in the case of Notes held under the NSS, the Common Safekeeper, and, upon final payment, will surrender such Global Note (or portion thereof) to or to the order of the Principal Paying Agent for cancellation. Appropriate entries will be made in the Register. The redemption price payable in connection with the redemption of Book-Entry Interests will be equal to the amount received by the Principal Paying Agent in connection with the redemption of the Global Note (or portion thereof) relating thereto. For any redemptions of a Global Note in part, selection of the relevant Book-Entry Interest relating thereto to be redeemed will be made by Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be. Upon any redemption in part, the Principal Paying Agent will mark down the schedule to such Global Note by the principal amount so redeemed.

### ***Cancellation***

All Notes redeemed in full will be cancelled forthwith by the Issuer and may not be reissued or resold.

### ***Transfers and Transfer Restrictions***

All transfers of Book-Entry Interests will be recorded in accordance with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to customary procedures established by each respective system and its Participants. See "*General*" above.

Beneficial interests in the Global Notes may be held only through Euroclear or Clearstream, Luxembourg. The Global Notes will bear a legend substantially identical to that appearing in the section entitled "*Transfer Restrictions and Investor Representations*" and neither the Global Notes nor any beneficial interest therein may be transferred except in compliance with the transfer restrictions set forth in the legend appearing in the Global Notes.

### ***Issuance of Definitive Notes***

Holders of Book-Entry Interests in the Global Notes will be entitled to receive Definitive Notes in registered form (Definitive Notes) in exchange for their respective holdings of Book-Entry Interests if (a) Euroclear or Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease to do business and no alternative clearing system satisfactory to the Trustee is available or (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or any political subdivision 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 the Closing Date, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of a Global Note which would not be required if the Global Note were in definitive registered form and a certificate to such effect signed by an authorised director of the Issuer is delivered to the Trustee.

Any Definitive Notes issued in exchange for Book-Entry Interests in the Global Notes will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg, as the case may be. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to ownership of the relevant Book-Entry Interests. Holders of Definitive Notes issued in exchange for Book-Entry Interests in the Global Notes will not be entitled to exchange such Definitive Note for Book-Entry Interests in such Global Notes. Any Notes issued in definitive form will

be issued in registered form only within 30 days of the occurrence of the relevant event (but not earlier than the first day following the expiry of 40 days after the Closing Date) and will be subject to the provisions set forth under "*Transfers and Transfer Restrictions*" above and provided that no transfer shall be registered for a period of 15 days immediately preceding any due date for payment in respect of the Note or, as the case may be, the due date for redemption. Definitive Notes will not be issued in an Authorised Denomination.

***Action in Respect of the Global Notes and the Book-Entry Interests***

Not later than 10 days after receipt by the Issuer of any notices in respect of a Global Note or any notice of solicitation of consents or requests for a waiver or other action by the holder of a Global Note, the Issuer will deliver to Euroclear and Clearstream, Luxembourg a notice containing (a) such information as is contained in such notice, (b) a statement that at the close of business on a specified record date Euroclear and Clearstream, Luxembourg will be entitled to instruct the Issuer as to the consent, waiver or other action, if any, pertaining to the Book-Entry Interests or the Global Note and (c) a statement as to the manner in which such instructions may be given. Upon the written request of Euroclear or Clearstream, Luxembourg, as applicable, the Issuer shall endeavour insofar as practicable to take such action regarding the requested consent, waiver or other action in respect of the Book-Entry Interests or the Global Note in accordance with any instructions set forth in such request. Euroclear or Clearstream, Luxembourg are expected to follow the procedures described under "*General*" above, with respect to soliciting instructions from their respective Participants. The Registrar will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Book-Entry Interests or the Global Notes.

***Reports***

The Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received relating to the Issuer, the Global Notes or the Book-Entry Interests. In addition, notices regarding the Notes will be published *inter alia* in the Financial Times, on the Relevant Screen, or whilst the Notes are represented by a Global Note to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders. See also Condition 12 (*Notices*) of the Notes.

## SECURITY FOR THE NOTES

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

- (1) a sub-charge over the Mortgages (including any Additional Mortgages) purchased by the Issuer from the Seller under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment in security of the benefit of the guarantee;
- (2) an assignment by way of security of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (3) an assignment by way of security of the Issuer's rights under each of the Mortgage Sale Agreement, the Corporate Services Letter, the Subordinated Loan Agreement, the Issue Services Fee Letter, the Administration Agreement, the Substitute Administrator Agreement, the Article 122a Deed of Covenant, the VAT Declaration of Trust, the Agency Agreement, the Collection Account Declaration of Trust, the Cross-collateral Mortgage Rights Deed, the Subscription Agreement, the Tax Deed of Covenant, the Hedge Agreement and other hedging arrangements entered into by the Issuer;
- (4) an assignment by way of security of the Issuer's rights to all moneys standing to the credit of the Transaction Account, any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (5) a first fixed charge over any Authorised Investments and any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and
- (6) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not already subject to fixed security.

The Security will also stand as security for any amounts owing or payable by the Issuer to each, some or any of the Secured Creditors under the Notes or the Relevant Documents (such amounts being the "**Secured Amounts**").

In this Prospectus, "**Secured Creditors**" means any Receiver, the Trustee, the Noteholders, the Substitute Administrator, the Seller, the Administrator, the Issue Services Provider, the Corporate Services Provider, the Subordinated Lender, any Additional Subordinated Lender, the Hedge Provider and any Permitted Hedge Provider.

The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto.

The Deed of Charge will contain a provision whereby the Trustee and the Issuer may agree, without the consent of any of the other parties thereto, to waive the requirement of the Issuer to maintain its "centre of main interests" (as such term is defined in Article 3(I) of the EU Insolvency Regulations) in England and Wales, provided that, the Trustee has received from (i) the Administrator a certificate confirming, in its reasonable opinion, and (ii) S&P a confirmation that such waiver would not result in a downgrade of the then current ratings of the Notes.

The Deed of Charge is governed by English law.

## TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions, (the "**Conditions**") which apply to the Notes and, if Definitive Notes were to be issued, will be endorsed on the Notes. While any Notes remain in global form the Conditions govern them, except to the extent that they are appropriate only to Notes in definitive form.

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

#### (a) *Issue of the Notes to Noteholders pursuant to the Trust Deed*

Paragon Mortgages (No.17) PLC (the "**Issuer**") has issued the "**Notes**", which comprise:

- (i) the "**Class A Notes**" which comprise the £175,000,000 Class A Notes;
- (ii) the "**Class B Notes**" which comprise the £10,500,000 Class B Notes;
- (iii) the "**Class C Notes**" which comprise the £10,000,000 Class C Notes; and
- (iv) the "**Class D Notes**" which comprise the £4,500,000 Class D Notes,

pursuant to a trust deed (the "**Trust Deed**") dated on or about 25 October 2012 or such later date agreed between the Issuer and the Joint Lead Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the Holders (as defined in Condition 1(d)) for the time being of the Class A Notes (together the "**Class A Noteholders**"), the Holders for the time being of the Class B Notes (together the "**Class B Noteholders**"), the Holders for the time being of the Class C Notes (together the "**Class C Noteholders**"), the Holders for the time being of the Class D Notes (together the "**Class D Noteholders**" and, together with the Class A Noteholders, the Class B Noteholders and the Class C Noteholders, the "**Noteholders**").

In these Conditions "**class**" shall be a reference to a class of the Notes being each or any of the Class A Notes, the Class B Notes, the Class C Notes or the Class D Notes, as the context may require, and "**classes**" shall be construed accordingly.

In these Conditions, "**Rated Notes**" shall mean the Class A Notes, the Class B Notes and the Class C Notes.

The 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 (as defined in Condition 2) and will be deemed to have notice of all the provisions of the Relevant Documents (as defined in Condition 3(a)(i)(B)). Expressions defined in those documents and not otherwise defined in these Conditions shall where used in these Conditions have the meanings indicated in the Relevant Documents. Certain provisions of these Conditions are summaries of the Relevant Documents and are subject to their detailed provisions. Copies of the Relevant Documents will be available for inspection at the registered office of the Issuer and at the Specified Office for the time being of the Principal Paying Agent.

#### (b) *Form of the Notes*

Notes will be represented by one or more permanent global notes in fully registered form without interest coupons (each such global note in relation to a class of those Notes being a "**Global Note**").

Each Global Note, save for a Global Note to be held under the New Safekeeping Structure ("**NSS**"), is expected to be deposited with, and registered in the name of, or a nominee of, Citibank, N.A., London Branch as common depositary (the "**Common Depositary**") for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**" and together with Euroclear, the "**Clearing Systems**") on the Closing Date. Global Notes to be held under NSS

will be deposited with and registered in the nominee name of the common safekeeper for Euroclear and Clearstream, Luxembourg.

The beneficial interests represented by the Global Note will be exchanged for Notes of the relevant class in definitive registered form (each such Note a "**Definitive Note**") only upon the occurrence of certain limited circumstances specified in the Global Note. Upon such an exchange the aggregate principal amount of the Definitive Notes shall be equal to the Principal Liability Outstanding of the Notes at the date on which notice of exchange is given of the corresponding Global Note subject to and in accordance with the detailed provisions of these Conditions, the Agency Agreement, the Trust Deed and the relevant Global Note. If issued, Definitive Notes will be in the relevant denominations set out below, will be serially numbered and will be issued in registered form only.

(c) ***Denomination of the Notes***

The Notes are issued in minimum denominations of £100,000. Each holding of Notes must be an integral multiple of £1,000 and for not less than the relevant minimum denomination.

The "**Note Currency Unit**" in relation to a Note is £0.01.

(d) ***Title to the Notes***

The Issuer will cause to be kept at the Specified Office of Citibank, N.A., London Branch as registrar (the "**Registrar**" which expression shall include its successors as registrar under the Agency Agreement) a register (the "**Register**") on which shall be entered the names and addresses of the holders of the Notes and the particulars of such Notes held by them and all transfers and redemptions of such Notes. In these Conditions, the "**Holder**" of a Note at any time means the person in whose name such Note is registered at that time in the Register (or, in the case of a joint holding, the first named person).

In relation to each Note, the Holder will, to the fullest extent permitted by applicable law, be deemed and treated at all times, by all persons and for all purposes (including the making of payments), as the absolute owner of such Note regardless of any notice to the contrary, any notice of ownership, theft or loss, or of any trust or other interest in that Note or of any writing on that Note (other than the endorsed form of transfer).

No transfer of a Note will be valid unless and until entered on the Register. Transfers and exchanges of beneficial interests in the Global Notes and entries on the Register relating to the Notes will be made subject to any restrictions on transfers set forth on such Notes and the detailed regulations concerning transfers of such Notes contained in the Agency Agreement, the Trust Deed and the relevant legends appearing on the face of the Notes (such regulations and legends being the "**Transfer Regulations**"). Each transfer or purported transfer of a beneficial interest in a Global Note or a Definitive Note made in violation of the Transfer Regulations shall be void *ab initio* and will not be honoured by the Issuer or the Trustee. The Transfer Regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current Transfer Regulations will be sent by the Registrar to any Holder of a Note who so requests and by the Principal Paying Agent to any Holder of a Note who so requests.

For so long as any Note is represented by a Global Note, transfers and exchanges of beneficial interests in that Global Note and entitlement to payments under that Global Note will be effected subject to and in accordance with the rules and procedures from time to time of Euroclear and/or Clearstream, Luxembourg.

Beneficial interests in a Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. Prior to the expiry of a 40 day period following the Closing Date, beneficial interests in a Global Note may not be held by a "**U.S. Person**" (as defined in Regulation S under the Securities Act).

2. **Status and Relationship between the Classes of Notes**

The Notes are obligations solely of the Issuer and are not obligations of, or guaranteed by, any other person. The Notes are secured by fixed and floating security over all of the Issuer's assets

(the "**Security**") as more particularly described in a deed of sub-charge and assignment (the "**Deed of Charge**") dated the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages (2010) Limited, Moorgate Asset Administration Limited, Homeloan Management Limited (the "**Substitute Administrator**"), the Issue Services Provider, the Subordinated Lender and the Hedge Provider.

Notes in the same class rank *pari passu* and rateably without any preference or priority among themselves in their right to receive principal and interest. Prior to the Security becoming enforceable the Notes rank according to the priority of payments set out in Clause 6.1.2 of the Deed of Charge (the "**Revenue Priority of Payments**") and Clause 6.2 of the Deed of Charge (the "**Principal Priority of Payments**") and from and after the Security becoming enforceable the Notes rank according to the priority of payments set out in Clause 8.2 of the Deed of Charge (the "**Enforcement Priority of Payments**") and, together with the Revenue Priority of Payments and the Principal Priority of Payments, the "**Payments Priorities**"), in each case according to the terms of the Relevant Documents (as defined in Condition 3(a)(i)(B)) and the Notes.

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard only to the interests of all of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders and the Class D 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 (a) 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/or the Class C Noteholders and/or the Class D Noteholders, (b) (subject to (a)) to have regard only to the interests of the Class B Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Class B Noteholders and the interests of the Class C Noteholders and/or the Class D Noteholders and (c) (subject to (b)) to have regard only to the interests of the Class C Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Class C Noteholders and the Class D Noteholders.

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

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

(i) carry on any business other than as described in the Prospectus dated 22 October 2012 relating to the issue of the Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:

(A) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;

(B) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Notes, the Subscription Agreement and the other agreements relating to the issue of the Notes (or any of them), the Agency Agreement, the Article 122a Deed of Covenant, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declaration of Trust, the Hedge Agreement, any Permitted Hedge Agreement, the Issue Services Fee Letter, any other hedging arrangements entered into by the Issuer from time to time, the VAT Declaration of Trust, the Corporate Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Cross-collateral Mortgage Rights Deed, the Tax Deed of Covenant and all other agreements and documents comprised in the Security for the Notes (all as defined in the Trust Deed, the Deed of Charge or the Mortgage Sale Agreement) (together the "**Relevant Documents**");

- (C) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, among other things, make claims, payments and surrenders in respect of certain tax reliefs;
  - (D) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem Notes in accordance with their respective terms and conditions; and
  - (E) negotiate and conclude settlements with unsecured claimants of amounts in full and final settlement of a claim that is due and payable and remains unpaid and not exceeding the amount prescribed as the "prescribed part" in The Insolvency Act (Prescribed Part) Order 2003 (as amended, varied or supplemented from time to time) were the Issuer to be declared insolvent. For the avoidance of doubt, such settlements may be concluded without the need for consent from the Trustee; and
  - (F) perform any act incidental to or necessary in connection with (A), (B), (C), (D) or (E) above;
- (ii) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Deed of Charge, the Trust Deed, the Notes, the Issue Services Fee Letter, the Corporate Services Letter, the Hedge Agreement, the Substitute Administrator Agreement, any Permitted Hedge Agreement and the VAT Declaration of Trust and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;
  - (iii) 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;
  - (iv) 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 Notes and the performance and observance of every covenant in the Trust Deed and in these 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 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 Notes are not adversely affected;

- (v) 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;
  - (vi) in a manner which adversely affects the then current ratings of the Notes, have any employees or premises or have any subsidiary; or
  - (vii) 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 Notes remains outstanding the Issuer will procure that there will at all times be one or more persons appointed as administrator of the Mortgages (each an "**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 and Wales. An Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee and the Issuer. The appointment of the Administrator may be terminated by the Trustee or the Issuer if, among other things, such 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 Most Senior Class and such breach is not remedied or deemed to be remedied in accordance with the terms of the Administration Agreement. Upon the termination of the appointment of the Administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement, but will have no liability under the Mortgage Sale Agreement.

In these Conditions, "**Most Senior Class**" means the Class A Notes or, if there are no Class A Notes then outstanding, the Class B Notes or, if there are no Class A Notes or Class B Notes then outstanding, the Class C Notes or, if there are no Class A Notes, Class B Notes and Class C Notes then outstanding, the Class D Notes.

#### 4. **Interest**

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

Interest shall accrue on a daily basis on the Principal Liability Outstanding (as defined in Condition 5(b)) of each Note from and including the Closing Date.

Subject to Condition 4(b), such accrued interest in respect of each Note ("**Normal Interest**") is due and payable in arrear on 8 January 2013 and thereafter quarterly on each subsequent 8 April, 8 July, 8 October and 8 January or if any such day is not a Business Day (as defined below), the next succeeding Business Day (each such day an "**Interest Payment Date**").

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date relating to a Note and each successive period beginning on (and including) an Interest Payment Date relating to that Note and ending on (but excluding) the next Interest Payment Date is called an "**Interest Period**".

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

In these Conditions, "**Business Day**" means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

(b) ***Deferral of Interest on Class B Notes, Class C Notes and Class D Notes, Additional Interest, Default Interest and Allocation of Interest***

- (i) On each Interest Payment Date relating to a Class B Note, a Class C Note or a Class D Note the Normal Interest which has accrued on each Class B Note, Class C Note or Class D Note during the Interest Period ending on (but excluding) that Interest Payment Date shall be due and payable on that Interest Payment Date only to the extent of the amount to be applied in payment of that Normal Interest on that Interest Payment Date in accordance with paragraphs (vi)(A), (vii)(A) and (viii)(A) below and the remainder of such Normal Interest shall be deferred and from then onwards be treated as Deferred Interest (as defined below) instead of Normal Interest.

In these Conditions "**Deferred Interest**" means, on any date in respect of a Class B Note, Class C Note or a Class D Note the aggregate amount of accrued interest in respect of that Class B Note, Class C Note or Class D Note which has been deferred under paragraph (i) above and remains outstanding on that date.

- (ii) The full amount of Deferred Interest in relation to a Class B Note, Class C Note or a Class D Note shall be due and payable on the first date upon which the whole Principal Liability Outstanding in respect of that Class B Note, Class C Note or a Class D Note becomes due for redemption and, prior to that date, shall be due and payable on each Interest Payment Date only to the extent of the amount to be applied in payment of that Deferred Interest on that Interest Payment Date in accordance with paragraphs (vi)(B), (vii)(B) and (viii)(B) below.
- (iii) Interest shall accrue on the aggregate outstanding amount of Deferred Interest in respect of a Class B Note, Class C Note or a Class D Note on each day that such Deferred Interest remains outstanding but has not yet become due and payable (excluding the amount, if any, of Deferred Interest which is paid or discharged on that day and excluding each day, if any, where Deferred Interest is paid on a later date in accordance with Condition 6 because the due date is not a Local Business Day) at the same Rate of Interest applicable to that Class B Note, Class C Note or a Class D Note during the Interest Period in which that day falls.

In these Conditions "**Additional Interest**" means in respect of a Class B Note, Class C Note or a Class D Note on any date the aggregate amount of interest which has accrued under this paragraph (iii) which remains outstanding on that date. Additional Interest shall cease to accrue on Deferred Interest when such Deferred Interest becomes due and payable.

The full amount of Additional Interest in relation to a Class B Note, Class C Note or a Class D Note shall be due and payable on the first date upon which the whole Principal Liability Outstanding in respect of that Class B Note, Class C Note or a Class D Note becomes due for redemption and, prior to that date, shall be due and payable on each Interest Payment Date only to the extent of the amount to be applied in payment of such Additional Interest on that Interest Payment Date in accordance with paragraphs (vi)(C), (vii)(C) and (viii)(C) below.

- (iv) Interest shall accrue on the aggregate outstanding amount of Normal Interest, Deferred Interest and Additional Interest in respect of a Note (being the "**Overdue Interest**") on each day that Overdue Interest in relation to that Note is due and payable but remains outstanding (excluding the amount, if any, of Overdue Interest which is paid or discharged on that day and excluding each day, if any, where Overdue Interest is paid on a later date in accordance with Condition 6 because the due date is not a Local Business Day) at the same Rate of Interest applicable to that Note during the Interest Period relating to that Note in which that day falls.

In these Conditions "**Default Interest**" means in respect of a Note on any date the aggregate amount of interest which has accrued under this paragraph (iv) which remains outstanding on that date.

The full amount of Default Interest in relation to a Note shall be due and payable on the first date upon which the whole Principal Liability Outstanding in respect of that Note becomes due for redemption and, prior to that date, shall be due and payable on each Interest Payment Date relating to that Note only to the extent of the amount to be applied in payment of such Default Interest on that Interest Payment Date in accordance with paragraphs (v)(B), (vi)(D), (vii)(D) or (viii)(D) below (as applicable).

- (v) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class A Notes will be applied as follows:
  - (A) *first*, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the amount of Normal Interest then due on each of those Notes; and
  - (B) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.
  
- (vi) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class B Notes will be applied as follows:
  - (A) *first*, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the amount of Normal Interest then due on each of those Notes; and
  - (B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
  - (C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and
  - (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.
  
- (vii) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class C Notes will be applied as follows:
  - (A) *first*, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the amount of Normal Interest then due on each of those Notes; and
  - (B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
  - (C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and
  - (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.

(viii) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class D Notes will be applied as follows:

- (A) *first*, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the amount of Normal Interest then due on each of those Notes; and
- (B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
- (C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and
- (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.

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

The rate of interest applicable from time to time to each class of Notes (the "**Rate of Interest**") will be determined by Citibank, N.A., London Branch 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) In these Conditions:

"**Call Option Date**" means the Interest Payment Date falling in January 2016;

"**Interest Determination Date**" means, in relation to an Interest Period for which the applicable Rate of Interest shall apply, the first day of the Interest Period;

"**Note Interest Rate Margin**" means in relation to:

- (A) each Class A Note, 1.35 per cent. per annum;
- (B) each Class B Note, 1.90 per cent. per annum;
- (C) each Class C Note, 2.90 per cent. per annum; and
- (D) each Class D Note, 3.25 per cent. per annum.

"**Reference Banks**" means Barclays Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee;

"**Reference Rate**" means:

- (A) in respect of the first Interest Period for the Notes, the linear interpolation of:
  - (1) the arithmetic mean of the Reference Quotations for two-month Quotation Deposits; and
  - (2) the arithmetic mean of the Reference Quotations for three-month Quotation Deposits;
- (B) in respect of subsequent Interest Periods for the Notes, the arithmetic mean of the Reference Quotations for three month Quotation Deposits,

in each case rounded upwards, if necessary, to five decimal places;

**"Reference Quotations"** means:

- (A) where the Reference Screen is being used, quotations to leading banks for the relevant Quotation Deposits for same day value in the Quotation Market at or about the Quotation Time as displayed on the Reference Screen; and
- (B) where Reference Banks are being used, the offered quotations made by the relevant Reference Bank to leading banks for the relevant Quotation Deposits for same day value in the Quotation Market at or about the Quotation Time, details of which are provided by that Reference Bank to the Reference Agent;

**"Reference Screen"** means LIBOR01 displayed on the Reuters Service (or such replacement page on that service which displays the relevant information) or, if that service ceases to display the information, such other screen service as may be determined by the Issuer (with the approval of the Trustee, in its sole discretion);

**"Quotation Deposits"** means deposits of £10,000,000;

**"Quotation Market"** means the London inter-bank market; and

**"Quotation Time"** means in respect of other Notes, 11.00 a.m. London time on the relevant Interest Determination Date relating to those other Notes.

(ii) In relation to the Notes, at or about the Quotation Time on each Interest Determination Date:

- (A) the Reference Agent shall determine the Reference Rate on the basis of Reference Quotations using the Reference Screen in respect of the Notes; or
- (B) if the Reference Agent is unable to determine a Reference Rate under paragraph (A) above, the Reference Agent shall determine that Reference Rate using the Reference Banks if, upon the Reference Agent requesting the relevant Reference Quotations from the principal London office of each of the Reference Banks, at least two of such Reference Banks provide the relevant details of those Reference Quotations to the Reference Agent; or
- (C) if only one Reference Bank provides the Reference Agent with the relevant Reference Quotations under paragraph (B) above, the Reference Agent shall determine the relevant Reference Rate using the Reference Quotations of that Reference Bank and Reference Quotations of any additional bank which the Trustee may (but shall be under no obligation to do so) indicate to the Reference Agent is, in the opinion of the Trustee, suitable to be and shall be treated as an additional Reference Bank for such purpose on that Interest Determination Date; or
- (D) if no Reference Bank provides the Reference Agent with the relevant Reference Quotations under paragraph (B) above, the Reference Agent shall determine the relevant Reference Rate using the Reference Quotations of two other banks which the Trustee may (but shall be under no obligation to do so) indicate to the Reference Agent are, in the opinion of the Trustee, suitable to be and shall be treated as Reference Banks for such purpose on that Interest Determination Date; or
- (E) if the Trustee does not provide the indication contemplated under paragraph (C) above or does not provide either or both of the indications contemplated under paragraph (D) above (as applicable), or the relevant additional bank under paragraph (C) above or either or both of the other banks under paragraph (D) above (as applicable) does not or do not provide the relevant Reference Quotations, then the Reference Agent shall determine the relevant Reference Rate to be the most recent Reference Rate for that class which was determined under either paragraph (A) or (B) above.

- (iii) The Rate of Interest for each class of Notes for each Interest Period shall be the aggregate of:
  - (A) the applicable Note Interest Rate Margin; and
  - (B) the Reference Rate for that class as determined under paragraph (ii) above on the Interest Determination Date relating to that Interest Period.
- (iv) There shall be no maximum or minimum Rate of Interest.
- (d) ***Determination of Rate of Interest and Calculation of Interest Payments and Other Interest Amounts***

- (i) Where a paragraph of these Conditions indicates that an amount is to be calculated in accordance with this Condition 4(d)(i), that amount shall be the product of the following formula (using the figures indicated in that paragraph) rounded to the nearest Note Currency Unit (0.005 being rounded upwards):

$$\text{Calculation Amount} \times \text{Calculation Interest Rate} \times \frac{\text{Calculation Period}}{365}$$

- (ii) The Reference Agent will, as soon as practicable after the Quotation Time on each Interest Determination Date relating to a Note:
  - (A) first determine the Rate of Interest applicable to that Note under Condition 4(c) for the Interest Period relating to that Interest Determination Date; and
  - (B) then, separately for each class of Notes to which that Interest Determination Date relates, calculate an amount in respect of that class in accordance with Condition 4(d)(i) using that Rate of Interest as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period and:
    - (1) in the case of the first Interest Determination Date for that class, using the aggregate Initial Principal Amount (as defined in Condition 5(b)) of that class of Notes as the Calculation Amount; and
    - (2) in the case of each other Interest Determination Date for that class, using as the Calculation Amount the aggregate Principal Liability Outstanding which will remain in respect of that class of Notes after the application of any Available Redemption Funds on the first day of the Interest Period to which that Interest Determination Date relates; and
  - (C) then, in relation to each such class, calculate the aggregate amount of Normal Interest which will accrue on each Note in that class during that Interest Period by apportioning the amount calculated in relation to that class under paragraph (B) above between the Notes in that class *pro rata* to the Principal Amount Outstanding which will remain in respect of each Note in that class after the application of any Available Redemption Funds on the first day of the Interest Period to which that Interest Determination Date relates, rounding each amount so apportioned down to the nearest Note Currency Unit.

The amount calculated in respect of a Note under paragraph (C) above shall be the "**Interest Payment**" in respect of that Note on that Interest Determination Date relating to that Interest Period.

- (iii) On (or as soon as practicable after) the last Business Day of the month preceding the month in which an Interest Payment Date falls, the Issuer shall determine (or cause the Administrator to determine):
  - (A) the amount, if any, of Normal Interest which will be paid on each Note on that Interest Payment Date;

- (B) the amount, if any, of Deferred Interest which will be paid on each Class B Note, Class C Note and Class D Note on that Interest Payment Date;
- (C) the amount, if any, of Deferred Interest which will have accrued and remain outstanding on each Class B Note, Class C Note and Class D Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date);
- (D) the amount, if any, of Additional Interest which will have accrued on each Class B Note, Class C Note and Class D Note during the Interest Period ending on (but excluding) that Interest Payment Date by:
  - (1) separately calculating for each Class B Note, Class C Note and Class D Note an amount in respect of such Note in accordance with Condition 4(d)(i) using the Rate of Interest applicable to Additional Interest in respect of that Interest Period as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period, and using the aggregate amount of Deferred Interest outstanding in respect of that class of Notes as at the end of the first day of that Interest Period as the Calculation Amount; and
  - (2) then apportioning the amount calculated in relation to that class under paragraph (1) above between the Notes in that class *pro rata* to the aggregate amount of Deferred Interest outstanding in relation to each Note in that class, rounding each amount so apportioned down to the nearest Note Currency Unit;
- (E) the amount, if any, of Additional Interest which will be paid on each Class B Note, Class C Note and Class D Note on that Interest Payment Date;
- (F) the amount, if any, of Additional Interest which will have accrued and remain outstanding on each Class B Note, Class C Note and Class D Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date);
- (G) the amount, if any, of Default Interest which will have accrued on each Note during the Interest Period ending on (but excluding) that Interest Payment Date by:
  - (1) separately calculating for each class of Notes an amount in respect of that class in accordance with Condition 4(d)(i) using the Rate of Interest applicable to Default Interest in respect of that Interest Period as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period, and using the aggregate amount of Overdue Interest outstanding in respect of that class of Notes as at the end of the first day of that Interest Period as the Calculation Amount; and
  - (2) then apportioning the amount calculated in relation to that class under paragraph (1) above between the Notes in that class *pro rata* to the aggregate amount of Overdue Interest outstanding in relation to each Note in that class, rounding each amount so apportioned down to the nearest Note Currency Unit;
- (H) the amount, if any, of Default Interest which will be paid on each Note on that Interest Payment Date; and
- (I) the amount, if any, of Default Interest which will have accrued and remain outstanding on each Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date).

(e) ***Publication of Rate of Interest and Interest Payments***

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to each class of 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 any Notes are listed by the U.K. Listing Authority and admitted to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**"), the London Stock Exchange, and will cause the same to be published in accordance with Condition 12 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), the Additional Interest (if any) and the Default Interest (if any) applicable to the Class B Notes, Class C Notes and/or Class D Notes (as the case may be) for each Interest Period to be notified to the Trustee, the Paying Agents and (for so long as the Class B Notes, Class C Notes and/or Class D Notes (as the case may be) are listed by the U.K. Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange, and will cause the same to be published in accordance with Condition 12 no later than the eighth Business Day prior to the relevant Interest Payment Date.

The Interest Payment, Deferred Interest, Additional Interest, Default 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 relevant 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 Note or Notes of a particular class in accordance with paragraph (d) above, the Trustee (or an agent on its behalf) may (but shall be under no obligation to do so) determine the Rate of Interest for such Note or Notes 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 (or an agent on its behalf) may (but shall be under no obligation to do so) calculate the Interest Payment for such Note or Notes 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 Noteholders. If any person shall be unable or unwilling to continue to act as a Reference Bank or the Reference Agent (as the case may be), or if the appointment of any Reference Bank or the Reference Agent shall be terminated, the Issuer will, with the approval of the Trustee, appoint a successor Reference Bank or Reference Agent (as the case may be) to act as such in its place, **provided that** neither the resignation nor removal of the Reference Agent shall take effect until a successor Reference Agent approved by the Trustee has been appointed.

5. **Redemption and Purchase**

(a) ***Mandatory Redemption in Part from Available Redemption Funds***

The Notes shall be subject to mandatory redemption in part on any Interest Payment Date in accordance with this Condition 5(a) if on the Principal Determination Date (as defined below) relating thereto there are any Available Redemption Funds (as defined below).

Prior to the service of an Enforcement Notice, the Issuer shall determine (or cause the Administrator to determine) the principal amount redeemable in relation to each class of Notes on each Interest Payment Date as follows:

- (i)
  - (A) if any Class A Note remains outstanding, the Class A Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date shall be allocated to the Class A Notes;
  - (B) if any Class B Note remains outstanding, all Class B Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date shall be allocated to the Class B Notes;
  - (C) if any Class C Note remains outstanding, all Class C Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date shall be allocated to the Class C Notes;
  - (D) if any Class D Note remains outstanding, all Class D Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date shall be allocated to the Class D Notes; and
- (ii) in respect of each class of Notes the amount, if any, so allocated to that class under paragraph (i) above shall be allocated to each Note in that class *pro rata* to the Principal Liability Outstanding of each such Note in that class, **provided always that** the amount so allocated shall not exceed the Principal Liability Outstanding of the relevant Note.

The amount allocated to a Note under paragraph (ii) above (and rounded down to the nearest Note Currency Unit) shall be the "**Principal Payment**" in respect of that Note on the Principal Determination Date relating to that Interest Payment Date.

On each Interest Payment Date an amount equal to:

- (i) the Class A Available Redemption Funds (as determined on the preceding Principal Determination Date) allocated to Class A Notes as described above shall be paid from the Transaction Account (and debited to the Principal Ledger) and applied in redemption of the Class A Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of the Class A Notes;
- (ii) the Class B Available Redemption Funds (as determined on the preceding Principal Determination Date) allocated to Class B Notes as described above shall be paid from the Transaction Account (and debited to the Principal Ledger) and applied in redemption of the Class B Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of the Class B Notes;
- (iii) the Class C Available Redemption Funds (as determined on the preceding Principal Determination Date) allocated to Class C Notes as described above shall be paid from the Transaction Account (and debited to the Principal Ledger) and applied in redemption of the Class C Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of the Class C Notes; and
- (iv) the Class D Available Redemption Funds (as determined on the preceding Principal Determination Date) allocated to Class D Notes as described above shall be paid from the Transaction Account (and debited to the Principal Ledger) and applied in redemption of the Class D Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of the Class D Notes.

"**Principal Determination Date**" in relation 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:

- (i) the aggregate of:
  - (A) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation: (a) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted to, a person other than the Issuer; and (b) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the "**Collection Period**"));
  - (B) in the case of the second Principal Determination Date, the amount (if any) by which the sum of (aa) the aggregate Initial Principal Amount of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes on issue and (bb) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (x) the amounts paid by the Issuer to the Seller by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement, (y) the amount applied to establish the First Loss Fund and the Margin Reserve Fund on the Closing Date and (z) amounts debited from the Pre-Funding Reserve Ledger, if any, up to and including the second Principal Determination Date;
  - (C) 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;
  - (D) any part of the amount deducted pursuant to paragraphs (ii)(A), (ii)(B) and (ii)(C) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making the relevant payments in respect of which such amount was so deducted; and
  - (E) on any Principal Determination Date following the Call Option Date, the Additional Available Redemption Funds (if any);less
- (ii) the aggregate of:
  - (A) the amount calculated by the Issuer to be the likely shortfall, on the immediately succeeding Interest Payment Date, of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest, interest due or overdue on the Class B Notes and interest due or overdue on the Class C Notes;
  - (B) the amount calculated by the Issuer to be, on the immediately succeeding Interest Payment Date, the extent to which the First Loss Fund will be less than the Liquidity Amount following the application of the priority of payments set out in Clause 6.1.2 of the Deed of Charge (such principal amounts being used to increase the First Loss Fund up to the Liquidity Amount and a corresponding debit being made to the Principal Deficiency Ledger);
  - (C) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection

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

- (D) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) to the extent that such principal amount has been funded using amounts falling within (i)(A) above; and
- (E) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages and/or reimbursement of any amount payable to the Collection Account Bank in accordance with the direct debiting scheme and debited to the Principal Ledger,

in each such case (save for (C), (D) and (E)) 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. Amounts (A) to (E) shall be paid in priority according to the order listed, except to the extent that any of items (C), (D) or (E) is identified as being due and payable prior to the determination of amounts due in priority thereto in which case amounts shall be allocated for payment of such item upon such identification.

**"Additional Available Redemption Funds"** means on the Principal Determination Date falling immediately prior to the Call Option Date and each Principal Determination Date thereafter, the amount of Available Revenue estimated by the Issuer to be, on the immediately succeeding Interest Payment Date, applied to the redemption of the Rated Notes following the application of the Revenue Priority of Payments set out in Clause 6.1.2 of the Deed of Charge **provided that** such amount shall be reduced to the extent that, if not reduced, it would result in the Available Redemption Funds exceeding the aggregate Principal Liability Outstanding of the Rated Notes;

**"Class A Available Redemption Funds"** on any Principal Determination Date means the lesser of:

- (i) the Available Redemption Funds (including the Additional Available Redemption Funds, if any); and
- (ii) the aggregate Principal Liability Outstanding of the Class A Notes.

**"Class B Available Redemption Funds"** on any Principal Determination Date means the lesser of:

- (i) the Available Redemption Funds (including the Additional Available Redemption Funds, if any) less the Class A Available Redemption Funds; and
- (ii) the aggregate Principal Liability Outstanding of the Class B Notes.

**"Class C Available Redemption Funds"** on any Principal Determination Date means the lesser of:

- (i) the Available Redemption Funds (including the Additional Available Redemption Funds, if any) less the sum of the Class A Available Redemption Funds and the Class B Available Redemption Funds; and
- (ii) the aggregate Principal Liability Outstanding of the Class C Notes.

**"Class D Available Redemption Funds"** on any Principal Determination Date means the lesser of:

- (i) the Available Redemption Funds less the sum of the Class A Available Redemption Funds, the Class B Available Redemption Funds and the Class C Available Redemption Funds; and

- (ii) the aggregate Principal Liability Outstanding of the Class D Notes.
- (b) ***Calculation of Principal Payments, Principal Amount Outstanding, Principal Liability 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 Note of a particular class due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding and the Principal Liability Outstanding of each Note of a particular class after deducting any Principal Payment due to be made in respect of each Note of that class on the next Interest Payment Date, and (z) the fraction in respect of each Note of a particular class expressed as a decimal rounded upwards to the seventh place (the "**Pool Factor**"), of which the numerator is the Principal Amount Outstanding of a Note of that particular class (as referred to in (y) above) and the denominator is the principal amount (expressed as an integer) of that Note upon issue. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Liability Outstanding of a Note, the Principal Amount Outstanding of 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 Note on any date shall be the Initial Principal Amount of that Note less the aggregate amount of all Principal Payments in respect of that Note that have become due and payable (whether or not paid) prior to such date.

The "**Principal Liability Outstanding**" of a Note on any date shall be the Initial Principal Amount of that Note less the aggregate amount of all Principal Payments in respect of that Note that have been paid prior to such date.

The "**Initial Principal Amount**" in relation to each Note means the initial face principal amount of that Note upon issue of the relevant Global Note relating to that Note.

- (ii) The Issuer, by not later than two Business Days prior to the relevant Interest Payment Date, will cause each determination of a Principal Payment, Principal Amount Outstanding, Principal Liability Outstanding and Pool Factor to be notified to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the relevant Notes are listed by the U.K. Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange and will cause details of each determination of a Principal Payment, Principal Liability Outstanding, Principal Amount Outstanding and Pool Factor to be published in accordance with 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 Notes of a particular class on any Interest Payment Date a notice to this effect will be given to the Noteholders of that class.
- (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, the Principal Liability Outstanding or the Pool Factor applicable to Notes of a particular class in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding, Principal Liability Outstanding and Pool Factor may be determined by the Trustee or its agent (but the Trustee shall be under no obligation to do so) in accordance with this paragraph (b) 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:
  - (A) the Issuer or any Paying Agent would be required to deduct or withhold from any payment of principal or interest in respect of any Notes; or
  - (B) the Issuer or any Hedge Provider would be required to deduct or withhold from amounts payable by it under any 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 other jurisdiction 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; or
- (iii) the Issuer would, by virtue of a change in tax law applicable in the Issuer's jurisdiction, not be taxed in accordance with Regulation 14 of The Taxation of Securitisation Companies Regulations (SI2006/3296),

then the Issuer may, but shall not be obliged to, redeem all (but not some only) of the Notes at their Principal Liability Outstanding together with all accrued interest **provided that** each of the following conditions is satisfied:

- (i) the Issuer has given written notice in accordance with Condition 12 not more than 90 days and not less than 20 days before that Interest Payment Date to the Trustee and the Noteholders in that class of its intention to redeem that class under this Condition 5(c); and
- (ii) the Issuer will be in a position on that Interest Payment Date to discharge (and so certifies to the Trustee):
  - (A) all its liabilities in respect of each class of Notes on that Interest Payment Date (including, in each case, all accrued Normal Interest, Deferred Interest, Additional Interest and Default Interest outstanding); and
  - (B) all amounts required under the Deed of Charge to be paid in priority to or *pari passu* with those liabilities.

(d) ***Optional Redemption in Full***

On any Interest Payment Date the Issuer may redeem all (but not some only) of the Notes at their Principal Liability Outstanding together with all accrued interest **provided that** each of the following conditions is satisfied:

- (i) the Issuer has given written notice in accordance with Condition 12 not more than 90 days and not less than 20 days before that Interest Payment Date to the Trustee and the Noteholders of its intention to redeem the Notes under this Condition 5(d); and
- (ii) if an Event of Default has occurred or occurs on or before that Interest Payment Date, no Enforcement Notice has been served; and

- (iii) the Issuer will be in a position on that Interest Payment Date to discharge (and so certifies to the Trustee):
  - (A) all its liabilities in respect of the Notes to be redeemed by the Issuer on that Interest Payment Date (including, in each case, all accrued Normal Interest, Deferred Interest, Additional Interest and Default Interest outstanding); and
  - (B) all amounts required under the Deed of Charge to be paid in priority to or *pari passu* with those liabilities; and
- (iv) if that Interest Payment Date will fall prior to January 2016, then on that Interest Payment Date the aggregate Principal Liability Outstanding of all of the Notes is less than 10 per cent. of the Initial Principal Amount of all of the Notes.

(e) ***Redemption on Maturity***

If not otherwise redeemed, the Notes of each class will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in April 2040 (the "**Final Maturity Date**").

(f) ***Purchases***

The Issuer may not purchase any Notes.

(g) ***Cancellation***

All Notes redeemed in full pursuant to the foregoing provisions will be cancelled forthwith and may not be resold or reissued.

(h) ***Certification***

For the purposes of matters to be certified by the Issuer to the Trustee for the purposes of any redemption made pursuant to Condition 5(c) or Condition 5(d), as the case may be, the Trustee may rely upon any certificate of two Directors of the Issuer and such certificate shall be conclusive and binding on the Issuer and the Holders of each class of Notes to be redeemed pursuant to that Condition.

6. **Payments**

(a) ***Definitions relating to payments***

In these Conditions:

"**Cheque**" means a GBP cheque drawn upon a Permitted Account;

"**Local Business Day**" means, in relation to payment to be made by a Paying Agent, a day which (1) is a Business Day; and (2) is a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the place where the Specified Office of that Paying Agent is situated; and (3) if the payment is made in relation to a Global Note, is a day on which the relevant Clearing System is open for business;

"**Payee**" means the person listed at the close of business on the Record Date in the Register as the holder of that Note (or, if two or more persons are so listed, the person appearing first in the list);

"**Payment Date**" means, in relation to any payment, the due date of that payment or if that due date is not a Local Business Day, the next succeeding Local Business Day;

"**Permitted Account**" means, in relation to a Note, a GBP account maintained by the Payee with a bank in London;

"**Record Address**" means, in connection with any payment, the address shown as the address of the Payee in the Register at the close of business on the relevant Record Date;

**"Record Date"** means, in connection with any payment, the 15<sup>th</sup> day before the due date for the relevant payment; and

**"Specified Office"** means, in relation to the Registrar, the Reference Agent or any Paying Agent, the office specified as such in the Agency Agreement or such other office as the relevant Agent may specify in accordance with the terms of the Agency Agreement.

(b) ***Means of making payments***

Interest Payments and Principal Payments in respect of each Note:

- (i) will be made to the relevant Payee; and
- (ii) will be made by Cheque or, upon written application (together with appropriate details of a Permitted Account) by that person received at the Specified Office of the Principal Paying Agent on or before the Record Date, shall be made by transfer to that Permitted Account;

(in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note at the Specified Office of the Paying Agent relating to that Note.

Where payment in respect of a Note is to be made by Cheque, the Cheque will be mailed to the Record Address.

(c) ***Time of payment***

Where payment is to be made by transfer to a Permitted Account, payment instructions (for value the Payment Date) will be initiated and, where payment is to be made by Cheque, the Cheque will be mailed:

- (i) (in the case of payments of principal and interest payable on redemption) on the later of the Payment Date and the day on which the relevant Note is surrendered (or, in the case of partial payment only, endorsed) at the Specified Office of a Paying Agent; and
- (ii) (in the case of payments of interest payable other than on redemption) on the Payment Date.

(d) ***Delays in making payments***

A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from:

- (i) a payment not being made, a transfer not being initiated or a Cheque not being mailed on the due date for a payment as a result of that due date not being a Local Business Day;
- (ii) a Cheque mailed in accordance with this Condition 6 arriving after the due date for payment or being lost in the mail;
- (iii) the relevant Paying Agent having not received before the relevant Record Date written notice of a valid mailing address outside the United States and its possessions for the Payee; and
- (iv) the relevant Paying Agent having not received before the relevant Record Date written notice of a Permitted Account for the Payee.

(e) ***Fiscal and other laws; no commission or expenses***

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(f) ***Partial payments***

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure and the Registrar will ensure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and date of such payment is endorsed on the relevant Note.

(g) ***Duty to maintain a Paying Agent***

The initial Principal Paying Agent is Citibank, N.A., London Branch at its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. 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 (the "**London Paying Agent**") and a Paying Agent (which may be the London Paying Agent) in an EU member state that will not be obliged to withhold or deduct amounts for and on account of tax pursuant to EU Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive and, in the case of the Paying Agent for the Notes, require that such Paying Agent's office for administering payments in respect of such Notes is located outside the United States or its possessions. 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 Condition 12.

7. **Taxation**

All payments in respect of the 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 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 Notes in respect of such withholding or deduction.

Notwithstanding any other provision in these Conditions, the Issuer shall be permitted to withhold or deduct any amounts required by the rules of U.S. Internal Revenue Code Sections 1471 through 1474 (or any amended or successor provisions), pursuant to any inter-governmental agreement, or implementing legislation adopted by another jurisdiction in connection with these provisions, or pursuant to any agreement with the US Internal Revenue Service ("**FATCA withholding**"). The Issuer will have no obligation to pay additional amounts or otherwise indemnify a holder for any FATCA withholding deducted or withheld by the Issuer, a Paying Agent or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

8. **Prescription**

Claims against the Issuer for payments in respect of principal or interest on the Notes shall be prescribed and become void unless made within 10 years from the Relevant Date in respect thereof; the effect of which, in the case of a payment of principal, will be to reduce the Principal Liability Outstanding of such Note by the amount of such payment.

As used in these 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 Condition 12.

9. **Events of Default**

The Trustee at its discretion may, or if so requested in writing by the holders of (1) at least one-quarter of the aggregate of the Initial Principal Amount of the Most Senior Class of Notes outstanding or (2) if so requested by an Extraordinary Resolution of the holders of the Most Senior Class of Notes (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) shall (but, in the case of the occurrence of any of the events mentioned in paragraph (iii) 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 holders of the Most Senior Class of Notes and, in the case of the event mentioned in paragraph (i) below in relation to any payment of interest on the Class B Notes, the Class C Notes and/or Class D Notes, as the case may be, only if the Trustee has issued a certificate (based on information provided to it by the Administrator or the Substitute Administrator) to the effect 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 Notes are, and each Note shall accordingly forthwith become, immediately due and repayable at their/its Principal Liability Outstanding together with accrued interest (including any Deferred Interest, Additional Interest and Default Interest (if any)) 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 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 Notes or any of them; or
- (ii) the occurrence of an Issuer Insolvency Event; or
- (iii) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the 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 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.

The Trustee shall send the Principal Paying Agent a copy of any Enforcement Notice or other notice which the Trustee gives to the Issuer under this Condition 9 for release into the Clearing Systems and notification to the Noteholders.

"**Issuer Insolvency Event**" means:

- (a) 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 holders of the Most Senior Class of Notes;
- (b) 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

- (c) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the Subordinated Loan Agreement, the Issue Services Fee Letter and the Corporate Services Letter) or otherwise becomes insolvent.

10. **Enforcement and Limited Recourse**

(a) **Enforcement**

At any time after the Notes become due and repayable at their Principal Liability Outstanding pursuant to Condition 9 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 Notes and to enforce repayment of the 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 in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Most Senior Class of Notes or it shall have been so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

Notwithstanding the foregoing:

- (a) if the Class A Notes have become due and repayable pursuant to these Conditions 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 Charged Property unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class A Noteholders 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 an investment bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class A Noteholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith;
- (b) **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 repayable pursuant to these Conditions otherwise than by reason of a default in payment of any amount due on the Class B Notes, the Trustee will not be entitled to dispose of the Charged Property unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class B Noteholders 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 an investment bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class B Noteholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith;
- (c) **provided that** all of the Class A Notes and the Class B Notes have been redeemed in full, so long as any of the Class C Notes remains outstanding, if the Class C Notes have become due and payable pursuant to these Conditions otherwise than by reason of a default in payment of any amount due on the Class C Notes, the Trustee will not be entitled to dispose of the Charged Property unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class C Noteholders 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 an investment bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class C Noteholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith; and

- (d) **provided that** all of the Class A Notes, the Class B Notes and Class C Notes have been redeemed in full, so long as any of the Class D Notes remains outstanding, if the Class D Notes have become due and payable pursuant to these Conditions otherwise than by reason of a default in payment of any amount due on the Class D Notes, the Trustee will not be entitled to dispose of the Charged Property unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class D Noteholders 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 an investment bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class D Noteholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith.

No Noteholder 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.

(b) **Limited Recourse**

If at any time following:

- (a) the occurrence of either:
- (i) the Interest Payment Date falling in April 2040 or any earlier date upon which all of the Notes of each Class are due and payable; or
  - (ii) the service of an Enforcement Notice; and
- (b) Realisation of the Charged Property and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable Payments Priorities,

the proceeds of such Realisation are insufficient, after the same have been allocated in accordance with the applicable priority of payments, to pay in full all claims ranking in priority to the Notes and all amounts then due and payable under any class of Notes then the amount remaining to be paid (after such application in full of the amounts first referred to in paragraph (b) above) under such class of Notes (and any class of Notes junior to that class of Notes) shall, on the day following such application in full of the amounts referred to in paragraph (b) above, cease to be due and payable by the Issuer.

For the purposes of this Condition 10:

**"Realisation"** means, in relation to any Charged Property, the deriving, to the fullest extent practicable, (in accordance with the provisions of the Relevant Documents) of proceeds from or in respect of such Charged Property including (without limitation) through sale or through performance by an obligor.

**"Charged Property"** means the Property of the Issuer which is subject to the Security.

11. **Replacement of Notes**

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar 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 and the Registrar may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## 12. **Notices**

All notices to Noteholders or any category of them shall be deemed to have been duly given to those Noteholders:

- (a) if information concerned in such notice shall appear on the relevant page of the Reuters Screen (presently page PGCPM17) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Noteholders (the "**Relevant Screen**"), and in such case such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen; or
- (b) if published in the *Financial Times* or, if such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other leading daily newspaper or newspapers printed in the English language as the Trustee shall approve in advance having (individually or in combination) a general circulation in the United Kingdom, Europe and in each such case 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; or
- (c) if sent to them by first class post (or its equivalent) or (if posted to an address outside the United Kingdom) by airmail at the respective addresses on the Register, and in such case such notice will be deemed to have been given on the fourth day after the date of posting; or
- (d) whilst the Notes then held by those Noteholders are represented by a Global Note to Euroclear and/or Clearstream, Luxembourg for communication by them to those Noteholders, and in such case such notice shall be deemed to have been given to the relevant Noteholders on the day of such delivery to Euroclear and/or Clearstream, Luxembourg, as appropriate; or
- (e) any other method or methods of giving notice sanctioned in advance by the Trustee if, in the Trustee's sole opinion, such other method or methods is/are reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges, competent listing authorities and/or quotation systems on or by which the Notes are then listed, quoted and/or traded and **provided that** notice of such other method or methods is/are given to those Noteholders in such manner as the Trustee shall require,

and where a notice is given to those Noteholders using more than one of the methods described in the above paragraphs of this Condition, such notice shall be deemed to have been given on the first date on which such notice is deemed to have been given under those paragraphs.

While the Notes are listed on the official list maintained by the U.K. Listing Authority, copies of all notices given in accordance with these provisions shall be sent to a regulatory information service prescribed by the prospectus rules of the U.K. Listing Authority and to Euroclear and Clearstream, Luxembourg.

## 13. **Meetings of Noteholders; Modifications; Consents; Waiver**

The Trust Deed contains provisions for convening meetings of all Noteholders or Noteholders holding Notes of the same class (the "**Relevant Noteholders**") to consider any matter affecting the interests of those Relevant Noteholders including, among other things, the sanctioning by Extraordinary Resolution of a modification of their Notes (including these Conditions as they relate to their Notes) or the provisions of any of the Relevant Documents.

In these Conditions a "**Basic Terms Modification**" means a modification of certain terms including, among other things, a modification which would have the effect of altering the date of maturity of any of the Notes, or postponing any day for payment of interest in respect of any of

the Notes, reducing or cancelling the amount of principal payable in respect of any of the Notes, or reducing the rate of interest applicable to any of the Notes, or altering the majority required to pass an Extraordinary Resolution, or altering the currency of payment of any of the Notes, or altering the date or priority of redemption of any of the Notes.

The quorum at any meeting of the Relevant Noteholders for passing an Extraordinary Resolution of the Relevant Noteholders shall be two or more persons holding or representing over 50 per cent. of the aggregate Principal Amount Outstanding of the Notes then outstanding held by the Relevant Noteholders or, at any adjourned meeting, two or more persons being or representing the Relevant Noteholders whatever the aggregate Principal Amount Outstanding of the Notes then outstanding 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 by the Relevant Noteholders shall be two or more persons holding or representing over 75 per cent. of the aggregate Principal Amount Outstanding of the Notes held by the Relevant Noteholders, or at any adjourned such meeting two or more persons holding or representing over 25 per cent. of the aggregate Principal Amount Outstanding of the Notes held by the Relevant Noteholders. The quorum at any meeting of the Relevant Noteholders of any class of Notes for all business other than voting on an Extraordinary Resolution shall be two or more persons holding or representing not less than 5 per cent. of the aggregate Principal Amount Outstanding held by the Relevant Noteholders or at any adjourned such meeting, two or more persons being or representing the Relevant Noteholders, whatever the aggregate Principal Amount Outstanding of the Notes held by the Relevant Noteholders. While any Notes are represented by a Global Note or all such Notes are held by the same person, the holder of that Global Note or that person (as the case may be) or their respective proxy shall be deemed to constitute a quorum for the purposes of meetings of or including the Relevant Noteholders of those Notes.

The majority required for an Extraordinary Resolution, including the sanctioning of a Basic Terms Modification, shall be 75 per cent. of the votes cast on that Extraordinary Resolution. Any other resolution shall be decided by a simple majority of votes cast (and in a case of equality of votes the Chairman of the relevant meeting shall have a casting vote).

The Trust Deed contains provisions limiting the powers of the Class B Noteholders, Class C Noteholders and Class D Noteholders, among other things, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. In particular, in relation to each class of Notes:

- (a) no Extraordinary Resolution involving a Basic Terms Modification that is passed by the holders of one class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes (to the extent that there are outstanding Notes in such other classes);
- (b) no Extraordinary Resolution to approve any matter other than a Basic Terms Modification of any class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes ranking senior to such class (to the extent that there are outstanding Notes ranking senior to such class) unless the Trustee considers that the interests of each of the other classes of Notes ranking senior to such class would not be materially prejudiced by the implementation of such first mentioned Extraordinary Resolution;
- (c) any resolution passed at a meeting of Noteholders of one or more classes of Notes duly convened and held in accordance with the Trust Deed shall be binding upon all Noteholders of such class, whether or not present at such meeting and whether or not voting and, except in the case of a meeting relating to a Basic Terms Modification, any resolution passed at a meeting of the holders of the Most Senior Class of Notes duly convened and held as aforesaid shall also be binding upon the holders of all the other classes of Notes and will override any resolution to the contrary of the other classes of Notes; and
- (d) an Extraordinary Resolution passed at any meeting of Relevant Noteholders shall be binding on all those Relevant Noteholders whether or not they are present at the meeting.

The Trustee may agree, without the consent of the Noteholders:

- (A) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, the Notes (including these Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders and provided that either (A) a Ratings Agency Confirmation in respect of the Rated Notes has been provided by S&P; or (B) only if S&P has not provided such Ratings Agency Confirmation pursuant to (A) above within 20 days of such Ratings Agency Confirmation being requested by the Issuer or Administrator, an Administrator Certification in respect of the Rated Notes has been provided by the Administrator;
- (B) to any modification which (not being a Basic Terms Modification) is requested in writing by the Issuer as necessary to reflect the then current rating criteria of any Rating Agency to the extent necessary to maintain the then current rating of the Most Senior Class provided that:
  - (1) a certificate from the Administrator is provided to the Trustee certifying that: (i) such modification is necessary to reflect the then current rating criteria of any Rating Agency to the extent necessary to maintain the then current rating of the Most Senior Class; and (ii) the modification does not constitute a Basic Terms Modification; and
  - (2) either (A) a Ratings Agency Confirmation in respect of the Most Senior Class has been provided by S&P; or (B) only if S&P has not provided such Ratings Agency Confirmation pursuant to (A) above within 20 days of such Ratings Agency Confirmation being requested by the Issuer or Administrator, an Administrator Certification in respect of the Most Senior Class has been provided by the Administrator,and further provided that any such certificates and/or confirmations may be relied on by the Trustee without further investigation and shall be conclusive and binding on all classes of the Noteholders and on the other Secured Creditors and the Trustee shall not be liable or responsible for any prejudice or losses to any person (including holders of any class of Notes), howsoever caused, as a result of taking or omitting to take any action whatsoever in relation to any such certificate and/or confirmation, or otherwise; or
- (C) to any modification of the Notes (including these 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 Noteholders, 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 Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.

In these Conditions:

**"Ratings Agency Confirmation"** means a written confirmation from S&P that the relevant modification will not result in the reduction, qualification, suspension or withdrawal of the then current ratings assigned to any outstanding Rated Notes or, as the case may, the Most Senior Class only, rated by S&P; and

**"Administrator Certification"** means a certification in writing by the Administrator to the Trustee stating that the relevant modification has been notified to S&P and, in the Administrator's opinion, would not cause the then current ratings assigned to any outstanding Rated Notes or, as

the case may, the Most Senior Class only, to be reduced, qualified, suspended or withdrawn by S&P and, where S&P was prepared to consult with the Issuer or the Administrator, such opinion is based on such consultation with S&P.

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 Notes unless indemnified and/or secured and/or prefunded to its satisfaction. For the avoidance of doubt, whenever the Trustee is bound, under the provisions of the Trust Deed, to act at the request or direction of the Noteholders, the Trustee shall nevertheless not be so bound unless first indemnified and/or secured and/or prefunded 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. **Limitation of Liability of Trustee**

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.

Clause 7 of the Substitute Administrator Agreement limits the liability of the Substitute Administrator to zero unless such liability results from the negligence or wilful misconduct of the Substitute Administrator under the Substitute Administrator Agreement or any other Relevant Document, in its role as:

- (a) Substitute Administrator; and
- (b) where it is appointed to carry out the duties of the Administrator, as Administrator,

in which case such liability is limited to £10,000,000 in aggregate for any calendar year.

The Noteholders will have no recourse to the Trustee in any circumstances whatsoever for any liability which would have been recoverable but for the effect of Clause 7 of the Substitute Administrator Agreement.

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 Notes, 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 Noteholders and (subject as aforesaid) no liability to the Issuer, the Administrator or the Noteholders shall attach to the Reference Banks, the Reference Agent, the Issuer, the Administrator or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

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

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

18. **Governing Law and Jurisdiction**

The Notes and all non-contractual obligations arising from or connected with the Notes are governed by, and shall be construed in accordance with, English law. The Issuer has agreed in the Trust Deed that the courts of England shall have non-exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes (respectively, the "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts. In the Trust Deed, the Issuer has waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agreed not to claim that any such court is not a convenient or appropriate forum.

## USE OF PROCEEDS

The gross proceeds from the issue of the Notes on the Closing Date will be £200,000,000. Commissions will be payable to the Joint Lead Managers under the Subscription Agreement in connection with the issue of certain classes of the Notes as described in "*Subscription and Sale*" below. These commissions, together with certain other expenses of the Issuer, will be paid on behalf of or reimbursed to the Issuer by the Issue Services Provider as described in "*Key Structural Features – Other Structural Features – Issue Services Fee Letter*". The net proceeds from the issue of the Notes, which will be approximately £199,413,500 (after payment of the sums paid by the Issue Services Provider to the Issuer in respect of such commissions and certain other expenses on the Closing Date), will be applied towards payment to the Sellers of the purchase price for the Mortgages to be purchased pursuant to the Mortgage Sale Agreement on the Closing Date and creating the Pre-Funding Reserve, if any, which may, if applicable, be applied up to the second Principal Determination Date in purchase of the Additional Mortgages.

## RATINGS

The classes of Notes are expected on issue to be assigned the following ratings:

| <b>Class of Notes</b> | <b>Rating</b> |                |
|-----------------------|---------------|----------------|
|                       | <b>Fitch</b>  | <b>S&amp;P</b> |
| Class A .....         | AAAsf         | AAA(sf)        |
| Class B.....          | AAsf          | AA(sf)         |
| Class C.....          | Asf           | A(sf)          |
| Class D .....         | Unrated       | Unrated        |

Certain risks relating to the ratings of the Notes are described in "*Risk Factors – The Issuer's ability to meet its obligations under the Notes*" above. 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.

## ESTIMATED AVERAGE LIVES OF THE NOTES

For the purposes of this section of this Prospectus, the average life of the Notes refers to the average amount of time that will elapse from the date of issuance of the Notes to the date of distribution to the relevant Noteholder of amounts distributed in net reduction of principal of such Notes (assuming no losses).

The average lives of the Notes cannot be predicted with any certainty, as the actual rate of redemption and prepayments under the Mortgages and a number of other relevant factors are unknown.

Calculations of the estimated average lives of the Notes can be made based on a model using certain assumptions. For example, the following tables were prepared based on the characteristics of the Mortgages to be included in the pool of Mortgages to be purchased by the Issuer and the following additional modelling assumptions:

- (a) the portfolio of £140,249,017.12 mortgages to be purchased by the Issuer consists of Mortgages acquired on the Closing Date, having the characteristics defined in a combined loan by loan list of the Provisional Mortgage Pool;
- (b) the Issuer exercises its rights to redeem the Notes on the Interest Payment Date on which the aggregate Principal Liability Outstanding of all of the Notes is less than 10 per cent. of the aggregate Initial Principal Amount of the Notes;
- (c) in addition to the Scheduled payments derived from the Mortgages detailed in paragraph (a) above, the Mortgages are subject to prepayments at annualised rates expressed as a percentage of the outstanding principal amount of the Mortgages ("CPR") indicated in the relevant column headings in the table below;
- (d) there are no enforcements after the Closing Date;
- (e) no Mortgages are sold or purchased by the Issuer after the Closing Date;
- (f) there are no Further Advances or conversions in respect of the Mortgages;
- (g) the Mortgages continue to be fully performing;
- (h) no principal deficiency arises;
- (i) the balance of the Pre-Funding Reserve Ledger, if any, is zero;
- (j) the portfolio composition of Mortgage characteristics remains the same throughout the life of the Notes;
- (k) the Notes will be redeemed in accordance with the Conditions;
- (l) the benchmark interest rates remain flat at current GBP LIBOR and standard variable rates, which are at 0.9 per cent and 5.1 per cent respectively;
- (m) the mortgage rate for the Mortgages is the Minimum Mortgage Rate; and
- (n) the Closing Date is 25 October 2012.

The average annualised repayment, redemption and prepayment rates on the Mortgages referred to in assumption (c) above may substantially vary from one interest period to another. The average annualised repayment, redemption and prepayment rates shown above are purely illustrative and do not represent the full range of possibilities for such Mortgages.

Assumptions (b), (d) to (l) above relate to circumstances which are not predictable.

The actual characteristics and performance of the Mortgages are likely to differ from the assumptions used in constructing the tables set forth below, which are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios. For example, it is not expected that the Mortgages will prepay at a constant rate until maturity, that all of

the Mortgages will prepay at the same rate or that there will be no defaults or delinquencies on the Mortgages. Any difference between such assumptions and the actual characteristics and performance of the Mortgages will cause the weighted average life of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated percentage of CPR.

The yield to maturity of the Notes of each class will depend on, among other things, the amount and timing of payment of principal (including prepayments, redemptions before the end of the mortgage term, sale proceeds arising on enforcement of a Mortgage and repurchases of Mortgages due to, among other things, breaches of any of the warranties given by the Seller under the Mortgage Sale Agreement) on the Mortgages and the price paid by the holders of the Notes. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments on the Mortgages.

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

Subject to the foregoing discussions and assumptions, the following tables indicate the estimated average lives of the Notes calculated on the basis indicated above:

**Estimated average life of the Notes in years assuming call option exercised in January 2016**

| Class         | 0% CPR | 5% CPR | 10% CPR | 15% CPR | 20% CPR | 5% to 15% CPR* |
|---------------|--------|--------|---------|---------|---------|----------------|
| A Notes ..... | 3.19   | 2.92   | 2.67    | 2.43    | 2.20    | 2.92           |
| B Notes ..... | 3.21   | 3.21   | 3.21    | 3.21    | 3.21    | 3.21           |
| C Notes ..... | 3.21   | 3.21   | 3.21    | 3.21    | 3.21    | 3.21           |
| D Notes ..... | 3.21   | 3.21   | 3.21    | 3.21    | 3.21    | 3.21           |

**Estimated average life of the Notes in years assuming call option not exercised in January 2016 but clean-up call exercised**

| Class         | 0% CPR | 5% CPR | 10% CPR | 15% CPR | 20% CPR | 5% to 15% CPR* |
|---------------|--------|--------|---------|---------|---------|----------------|
| A Notes ..... | 9.79   | 6.71   | 4.93    | 3.78    | 2.99    | 5.48           |
| B Notes ..... | 16.17  | 13.51  | 11.15   | 9.51    | 8.14    | 10.24          |
| C Notes ..... | 16.47  | 13.71  | 11.46   | 9.71    | 8.46    | 10.47          |
| D Notes ..... | 16.47  | 13.71  | 11.46   | 9.71    | 8.46    | 10.47          |

\* Note: '5% to 15% CPR' assumes 5% CPR for four years, then 15% CPR thereafter

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 above assumptions and estimates will prove in any way to be realistic and the above estimated average lives must therefore be viewed with caution.

## THE ISSUER

### Introduction

The Issuer was incorporated in England (registered number 6356366) as a public limited company under the Companies Act 1985 on 30 August 2007 as Paragon Mortgages (No.17) PLC. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE and its telephone number is 0121 712 2323. The entire share capital of the Issuer is beneficially owned by the Paragon Group of Companies PLC, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The ordinary share capital of PGC is listed by the U.K. Listing Authority and is traded on the London Stock Exchange.

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

The Issuer has been established as a special purpose vehicle for the purpose of issuing asset-backed securities.

The Issuer has not engaged, since its incorporation, in any material activities other than (i) those incidental to its registration as a public limited company under the Companies Act 1985, (ii) obtaining a certificate from the Registrar of Companies pursuant to section 117 of the Companies Act 1985 (as applied at the time such certificate was obtained), (iii) the authorisation of the issue of the Notes and the matters contemplated in this Prospectus and the authorisation and execution of the other documents referred to in this Prospectus to which it is a party, (iv) applying for a standard licence under the Consumer Credit Act 1974 (as amended by the Consumer Credit Act 2006), (v) applying for registration and registering under the Data Protection Act 1998, and (vi) applying to join the Paragon VAT Group and, in each case, any other activities incidental to any of the foregoing. The Issuer has not, prior to the Closing Date, commenced operations. The Issuer has produced financial statements for each completed financial year since its incorporation but has not produced audited financial statements, as the Issuer was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies. The Issuer's financial statements for financial years ended 30 September 2010 and 30 September 2011 are set out in an Annex to this Prospectus and a separate Annex contains a report received by the Board of Directors of the Issuer from Deloitte LLP, Chartered Accountants, the reporting accountants to the Issuer, prepared solely for the purposes of the issue of Notes.

Since 30 September 2011, being the date of the most recent audited financial statements of the Issuer, there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or financial position of the Issuer.

### Directors and Secretary

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

| <b>Name</b>     | <b>Business address</b>  | <b>Principal activities</b>  |
|-----------------|--|--|
| Nicholas Keen   | St. Catherine's Court<br>Herbert Road<br>Solihull<br>West Midlands B91 3QE | Finance Director of PGC, PFPLC, the Seller, MAAL and the Warehouser  |
| John Gemmell    | St. Catherine's Court<br>Herbert Road<br>Solihull<br>West Midlands B91 3QE | Director of Financial Accounting and Secretary of PGC and Director and Secretary of PFPLC, the Seller, MAAL and the Warehouser |
| Richard Shelton | St. Catherine's Court<br>Herbert Road<br>Solihull                          | Solicitor and Director of PFPLC, the Seller, MAAL and the Warehouser   |

| <b>Name</b>  | <b>Business address</b>  | <b>Principal activities</b>                                  |
|--------------|--|--|
|              | West Midlands B91 3QE  |  |
| John Harvey  | St. Catherine's Court<br>Herbert Road<br>Solihull<br>West Midlands B91 3QE | Director of PFPLC, the Seller and the<br>Warehouser and MAAL |
| James Farrie | 10 New Street<br>London EC2M 4TP   | Director of ATC Capital Markets (UK)<br>Limited              |
| Dirk Stolp   | 10 New Street<br>London EC2M 4TP   | Head of Capital Markets – ATC Group                          |

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 MAAL (in such capacity, the "**Corporate Services Provider**") to be dated the Closing Date (the "**Corporate Services Letter**"), MAAL will, unless and until certain events occur, undertake the day-to-day management and administration of the business of the Issuer. The Issuer will agree to pay the Corporate Services Provider, for the provision of the services provided pursuant to the Corporate Services Letter, a fee payable in arrear on or after the first Business Day after each Interest Payment Date and calculated on the basis of an apportionment, according to the average gross value of Mortgages under management during the relevant period, of the direct costs incurred by the Corporate Services Provider in respect of those services, together with the central service and utility costs borne by the Corporate Services Provider and together with such further amount as may from time to time be agreed between the Corporate Services Provider and the Issuer. Amounts owing to the Corporate Services Provider under the Corporate Services Letter will be subordinated in the manner described in the section entitled "*Cashflows and Cash Management*" above.

The Issuer will covenant to observe certain restrictions on its activities which are detailed in "*Terms and Conditions of the Notes – 3. Covenants of the Issuer*" above.

### **Capitalisation and indebtedness**

The capitalisation of the Issuer as at the date of this document is as follows:

| <b>Share capital</b>   | <b>£</b>  |
|--|-----------|
| <b>Authorised</b>  |           |
| 50,000 ordinary shares of £1 each.....   | 50,000.00 |
| <b>Issued</b>  |           |
| 50,000 ordinary shares of £1 each (two fully paid and 49,998 paid up as to 25 pence each)..... | 12,501.50 |
| <b>Borrowings</b> .....  | 0.00      |

Notes:

- (1) The Issuer expects to issue the Notes on the Closing Date. In addition, an advance under the Subordinated Loan Agreement will be made on the Closing Date in an amount sufficient, among other things, to enable the Issuer to achieve the initial ratings on the Class A Notes. The amount of this advance is expected to be approximately £7,283,748. The Notes and the Subordinated Loan Agreement will have the benefit of security.
- (2) As at the date of this document 100 per cent. of the issued shares in the Issuer are held by PGC.

The current financial period of the Issuer will end on 30 September 2013. As at the date of this Prospectus, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities which are material.

## **THE SELLER**

The Seller was incorporated in England (registered number 6595834) as a private limited company under the Companies Act 2006 on 19 May 2008 as Paragon Mortgages (No. 30) Limited and changed its name on 17 March 2010 to Paragon Mortgages (2010) Limited. The registered office of the Seller is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE and its telephone number is 0121 712 2323. The entire share capital of the Seller is beneficially owned by the Paragon Group of Companies PLC, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The ordinary share capital of PGC is listed by the U.K. Listing Authority and is traded on the London Stock Exchange.

The principal objects of the Seller are set out in Clause 3 of its Memorandum of Association and include investing in and/or acquiring mortgage loans and other similar investments, borrowing or raising money in such manner as the Seller shall think fit and securing the repayment of any money borrowed, raised or owing by mortgage, charge or lien upon the whole or any part of the Seller's property or assets. The Seller has agreed in the Relevant Documents to observe certain restrictions on its business activities.

The Seller is a special purpose vehicle for originating mortgages which it sells to the Warehouser and other special purpose vehicles performing an equivalent function to the Warehouser. The mortgages sold by the Seller to the Warehouser and/or any equivalent warehouse vehicle are intended to be reacquired by the Seller and subsequently resold by the Seller to special purpose vehicles (which will generally use such mortgages as the relevant assets to support the issuance of mortgage backed securities). The Seller is a member of the Paragon VAT Group. The Seller has a standard licence under the Consumer Credit Act 1974 (as amended by the Consumer Credit Act 2006) and is registered under the Data Protection Act 1998.

## **THE WAREHOUSER**

The Warehouser was incorporated in England (registered number 5390155) as a public limited company under the Companies Act 1985 on 1 March 2005 as Paragon Mortgages (No.19) plc and on 11 January 2008 reregistered as a private limited company and changed its name to Paragon Fourth Funding Limited. The registered office of the Warehouser is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE and its telephone number is 0121 712 2323. The entire share capital of the Warehouser is beneficially owned by the Paragon Group of Companies PLC, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The ordinary share capital of PGC is listed by the U.K. Listing Authority and is traded on the London Stock Exchange.

The principal objects of the Warehouser are set out in Clause 3 of its Memorandum of Association and include investing in and/or acquiring mortgage loans and other similar investments, borrowing or raising money in such manner as the Warehouser shall think fit and securing the repayment of any money borrowed, raised or owing by mortgage, charge or lien upon the whole or any part of the Warehouser's property or assets.

The Warehouser is a special purpose vehicle for warehousing the Mortgages and is a member of the Paragon VAT Group. The Warehouser has a standard licence under the Consumer Credit Act 1974 (as amended by the Consumer Credit Act 2006) and is registered under the Data Protection Act 1998.

## HEDGING ARRANGEMENTS

### *Interest rate basis hedging arrangements*

On the Closing Date, the Issuer will have entered into hedging arrangements under the Hedge Agreements which satisfy the applicable criteria of the Rating Agencies on the Closing Date to hedge any Fixed Rate Mortgages which are acquired by it on the Closing Date and any Additional Mortgages which are Fixed Rate Mortgages which may be acquired by the Issuer in accordance with the terms of the Mortgage Sale Agreement on any date after the Closing Date up to (but excluding) the second Principal Determination Date.

If the aggregate principal amount received from borrowers in respect of Mortgages which are Fixed Rate Mortgages upon early redemption of such Mortgages (whether in full or in part) during any Collection Period is equal to or greater than £10,000,000, then the Administrator shall, on behalf of the Issuer, (a) exercise the right of the Issuer to terminate in full or in part one or more swap or other hedging transactions entered into by the Issuer with the Hedge Provider on the Closing Date, (b) execute such additional swap or other hedging transactions required to offset the fixed rate interest risk arising from the redemption of such mortgages or (c) arrange for the sale or transfer of such swap or other hedging transactions to another member of the Paragon Group. The notional amount of swap or hedging transactions to be so terminated, offset, transferred or sold and the selection of which swap will be agreed by the Administrator, the Issuer and the relevant Hedge Provider at the relevant time.

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.

After payment of, or allocation of amounts to all items ranking prior to item (xvi) in the Revenue Priority of Payments set out in "*Cashflows and Cash Management – Revenue Priority of Payments*" above, the Issuer may reserve funds on a Principal Determination Date to enable it to purchase other hedging arrangements (and related guarantees) in the succeeding Interest Period.

### *Ratings of Hedge Provider and transfer of Hedge Agreements*

Under each of the Hedge Agreements, in the event that the relevant ratings of the relevant Hedge Provider, or its respective guarantor, as applicable, is or are, as applicable, downgraded by a Rating Agency below the relevant ratings specified (in accordance with the requirements of Fitch and S&P) in the Hedge Agreements and (in some cases) as a result of such downgrade the then current ratings of the class of Notes relating to the relevant Hedge Agreement, would or may, as applicable, be adversely affected, then the relevant Hedge Provider will, in accordance with the relevant Hedge Agreement, be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the relevant Hedge Agreement, (ii) arranging for its obligations under the relevant Hedge Agreement to be transferred to an entity with ratings required by the relevant Rating Agency as specified in the relevant Hedge Agreement (in accordance with the requirements of the relevant Rating Agency), (iii) procuring another entity, with ratings required by the relevant Rating Agency as specified in the relevant Hedge Agreement (in accordance with the requirements of the relevant Rating Agency), to become co-obligor in respect of its obligations under the Hedge Agreement, or (iv) taking such other action as it may agree with the relevant Rating Agency. If, at any time, the rating of a Hedge Provider falls below a rating level specified in the relevant Hedge Agreement, the remedial measures available to a Hedge Provider may be more limited. If a Hedge Provider fails to take one of the actions described above within the specified period referred to in the relevant Hedge Agreement, then the Issuer will be entitled to terminate that Hedge Agreement.

Where a Hedge Provider provides collateral in accordance with the terms of any Hedge Agreement, such collateral ("**Hedge Collateral**") will, upon receipt by the Issuer, be credited to the Hedge Collateral Ledger (created to record such amounts). Any Hedge Collateral provided by a Hedge Provider will not form part of the amounts to be applied under the Revenue Priority of Payments, Principal Priority of Payments or Enforcement Priority of Payments except until it is applied in or towards satisfaction of

amounts due by the relevant Hedge Provider to the Issuer in accordance with the terms under which the Hedge Collateral was provided.

Provided that it has obtained the prior written approval of the Issuer and the Trustee, any Hedge Provider may, at its own expense and in accordance with the terms of the relevant Hedge Agreement, transfer its obligations in respect of any Hedge Agreement to another entity, provided that the Administrator has certified that, in its opinion (and S&P confirm that), such transfer of obligations would not result in a downgrade of the then current ratings of the Notes.

#### ***Termination payments upon early termination of hedging arrangements***

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 Hedge Providers or any Permitted Hedge Provider due to the early redemption, enforcement or sale of Fixed Rate Mortgages prior to the redemption of the Notes. Furthermore, termination of any swap or other hedging arrangement (including the Hedge Agreement or any Permitted Hedge Agreement) may occur independently of an Event of Default under the Notes.

A Hedge Agreement may be terminated by the relevant Hedge Provider in circumstances including, broadly, where the Issuer is in default by reason of failure by the Issuer to make payments, where it becomes illegal for a Hedge Provider to perform its obligations under the relevant Hedge Agreement and where certain insolvency-related or corporate reorganisation events affect the Issuer and in the event that proceedings are taken against the Issuer by the Trustee to enforce payment of the Notes.

A Hedge Agreement may be terminated by the Issuer in circumstances including, broadly, where the relevant Hedge Provider is in default by reason of failure by the relevant Hedge Provider to make payments, where it becomes illegal for the Issuer to perform its obligations under the relevant Hedge Agreement, where the relevant Hedge Provider is otherwise in breach of the relevant Hedge Agreement or has/have made a misrepresentation and where certain insolvency-related or corporate reorganisation events affect the Hedge Provider.

Any termination of a Hedge Agreement (whether in full or in part) may give rise to a termination payment due either to or from the Issuer. Any such payment due from the Issuer to the relevant Hedge Provider will rank in order of priority as described in the section entitled "*Cashflows and Cash Management*", as applicable, and for the purposes of the relevant priority of payments "**Hedge Provider Subordinated Amounts**" means on any Interest Payment Date in relation to a Hedge Agreement the amount, if any, due to the relevant Hedge Provider on that Interest Payment Date (excluding the amount of any Hedge Collateral which is not to be applied towards any termination payment from the relevant Hedge Provider) in connection with a termination of that Hedge Agreement where such termination has arisen as a result of an Event of Default under the relevant Hedge Agreement where that Hedge Provider is the Defaulting Party or as a result of a Termination Event under the relevant Hedge Agreement, where that Hedge Provider is the sole Affected Party (and for these purposes Event of Default, Defaulting Party, Termination Event and Affected Party have the meanings indicated in that Hedge Agreement).

Where the Issuer enters into a further Hedge Agreement to replace all or part of any Hedge Agreement which terminates early, the Issuer shall upon receipt apply the amount, if any, received in consideration for entry into that replacement Hedge Agreement (the "**Hedge Replacement Premium**") in or towards payment of any termination payment then payable by the Issuer to the relevant Hedge Provider in respect of that Hedge Agreement which has terminated early and the remainder of that amount, if any, shall be credited to the Revenue Ledger.

Any termination payment due to the Issuer in respect of a hedging transaction which is being terminated at the option of the Issuer due to the early redemption, enforcement or sale of a Fixed Rate Mortgage prior to the final redemption of the Notes will not be payable in full immediately but will be payable to the Issuer in the form of an annuity on each Interest Payment Date until the date on which the relevant swap or hedging agreement would have expired had it not been terminated early.

#### ***Withholding Compensation Amounts***

If a Hedge Provider or the Issuer is required to make any deduction or withholding, for or on account of any present or future tax, levy, impost, duty charge, assessment or fee that is imposed by any government

or taxing authority from any amounts payable by it under the Hedge Agreement on any Interest Payment Date, then under the terms of the relevant Hedge Agreement (i) the Hedge Provider (as applicable) will be obliged to pay additional amounts ("**Additional Amounts**") to ensure that the Issuer receives the full amount it would otherwise have received from the relevant Hedge Provider, and (ii) the Issuer shall make such payment after such withholding or deduction has been made (such withholding or deduction, a "**Withheld Amount**") and shall not be obliged to make any additional payments to the relevant Hedge Provider (as applicable) in respect of such withholding or deduction.

However, under each Hedge Agreement, the Issuer will agree that on each Interest Payment Date it will, subject to and in accordance with the Revenue Priority of Payments or the Enforcement Priority of Payments, as applicable, pay to the relevant Hedge Provider an amount or amounts ("**Withholding Compensation Amounts**") equal to (i) any Additional Amounts so paid by the relevant Hedge Provider (as applicable) to the Issuer on such Interest Payment Date together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the relevant Hedge Provider under the relevant Hedge 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.

#### ***The Hedge Agreement Credit Support Documents***

Each Hedge Provider will enter into a 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) with the Issuer (an "**Approved Credit Support Document**") in support of its obligations under the relevant Hedge Agreement. The Hedge Provider will enter in an Approved Credit Support Document on or around the Closing Date in support of its obligations under the Hedge Agreement.

Pursuant to the terms of each Approved Credit Support Document, if at any time a Hedge Provider is required to provide collateral in respect of any of its obligations under the relevant Hedge Agreement, the Approved Credit Support Document will provide that, from time to time and subject to the conditions specified in the Approved Credit Support Document and the Hedge Agreement, the Hedge Provider will make transfers of cash by way of collateral to the Issuer in support of its obligations under the relevant Hedge Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of the Approved Credit Support Document.

Any amount attributable to the return of collateral to a Hedge Provider and any Hedge Replacement Premium will be paid directly to the relevant Hedge Provider and not in accordance with the Revenue Priority of Payments or the Enforcement Priority of Payments (see also "*Cashflows and Cash Management*").

## THE PARAGON VAT GROUP

The Issuer is a member of the Paragon VAT Group (consisting of PFPLC and certain of its related companies). At present, PFPLC as representative member of the Paragon VAT Group is the entity primarily responsible for the VAT affairs of the Paragon VAT Group. However, for such period as the Issuer is a member of the Paragon VAT Group it will be, under current VAT legislation, jointly and severally liable with the other members of the Paragon VAT Group for any amount of VAT due from PFPLC as representative member of the Paragon VAT Group to HMRC by virtue of section 43 Value Added Tax Act 1994.

In order to reduce the exposure of the members of the Paragon VAT Group for VAT liabilities of another member of the Paragon Group, 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 HMRC if the relevant member of the Paragon VAT Group fails to pay the relevant amount. The VAT Account is held on trust by Citicorp Trustee Company Limited (as successor to Morgan Guaranty Trust Company of New York) as the trustee (such trust being constituted by a declaration of trust dated 19 March 1993, as subsequently supplemented, amended and restated (the "**VAT Declaration of Trust**") for the benefit of the Paragon VAT Group beneficiaries (the beneficiaries being, at the date of this Prospectus, various special purpose companies holding mortgage assets administered by a member of the Paragon VAT Group). Under the VAT Declaration of Trust, PFPLC must maintain a minimum credit balance in the VAT Account equal to the greater of (1) £120,000, (2) 120 per cent. of the actual VAT liability for the Paragon VAT Group in the last two accounting periods or (3) 120 per cent. of the sum of the estimated liabilities for the current and next succeeding accounting periods. The Issuer is one of the beneficiaries of the VAT Declaration of Trust.

The exposure of the Issuer to liabilities of another member of the Paragon VAT Group in respect of VAT can be further reduced by ensuring that it is "degrouned" in circumstances where it appears likely that the Issuer might become liable to meet a liability in respect of VAT because of PFPLC's failure as representative member of the Paragon VAT Group to pay such liability. Once the Issuer's "degrouning" is effective, the Issuer will cease to be jointly and severally liable for VAT due from PFPLC as the representative member of the Paragon VAT Group although the Issuer will continue to be jointly and severally liable for any VAT liability of the Paragon VAT Group which has arisen during its period of membership of the Paragon VAT Group. The Issuer may "degroun" by giving notice to HMRC (HMRC cannot refuse to allow a company to "degroun"). The notice must be given at least 90 days before the date from which it is to take effect unless HMRC allow for a shorter period.

## THE HEDGE PROVIDER

### Macquarie Bank Limited Overview

Macquarie Bank Limited ("MBL") is 100 per cent. owned by Macquarie Group Limited ("MGL" and together with its subsidiaries, the "Macquarie Group") which is listed on the Australian Securities Exchange ("ASX"). MBL is regulated by Australian Prudential Regulatory Authority, the Australian banking regulator, as an authorised deposit taker. MBL's London Branch is also authorised and regulated in the United Kingdom by the FSA. MGL also owns a bank in the UK, Macquarie Bank International Limited, which is regulated by the FSA. Macquarie's activities are also subject to scrutiny by other regulatory agencies around the world.

The Macquarie Group is a global provider of banking, financial, advisory, investment and funds management services.

The Macquarie Group's main business focus is making returns by providing a diversified range of services to clients. Macquarie acts on behalf of institutional, corporate and retail clients and counterparties around the world.

The Macquarie Group's approach to risk management is long-standing. Strong risk management practices are embedded in business unit management with central oversight of credit, market, funding, compliance and operational risk. These, together with a strong, committed team are key drivers of Macquarie's success.

Founded in 1969, Macquarie Group employs more than 14,200 people in approximately 70 office locations in 28 countries. At 31 March 2012, Macquarie had assets under management of \$USD339 billion.

The Macquarie Group organises its activities into the following six operating groups within which individual businesses operate:

- Banking and Financial Services Group
- Corporate and Asset Finance Group
- Fixed Income, Currencies and Commodities
- Macquarie Capital
- Macquarie Funds Group
- Macquarie Securities Group

Each group specialises in defined product or market sectors.

## THE MORTGAGES

### Origination of the Mortgages

All of the Mortgages forming part of the initial security for the Notes have been originated by, and will be sold to the Issuer by, Paragon Mortgages (2010) Limited (the "**Seller**").

### Introduction of Mortgage Business

The Seller 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 five years and 25 years. No Mortgage will fall to be repaid later than 31 March 2038.

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 governed by English law (the "**Mortgages**"). The Issuer will have the benefit of warranties by the Seller in relation to the Mortgages sold by it to the Issuer, including warranties in relation to the lending criteria applied in advancing the loans.

The properties which are the subject of the Mortgages (the "**Properties**") are residential properties located in England or Wales. In the case of leasehold, the lease has, except where permitted under the lending criteria, at least 30 years to run beyond the term of the relevant Mortgage.

The borrowers in respect of the Mortgages are either individuals (Mortgages where the borrowers are individuals being "**Individual Mortgages**") or limited liability companies incorporated in England (Mortgages where the borrowers are such limited liability companies being "**Corporate Mortgages**").

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

All of the Mortgages are investment home mortgages (each an "**Investment Home Mortgage**"), which relate to property purchased by the borrower and expected to be occupied by tenants.

Investment Home Mortgages will include, in the case of Individual Mortgages, loans to non-U.K. nationals, or, in the case of Corporate Mortgages, loans to limited liability companies incorporated in England and Wales. The properties in respect of Investment Home Mortgages are required by the applicable Mortgage Conditions to be used for residential purposes. It will normally be the intention that these properties will be let under an assured shorthold 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 "*Risk Factors – Other matters – Risks associated with non-owner occupied Properties*" 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. The Seller recommends (but may 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**") and some mortgages where the Issuer or the Administrator can convert the Mortgage from an Interest-only Mortgage to a Repayment Mortgage after the initial fixed rate or the LIBOR based initial margin period, subject to a 28 day notice period ("**Optional Repayment Mortgage**"). If the Administrator or the Issuer opts to convert the mortgage to a repayment basis, the monthly instalment requires both interest and principal to be paid by the borrower. The payment schedule applicable to such a Mortgage 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. The Seller recommends (but may not require) that borrowers arrange term life assurance in connection with Interest-only Mortgages and Optional Repayment 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 or an endowment policy). Neither the Seller, the Administrator nor the Warehouse has verified that the borrower has any such ability or other source of funds and has not obtained security over the borrower's right in respect of any such other source of funds. The ability of a borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the borrower's equity in the Property, the financial condition of the borrower, tax laws and general economic conditions at the time. Moreover, the Mortgage Conditions in respect of Interest-only Mortgages do not require a borrower to put in place alternative funding arrangements.

Some Mortgages, when originated, provided for Interest-only to be paid monthly, with no scheduled payment of principal until the fifth anniversary of the Mortgage ("**Five-year Interest-only Mortgages**"). On the fifth anniversary of the mortgage, the monthly instalment requires both interest and principal to be paid by the borrower. The payment schedule applicable to such a Mortgage 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. The Seller recommends (but may not require) that borrowers arrange term life assurance in connection with the Five Year Interest-only Mortgage.

### ***Mortgage Interest Rate Types***

Each Mortgage will be one of the following:

- (i) a Mortgage under which for a fixed 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 (being, during each such period, a "**Fixed Rate Mortgage**"). After the fixed rate period, the Mortgage reverts to the Seller's standard variable rate or to a variable margin over three-month London Inter-Bank Offered Rate for GBP deposits determined quarterly;
- (ii) a Mortgage under which the borrower is required for a fixed period to pay interest at a fixed margin over the three-month London Inter-Bank Offered Rate for GBP deposits determined quarterly (being, during each period in which interest accrues in that manner, a "**LIBOR-Linked Mortgage**"). After the LIBOR based initial margin period, the Mortgage reverts to the Seller's standard variable rate or to a variable margin over three-month London Inter-Bank Offered Rate for GBP deposits (determined quarterly); or
- (iii) a Mortgage which is not at the relevant time a Fixed Rate Mortgage or a LIBOR-Linked Mortgage and under which the rate of interest payable by the borrower is variable and is capable of being reset by the Issuer or the Administrator (being, during each period in which interest accrues in that manner, a "**Standard Variable Rate Mortgage**").

Interest on the Mortgages is payable monthly at rates which are currently set by or on behalf of the Seller (subject to the restrictions mentioned above) and, except in certain limited circumstances in which the Trustee or the Substitute Administrator will be entitled (but not obliged, in the case of the Trustee) to take over this function, will be set by the Administrator on behalf of the Issuer 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. For a specified period such a prepayment of principal gives rise to an obligation to pay an additional sum. The period within which such a prepayment gives rise to an obligation to pay such an additional sum, and the size of that additional sum, are specified in the relevant Mortgage Conditions.

The majority of Mortgages are subject to a minimum early repayment charge of the equivalent of between one and three months' interest should the Mortgage be redeemed within three years of completion. However, where a Mortgage has a fixed rate, or offers new borrowers an incentive (as with a 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.

### **Acquisition of Mortgages**

#### ***Acquisition of Mortgages on Closing Date***

At the date of this Prospectus, the Mortgages are beneficially owned by Paragon Fourth Funding Limited (the "**Warehouser**"), having been previously purchased by the Warehouser from the Seller. On the Closing Date the Seller will purchase the Mortgages from the Warehouser and then (also on the Closing Date) the Seller will sell the Mortgages to the Issuer pursuant to a mortgage sale agreement entered into on the Closing Date (the "**Mortgage Sale Agreement**").

#### ***Acquisition of Additional Mortgages following Closing Date***

The Issuer may purchase further Mortgages on any date following the Closing Date up to and including the second Principal Determination Date (such Mortgages being "**Additional Mortgages**") using amounts standing to the credit of the Pre-Funding reserve if and to the extent that the Issuer is permitted to do so by, and in accordance with, the Mortgage Sale Agreement and the Administration Agreement.

In particular, any purchase of Additional Mortgages by the Issuer will be subject to (amongst other things) (the "**Additional Mortgage Criteria**"):

- (i) the confirmation of S&P and Fitch that such purchase will not adversely affect the then current ratings of the Notes;
- (ii) the provision, by each of the Issuer, the Seller and the Warehouser, of solvency certificates, each dated the date of purchase of such Additional Mortgage, signed by an authorised officer of the relevant company;
- (iii) a certificate of a director of the Seller confirming that the Additional Mortgages were originated in accordance with the applicable Lending Guidelines;
- (iv) an audit on the Additional Mortgages being prepared by an internationally recognised accounting firm substantially in the form provided in respect of the Mortgages acquired by the Issuer on the Closing Date;
- (v) no Enforcement Notice having been served on the Issuer;
- (vi) if such purchase were completed, the maximum aggregate principal amount of all Arrears Mortgages purchased by the Issuer (whether at or after the Closing Date) (when aggregated with any other Arrears Mortgages previously purchased) is 1,000,000 at the time of purchase;

- (vii) the aggregate amount of Mandatory Further Advances which the lender is committed to make under the Additional Mortgages which are to be purchased by the Issuer on the relevant purchase date shall not, when aggregated with:
  - (a) the aggregate amount of all Discretionary Further Advances (other than by way of capitalisation of arrears) which have been made since the Closing Date or which are proposed to be made on or before the relevant purchase date; and
  - (b) the aggregate amount of all Mandatory Further Advances which have been made since the Closing Date or which are to be made on or before the proposed purchase date of the relevant Additional Mortgage,
 

which in the case of each of paragraphs (a) and (b) above, have been or are to be funded by the Issuer out of principal received or recovered or deemed to have been received or recovered in respect of the Mortgages and not out of the proceeds of any advance under the Subordinated Loan Agreement made or to be made for such purpose;
  - (c) the aggregate amount of all other Mandatory Further Advances, in respect of Mortgages which the Issuer has purchased or will have purchased before the relevant purchase date, which are to be made after the relevant purchase date,

exceed a combined aggregate cumulative limit of 8 per cent. of the Initial Principal Amount of the Notes;
- (viii) there being no Event of Default under (and as defined in) Condition 9 (*Events of Default*) of the Notes, nor any termination event in relation to the Administrator under the Administration Agreement which, in any such case, is continuing;
- (ix) the Reversionary Period in respect of any Additional Mortgage shall not exceed a period of 5.25 years from the Closing Date;
- (x) if such purchase were completed, the aggregate Current Balance of Mortgages in the Mortgage Portfolio with a Reversionary Period of 2.25 years or less from the Closing Date when calculated as a percentage of the aggregate Current Balance of all Mortgages in the Mortgage Portfolio, shall be equal to or greater than 50 per cent.;
- (xi) if such purchase were completed the aggregate Current Balance of Mortgages in the Mortgage Portfolio that revert to the Seller's standard variable rate, when calculated as a percentage of the aggregate Current Balance of all Mortgages in the Mortgage Portfolio, shall be equal to or less than 50 per cent.;
- (xii) the reversionary rate in respect of any Additional Mortgage (other than those Additional Mortgages reverting to the standard variable rate) following expiry of the Reversionary Period must be equal to or greater than 4.50 per cent. over the three month London Interbank Offered Rate for sterling deposits determined quarterly;
- (xiii) if such purchase were completed, each of the Mortgage Condition Tests are satisfied; and
- (xiv) the Seller has delivered to the Trustee, on the relevant purchase date, a certificate dated on the relevant purchase date confirming that the relevant conditions set out in Administration Agreement have been satisfied.

In this Prospectus:

**"Mortgage Condition Tests"** means each of the following conditions:

- (i) the aggregate Adjusted Current Balance of Mortgages in respect of which Properties are located in Greater London, South East, South West and East Anglia and have a value greater than £500,000 (determined in accordance with the applicable Lending Guidelines) must be less than 34 per cent. of the Final Pool Balance;

- (ii) the aggregate Adjusted Current Balance of Mortgages in respect of which Properties are not located in Greater London, the South East, South West or East Anglia and have a value greater than £300,000 must be less than 12 per cent. of the Final Pool Balance;
- (iii) the aggregate Adjusted Current Balance of Interest-only Mortgages and Optional Repayment Mortgages that have an original term of 10 years or less must be less than 2 per cent. of the Final Pool Balance;
- (iv) the aggregate Adjusted Current Balance of Five-year Interest-only Mortgages must be less than 50 per cent. of the Final Pool Balance;
- (v) based on the Adjusted Current Balance of each Mortgage, the weighted average interest coverage ratio (determined in accordance with the Lending Guidelines) on the Mortgage Portfolio must not be less than 152 per cent.;
- (vi) based on the Adjusted Current Balance of each Mortgage, the weighted average current loan to value ratio (determined in accordance with the Lending Guidelines) must not exceed 70.5 per cent.;
- (vii) the aggregate Adjusted Current Balance of Mortgages which have a current loan to value ratio (determined in accordance with the Lending Guidelines) of between (x) equal to or greater than 75 per cent. and (y) equal to or less than 79 per cent. must be equal to or less than 45 per cent. of the Final Pool Balance;
- (viii) the aggregate Adjusted Current Balance of Mortgages which have a current loan to value ratio (determined in accordance with the Lending Guidelines) of between (x) equal to or greater than 70 per cent. and (y) equal to or less than 79 per cent. must be equal to or less than 65 per cent. of the Final Pool Balance;
- (ix) the current loan to value ratio of any Mortgage based on its Adjusted Current Balance must be equal to or less than 79 per cent.; and
- (x) the aggregate Current Balance of the Mortgages of the 20 largest borrowers must not exceed £22,704,906.08,

and disregarding, for the purposes of these Mortgage Condition Tests, any repayment or prepayment of principal or interest by the relevant Borrower and any default and/or repurchase by the Seller in respect of any Mortgage (which in the case of any Mortgage that has been subject to a repurchase by the Seller shall be treated as remaining in the Mortgage Portfolio for the purposes of these Mortgage Condition Tests).

**"Adjusted Current Balance"** means at any time, in relation to any Mortgage, the sum of: (a) the Maximum Principal Balance of such Mortgage; and (b) any Mandatory Further Advance granted in respect of such Mortgage but not yet funded by the Issuer.

**"Final Pool Balance"** means, at any time, the sum of: (a) £200 million; and (b) the amount of any Mandatory Further Advances granted in respect of any Mortgages in the Mortgage Portfolio but not yet released and any Discretionary Further Advances funded by the Issuer since the Closing Date.

**"Maximum Principal Balance"** means:

- (i) in respect of any Mortgage (other than an Additional Mortgage), the Current Balance of such Mortgage as of the Closing Date; and
- (ii) in respect of any Additional Mortgage, the Current Balance of such Mortgage as of its purchase date.

***Consideration for purchase of Mortgages***

The purchase consideration in respect of the Mortgages purchased on the Closing Date will be paid on the Closing Date, and, if applicable, in respect of the Additional Mortgages purchased on any date following the Closing Date up to and including the second Principal Determination Date, will be paid on such date of purchase. The purchase consideration payable by the Issuer to the Seller in respect of the relevant

Mortgages purchased from that Seller shall equal the Initial Purchase Consideration plus the relevant Deferred Purchase Consideration.

The "**Initial Purchase Consideration**" shall be: (i) the then principal balance in respect of the Mortgages sold by the Seller on the relevant purchase date; less (ii) in respect of each such Arrears Mortgage, the amount of any provision which has been made against the recovery of amounts due under that Arrears Mortgage (in each case as at the relevant date of purchase); plus (iii) the postings required to adjust the carrying value of the loans in the portfolio to that calculated under the Amortised Cost Basis as defined by Financial Reporting Standard 26 under UK GAAP, and as calculated by the Administrator on the relevant purchase date (the "**FRS 26 Adjustment**" and the amount of such adjustment being the "**FRS 26 Adjustment Amount**").

The "**Deferred Purchase Consideration**" shall be payable on each Interest Payment Date subject to and as specified in the applicable priority of payments and shall be an amount equal to the remaining balance (if any) of the moneys available on such Interest Payment Date for application in accordance with the Revenue Priority of Payments or the Enforcement Priority of Payments, as applicable.

Legal title to each of the Mortgages has since origination remained with the Seller and will remain with the Seller until completion of the transfers of the Mortgages (and, in the case of registered land, their registration at the Land Registry) and notification to any borrower or guarantor. Until these steps are taken, the sale of the Mortgages will take effect in equity only. Save in the circumstances to be set out in the Administration Agreement and described in "*Perfection of title*" below, neither the Issuer nor the Trustee will apply to the Land Registry or the Central Land Charges Registry to register or record the Issuer as the new registered proprietor of any Mortgages or register or record any interest of the Issuer or the Trustee in respect of the Mortgages, and accordingly in relation to the relevant Mortgages the situation described above as regards title thereto will continue to apply.

#### **Perfection of title**

The sales by the Seller to the Issuer of the Mortgages will only be perfected by the execution of transfers of the Mortgages, the carrying out of requisite registration or recording and giving notice to any borrower or guarantor in the circumstances set out below. Neither the Issuer nor the Trustee will be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages. For so long as the Seller retains legal title to a Mortgage, a third party dealing with the Seller could obtain legal title free of the interests of the Issuer and the Trustee. For so long as the Seller retains legal title to a Mortgage, it must be joined as a party to any legal proceedings against any borrower or in relation to the enforcement of that Mortgage. In this regard the Seller has undertaken for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required in connection with, any such proceedings.

Further, the rights of the Issuer and the Trustee may be or become subject to interests of third parties and direct rights of borrowers against the Seller: for example, a later encumbrance or transfer of the Mortgages, and/or equities created or arising before the transfer of the legal title is perfected: for example, rights of set-off (or other analogous rights) as between the relevant borrowers and the Seller and the rights of borrowers to redeem their Mortgages by repaying the relevant loan directly to the Seller. These could result in the Issuer receiving less money than anticipated. However, the risk of third party claims defeating or obtaining priority to the interests of the Issuer or the Trustee would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller, the Issuer or their respective personnel or agents.

Until a borrower is notified of the sale of its Mortgage to the Issuer, the borrower may continue making payments to the Seller. Following delivery of a notice to a borrower informing it of the sale of its Mortgage to the Issuer, the Borrower would no longer be entitled to obtain a good receipt from the Seller as mortgagee. Under the Mortgage Sale Agreement, the Seller has undertaken that if at any time it receives (or there is received to its order) any property, interest, right or benefit agreed to be sold to the Issuer it will hold the same on trust for the Issuer as the beneficial owner thereof. Furthermore under the Collection Account Declaration of Trust the Seller will declare that all direct debit payments made by borrowers under the Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Mortgages and certain other sums in respect of the Mortgages credited to the relevant Collection Account are held on trust for the Issuer until they are transferred to the Transaction Account. Notice to borrowers in respect of the Mortgages would

also prevent the Mortgages from being amended by the Seller or the borrowers without the involvement of the Issuer.

Upon the occurrence of certain events including:

- (i) the valid service of an Enforcement Notice or a Protection Notice (each as to be defined in the Deed of Charge);
- (ii) the termination of MAAL's role as Administrator under the Administration Agreement;
- (iii) the Seller being required, by an order of a court of competent jurisdiction, or by a regulatory authority of which the Seller is a member or with whose instructions it is customary for the Seller to comply, to perfect the transfer of legal title to the Mortgages;
- (iv) any change occurring in the law after the Closing Date rendering it necessary by law to perfect the transfer of legal title to the Mortgages; and
- (v) the security under the Deed of Charge or any material part of such security being in jeopardy and the Trustee deciding to take action to reduce materially such jeopardy,

the Issuer or the Trustee will have the right to perfect legal title to the Mortgages by executing transfers of the Mortgages in the appropriate form (if necessary pursuant to irrevocable powers of attorney) effecting the necessary registrations, recordings and notifications and giving notice to the borrowers and any guarantors in respect of such Mortgages. The right of the Issuer and the Trustee to exercise the powers of the registered proprietor, registered owner or beneficial owner of the Mortgages pending registration or recording will be secured by irrevocable powers of attorney granted by the Seller in favour of the Issuer, the Administrator and the Trustee.

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

Neither the Issuer nor the Trustee has made or caused to be made (or will make or cause to be made) on its behalf in relation to the Mortgages purchased by the Issuer any of the enquiries, searches or investigations which a prudent purchaser of the relevant security would normally make, other than a search, prior to completion of the purchase by the Issuer of the Mortgages on the Closing Date and on any date following the Closing Date up to and including the second Principal Determination Date upon which Additional Mortgages are purchased by the Issuer against the Seller and the Warehouse in the relevant file held by the Registrar of Companies. Neither the Issuer nor the Trustee has made nor will make any enquiry, search or investigation prior to the making of any Further Advance or at any time in relation to compliance by the Seller, the Administrator or any other person with any applicable lending guidelines, criteria or procedures or the adequacy thereof or with the provisions of the Mortgage Sale Agreement, the Administration Agreement, the Deed of Charge, or with any applicable laws or in relation to the execution, legality, validity, perfection, adequacy or enforceability of any Mortgages purchased on the Closing Date or any other security or the insurance contracts relating to the Properties and the Mortgages referred to herein.

In relation to all of the foregoing matters and the circumstances in which advances were made to borrowers prior to the purchase by the Issuer of the relevant Mortgages, the Issuer and/or the Trustee will rely entirely on the warranties to be given by the Seller to the Issuer and the Trustee contained in the Mortgage Sale Agreement.

The warranties given by the Seller in respect of Mortgages as at the relevant date of purchase (being either the Closing Date or, in the case of any Additional Mortgage, any date falling after the Closing Date and prior to the second Principal Determination Date) pursuant to the Mortgage Sale Agreement include the following (the "**Seller Asset Warranties**"):

- (i) the particulars of each Mortgage (as set out in the annexures to the Mortgage Sale Agreement) are complete, true and accurate in all material respects;
- (ii) subject to the completion of any registration or recording of the Mortgage which may be pending at the Land Registry of England and Wales, each Mortgage is legally owned by the Seller;
- (iii) the Seller is the beneficial owner of each Mortgage;

- (iv) each loan constitutes a valid and binding obligation of the Borrower;
- (v) the first payment due from the Borrower in respect of the Mortgage has been received in full;
- (vi) subject to the completion of any registration or recording of the Mortgage which may be pending at the Land Registry of England and Wales, each Mortgage constitutes a valid and subsisting legal mortgage over the relevant Property which is either:
  - (a) a first legal mortgage in respect of all monies outstanding under the related Loan; or
  - (b) a second or subsequent legal mortgage over which no mortgage which is not a Mortgage has priority in respect of all monies outstanding under the related loan;
- (vii) the Mortgages and the other estates and interests sold by the Seller under this Agreement are free and clear of all mortgages, securities, charges, liens, encumbrances, diligences, claims and equities but subject:
  - (a) to the terms of this Agreement; and
  - (b) in the case of the Mortgages registration or recording of which is pending at the Land Registry of England and Wales to the completion of such registration or recording;
- (viii) each Mortgage is secured on a freehold or leasehold residential, or mixed commercial/residential property which is situated in England or Wales;
- (ix) all steps necessary with a view to perfecting the Seller's legal title to each Mortgage were duly taken at the appropriate time or are in the process of being taken without undue delay on its part or on the part of those within its control;
- (x) no lien or right of set off (or analogous right) or counterclaim or compensation has been created or arisen or now exists between the Mortgagee and any Borrower which would entitle such Borrower to reduce the amount of any payment otherwise due under a Mortgage;
- (xi) prior to making the initial advance to a Borrower:
  - (a) the Seller received from solicitors or licensed or qualified conveyancers acting for it a report on title or certificate of title to the relevant Property (the benefit of which is available to the owner for the time being of the relevant Mortgage) which either initially or after further investigation disclosed nothing which would cause a reasonably prudent lender to decline to proceed with the initial advance on the proposed terms; or
  - (b) where the mortgage loan made in relation to a Property is secured by a Mortgage which was made without there being a contemporaneous purchase of such Property by the Borrower, the Seller carried out such written searches and investigations of title to the Property which a reasonably prudent mortgage lender would carry out in relation to the remortgaging of a property, which searches and investigations either initially or on further investigation disclosed nothing which would cause a reasonably prudent mortgage lender to decline to proceed with the initial advance on the proposed terms;
- (xii) prior to making a Loan, a valuation was undertaken on behalf of the Seller by a valuer approved by the Seller (being a fellow or associate of the Royal Institution of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers) which either initially or after further investigation disclosed nothing which would cause a reasonably prudent mortgage lender to decline to proceed with taking the mortgage or charge on the proposed terms;
- (xiii) subject to registration or recording at the Land Registry of England and Wales where required, at the date of the Mortgage each Property was held by the Borrower free from any encumbrance which would materially adversely affect either the title to the Property or the value of the Property for security purposes set out in any valuation report carried out for the Seller;
- (xiv) if the Property is not registered at the Land Registry of England and Wales and is not required to be registered, the relevant Borrower has a good and marketable title to the fee simple absolute in

possession or a term of years absolute in the relevant Property or, if the Property is registered or is unregistered but is subject to first registration at the Land Registry of England and Wales, it has been registered or is in the course of registration with title absolute, in the case of freehold property, or absolute or good leasehold title, in the case of leasehold property and if the Property is not registered and is not required to be registered, it is comprised in either a fee simple absolute (if freehold) or a term of years (if leasehold) of not less than 30 years beyond the term of the Mortgage relating to such Property and is free from any encumbrance which would affect such title, and if the Property is registered, it has been registered with title absolute (if freehold) or good leasehold estate title of the requisite term (if leasehold) or is in the process of being so registered;

- (xv) prior to making each initial advance or Discretionary Further Advance, the Lending Guidelines were satisfied so far as applicable (having regard to any further advance which could fall to be made) subject to such waivers as might be within the discretion of a reasonably prudent lender;
- (xvi) each advance has been made in all material respects on the terms of the mortgage documentation current at the date of the advance and such documents have not been subsequently varied in any material respect;
- (xvii) the relevant Borrower's consent is not required for the transfer or assignment of any Mortgage;
- (xviii) interest is charged on each Mortgage at such rate as may be from time to time determined in accordance with the provisions of the Mortgage Conditions;
- (xix) as at the relevant purchase date, the maximum aggregate principal amount of all Arrears Mortgages which may be purchased by the Issuer is £1,000,000;
- (xx) other than in the case of an Arrears Mortgage or Mortgage on a Property where the Borrower has been written to in respect of an unauthorised letting, there are no outstanding claims in respect of any material breaches of the terms of any Mortgage;
- (xxi) the Seller took (or instructed its solicitors to take) on or prior to the date of completion of each Mortgage all reasonable steps to ensure that any Property which was not insured under the Block Policy maintained by it was insured under a policy with an insurance company against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the valuer acting for it and that it was either a named insured or its interest was noted by the insurers;
- (xxii) no Mortgage is or will be repayable later than 31 March 2038;
- (xxiii) since the registration of each Mortgage in the name of the Seller, full and proper accounts, correspondence files, books and records showing all transactions, payments, receipts, proceedings and notices relating to that Mortgage have been kept and all such accounts, books and records are up to date and in the possession of the Mortgagee or held to their order;
- (xxiv) the Mortgagee has not received written notice of any claim calling into question in any material way its title to any Mortgage;
- (xxv) all the title deeds to the Properties and the Mortgages are held by or to the order of the Mortgagee or have been lodged by the Mortgagee at the Land Registry of England and Wales;
- (xxvi) in the case of Individual Mortgages only, no Borrower is a current employee of the Mortgagee and each Borrower of an Individual Mortgage purchased pursuant to this Agreement is an individual;
- (xxvii) other than in the case of any Arrears Mortgage or any Mortgage on a Property where the Borrower has been written to in respect of an unauthorised letting, the Mortgagee has not knowingly waived or acquiesced in any breach of any of its rights under or in relation to a Mortgage other than such waivers as a reasonably prudent lender might make in accordance with the guidance set out in the Administration Manual;

- (xxviii) no agreement for any Individual Mortgage is unenforceable in whole or in part as a result of any non compliance with the Consumer Credit Act 1974 (as amended) or the Financial Services and Markets Act 2000 (as amended), or is cancellable in whole or in part as a result of any non-compliance with the Financial Services (Distance Marketing) Regulations 2004 (as amended);
- (xxix) for so long as there is a breach of the applicable Mortgage Conditions no Mortgage will require the making of any Mandatory Further Advance;
- (xxx) in relation to any loan where the obligations of the Borrower are guaranteed by a guarantor, each guarantee or surety obligation in respect of such loan constitutes a valid and binding obligation of such guarantor and the benefit of such guarantee may be assigned to the Issuer and charged by the Issuer to the Trustee;
- (xxxi) there is no obligation on the part of the Mortgagee of a Mortgage to make any further advances except in accordance with the relevant Mortgage Conditions;
- (xxxii) the Insurance Contracts will apply to each of the Mortgages and to the extent that they apply to such Mortgages the Issuer will have the benefit of each such Insurance Contract and, as between the assignor and the assignee, any assignment or transfer of the rights and benefits under each such Insurance Contract by the Issuer to the Trustee will be valid and binding without notification to, or request for consent from, the relevant insurer;
- (xxxiii) so far as the Seller is aware, no term of any Individual Mortgage to which the Unfair Terms in Consumer Contract Regulations 1994 or 1999 apply is an unfair term for the purposes of such regulations;
- (xxxiv) in the case of each Corporate Mortgage, the prescribed particulars of the Corporate Mortgage and any floating charge together with the instrument by which they were created were delivered to the Registrar of Companies for registration within 21 days after their creation in accordance with Section 860 (or, as applicable, Section 878) of the Companies Act 2006 and a certificate of registration has been received in respect of such registration;
- (xxxv) in the case of Corporate Mortgages only, each Borrower is a private company incorporated with limited liability in England and Wales or Northern Ireland or Scotland or the Isle of Man or the Channel Islands or Gibraltar;
- (xxxvi) in the case of Corporate Mortgages only, the Mortgagee has not received written notice of any steps having been taken for the liquidation or winding up of, or the making of an administration order in relation to, any Borrower or of any steps having been taken to enforce any security over the assets of any Borrower; and
- (xxxvii) in the case of Corporate Mortgages only, a search was conducted at Companies House in relation to the Borrower, (or at the Companies Registry in Northern Ireland where the Borrower is a Northern Ireland company) which revealed that no notices of appointment of a liquidator, administrator, administrative receiver or receiver had been filed and that no resolution had been passed to wind up the Borrower.

In this Prospectus:

**"Borrower"**, in relation to each Individual Mortgage, means the person defined as the "Borrower" in the Mortgage Conditions applicable to that Individual Mortgage and, in relation to each Corporate Mortgage, means the company defined as the "Company" or the "Borrower" in the Mortgage Conditions applicable to that Corporate Mortgage.

**"Lending Guidelines"** means the lending guidelines set out in the section entitled "*Lending Guidelines*".

**"Loan"** means mortgage loans originated by the Seller, the beneficial interests in which are sold to the Issuer pursuant to this Agreement.

The sole remedy against the Seller in respect of breach of a Seller Asset Warranty shall be to require that Seller to repurchase any relevant Mortgage provided that this shall not limit any other remedies available to the Issuer or the Trustee if that Seller fails to repurchase, or procure the repurchase of, a Mortgage

when obliged to do so. The Seller will also agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage sold by it to the Issuer is at any time on or after the Closing Date found by a competent court, whether on application of a borrower, the Office of Fair Trading or otherwise, to be an unfair term for the purposes of the Unfair Terms in Consumer Contracts Regulations 1994 or 1999, it shall repurchase or procure the repurchase of the Individual Mortgage concerned.

The Mortgage Sale Agreement and all non-contractual obligations arising out of it is governed by, and shall be construed in accordance with, English law.

## LENDING GUIDELINES

The guidelines provided by the Seller, to help introducers of mortgage loan business to the Seller to assess the suitability of a potential borrower and of the security offered, set a standard in respect of the Mortgages which, at the time that any Mortgage was originated, was not substantially different from the following (which, although expressed in the present tense, should be read as applying at the time of origination). On occasions, flexibility to the lending guidelines may have been applied for applications that may be outside of the guidelines detailed below. Such occasions are exceptional and when they occur approval of the case must be made by a senior underwriter and only made where there are other mitigating circumstances which ensure the application remains of the highest quality:

### 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 The identity of each applicant or guarantor (where applicable) must be established in compliance with the current Joint Money Laundering Steering Group Guidance Notes.
- 1.4 The applicant must be resident in the United Kingdom, the Isle of Man, the Channel Islands or Gibraltar.

### 2. **Corporate Mortgages**

- 2.1 The applicant must be an unlisted limited liability company incorporated and trading under the laws of England and Wales, the Isle of Man, the Channel Islands or Gibraltar.
- 2.2 The Seller 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, the manual index of High Court petitions for administration orders at the Central Registry of Winding Up Petitions, etc.).
- 2.3 All amounts payable under the corporate mortgage loan must be guaranteed by an individual who is a director of the applicant corporate borrower.

### 3. **Mortgage Requirements**

- 3.1 Applications in respect of a single investment home property will usually be limited in accordance with the following table:

| Loan Size        | Maximum LTV                 |
|------------------|-----------------------------|
| Up to £500,000   | 75 per cent. excluding fees |
| Up to £1,000,000 | 70 per cent. excluding fees |
| Up to £2,000,000 | 65 per cent. excluding Fees |

- 3.2 Multiple applications for investment home properties will be considered up to a total of £5,000,000 per borrower(s).
- 3.3 The maximum term for a loan is 30 years, the minimum is 5 years.
- 3.4 Loans may be taken on either a capital repayment or an Interest-only basis, or a combination of the two.

### 4. **Property Details**

- 4.1 Loans must be secured on residential property which, following a valuation by the Seller's valuer or a valuer appointed to act on the Seller's behalf, or in the case of a further advance application,

an assessed valuation by reference to an applicable house price index, is considered to be suitable security.

4.2 The following are unacceptable to the Seller:

- Properties located other than in the U.K.
- Freehold flats and maisonettes
- Properties designated under the Housing Act 1985
- Properties having agricultural restrictions
- Construction loans

4.3 The following will be considered by the Seller 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 (post-completion)
- Local Authority flats being purchased under the "Right to Buy" scheme

4.4 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 or other approved guarantee from an acceptable body. Similar requirements may be imposed for converted properties.

4.5 Properties may be let on an assured shorthold tenancy basis or in circumstances where the occupier (which may include a body corporate, a 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 public sector body, the maximum length of lease will normally be for a period no longer than 5 years.

4.6 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.

4.7 All properties must be insured for a minimum of the reinstatement amount shown on the valuation report, under a comprehensive insurance policy.

## 5. **Credit History**

A credit search will be carried out in respect of all applicants which must provide sufficient information to evidence a satisfactory credit profile. Where the search contains insufficient information to achieve this, further evidence will be required. This may include, for example, proof of mortgage payments or satisfactory bank statements.

## 6. **Income and Employment Details**

6.1 In the case of an investment home property, the Seller will seek to use the rental income generated from the property to be mortgaged within an affordability calculation. The normal minimum rental value will be 130 per cent. or in certain circumstances 125 per cent. of the

associated mortgage payment when calculated on an Interest-only basis at either the product rate or reference rate. The reference rate is based upon long term loan rates and is reviewed by the Seller's Credit Committee on a quarterly basis. Its use removes anomalies in the affordability calculation which may be caused by, for example, specialist product rates, discounted rates, fixed rates etc.

- 6.2 Where rental income from an investment home property is deemed insufficient to fulfil paragraph 6.1 above, evidence of additional income will be required. This may include, for example, the latest or most recent P60, an employer's reference, audited accounts, bank statements or cash flow statements.

## INSURANCE COVERAGE

The following is an overview of the various insurance contracts which are relevant to the Mortgages to be purchased by the Issuer and the activities of the Issuer and the Administrator in relation to such contracts.

### **Buildings Insurance**

All Properties in respect of the Mortgages except those mentioned in the paragraph below will be insured under the comprehensive block policy (the "**Block Policy**"), with the interests of PGC, the Issuer and the Trustee noted thereon. The Block Policy is a policy with AXA Insurance UK plc which carries on insurance business within the U.K. and whose address is 5 Old Broad Street, London EC2N 1AD. The premiums will be collected monthly by the Administrator with the interest payments due on the Mortgages. In carrying out its role as an insurance mediator the Seller is an appointed representative of Mortgage Trust Services PLC and complies with the provisions of the FSA's handbook for the sale of general insurance.

Where the borrower specifically requested permission to make his own insurance arrangements in relation to any Mortgage, or where such arrangements are dictated by the existence of a lease, the Administrator will have taken all reasonable steps to ensure that the relevant Property is insured under a policy with an insurance company against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the Seller's valuer and that the Seller has become a named insured or its interest has been noted by the insurers.

The Issuer will also have the benefit of insurance, in the name of PGC (the "**Mortgage Impairment Contingency Policy**") and together with the Block Policy, the "**Insurance Contracts**") with Chubb Insurance Company of Europe S.A., an insurance company which carries on insurance business in the U.K. whose registered office is at 8<sup>th</sup> Floor, 82 King Street, Manchester M2 4WQ. The Mortgage Impairment Contingency Policy indemnifies the insured for damage to Property occurring as a direct result of the failure of the borrower to effect or renew adequate insurance cover, to make or pursue a legitimate insurance claim or to utilise the proceeds of any claim to repair such damage. It also indemnifies the insured in the event that it inadvertently omits to ensure that buildings insurance is in place on any property where it has an interest as mortgagee.

The Issuer is or will become a named insured under the Mortgage Impairment Contingency Policy. The Issuer's interest in the Block Policy and Mortgage Impairment Contingency Policy insurance policies will, if the Trustee is not itself insured thereunder, be assigned to the Trustee but no notice of these assignments will be given to the insurers. Any claim under any such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

As is customary for insurances of this type, the insurances described above are subject to exclusions and deductibles.

### **Other Miscellaneous Insurances**

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

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

## HISTORICAL DATA RELATING TO PARAGON'S MORTGAGE BUSINESSES

The information given in the following tables relates to the mortgage business originated by the subsidiaries of PGC. Data for each year from the year ended September 2000 reflects the information for buy-to-let mortgages only. 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 will be similar.

### Write-Off Recovery Analysis

| Financial period             | Average<br>outstanding<br>current<br>balance<br>£'000 | Current<br>balance<br>write-off<br>£'000 | Bad debts<br>recovered<br>£'000 | Net<br>balances<br>written off<br>£'000 | Gross New<br>Lending<br>£'000 |
|------------------------------|---|--|---------------------------------|---|-------------------------------|
| Half Year to March 2012..... | 8,106,351   | 4,658                                    | 0                               | 4,658                                   | 89,207                        |
| Year to September 2011.....  | 8,144,326   | 5,937                                    | 0                               | 5,937                                   | 132,758                       |
| Year to September 2010.....  | 8,302,531   | 20,025                                   | 0                               | 20,025                                  | 14,630                        |
| Year to September 2009.....  | 8,733,371   | 11,184                                   | 0                               | 11,184                                  | 25,441                        |
| Year to September 2008.....  | 9,486,378   | 3,334                                    | 0                               | 3,334                                   | 907,931                       |
| Year to September 2007.....  | 8,545,543   | 1,601                                    | 0                               | 1,601                                   | 4,061,871                     |
| Year to September 2006.....  | 6,083,564   | 1,380                                    | 0                               | 1,380                                   | 3,038,000                     |
| Year to September 2005.....  | 4,526,555   | 0  | 0                               | 0                                       | 1,668,000                     |
| Year to September 2004.....  | 3,527,421   | 0  | 0                               | 0                                       | 1,637,000                     |
| Year to September 2003.....  | 1,877,434   | 251                                      | 34                              | 217                                     | 997,000                       |
| Year to September 2002.....  | 1,117,315   | 0  | 0                               | 0                                       | 890,000                       |
| Year to September 2001.....  | 763,535   | 0  | 0                               | 0                                       | 650,000                       |
| Year to September 2000.....  | 612,246   | 9  | 5                               | 4                                       | 487,000                       |
| Year to September 1999.....  | 512,627   | 9  | 1                               | 8                                       |                               |
| Year to September 1998.....  | 306,011   | 0  | 0                               | 0                                       |                               |
| Year to September 1997.....  | 148,071   | 0  | 0                               | 0                                       |                               |
| Year to September 1996.....  | 60,838  | 0  | 0                               | 0                                       |                               |
| Year to September 1995.....  | 13,473  | 0  | 0                               | 0                                       |                               |
| Year to September 1994.....  | 26  | 0  | 0                               | 0                                       |                               |

Note 1: Information contained herein for the year ended September 2000 and for subsequent years are for buy-to-let mortgages only. Prior to this date, all mortgages are included.

Note 2: Current balance write-offs, bad debts recovered and net balances written off for year to September 1999 and year to September 2000 are for owner-occupied mortgages only. For buy-to-let mortgages, there have been no current balance write offs, bad debts recovered and net balances written off for year to September 1999 and year to September 2000.

Note 3: Prior to 2006, the policy was to write off the loans when the loss was crystallised. The policy has changed such that current balance write-offs from and including September 2006 are post sale of the property and net of recoveries currently achieved but do not take into account potential recoveries from other secured properties or as a result of pursuing the personal covenant of the borrower. This change in policy means that write-offs from and including September 2006 may include amounts in respect of previous periods.

Note 4: The Sellers' 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 a mortgaged property has been taken into possession or the appointment of a receiver of rent, and the property has been sold, the net loss, after any disposal proceeds and insurance receipts, is provisioned for in full.

| Date                          | Total outstanding current balance |                  |           | >1<=3 months in arrears |           | >3<=6 months in arrears |           | >6<=9 months in arrears |           | >9<=12 months in arrears |           | >12 months in arrears |           | Possession/ROR accounts |           |
|-------------------------------|-----------------------------------|------------------|-----------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|--------------------------|-----------|-----------------------|-----------|-------------------------|-----------|
|                               | £'000                             | Performing £'000 | per cent. | £'000                   | per cent. | £'000                   | per cent. | £'000                   | per cent. | £'000                    | per cent. | £'000                 | per cent. | £'000                   | per cent. |
| Half Year to March 2012 ..... | 8,102,875                         | 7,738,555        | 95.50%    | 60,583                  | 0.75%     | 1,398                   | 0.02%     | 441                     | 0.01%     | 583                      | 0.01%     | 1,906                 | 0.02%     | 299,408                 | 3.70%     |
| Year to September 2011 .....  | 8,109,828                         | 7,745,861        | 95.51%    | 64,255                  | 0.79%     | 1,098                   | 0.01%     | 1,493                   | 0.02%     | 955                      | 0.01%     | 1,953                 | 0.02%     | 294,213                 | 3.63%     |
| Year to September 2010 .....  | 8,178,825                         | 7,814,195        | 95.54%    | 75,932                  | 0.93%     | 6,498                   | 0.08%     | 1,312                   | 0.02%     | 1,214                    | 0.01%     | 1,466                 | 0.02%     | 278,208                 | 3.40%     |
| Year to September 2009 .....  | 8,426,236                         | 7,915,988        | 93.94%    | 148,014                 | 1.76%     | 22,405                  | 0.27%     | 5,021                   | 0.06%     | 978                      | 0.01%     | 5,643                 | 0.07%     | 328,187                 | 3.89%     |
| Year to September 2008 .....  | 9,040,505                         | 8,747,747        | 96.76%    | 127,105                 | 1.41%     | 14,298                  | 0.16%     | 771                     | 0.01%     | 230                      | 0.00%     | 1,163                 | 0.01%     | 149,191                 | 1.65%     |
| Year to September 2007 .....  | 9,932,250                         | 9,824,857        | 98.92%    | 59,455                  | 0.60%     | 1,541                   | 0.02%     | 793                     | 0.01%     | 441                      | 0.00%     | 337                   | 0.00%     | 44,826                  | 0.45%     |
| Year to September 2006 .....  | 7,158,836                         | 7,073,380        | 98.81%    | 37,380                  | 0.52%     | 2,475                   | 0.03%     | 378                     | 0.01%     | 320                      | 0.00%     | 186                   | 0.00%     | 44,717                  | 0.62%     |
| Year to September 2005 .....  | 5,008,292                         | 4,929,376        | 98.42%    | 39,066                  | 0.78%     | 4,153                   | 0.08%     | 234                     | 0.00%     | 228                      | 0.00%     | 1,484                 | 0.03%     | 33,751                  | 0.67%     |
| Year to September 2004 .....  | 4,044,818                         | 3,999,334        | 98.88%    | 24,119                  | 0.60%     | 3,317                   | 0.08%     | 113                     | 0.00%     | 339                      | 0.01%     | 1,645                 | 0.04%     | 15,951                  | 0.39%     |
| Year to September 2003 .....  | 3,010,023                         | 2,990,304        | 99.34%    | 13,575                  | 0.45%     | 4,257                   | 0.14%     | 778                     | 0.03%     | 29                       | 0.00%     | 722                   | 0.02%     | 358                     | 0.01%     |
| Year to September 2002 .....  | 1,317,459                         | 1,312,094        | 99.59%    | 2,398                   | 0.18%     | 1,060                   | 0.08%     | 684                     | 0.05%     | 414                      | 0.03%     | 809                   | 0.06%     | 0                       | 0.00%     |
| Year to September 2001 .....  | 917,171                           | 912,024          | 99.44%    | 2,211                   | 0.24%     | 2,111                   | 0.23%     | 337                     | 0.04%     | 325                      | 0.04%     | 123                   | 0.01%     | 40                      | 0.00%     |
| Year to September 2000 .....  | 609,899                           | 604,875          | 99.18%    | 3,480                   | 0.57%     | 792                     | 0.13%     | 109                     | 0.02%     | 144                      | 0.02%     | 351                   | 0.06%     | 148                     | 0.02%     |
| Year to September 1999 .....  | 614,593                           | 605,106          | 98.46%    | 7,021                   | 1.14%     | 1,387                   | 0.23%     | 638                     | 0.10%     | 182                      | 0.03%     | 44                    | 0.01%     | 215                     | 0.03%     |
| Year to September 1998 .....  | 410,661                           | 405,528          | 98.75%    | 4,038                   | 0.98%     | 746                     | 0.18%     | 62                      | 0.02%     | 28                       | 0.01%     | 0                     | 0.00%     | 259                     | 0.06%     |
| Year to September 1997 .....  | 201,360                           | 198,439          | 98.55%    | 2,361                   | 1.17%     | 396                     | 0.20%     | 58                      | 0.03%     | 0                        | 0.00%     | 0                     | 0.00%     | 106                     | 0.05%     |
| Year to September 1996 .....  | 94,781                            | 93,987           | 99.16%    | 794                     | 0.84%     | 0                       | 0.00%     | 0                       | 0.00%     | 0                        | 0.00%     | 0                     | 0.00%     | 0                       | 0.00%     |
| Year to September 1995 .....  | 26,894                            | 26,894           | 100.00%   | 0                       | 0.00%     | 0                       | 0.00%     | 0                       | 0.00%     | 0                        | 0.00%     | 0                     | 0.00%     | 0                       | 0.00%     |
| Year to September 1994 .....  | 51                                | 51               | 100.00%   | 0                       | 0.00%     | 0                       | 0.00%     | 0                       | 0.00%     | 0                        | 0.00%     | 0                     | 0.00%     | 0                       | 0.00%     |

Note 1: Information contained herein for the year ended September 2000 and for subsequent years are for buy-to-let mortgages only; prior to that date all mortgages are included.

Note 2: Information contained herein for the year ended September 2004 and for subsequent years indicate receiver of rent with possessions; prior to that date, such figures are not available.

## THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool, evidenced by the mortgages described below (the "**Provisional Mortgage Pool**") as at 30 September 2012 (the "**Provisional Pool Date**") consisted of 824 Mortgages having a Provisional Balance (as defined below) of £140,249,017.12.

The Provisional Balance includes amounts which had accrued and become due and payable but which remained unpaid and excludes any accrued interest thereon (the "**Provisional Balance**").

The Mortgages to be purchased by the Issuer on the Closing Date will be selected from the Provisional Mortgage Pool and from other mortgages not included in the Provisional Mortgage Pool. 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 (see "*The Mortgages – Acquisition of Mortgages*" above).

All of the Mortgages forming part of the Provisional Mortgage Pool were originated in 2010, 2011 and 2012.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 30 years, with the latest scheduled maturity of any mortgage loan in the Provisional Mortgage Pool being not later than 30 September 2037.

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:

### Overview of the Provisional Mortgage Pool

| Product  | Overall        |
|--|----------------|
| Aggregate Provisional Balance .....                            | 140,249,017.12 |
| Number of Properties .....                                     | 824            |
| Weighted Average LTV .....                                     | 68.97%         |
| Minimum LTV .....  | 12.38%         |
| Maximum LTV .....  | 77.46%         |
| Weighted Average Seasoning (years) .....                       | 0.41           |
| Minimum Seasoning (years) .....                                | 0.01           |
| Maximum Seasoning (years) .....                                | 1.88           |
| Average Loan Size .....  | 170,205.12     |
| Minimum Loan Size .....  | 35,775.00      |
| Maximum Loan Size .....  | 1,395,787.50   |
| Weighted Average Remaining Term (years) .....                  | 19.05          |
| Minimum Remaining Term (years) .....                           | 4.50           |
| Maximum Remaining Term (years) .....                           | 25.00          |
| % of Professional Landlords .....                              | 65.55%         |
| % of Private Investor Landlords .....                          | 34.45%         |
| % of Owner Occupied .....                                      | 0.00%          |
| % in London and South East .....                               | 49.06%         |
| Weighted Average Rental Cover for Professional Borrowers ..... | 1.63           |

## Loan-to-Value Ratios

| <u>Loan to Value Ratios (%)</u>  | <u>Provisional<br/>Balance (£)</u> | <u>% of Total</u> | <u>Number of<br/>mortgages</u> | <u>% of Total</u> |
|--|------------------------------------|-------------------|--------------------------------|-------------------|
| > 0 <= 25 .....  | 540,365.00                         | 0.39%             | 6                              | 0.73%             |
| > 25 <= 50 .....   | 8,512,255.47                       | 6.07%             | 45                             | 5.46%             |
| > 50 <= 55 .....   | 4,832,929.56                       | 3.45%             | 23                             | 2.79%             |
| > 55 <= 60 .....   | 9,090,946.61                       | 6.48%             | 39                             | 4.73%             |
| > 60 <= 65 .....   | 11,006,147.32                      | 7.85%             | 55                             | 6.67%             |
| > 65 <= 70 .....   | 17,549,488.84                      | 12.51%            | 78                             | 9.47%             |
| > 70 <= 75 .....   | 27,461,118.08                      | 19.58%            | 126                            | 15.29%            |
| > 75 <= 76 .....   | 11,008,950.17                      | 7.85%             | 77                             | 9.34%             |
| > 76 <= 77 .....   | 30,311,952.86                      | 21.61%            | 216                            | 26.21%            |
| > 77 <= 78 .....   | 19,934,863.21                      | 14.21%            | 159                            | 19.30%            |
| > 78 <= 79 .....   | -                                  | 0.00%             | -                              | 0.00%             |
| > 79 <= 80 .....   | -                                  | 0.00%             | -                              | 0.00%             |
| > 80 .....   | -                                  | 0.00%             | -                              | 0.00%             |
| <b>Total</b> .....   | <b>140,249,017.12</b>              |                   | <b>824</b>                     |                   |
| <b>Average loan to value weighted by Provisional<br/>Balance</b> ..... | <b>68.97%</b>                      |                   |                                |                   |

## Average LTV Weighted by Provisional Balance

The average loan-to-value (the "LTV") weighted by Provisional Balance is 68.97 per cent. There has been no revaluation of any of the Properties for the purposes of the issue of the Notes. The information contained in this loan-to-value ratio table has been prepared using either the valuations of each of the Properties made available to the Seller as at the date of the initial mortgage origination or, where a more recent valuation (which in a majority of cases will have been carried out in connection with a borrower's request for a Discretionary Further Advance of a Property has been made available to the Seller before the Provisional Pool Date, this more recent valuation).

## Product Summary by Rate Fixing Method

| <u>Product</u>  | <u>Provisional<br/>Balance (£)</u> | <u>% of Total</u> | <u>Number of<br/>mortgages</u> | <u>% of Total</u> |
|---|------------------------------------|-------------------|--------------------------------|-------------------|
| Variable .....  | -                                  | 0.00%             | -                              | 0.00%             |
| Fixed (reverting to SVR).....                                     | 31,738,065.56                      | 22.63%            | 170                            | 20.63%            |
| Fixed (reverting to Libor plus a variable margin) ...             | 6,992,896.20                       | 4.99%             | 59                             | 7.16%             |
| Libor Linked (reverting to SVR).....                              | 68,791,082.78                      | 49.05%            | 375                            | 45.51%            |
| Libor Linked (reverting to Libor plus a variable<br>margin) ..... | 32,726,972.58                      | 23.33%            | 220                            | 26.70%            |
| Capped.....   | -                                  | 0.00%             | -                              | 0.00%             |
| Base Rate Tracker.....  | -                                  | 0.00%             | -                              | 0.00%             |
| <b>Total</b> .....  | <b>140,249,017.12</b>              |                   | <b>824</b>                     |                   |

## Product Summary by Repayment Method

| <u>Product</u>  | <u>Provisional<br/>Balance (£)</u> | <u>% of Total</u> | <u>Number of<br/>mortgages</u> | <u>% of Total</u> |
|---|------------------------------------|-------------------|--------------------------------|-------------------|
| Interest only (optional switching to repayment)...        | 36,658,430.18                      | 26.14%            | 257                            | 31.19%            |
| Interest only (mandatory switching to<br>repayment) ..... | 82,828,113.64                      | 59.06%            | 422                            | 51.21%            |
| Interest only for life .....                              | 12,056,685.05                      | 8.60%             | 89                             | 10.80%            |
| Repayment.....  | 8,705,788.25                       | 6.21%             | 56                             | 6.80%             |
| <b>Total</b> .....  | <b>140,249,017.12</b>              |                   | <b>824</b>                     |                   |

## Provisional Balance Outstanding

| (£)                             | Provisional<br>Balance (£) | % of Total | Number of<br>mortgages | % of Total |
|---------------------------------|----------------------------|------------|------------------------|------------|
| 0.00 to 100,000 .....           | 25,228,114.34              | 17.99%     | 329                    | 39.93%     |
| 100,000.01 to 200,000 .....     | 44,878,605.18              | 32.00%     | 320                    | 38.83%     |
| 200,000.01 to 300,000 .....     | 22,585,891.51              | 16.10%     | 94                     | 11.41%     |
| 300,000.01 to 400,000 .....     | 9,975,194.71               | 7.11%      | 29                     | 3.52%      |
| 400,000.01 to 500,000 .....     | 4,453,436.97               | 3.18%      | 10                     | 1.21%      |
| 500,000.01 to 750,000 .....     | 13,458,253.14              | 9.60%      | 23                     | 2.79%      |
| 750,000.01 to 1,000,000 .....   | 6,281,475.00               | 4.48%      | 7                      | 0.85%      |
| 1,000,000.01 to 1,250,000 ..... | 9,360,157.52               | 6.67%      | 9                      | 1.09%      |
| 1,250,000.01 to 1,500,000 ..... | 4,027,888.75               | 2.87%      | 3                      | 0.36%      |
| 1,500,000.01 to 1,750,000 ..... | -                          | 0.00%      | -                      | 0.00%      |
| 1,750,000.01 to 2,000,000 ..... | -                          | 0.00%      | -                      | 0.00%      |
| over 2,000,000 .....            | -                          | 0.00%      | -                      | 0.00%      |
| <b>Total</b> .....              | <b>140,249,017.12</b>      |            | <b>824</b>             |            |
| <b>Average Loan Size</b> .....  | <b>170,205.12</b>          |            |                        |            |

## Property Tenure

| Tenure             | Provisional<br>Balance (£) | % of Total | Number of<br>mortgages | % of Total |
|--------------------|----------------------------|------------|------------------------|------------|
| Freehold .....     | 115,136,917.92             | 82.09%     | 631                    | 76.58%     |
| Leasehold .....    | 25,112,099.20              | 17.91%     | 193                    | 23.42%     |
| Feudal .....       | -                          | 0.00%      | -                      | 0.00%      |
| <b>Total</b> ..... | <b>140,249,017.12</b>      |            | <b>824</b>             |            |

## Seasoning of Mortgages by Month

| Origination month                                | Provisional<br>Balance (£) | % of Total | Number of<br>mortgages | % of Total |
|--|----------------------------|------------|------------------------|------------|
| Oct-10 .....                                     | -                          | 0.00%      | -                      | 0.00%      |
| Nov-10 .....                                     | 688,728.75                 | 0.49%      | 1                      | 0.12%      |
| Dec-10 .....                                     | -                          | 0.00%      | -                      | 0.00%      |
| Jan-11 .....                                     | -                          | 0.00%      | -                      | 0.00%      |
| Feb-11 .....                                     | 1,293,026.25               | 0.92%      | 1                      | 0.12%      |
| Mar-11 .....                                     | 1,002,075.00               | 0.71%      | 1                      | 0.12%      |
| Apr-11 .....                                     | -                          | 0.00%      | -                      | 0.00%      |
| May-11 .....                                     | 2,397,837.50               | 1.71%      | 2                      | 0.24%      |
| Jun-11 .....                                     | 722,850.00                 | 0.52%      | 3                      | 0.36%      |
| Jul-11 .....                                     | -                          | 0.00%      | -                      | 0.00%      |
| Aug-11 .....                                     | -                          | 0.00%      | -                      | 0.00%      |
| Sep-11 .....                                     | 1,017,462.50               | 0.73%      | 1                      | 0.12%      |
| Oct-11 .....                                     | 2,196,750.00               | 1.57%      | 2                      | 0.24%      |
| Nov-11 .....                                     | 3,550,782.76               | 2.53%      | 28                     | 3.40%      |
| Dec-11 .....                                     | 3,266,574.39               | 2.33%      | 19                     | 2.31%      |
| Jan-12 .....                                     | 4,442,946.77               | 3.17%      | 34                     | 4.13%      |
| Feb-12 .....                                     | 9,456,817.58               | 6.74%      | 52                     | 6.31%      |
| Mar-12 .....                                     | 17,206,869.46              | 12.27%     | 109                    | 13.23%     |
| Apr-12 .....                                     | 13,372,153.25              | 9.53%      | 84                     | 10.19%     |
| May-12 .....                                     | 14,518,530.52              | 10.35%     | 76                     | 9.22%      |
| Jun-12 .....                                     | 16,685,432.13              | 11.90%     | 84                     | 10.19%     |
| Jul-12 .....                                     | 15,394,589.71              | 10.98%     | 92                     | 11.17%     |
| Aug-12 .....                                     | 15,816,431.10              | 11.28%     | 110                    | 13.35%     |
| Sept-12 .....                                    | 17,219,159.45              | 12.28%     | 125                    | 15.17%     |
| Oct-12 .....                                     | -                          | 0.00%      | -                      | 0.00%      |
| <b>Total</b> .....                               | <b>140,249,017.12</b>      |            | <b>824</b>             |            |
| <b>Weighted average seasoning (months)</b> ..... | <b>4.96</b>                |            |                        |            |

## Maturity of Mortgages

| Remaining term (years)  | Provisional Balance (£) | % of Total | Number of mortgages | % of Total |
|---|-------------------------|------------|---------------------|------------|
| > 0 < 5.....  | 1,051,525.00            | 0.75%      | 9                   | 1.09%      |
| >= 5 < 10.....  | 11,674,605.38           | 8.32%      | 64                  | 7.77%      |
| >= 10 < 15.....   | 22,475,796.55           | 16.03%     | 147                 | 17.84%     |
| >= 15 < 20.....   | 49,623,228.35           | 35.38%     | 275                 | 33.37%     |
| >= 20 < 25.....   | 49,656,314.59           | 35.41%     | 288                 | 34.95%     |
| >= 25 < 30.....   | 5,767,547.25            | 4.11%      | 41                  | 4.98%      |
| >= 30.....  | -                       | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b>   | <b>140,249,017.12</b>   |            | <b>824</b>          |            |
| <b>Weighted average remaining term to maturity (years).....</b> | <b>19.05</b>            |            |                     |            |

## Loan Purpose

| Use of proceeds           | Provisional Balance (£) | % of Total | Number of mortgages | % of Total |
|---------------------------|-------------------------|------------|---------------------|------------|
| House/ Flat Purchase..... | 45,911,857.47           | 32.74%     | 308                 | 37.38%     |
| Remortgage.....           | 94,337,159.65           | 67.26%     | 516                 | 62.62%     |
| <b>Total.....</b>         | <b>140,249,017.12</b>   |            | <b>824</b>          |            |

## Geographical Dispersion

| Region                      | Provisional Balance (£) | % of Total | Number of mortgages | % of Total | Weighted average loan to value |
|-----------------------------|-------------------------|------------|---------------------|------------|--------------------------------|
| North.....                  | 2,707,496.71            | 1.93%      | 25                  | 3.03%      | 71.23%                         |
| North West.....             | 17,502,069.95           | 12.48%     | 132                 | 16.02%     | 69.61%                         |
| Yorkshire & Humberside..... | 12,276,011.96           | 8.75%      | 111                 | 13.47%     | 73.70%                         |
| East Midlands.....          | 10,529,481.92           | 7.51%      | 77                  | 9.34%      | 71.32%                         |
| West Midlands.....          | 6,675,876.76            | 4.76%      | 46                  | 5.58%      | 70.76%                         |
| East Anglia.....            | 4,045,652.24            | 2.88%      | 28                  | 3.40%      | 70.48%                         |
| South East (excl. GL).....  | 41,451,904.44           | 29.56%     | 204                 | 24.76%     | 67.73%                         |
| South West.....             | 12,463,647.31           | 8.89%      | 81                  | 9.83%      | 67.66%                         |
| Greater London.....         | 27,348,880.63           | 19.50%     | 71                  | 8.62%      | 67.06%                         |
| Wales.....                  | 5,247,995.20            | 3.74%      | 49                  | 5.95%      | 69.29%                         |
| Scotland.....               | -                       | 0.00%      | -                   | 0.00%      | 0.00%                          |
| Northern Ireland.....       | -                       | 0.00%      | -                   | 0.00%      | 0.00%                          |
| <b>Total.....</b>           | <b>140,249,017.12</b>   |            | <b>824</b>          |            | <b>68.97%</b>                  |

## Number of Months in Arrears

| Number of months  | Provisional Balance (£) | % of Total | Number of mortgages | % of Total |
|---|-------------------------|------------|---------------------|------------|
| up to 1.....  | 140,249,017.12          | 100.00%    | 824                 | 100.00%    |
| > 1 <= 2.....   | -                       | 0.00%      | -                   | 0.00%      |
| > 2 <= 3.....   | -                       | 0.00%      | -                   | 0.00%      |
| > 3 <= 4.....   | -                       | 0.00%      | -                   | 0.00%      |
| > 4 <= 5.....   | -                       | 0.00%      | -                   | 0.00%      |
| > 5 <= 6.....   | -                       | 0.00%      | -                   | 0.00%      |
| > 6 <= 12.....  | -                       | 0.00%      | -                   | 0.00%      |
| more than 12.....   | -                       | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b>   | <b>140,249,017.12</b>   |            | <b>824</b>          |            |
| <b>Weighted average no. of months in arrears (for arrears cases).....</b> |                         |            |                     | -          |

## Occupancy

| <u>Occupancy</u>                     | <u>Provisional<br/>Balance (£)</u> | <u>% of Total</u> | <u>Number of<br/>mortgages</u> | <u>% of Total</u> |
|--------------------------------------|------------------------------------|-------------------|--------------------------------|-------------------|
| Owner occupied .....                 | -                                  | 0.00%             | -                              | 0.00%             |
| Letting – professional .....         | 91,936,332.10                      | 65.55%            | 559                            | 67.84%            |
| Letting – emerging professional..... | 48,312,685.02                      | 34.45%            | 265                            | 32.16%            |
| <b>Total .....</b>                   | <b><u>140,249,017.12</u></b>       |                   | <b><u>824</u></b>              |                   |

## Letting Occupancy

| <u>Letting type</u> | <u>Provisional<br/>Balance (£)</u> | <u>% of Total</u> | <u>Number of<br/>mortgages</u> | <u>% of Total</u> |
|---------------------|------------------------------------|-------------------|--------------------------------|-------------------|
| Corporate .....     | 18,759,852.39                      | 13.38%            | 109                            | 13.23%            |
| Non Corporate ..... | 121,489,164.73                     | 86.62%            | 715                            | 86.77%            |
| <b>Total .....</b>  | <b><u>140,249,017.12</u></b>       |                   | <b><u>824</u></b>              |                   |

## THE PIPELINE MORTGAGE POOL

The pipeline mortgage pool, evidenced by the mortgage offers described below (the "**Pipeline Mortgage Pool**") as at 30 September 2012 (the "**Pipeline Pool Date**") consisted of 318 Mortgages having a Pipeline Balance (as defined below) of £49,832,922.46.

The Pipeline Balance is the aggregate amount of all mortgage offers made to potential borrowers (the "**Pipeline Balance**").

Not all mortgage offers complete and result in a Mortgage. Accordingly, the Mortgages to be purchased by the Issuer on or after the Closing Date may be selected from mortgage offers which are included in the Pipeline Mortgage Pool which become completed mortgages and from other mortgages not included in the Pipeline Mortgage Pool. Therefore the information set out below in relation to the Pipeline Mortgage Pool may not necessarily correspond to that for the Mortgages which may be sold to the Issuer (see "*The Mortgages – Acquisition of Mortgages*" above).

All of the Mortgages forming part of the Pipeline Mortgage Pool were offered in 2011 and 2012.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 30 years, with the latest scheduled maturity of any mortgage loan in the Pipeline Mortgage Pool being not later than 31 October 2037.

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

### Overview of the Pipeline Mortgage Pool\*

| Product  | Overall       |
|--|---------------|
| Aggregate Pipeline Balance .....                               | 49,832,922.46 |
| Number of Properties .....                                     | 318           |
| Weighted Average LTV .....                                     | 69.64%        |
| Minimum LTV .....  | 20.68%        |
| Maximum LTV .....  | 75.00%        |
| Weighted Average Seasoning (years) .....                       | 0.00          |
| Minimum Seasoning (years) .....                                | 0.00          |
| Maximum Seasoning (years) .....                                | 0.77          |
| Average Loan Size .....  | 156,707.30    |
| Minimum Loan Size .....  | 30,650.00     |
| Maximum Loan Size .....  | 1,455,264.90  |
| Weighted Average Remaining Term (years) .....                  | 20.01         |
| Minimum Remaining Term (years) .....                           | 8.00          |
| Maximum Remaining Term (years) .....                           | 25.00         |
| % Professional Landlords .....                                 | 64.25%        |
| % Private Investor Landlords .....                             | 35.75%        |
| % of Owner Occupied .....                                      | 0.00%         |
| % in London and South East .....                               | 43.15%        |
| Weighted Average Rental Cover for Professional Borrowers ..... | 1.65          |

\*Note: Assumes the Mortgages in the Pipeline Mortgage Pool have completed by 31 October 2012.

## Loan-to-Value Ratios

| Loan to Value Ratios (%)                                       | Pipeline Balance (£) | % of Total | Number of mortgages | % of Total |
|--|----------------------|------------|---------------------|------------|
| > 0 <= 25 .....  | 118,523.75           | 0.24%      | 3                   | 0.94%      |
| > 25 <= 50 .....   | 1,432,276.46         | 2.87%      | 12                  | 3.77%      |
| > 50 <= 55 .....   | 1,241,950.00         | 2.49%      | 7                   | 2.20%      |
| > 55 <= 60 .....   | 4,054,497.15         | 8.14%      | 18                  | 5.66%      |
| > 60 <= 65 .....   | 3,336,702.50         | 6.70%      | 11                  | 3.46%      |
| > 65 <= 70 .....   | 9,411,046.75         | 18.89%     | 45                  | 14.15%     |
| > 70 <= 75 .....   | 30,237,925.85        | 60.68%     | 222                 | 69.81%     |
| > 75 <= 76 .....   | -                    | 0.00%      | -                   | 0.00%      |
| > 76 <= 77 .....   | -                    | 0.00%      | -                   | 0.00%      |
| > 77 <= 78 .....   | -                    | 0.00%      | -                   | 0.00%      |
| > 78 <= 79 .....   | -                    | 0.00%      | -                   | 0.00%      |
| > 79 <= 80 .....   | -                    | 0.00%      | -                   | 0.00%      |
| > 80.....  | -                    | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b>  | <b>49,832,922.46</b> |            | <b>318</b>          |            |
| <b>Average loan to value weighted by Pipeline Balance.....</b> | <b>69.64%</b>        |            |                     |            |

## Average LTV Weighted by Pipeline Balance

The average loan-to-value (the "LTV") weighted by Pipeline Balance is 69.64 per cent. There has been no revaluation of any of the Properties for the purposes of the issue of the Notes. The information contained in this loan-to-value ratio table has been prepared using the valuations of each of the Properties made available to the Seller as at the date of the mortgage offer.

## Product Summary by Rate Fixing Method

| Product  | Pipeline Balance (£) | % of Total | Number of mortgages | % of Total |
|--|----------------------|------------|---------------------|------------|
| Variable .....   | -                    | 0.00%      | -                   | 0.00%      |
| Fixed (reverting to SVR).....                                  | 3,903,183.71         | 7.83%      | 24                  | 7.55%      |
| Fixed (reverting to Libor plus a variable margin) ...          | 9,345,063.90         | 18.75%     | 46                  | 14.47%     |
| Libor Linked(reverting to SVR).....                            | 3,187,742.50         | 6.40%      | 14                  | 4.40%      |
| Libor Linked (reverting to Libor plus a variable margin) ..... | 33,396,932.35        | 67.02%     | 234                 | 73.58%     |
| Capped.....  | -                    | 0.00%      | -                   | 0.00%      |
| Base Rate Tracker.....   | -                    | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b>  | <b>49,832,922.46</b> |            | <b>318</b>          |            |

## Product Summary by Repayment Method

| Product   | Pipeline Balance (£) | % of Total | Number of mortgages | % of Total |
|---|----------------------|------------|---------------------|------------|
| Interest only (optional switching to repayment).....  | 40,314,897.50        | 80.90%     | 260                 | 81.76%     |
| Interest only (mandatory switching to repayment)..... | 6,415,042.46         | 12.87%     | 32                  | 10.06%     |
| Interest only for life .....                          | 643,513.75           | 1.29%      | 5                   | 1.57%      |
| Repayment.....  | 2,459,468.75         | 4.94%      | 21                  | 6.60%      |
| <b>Total.....</b>                                     | <b>49,832,922.46</b> |            | <b>318</b>          |            |

## Pipeline Balance Outstanding

| (£)                            | Pipeline Balance (£) | % of Total | Number of mortgages | % of Total |
|--------------------------------|----------------------|------------|---------------------|------------|
| 0.00 to 100,000 .....          | 8,809,283.12         | 17.68%     | 115                 | 36.16%     |
| 100,000.01 to 200,000 .....    | 18,309,576.25        | 36.74%     | 134                 | 42.14%     |
| 200,000.01 to 300,000 .....    | 10,245,177.69        | 20.56%     | 43                  | 13.52%     |
| 300,000.01 to 400,000 .....    | 3,024,613.25         | 6.07%      | 9                   | 2.83%      |
| 400,000.01 to 500,000 .....    | 4,727,332.25         | 9.49%      | 11                  | 3.46%      |
| 500,000.01 to 750,000 .....    | 2,272,825.00         | 4.56%      | 4                   | 1.26%      |
| 750,000.01 to 1,000,000 .....  | 988,850.00           | 1.98%      | 1                   | 0.31%      |
| 1,000,000.01 to 1,250,000..... | -                    | 0.00%      | -                   | 0.00%      |
| 1,250,000.01 to 1,500,000..... | 1,455,264.90         | 2.92%      | 1                   | 0.31%      |
| 1,500,000.01 to 1,750,000..... | -                    | 0.00%      | -                   | 0.00%      |
| 1,750,000.01 to 2,000,000..... | -                    | 0.00%      | -                   | 0.00%      |
| over 2,000,000 .....           | -                    | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b>              | <b>49,832,922.46</b> |            | <b>318</b>          |            |
| <b>Average Loan Size .....</b> | <b>156,707.30</b>    |            |                     |            |

## Property Tenure

| Tenure            | Pipeline Balance (£) | % of Total | Number of mortgages | % of Total |
|-------------------|----------------------|------------|---------------------|------------|
| Freehold.....     | 37,104,928.41        | 74.46%     | 211                 | 66.35%     |
| Leasehold.....    | 12,727,994.05        | 25.54%     | 107                 | 33.65%     |
| Feudal.....       | -                    | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b> | <b>49,832,922.46</b> |            | <b>318</b>          |            |

## Seasoning of Mortgages by month

| Origination month                              | Pipeline Balance (£) | % of total | Number of mortgages | % of total |
|--|----------------------|------------|---------------------|------------|
| Oct-10.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Nov-10.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Dec-10.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Jan-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Feb-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Mar-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Apr-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| May-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Jun-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Jul-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Aug-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Sep-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Oct-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Nov-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Dec-11.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Jan-12.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Feb-12.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Mar-12.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Apr-12.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| May-12.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Jun-12.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Jul-12.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Aug-12.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Sep-12.....                                    | -                    | 0.00%      | -                   | 0.00%      |
| Oct-12.....                                    | 49,832,922.46        | 100.00%    | 318                 | 100.00%    |
| <b>Total.....</b>                              | <b>49,832,922.46</b> |            | <b>318</b>          |            |
| <b>Weighed average seasoning (months).....</b> | -                    |            |                     |            |

## Maturity of Mortgages

| Remaining term (years)   | Pipeline Balance (£) | % of Total | Number of mortgages | % of Total |
|--|----------------------|------------|---------------------|------------|
| > 0 < 5.....   | -                    | 0.00%      | -                   | 0.00%      |
| >= 5 < 10 .....  | 305,550.00           | 0.61%      | 4                   | 1.26%      |
| >= 10 < 15 .....   | 8,214,522.25         | 16.48%     | 56                  | 17.61%     |
| >= 15 < 20 .....   | 8,193,123.95         | 16.44%     | 46                  | 14.47%     |
| >= 20 < 25 .....   | 13,599,628.34        | 27.29%     | 91                  | 28.62%     |
| >= 25 < 30 .....   | 19,520,097.92        | 39.17%     | 121                 | 38.05%     |
| >= 30 .....  | -                    | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b>  | <b>49,832,922.46</b> |            | <b>318</b>          |            |
| <b>Weighted average remaining term to maturity (years) .....</b> | <b>20.01</b>         |            |                     |            |

## Loan Purpose

| Use of proceeds            | Pipeline Balance (£) | % of Total | Number of mortgages | % of Total |
|----------------------------|----------------------|------------|---------------------|------------|
| House / Flat purchase..... | 17,839,227.35        | 35.80%     | 110                 | 34.59%     |
| Remortgage.....            | 31,993,695.11        | 64.20%     | 208                 | 65.41%     |
| <b>Total.....</b>          | <b>49,832,922.46</b> |            | <b>318</b>          |            |

## Geographical Dispersion

| Region                       | Pipeline Balance (£) | % of Total | Number of mortgages | % of Total | Weighted average loan to value |
|------------------------------|----------------------|------------|---------------------|------------|--------------------------------|
| North.....                   | 1,181,667.50         | 2.37%      | 9                   | 2.83%      | 69.34%                         |
| North West.....              | 5,771,456.55         | 11.58%     | 56                  | 17.61%     | 70.82%                         |
| Yorkshire & Humberside ..... | 5,359,013.00         | 10.75%     | 38                  | 11.95%     | 71.90%                         |
| East Midlands .....          | 2,478,144.00         | 4.97%      | 19                  | 5.97%      | 70.52%                         |
| West Midlands.....           | 3,316,689.02         | 6.66%      | 27                  | 8.49%      | 70.38%                         |
| East Anglia .....            | 1,197,408.00         | 2.40%      | 10                  | 3.14%      | 69.11%                         |
| South East (excl. GL).....   | 10,775,766.63        | 21.62%     | 64                  | 20.13%     | 70.71%                         |
| South West.....              | 6,242,740.11         | 12.53%     | 45                  | 14.15%     | 71.21%                         |
| Greater London.....          | 10,728,718.90        | 21.53%     | 30                  | 9.43%      | 64.77%                         |
| Wales.....                   | 2,781,318.75         | 5.58%      | 20                  | 6.29%      | 72.60%                         |
| Scotland .....               | -                    | 0.00%      | -                   | 0.00%      | 0.00%                          |
| Northern Ireland.....        | -                    | 0.00%      | -                   | 0.00%      | 0.00%                          |
| <b>Total.....</b>            | <b>49,832,922.46</b> |            | <b>318</b>          |            | <b>69.64%</b>                  |

## Number of months in arrears - Overall

| Number of months  | Provisional balance £ | % of total | Number of mortgages | % of total |
|-------------------|-----------------------|------------|---------------------|------------|
| up to 1.....      | 49,832,922.46         | 100.00%    | 318                 | 100.00%    |
| > 1 <= 2 .....    | -                     | 0.00%      | -                   | 0.00%      |
| > 2 <= 3 .....    | -                     | 0.00%      | -                   | 0.00%      |
| > 3 <= 4 .....    | -                     | 0.00%      | -                   | 0.00%      |
| > 4 <= 5 .....    | -                     | 0.00%      | -                   | 0.00%      |
| > 5 <= 6 .....    | -                     | 0.00%      | -                   | 0.00%      |
| > 6 <= 12.....    | -                     | 0.00%      | -                   | 0.00%      |
| More than 12..... | -                     | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b> | <b>49,832,922.46</b>  |            | <b>318</b>          |            |

## Occupancy

| <u>Occupancy</u>                      | <u>Pipeline<br/>Balance (£)</u> | <u>% of Total</u> | <u>Number of<br/>mortgages</u> | <u>% of Total</u> |
|---------------------------------------|---------------------------------|-------------------|--------------------------------|-------------------|
| Owner occupied .....                  | -                               | 0.00%             | -                              | 0.00%             |
| Letting - professional .....          | 32,019,825.62                   | 64.25%            | 196                            | 61.64%            |
| Letting - emerging professional ..... | 17,813,096.84                   | 35.75%            | 122                            | 38.36%            |
| <b>Total .....</b>                    | <b><u>49,832,922.46</u></b>     |                   | <b><u>318</u></b>              |                   |

## Letting Occupancy

| <u>Letting type</u> | <u>Pipeline Balance<br/>(£)</u> | <u>% of Total</u> | <u>Number of<br/>mortgages</u> | <u>% of Total</u> |
|---------------------|---------------------------------|-------------------|--------------------------------|-------------------|
| Corporate .....     | 10,847,185.39                   | 21.77%            | 87                             | 27.36%            |
| Non Corporate ..... | 38,985,737.07                   | 78.23%            | 231                            | 72.64%            |
| <b>Total .....</b>  | <b><u>49,832,922.46</u></b>     |                   | <b><u>318</u></b>              |                   |

## THE COMBINED MORTGAGE POOL

The combined mortgage pool, evidenced by the mortgages described below consisted of aggregated data taken from the Provisional Mortgage Pool and the Pipeline Mortgage Pool (the "**Combined Mortgage Pool**").

The Combined Balance is the aggregate of the Provisional Balance and the Pipeline Balance (the "**Combined Balance**").

The Mortgages to be purchased by the Issuer on or after the Closing Date may be selected from the Provisional Mortgage Pool, the Pipeline Mortgage Pool and from other mortgages not included in the Pipeline Mortgage Pool. Therefore the information set out below in relation to the Combined Mortgage Pool may not necessarily correspond to that for the Mortgages sold to the Issuer (see "*The Mortgages – Acquisition of Mortgages*" above).

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 30 years, with the latest scheduled maturity of any mortgage loan in the Combined Mortgage Pool being not later than 31 October 2037.

The following tables give further information about the Combined Mortgage Pool as at 30 September 2012. All percentages have been taken to two decimal places:

### Overview of the Combined Mortgage Pool\*

| Product   | Overall        |
|---|----------------|
| Aggregate Combined Balance.....                               | 190,081,939.58 |
| Number of Properties.....                                     | 1,142          |
| Weighted Average LTV.....                                     | 69.14%         |
| Minimum LTV.....  | 12.38%         |
| Maximum LTV.....  | 77.46%         |
| Weighted Average Seasoning (years).....                       | 0.30           |
| Minimum Seasoning (years).....                                | 0.00           |
| Maximum Seasoning (years).....                                | 1.88           |
| Average Loan Size.....  | 166,446.53     |
| Minimum Loan Size.....  | 30,650.00      |
| Maximum Loan Size.....  | 1,455,264.90   |
| Weighted Average Remaining Term (years).....                  | 19.30          |
| Minimum Remaining Term.....                                   | 4.50           |
| Maximum Remaining Term.....                                   | 25.00          |
| % of Professional Landlords.....                              | 65.21%         |
| % of Private Investor Landlords.....                          | 34.79%         |
| % of Owner Occupied.....                                      | 0.00%          |
| % in London and South East.....                               | 47.51%         |
| Weighted Average Rental Cover for Professional Borrowers..... | 1.64           |

\*Note: Assumes the Mortgages in the Pipeline Mortgage Pool have completed by 31 October 2012.

## Loan-to-Value Ratios

| Loan to Value Ratios (%)                             | Combined Balance (£)  | % of Total | Number of mortgages | % of Total |
|--|-----------------------|------------|---------------------|------------|
| > 0 <= 25 .....                                      | 658,888.75            | 0.35%      | 9                   | 0.79%      |
| > 25 <= 50 .....                                     | 9,944,531.93          | 5.23%      | 57                  | 4.99%      |
| > 50 <= 55 .....                                     | 6,074,879.56          | 3.20%      | 30                  | 2.63%      |
| > 55 <= 60 .....                                     | 13,145,443.76         | 6.92%      | 57                  | 4.99%      |
| > 60 <= 65 .....                                     | 14,342,849.82         | 7.55%      | 66                  | 5.78%      |
| > 65 <= 70 .....                                     | 26,960,535.59         | 14.18%     | 123                 | 10.77%     |
| > 70 <= 75 .....                                     | 57,699,043.93         | 30.35%     | 348                 | 30.47%     |
| > 75 <= 76 .....                                     | 11,008,950.17         | 5.79%      | 77                  | 6.74%      |
| > 76 <= 77 .....                                     | 30,311,952.86         | 15.95%     | 216                 | 18.91%     |
| > 77 <= 78 .....                                     | 19,934,863.21         | 10.49%     | 159                 | 13.92%     |
| > 78 <= 79 .....                                     | -                     | 0.00%      | -                   | 0.00%      |
| > 79 <= 80 .....                                     | -                     | 0.00%      | -                   | 0.00%      |
| > 80.....  | -                     | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b>                                    | <b>190,081,939.58</b> |            | <b>1,142</b>        |            |
| <b>Average LTV weighted by Combined Balance.....</b> | <b>69.14%</b>         |            |                     |            |

## Average LTV Weighted by Combined Balance

The average loan-to-value (the "LTV") weighted by Combined Balance is 69.14 per cent. There has been no revaluation of any of the Properties for the purposes of the issue of the Notes. The information contained in this loan-to-value ratio table has been prepared using either the valuations of each of the Properties made available to the Seller as at the date of the mortgage offer or a more recent valuation has been made available to the Seller in connection with a request for a Discretionary Further Advance of a property.

## Product Summary by Rate Fixing Method

| Product  | Combined Balance (£)  | % of Total | Number of mortgages | % of Total |
|--|-----------------------|------------|---------------------|------------|
| Variable .....   | -                     | 0.00%      | -                   | 0.00%      |
| Fixed (reverting to SVR).....                                  | 35,641,249.27         | 18.75%     | 194                 | 16.99%     |
| Fixed (reverting to Libor plus a variable margin) ...          | 16,337,960.10         | 8.60%      | 105                 | 9.19%      |
| Libor Linked (reverting to SVR)                                | 71,978,825.28         | 37.87%     | 389                 | 34.06%     |
| Libor Linked (reverting to Libor plus a variable margin) ..... | 66,123,904.93         | 34.79%     | 454                 | 39.75%     |
| Capped.....  | -                     | 0.00%      | -                   | 0.00%      |
| Base Rate Tracker.....   | -                     | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b>  | <b>190,081,939.58</b> |            | <b>1,142</b>        |            |

## Product Summary by Repayment Method

| Product  | Combined Balance (£)  | % of Total | Number of mortgages | % of Total |
|--|-----------------------|------------|---------------------|------------|
| Interest only (optional switching to repayment)...     | 76,973,327.68         | 40.49%     | 517                 | 45.27%     |
| Interest only (mandatory switching to repayment) ..... | 89,243,156.10         | 46.95%     | 454                 | 39.75%     |
| Interest only for life .....                           | 12,700,198.80         | 6.68%      | 94                  | 8.23%      |
| Repayment.....   | 11,165,257.00         | 5.87%      | 77                  | 6.74%      |
| <b>Total.....</b>                                      | <b>190,081,939.58</b> |            | <b>1,142</b>        |            |

## Combined Balance Outstanding

| (£)                             | Combined<br>Balance (£) | % of Total | Number of<br>mortgages | % of Total |
|---------------------------------|-------------------------|------------|------------------------|------------|
| 0.00 to 100,000 .....           | 34,037,397.46           | 17.91%     | 444                    | 38.88%     |
| 100,000.01 to 200,000 .....     | 63,188,181.43           | 33.24%     | 454                    | 39.75%     |
| 200,000.01 to 300,000 .....     | 32,831,069.20           | 17.27%     | 137                    | 12.00%     |
| 300,000.01 to 400,000 .....     | 12,999,807.96           | 6.84%      | 38                     | 3.33%      |
| 400,000.01 to 500,000 .....     | 9,180,769.22            | 4.83%      | 21                     | 1.84%      |
| 500,000.01 to 750,000 .....     | 15,731,078.14           | 8.28%      | 27                     | 2.36%      |
| 750,000.01 to 1,000,000 .....   | 7,270,325.00            | 3.82%      | 8                      | 0.70%      |
| 1,000,000.01 to 1,250,000 ..... | 9,360,157.52            | 4.92%      | 9                      | 0.79%      |
| 1,250,000.01 to 1,500,000 ..... | 5,483,153.65            | 2.88%      | 4                      | 0.35%      |
| 1,500,000.01 to 1,750,000 ..... | -                       | 0.00%      | -                      | 0.00%      |
| 1,750,000.01 to 2,000,000 ..... | -                       | 0.00%      | -                      | 0.00%      |
| over 2,000,000 .....            | -                       | 0.00%      | -                      | 0.00%      |
| <b>Total</b> .....              | <b>190,081,939.58</b>   |            | <b>1,142</b>           |            |
| <b>Average Loan Size</b> .....  | <b>166,446.53</b>       |            |                        |            |

## Property Tenure

| Tenure             | Combined<br>Balance (£) | % of Total | Number of<br>mortgages | % of Total |
|--------------------|-------------------------|------------|------------------------|------------|
| Freehold .....     | 152,241,846.33          | 80.09%     | 842                    | 73.73%     |
| Leasehold .....    | 37,840,093.25           | 19.91%     | 300                    | 26.27%     |
| Feudal .....       | -                       | 0.00%      | -                      | 0.00%      |
| <b>Total</b> ..... | <b>190,081,939.58</b>   |            | <b>1,142</b>           |            |

## Seasoning of Mortgages by Month

| Origination month                                | Combined<br>Balance (£) | % of Total | Number of<br>mortgages | % of Total |
|--|-------------------------|------------|------------------------|------------|
| Oct-10 .....                                     | -                       | 0.00%      | -                      | 0.00%      |
| Nov-10 .....                                     | 688,728.75              | 0.36%      | 1                      | 0.09%      |
| Dec-10 .....                                     | -                       | 0.00%      | -                      | 0.00%      |
| Jan-11 .....                                     | -                       | 0.00%      | -                      | 0.00%      |
| Feb-11 .....                                     | 1,293,026.25            | 0.68%      | 1                      | 0.09%      |
| Mar-11 .....                                     | 1,002,075.00            | 0.53%      | 1                      | 0.09%      |
| Apr-11 .....                                     | -                       | 0.00%      | -                      | 0.00%      |
| May-11 .....                                     | 2,397,837.50            | 1.26%      | 2                      | 0.18%      |
| Jun-11 .....                                     | 722,850.00              | 0.38%      | 3                      | 0.26%      |
| Jul-11 .....                                     | -                       | 0.00%      | -                      | 0.00%      |
| Aug-11 .....                                     | -                       | 0.00%      | -                      | 0.00%      |
| Sep-11 .....                                     | 1,017,462.50            | 0.54%      | 1                      | 0.09%      |
| Oct-11 .....                                     | 2,196,750.00            | 1.16%      | 2                      | 0.18%      |
| Nov-11 .....                                     | 3,550,782.76            | 1.87%      | 28                     | 2.45%      |
| Dec-11 .....                                     | 3,266,574.39            | 1.72%      | 19                     | 1.66%      |
| Jan-12 .....                                     | 4,442,946.77            | 2.34%      | 34                     | 2.98%      |
| Feb-12 .....                                     | 9,456,817.58            | 4.98%      | 52                     | 4.55%      |
| Mar-12 .....                                     | 17,206,869.46           | 9.05%      | 109                    | 9.54%      |
| Apr-12 .....                                     | 13,372,153.25           | 7.03%      | 84                     | 7.36%      |
| May-12 .....                                     | 14,518,530.52           | 7.64%      | 76                     | 6.65%      |
| Jun-12 .....                                     | 16,685,432.13           | 8.78%      | 84                     | 7.36%      |
| Jul-12 .....                                     | 15,394,589.71           | 8.10%      | 92                     | 8.06%      |
| Aug-12 .....                                     | 15,816,431.10           | 8.32%      | 110                    | 9.63%      |
| Sep-12 .....                                     | 17,219,159.45           | 9.06%      | 125                    | 10.95%     |
| Oct-12 .....                                     | 49,832,922.46           | 26.22%     | 318                    | 27.85%     |
| <b>Total</b> .....                               | <b>190,081,939.58</b>   |            | <b>1,142</b>           |            |
| <b>Weighted average seasoning (months)</b> ..... | <b>3.66</b>             |            |                        |            |

## Maturity of Mortgages

| Remaining term (years)  | Combined Balance (£)  | % of Total | Number of mortgages | % of Total |
|---|-----------------------|------------|---------------------|------------|
| > 0 < 5.....  | 1,051,525.00          | 0.55%      | 9                   | 0.79%      |
| >= 5 < 10 .....   | 11,980,155.38         | 6.30%      | 68                  | 5.95%      |
| >= 10 < 15 .....  | 30,690,318.80         | 16.15%     | 203                 | 17.78%     |
| >= 15 < 20 .....  | 57,816,352.30         | 30.42%     | 321                 | 28.11%     |
| >= 20 < 25 .....  | 63,255,942.93         | 33.28%     | 379                 | 33.19%     |
| >= 25 < 30 .....  | 25,287,645.17         | 13.30%     | 162                 | 14.19%     |
| >= 30 .....   | -                     | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b>   | <b>190,081,939.58</b> |            | <b>1,142</b>        |            |
| <b>Weighted average remaining term to maturity (years).....</b> | <b>19.30</b>          |            |                     |            |

## Loan Purpose

| Use of proceeds            | Combined Balance (£)  | % of Total | Number of mortgages | % of Total |
|----------------------------|-----------------------|------------|---------------------|------------|
| House / Flat purchase..... | 63,751,084.82         | 33.54%     | 418                 | 36.60%     |
| Remortgage.....            | 126,330,854.76        | 66.46%     | 724                 | 63.40%     |
| <b>Total.....</b>          | <b>190,081,939.58</b> |            | <b>1,142</b>        |            |

## Geographical Dispersion

| Region                       | Combined Balance (£)  | % of Total | Number of mortgages | % of Total | Weighted average loan to value |
|------------------------------|-----------------------|------------|---------------------|------------|--------------------------------|
| North.....                   | 3,889,164.21          | 2.05%      | 34                  | 2.98%      | 70.65%                         |
| North West.....              | 23,273,526.50         | 12.24%     | 188                 | 16.46%     | 69.91%                         |
| Yorkshire & Humberside ..... | 17,635,024.96         | 9.28%      | 149                 | 13.05%     | 73.15%                         |
| East Midlands .....          | 13,007,625.92         | 6.84%      | 96                  | 8.41%      | 71.17%                         |
| West Midlands.....           | 9,992,565.78          | 5.26%      | 73                  | 6.39%      | 70.63%                         |
| East Anglia .....            | 5,243,060.24          | 2.76%      | 38                  | 3.33%      | 70.17%                         |
| South East (excl. GL).....   | 52,227,671.07         | 27.48%     | 268                 | 23.47%     | 68.35%                         |
| South West.....              | 18,706,387.42         | 9.84%      | 126                 | 11.03%     | 68.84%                         |
| Greater London.....          | 38,077,599.53         | 20.03%     | 101                 | 8.84%      | 66.42%                         |
| Wales .....                  | 8,029,313.95          | 4.22%      | 69                  | 6.04%      | 70.44%                         |
| Scotland .....               | -                     | 0.00%      | -                   | 0.00%      | 0.00%                          |
| Northern Ireland.....        | -                     | 0.00%      | -                   | 0.00%      | 0.00%                          |
| <b>Total.....</b>            | <b>190,081,939.58</b> |            | <b>1,142</b>        |            | <b>69.14%</b>                  |

## Number of Months in Arrears - Overall

| Number of months  | Combined Balance (£)  | % of Total | Number of mortgages | % of Total |
|-------------------|-----------------------|------------|---------------------|------------|
| up to 1.....      | 190,081,939.58        | 100.00%    | 1,142               | 100.00%    |
| > 1 <= 2 .....    | -                     | 0.00%      | -                   | 0.00%      |
| > 2 <= 3 .....    | -                     | 0.00%      | -                   | 0.00%      |
| > 3 <= 4 .....    | -                     | 0.00%      | -                   | 0.00%      |
| > 4 <= 5 .....    | -                     | 0.00%      | -                   | 0.00%      |
| > 5 <= 6 .....    | -                     | 0.00%      | -                   | 0.00%      |
| > 6 <= 12 .....   | -                     | 0.00%      | -                   | 0.00%      |
| more than 12..... | -                     | 0.00%      | -                   | 0.00%      |
| <b>Total.....</b> | <b>190,081,939.58</b> |            | <b>1,142</b>        |            |

## Occupancy

| <u>Occupancy</u>                      | <u>Combined<br/>Balance (£)</u> | <u>% of Total</u> | <u>Number of<br/>mortgages</u> | <u>% of Total</u> |
|---------------------------------------|---------------------------------|-------------------|--------------------------------|-------------------|
| Owner occupied .....                  | -                               | 0.00%             | -                              | 0.00%             |
| Letting - professional .....          | 123,956,157.72                  | 65.21%            | 755                            | 66.11%            |
| Letting - emerging professional ..... | 66,125,781.86                   | 34.79%            | 387                            | 33.89%            |
| <b>Total .....</b>                    | <b><u>190,081,939.58</u></b>    |                   | <b><u>1,142</u></b>            |                   |

## Letting Occupancy

| <u>Letting type</u> | <u>Combined<br/>Balance (£)</u> | <u>% of Total</u> | <u>Number of<br/>mortgages</u> | <u>% of Total</u> |
|---------------------|---------------------------------|-------------------|--------------------------------|-------------------|
| Corporate .....     | 29,607,037.78                   | 15.58%            | 196                            | 17.16%            |
| Non Corporate ..... | 160,474,901.80                  | 84.42%            | 946                            | 82.84%            |
| <b>Total .....</b>  | <b><u>190,081,939.58</u></b>    |                   | <b><u>1,142</u></b>            |                   |

## MORTGAGE ADMINISTRATION

### Introduction

Moorgate Asset Administration Limited ("MAAL") will be appointed by each of the Issuer and (to the extent of its interest as sub-chargee) the Trustee to be its agent to administer the Mortgages in respect of the Mortgages pursuant to an administration agreement to be entered into on the Closing Date (the "**Administration Agreement**"). It is expected that the Administrator will sub-contract its obligations to PFPLC following the Closing Date.

The Administrator 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. The Administrator will undertake that it will comply with any proper directions, orders and instructions which the Issuer or the Trustee may from time to time give to the Administrator in accordance with the provisions of the Administration Agreement. Save as provided therein, the Administration Agreement will be conditional upon completion of the Mortgage Sale Agreement taking place. Subject to certain conditions, the Administrator's appointment can be terminated by the Trustee in the event of 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 holders of the Most Senior Class of Notes or in the event of the Administrator's insolvency. In addition, the Administrator's appointment will, unless the Administrator, the Trustee and the Issuer agree otherwise, be terminated with immediate effect if at any time the Administrator does not have any authorisation under the FSMA which it is required to have in order to enable it to perform the services which it will agree in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in the United Kingdom in breach of Section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised and has not delegated the performance of such services to a person having the necessary authorisations under the FSMA in accordance with the Administration Agreement (see "*Delegation by Administrator*" below).

### Mortgage Interest Rate

After completion of the Mortgage Sale Agreement and pursuant to the Administration Agreement, the Administrator (on behalf of the Seller (as legal titleholder of the Mortgages), the Issuer and (to the extent of its interest as sub-chargee) the Trustee) will set or calculate the rates of interest applicable to the Mortgages administered by it in accordance with the Mortgage Conditions except in the case of Fixed Rate Mortgages and LIBOR-Linked Mortgages except in certain limited circumstances when the Trustee or the Issuer or a substitute administrator or the Substitute Administrator will be entitled (but not obliged, in the case of the Trustee) to do so.

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

In setting the interest rates on the Mortgages, the Administrator 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 the Subordinated Lender, draw down under the Subordinated Loan Agreement for the purpose of establishing a Shortfall Fund for purposes including that of providing funds, in the manner described in more detail below, to meet any shortfall arising from the interest rates set by the Administrator for the Mortgages averaging less than the Minimum Mortgage Rate at that time.

If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage administered by it so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and income received by the Issuer from the investment of funds standing to the credit of the Transaction Account, all early redemption amounts and scheduled releases from the Margin Reserve Fund is less than 4 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Noteholders in an

investor report) until (and including) the Interest Payment Date falling in October 2017 and 4.5 per cent. (or such higher percentage as the Issuer may from time to time select and notify to Noteholders in an investor report) thereafter, in each case, above GBP LIBOR 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 period from and including the immediately preceding Interest Payment Date up to but excluding the following Interest Payment Date) 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 as Available Revenue in accordance with the Revenue Priority of Payments.

#### **Margin Reserve Fund, Additional Margin Reserve Amounts and Further Advance Margin Reserve Amounts**

If at any time prior to the second Principal Determination Date the Issuer purchases an Additional Mortgage where the interest rate applicable to that Additional Mortgage (taking account of all hedging arrangements entered into by the Issuer) is less than 3.75 per cent. above GBP LIBOR (after taking into account all hedging arrangements entered into by the Issuer) for an initial fixed or introductory low interest rate period applicable to such Additional Mortgage, the Administrator shall draw down under the Subordinated Loan Agreement, to the extent required, on each date an Additional Mortgage is purchased by the Issuer an amount equal to the shortfall which would arise until the expiry of the applicable initial fixed or introductory low interest rate period (such amount being the relevant Additional Margin Reserve Amount) and credit the Margin Reserve Fund.

On each Interest Payment Date, the relevant Additional Margin Reserve Amount (if any), or part thereof, in respect of an Additional Mortgage will be released from the Margin Reserve Fund in accordance with the schedules set out in the Administration Agreement (modified to the extent necessary from time to time to take into account any additional releases required in respect of Additional Margin Reserve Amounts) and will be applied on such day as Available Revenue in accordance with the Revenue Priority of Payments.

If at any time the Issuer funds Discretionary Further Advances where the interest rate applicable to that Discretionary Further Advance (taking account of all hedging arrangements entered into by the Issuer) is less than 3.75 per cent. over the three month London Interbank Offered Rate for sterling deposits determined quarterly (after taking into account all hedging arrangements entered into by the Issuer) for an initial fixed or introductory low interest rate period applicable to such Discretionary Further Advance, the Administrator shall draw down under the Subordinated Loan Agreement on each Principal Determination Date an amount equal to the aggregate shortfall which would arise in respect of each Discretionary Further Advance until the expiry of the applicable initial fixed or introductory low interest rate period (such aggregate amount being the relevant Further Advance Margin Reserve Amount) and shall credit the Margin Reserve Fund Ledger with such amount.

On each Interest Payment Date, the Administrator will debit from the Margin Reserve Fund Ledger and credit to the Revenue Ledger an aggregate amount representing, in respect of each Discretionary Further Advance (if applicable), the Further Advance Margin Reserve Contribution divided by the number of the remaining Collection Periods in the remaining initial fixed or introductory low interest rate period applicable to such Discretionary Further Advance.

#### **Payments from Borrowers**

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages purchased by the Issuer (including cheque payments and redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) will generally be paid first into a Collection Account and then will be transferred on not later than the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

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

Declaration of Trust is and will be supplemental to, additional to and subject to each other declaration of trust made or to be made from time to time by the Seller in respect of amounts credited from time to time to the Collection Account which are not held on trust for the Issuer pursuant to the Collection Account Declaration of Trust.

The Collection Account shall at all times be maintained with a bank whose (a) (i) short-term, unsecured, unguaranteed and unsubordinated debt obligations are rated at least F1 by Fitch; and (ii) long-term, unsecured and unsubordinated debt is rated at least (x) A by Fitch; and (y) either (1) A by S&P (if its short term, unsecured, unguaranteed and unsubordinated debt obligations are also rated at least as high as A-1 by S&P) or (2) A+ by S&P (if its short term, unsecured, unguaranteed and unsubordinated debt obligations are not rated or are rated below A-1 by S&P) or (b) ratings are otherwise consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Rated Notes. If the relevant bank ceases to satisfy the criteria mentioned above, the Administration Agreement will contain provisions requiring the Administrator to arrange for the transfer of the Collection Account to another bank which does satisfy such criteria within 30 days of such occurrence or, if no bank satisfies such criteria at the applicable time, within 30 days of bank which satisfies such criteria being identified by the Administrator (or such longer period as may be agreed to by the Trustee and S&P). If the Collection Account is transferred to another bank which satisfies such criteria (a) the Administrator shall arrange for all direct debit payments made by borrowers under the Mortgages and all other moneys in respect of the Mortgages purchased by the Issuer (including cheque payments, redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) to be made or paid into the new Collection Account and (b) the Seller shall execute a declaration of trust in the same terms, *mutatis mutandis*, as the Collection Account Declaration of Trust in respect of such new Collection Account.

The Administrator and/or the Seller may at any time transfer the Collection Account and/or the Transaction Account to Barclays Bank PLC without the consent of the Trustee or any other party hereto provided that at such time Barclays Bank PLC's (i) short-term unsecured and unguaranteed debt is rated at least F1 by Fitch and (ii) long term unsecured and unguaranteed debt is rated at least (x) A by Fitch and (y) either (1) A by S&P (if its short term, unsecured, unguaranteed and unsubordinated debt obligations are also rated at least as high as A-1 by S&P) or (2) A+ by S&P (if its short term, unsecured, unguaranteed and unsubordinated debt obligations are not rated or are rated below A-1 by S&P); or Barclays Bank PLC has at such time such other ratings as are consistent with the then published criteria of the relevant Rating Agencies as being the minimum ratings required to support the then current ratings of the Most Senior Class of Rated Notes.

Upon the transfer of the Transaction Account to Barclays Bank PLC, the Administrator will procure that (i) at the time the transfer is effective, the new account is charged to the Trustee in the same manner as the Transaction Account is charged to the Trustee pursuant to the Deed of Charge and Barclays Bank PLC shall be requested to acknowledge receipt of notice of such charge; (ii) the provisions of the Administration Agreement relating to the ratings and transfer of the Transaction Account shall apply to such new bank account; (iii) the provisions of the Deed of Charge and the Administration Agreement relating to payments from the Transaction Account shall apply to such new bank account; and (iv) the arrangements for operation of such bank account shall be the same as in relation to the Transaction Account, and the Administrator shall notify the Trustee of such transfer as soon as practicable and deliver to the Trustee a certificate confirming that conditions (i) to (iv) have been met as soon as reasonably practicable following the completion thereof.

Upon the transfer of the Collection Account to Barclays Bank PLC, the Administrator will notify the Trustee of such transfer as soon as reasonably practicable and procure that (a) all direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages purchased by the Issuer (including cheque payments, redemption moneys and moneys recovered on the sale of Properties following enforcement of any Mortgage) are made or paid into the new Collection Account; (b) the Seller executes a declaration of trust in the same terms, *mutatis mutandis*, as the Collection Account Declaration of Trust in respect of such new Collection Account; and (c) (i) notice is given to Barclays Bank PLC of the new declaration of trust executed pursuant to (b) above and the assignment of the rights of the Issuer under such declaration of trust; and (ii) the Trustee is provided with a copy of such notice and a copy of the new declaration of trust and the Administrator shall deliver to the Trustee a certificate confirming that conditions (a) to (c) have been met as soon as reasonably practicable following the completion thereof.

## **Arrears and Default Procedures**

The Administrator will endeavour to collect all payments due under or in connection with the Mortgages administered by it in accordance with its procedures from time to time having regard to the circumstances of the borrower in each case (but always acting as a reasonably prudent mortgage lender). The procedures may include one or more of appointing a receiver of rent, 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 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.

In order to realise its security in respect of a property located in England or Wales, the relevant mortgagee (be it the Seller (as legal title owner), the Issuer, the Trustee or any receiver appointed by the Trustee (if the Trustee has taken enforcement action against the Issuer)) will need to obtain possession. Any action for possession of a Property the subject of a letting would include a claim not only against any tenants but also against the borrower to assist in defeating any subsequent attempt by the borrower to assert a right of occupation. In broad terms, a lender has the same (but no better) rights against a tenant (for example, to regain possession) as are enjoyed by the borrower as landlord. Where the tenant is an individual, he will, as an assured shorthold tenant, have a limited right to security of tenure in that although an order for possession must be made against the tenant (provided, in certain cases, prescribed notices have been served) it cannot take effect earlier than six months after the beginning of the tenancy in the case of a periodic tenancy, or, in the case of a fixed term tenancy, before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement. Where the tenant is other than an individual, an order for possession cannot take effect before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement.

Once possession of the property has been obtained, the relevant mortgagee has a duty to the borrower to take reasonable care to obtain the best price reasonably obtainable at the time for the property. Any failure to do so will put the relevant mortgagee at risk of an action for breach of such duty by the borrower, although it is for the borrower to prove breach of such duty. There is also a risk that a borrower may also take court action to force the relevant mortgagee to sell the property within a reasonable time. 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.

Whether the lender adopts one or more of the actions described above 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.

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 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.

### ***Cross-collateral Mortgages and Cross-collateral Rights***

The conditions of the mortgages (each a "**Cross-collateral Mortgage**") provide, among other things, some "**Cross-collateral Rights**" which allow the relevant mortgagee of any such Cross-collateral Mortgage:

- (i) to declare immediately due and repayable each liability secured by that Cross-collateral Mortgage and to exercise the statutory power of sale under that Cross-collateral Mortgage if and

when the mortgagee of any other Cross-collateral Mortgage in the name of the same mortgagor is entitled to declare immediately due and repayable any liability secured by that other Cross-collateral Mortgage; and

- (ii) to apply the proceeds of enforcement under the Cross-collateral Mortgages of the relevant mortgagor against all liabilities secured by the Cross-collateral Mortgages.

At or about the Closing Date the Issuer and the Trustee will enter in to a "**Cross-collateral Mortgage Rights Accession Deed**" pursuant to which the Issuer shall become a party to a deed (being, together with the Cross-Collateral Mortgage Rights Accession Deed, the "**Cross-collateral Mortgage Rights Deed**") entered into by the Trustee, the Seller and the Warehouser, among others, to regulate the respective rights between each person who as the date of this Prospectus has or may have a beneficial interest in any Cross-collateral Mortgage that includes Cross-collateral Rights which may apply to one or more of the Mortgages.

The Cross-collateral Mortgage Rights Deed seeks to provide that each party thereto who is a beneficial owner of a Cross-collateral Mortgage (which, upon it becoming a party, will include the Issuer): (i) shall only have Cross-collateral Rights in respect of Cross-collateral Mortgages that it beneficially owns; (ii) waives all rights to exercise Cross-collateral Rights in respect of other Cross-collateral Mortgages which are not beneficially owned by it; (iii) waives all rights to take any action or proceedings against any other beneficial owner of Cross-collateral Mortgages to exercise the Cross-collateral Rights of that other beneficial owner; (iv) waives any rights to the proceeds of enforcement of Cross-collateral Mortgages not beneficially owned by it; and (v) agrees that if it enforces a Cross-collateral Mortgage in respect of which Cross-collateral Rights attach, the proceeds of such enforcement after deduction of all related costs and expenses shall be applied by or on behalf of it in respect of the Cross-collateral Mortgages beneficially owned by it firstly to repay all amounts owing by the mortgagee under the enforced Cross-collateral Mortgage beneficially owned by it in accordance with the applicable Mortgage Conditions and, secondly, to the extent there are additional proceeds of enforcement, apply such proceeds in accordance with such Mortgage Conditions.

#### **Further Advances**

Each further advance (each a "**Further Advance**") made by or on behalf of the Issuer in relation to the Mortgages will be either a Mandatory Further Advance or a Discretionary Further Advance (each as defined below).

In this Prospectus:

"**Mandatory Further Advance**" means each further advance in respect of a Mortgage representing any part of the original advance retained pending completion of construction or refurbishment.

"**Discretionary Further Advance**" means each further advance in respect of a Mortgage other than a Mandatory Further Advance.

#### ***Mandatory Further Advances***

Mandatory Further Advances are 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 a 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 item (ii) of the Principal Priority of Payments or item (i)(d) of the Enforcement Priority of Payments. 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 does not have sufficient funds to make any such Mandatory Further Advances the Issuer will be entitled to borrow further amounts from the Subordinated Lender under the Subordinated Loan Agreement and the Subordinated Lender will be under an obligation to make any such amounts available to the Issuer. In addition, but without prejudice thereto, the Subordinated Lender may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make any Mandatory Further Advances if and to the extent that the Issuer so opts instead of using Available Redemption Funds which would otherwise be applied in making such Mandatory Further Advances.

### ***Discretionary Further Advances***

Each Further Advance in respect of a Mortgage which is not a Mandatory Further Advance will be a Discretionary Further Advance. At its discretion the Administrator on behalf of the Issuer may decide to make a Discretionary Further Advance on the security of the Property subject to the Mortgage on the request of a borrower provided that certain conditions in the Administration Agreement are satisfied and (unless the relevant Discretionary Further Advance is to be funded out of the proceeds of an advance under the Subordinated Loan Agreement for such purpose) provided further that:

- (i) there is a balance of zero or greater on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date (or, to the extent that there is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the Principal Deficiency Ledger, is sufficient to reduce to zero any such debit balance on the Principal Deficiency Ledger);
- (ii) the First Loss Fund is at least equal to the Required Amount on the immediately preceding Interest Payment Date (or, to the extent that it is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the First Loss Ledger, is sufficient to replenish the First Loss Fund to the Required Amount). Any such Discretionary Further Advance may only be made if it is secured on the relevant Property owned by the borrower but subject to the Mortgage;
- (iii) on the immediately preceding Principal Determination Date, the Current Balance of Mortgages which are more than three months in arrears represents is less than 2 per cent. 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);
- (iv) neither the Seller nor the Administrator has received notice that the relevant Borrower was or is in breach of the relevant Mortgage Conditions;
- (v) on the immediately preceding Principal Determination Date, the weighted average LTV by the then aggregate principal balance of all Mortgages in the Mortgage Portfolio would not increase by more than 1 per cent. (after utilising the Pre-Funding Reserve) as a result of making the relevant Discretionary Further Advance; and
- (vi) if such Discretionary Further Advance was made, each of the Mortgage Condition Tests are satisfied.

In addition, the Issuer may make a Discretionary Further Advance to a borrower as part of its arrears and default procedures by capitalising certain outstanding arrears of interest payable by a borrower. The capitalisation of outstanding arrears constitutes a capitalisation for these purposes if the capitalised amount is added to the principal balance of the Mortgage and the relevant borrower's arrears are discharged (and a debit is made to the Principal Ledger and credit is made to the Revenue Ledger).

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

In all cases where a Discretionary Further Advance is to be made, the Issuer may use principal moneys referred to in item (iii) of the Principal Priority of Payments.

Discretionary Further Advances (other than by way of capitalisation of arrears) will not be made or funded (except out of the proceeds of an advance under the Subordinated Loan Agreement for such purpose) if the sum of:

- (i) all Discretionary Further Advances (other than by way of capitalisation of arrears) which have been made since the Closing Date or which are proposed to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made;
- (ii) all Mandatory Further Advances which have been made since the Closing Date or which are to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made which, in the case of sub-paragraph (i) above and this sub-paragraph (ii), have been or are to be funded by the Issuer out of principal received or recovered or deemed to have been received or recovered in respect of the Mortgages and not out of the proceeds of any advance under the Subordinated Loan Agreement made or to be made for such purpose; and
- (iii) all Mandatory Further Advances which may be required to be made after the making of the relevant Discretionary Further Advance would, on the date of the relevant Discretionary Further Advance,

exceeds a combined aggregate cumulative limit of 8 per cent. of the aggregate Initial Principal Amount of the Notes.

Discretionary Further Advances may only be made on a Mortgage by the Issuer if the Seller'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.

***Further Advances – general provisions***

The Mortgage Sale Agreement provides that on each occasion that a Further Advance is made by or on behalf of and in the name of the Seller to a borrower under and on the security of a Mortgage using funds provided for that purpose by or on behalf of the Issuer and/or Trustee, then the Seller agrees to sell and will immediately upon making such Further Advance be deemed to have sold to the Issuer all its rights and interest to that Further Advance in consideration for the provision of those funds.

If the Issuer does not wish, or is unable, to make a Further Advance, the Seller may (but is not obliged to) make that Further Advance on the security of a second mortgage or standard security over the Property in question (postponed to the relevant Mortgage).

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

***Further Advances – Further Advance Margin Reserve Amount***

The Administrator shall covenant and undertake that at any time:

- (i) the Reversionary Period in respect of any Discretionary Further Advance shall not exceed 5.25 years from the Closing Date; and
- (ii) the interest payment in respect of any Discretionary Further Advances may only be set at a rate of:
  - (a) following expiry of the Reversionary Period, equal to or greater than 4.50 per cent. over the three month London Interbank Offered Rate for sterling deposits determined quarterly; and
  - (b) on or prior to the expiry of the Reversionary Period, either:
    - (1) 3.75 per cent. over the three month London Interbank Offered Rate for sterling deposits determined quarterly; or
    - (2) a rate which is less than 3.75 per cent. over the three month London Interbank Offered Rate for sterling deposits determined quarterly provided that the Administrator will on the Principal Determination Date immediately following

the date that such Discretionary Further Advance is made by the Administrator, on behalf of the Issuer, credit to the Transaction Account and the Margin Reserve Fund Ledger an amount sufficient to ensure that amounts referable to the Further Advance Margin Reserve Amount are standing to the credit of the Transaction Account and the Margin Reserve Fund Ledger, which shall be credited to the Revenue Ledger on the immediately following Interest Payment Date.

(See the section entitled "*Liquidity Support provided by Further Advance Margin Reserve Amount in respect of Discretionary Further Advances*" for further details).

### **Conversion of Mortgages**

The Administrator may as part of an arrears management programme agree to convert a Mortgage administered by it from an Interest-only Mortgage or, as the case may be, Optional Repayment Mortgage to a Repayment Mortgage (but not any other type of mortgage) or from a Repayment Mortgage to an Interest-only Mortgage or, as the case may be, Optional Repayment Mortgage (but not any other type of mortgage) at any time without limit and without any further condition or consent being required (and for the avoidance of doubt, such mortgage that is converted as part of an arrears management programme shall not be a Converted Mortgage).

The Administrator may elect to convert a Mortgage administered by it from an Interest-only Mortgage or, as the case may be, Optional Repayment Mortgage to a Repayment Mortgage (but not any other type of mortgage), but not from a Repayment Mortgage to an Interest-only Mortgage or, as the case may be, Optional Repayment Mortgage (for any reason other than as part of an arrears management programme) provided that following such conversion either (i) the aggregate Current Balance of such Converted Mortgages in the Mortgage Portfolio does not exceed 1 per cent. of the sum of (x) the aggregate Current Balance of the Mortgages included in the Mortgage Portfolio on the Closing Date and (y) the aggregate Current Balance of Additional Mortgages in the Mortgage Portfolio on the relevant purchase date in respect of any such Additional Mortgage or (ii) where the aggregate Current Balance of such Converted Mortgage does exceed 1 per cent. of the sum of (x) the aggregate Current Balance of the Mortgages included in the Mortgage Portfolio on the Closing Date and (y) the aggregate Current Balance of Additional Mortgages in the Mortgage Portfolio on the relevant purchase date in respect of any such Additional Mortgage, S&P have confirmed that the conversion of such Mortgages will not adversely affect the then current ratings of the Rated Notes.

Any Five-year Interest-only Mortgage may become a Repayment Mortgage pursuant to the Mortgage Conditions thereof without any further condition or permission being required.

The Trustee will not make any investigation as to the manner in which any Converted Mortgages or Additional Mortgages, if any, differ from the Mortgages purchased by the Issuer on the Closing Date, or on the date of such purchase of any Additional Mortgages, if any, or as to the compliance thereof with the criteria referred to herein.

From time to time Borrowers may request or the Administrator may offer, in limited circumstances, a variation in the Mortgage Conditions applicable to the Borrower's Mortgage. Any such variation, including a change in product type, but excluding the variations listed below, is called a "**Product Switch**." The following variations are not Product Switches:

- (a) a change between a Interest-only Mortgage or, as the case may be, Optional Repayment Mortgage and Repayment Mortgage for reasons other than arrears management (subject to the conditions described above);
- (b) a change of a party to a Mortgage or a release of part of the land subject to the Mortgage;
- (c) any change in the frequency with which the interest payable in respect of the Mortgage is charged;
- (d) any change in the maturity date of any Mortgage;
- (e) any variation agreed with Borrowers to control or manage existing arrears on a Mortgage (including any conversion from an Interest-only Mortgage or, as the case may be, Optional

Repayment Mortgage to a Repayment Mortgage (but not any other type of mortgage) or from a Repayment Mortgage to an Interest-only Mortgage or, as the case may be, Optional Repayment Mortgage, in each case as part of an arrears management programme); and

- (f) any variation imposed by statute.

Under the Administration Agreement, the Administrator may not, on behalf of the Seller or, as the case may be, the Issuer, accept an application from or issue an offer for a Product Switch to any Borrower in respect of a Mortgage unless the Seller has confirmed to the Administrator and the Trustee that it will purchase that Mortgage in accordance with the terms of the Mortgage Sale Agreement and the Product Switch may not be effected until the Seller has repurchased the Mortgage in accordance with the Mortgage Sale Agreement.

### **Insurance**

The Administrator will, on behalf of the Issuer, administer the arrangements for insurance in respect of, or in connection with, the Mortgages administered by it to which the Issuer is a party or in which the Issuer has an interest and will make claims on behalf of the Issuer under any such insurance policies when necessary. See "*Insurance Coverage*" above.

### **Reinvestment of Income**

The Transaction Account shall at all times be maintained with a bank whose (a) (i) short-term, unsecured, unguaranteed and unsubordinated debt obligations are rated at least F1 by Fitch; and (ii) long-term, unsecured and unsubordinated debt is rated at least (x) A by Fitch; and (y) either (1) A by S&P (if its short term, unsecured, unguaranteed and unsubordinated debt obligations are also rated at least as high as A-1 by S&P) or (2) A+ by S&P (if its short term, unsecured, unguaranteed and unsubordinated debt obligations are not rated or are rated below A-1 by S&P) or (b) ratings are otherwise consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Rated Notes. If such bank ceases to satisfy the criteria mentioned above, the Administration Agreement will contain provisions requiring the Administrator to arrange for the transfer of the Transaction Account to another bank which does satisfy such criteria within 30 days of such occurrence or, if no bank satisfies such criteria at the applicable time, within 30 days of bank which satisfies such criteria being identified by the Administrator (or such longer period as may be agreed to by the Trustee and S&P).

Sums held to the credit of the Transaction Account to which payments of interest and repayments of principal in respect of Mortgages are to be credited and into and out of which all other payments to and by the Issuer are to be made, must be invested (a) in Sterling denominated securities, bank accounts or other obligations of or rights against entities whose long term unsecured and unguaranteed debt is rated at least A by Fitch and whose short term unsecured and unguaranteed debt is rated at least F1 by Fitch and at least A-1 by S&P; or (b) in such other Sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Most Senior Class of Rated Notes provided that any monies invested in entities for a period of more than 31 days are invested in an entity whose long term unsecured and unguaranteed debt is rated at least AA- by Fitch and whose short term unsecured and unguaranteed debt is rated at least F1+ by Fitch and at least A-1 by S&P (each an "**Authorised Investment**"). Such investments and deposits must always be immediately repayable on demand or mature on or before the next Interest Payment Date or, if the Issuer will have insufficient available cash funds in the Revenue Ledger to make payments which are due and payable on the next Interest Payment Date, on that 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.

### **Delegation by the Administrator**

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

The consents and conditions referred to in the paragraph above will not be required in respect of any delegation to a holding company or subsidiary of PGC. It is expected that the Administrator will sub-contract its obligations to PFPLC following the Closing Date.

The sub-contracting or delegation arrangements in respect of the performance of the administration services by the Administrator described in the paragraphs above shall also apply to HML upon HML (in its capacity as Substitute Administrator) assuming the performance of the administration services as successor Administrator following the occurrence of an Administrator Termination Event.

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

The appointment of the Administrator may be terminated while any of the following events is continuing (each an "**Administrator Termination Event**"):

- (a) certain payment defaults by the Administrator;
- (b) default by the Administrator in the performance or observance of its covenants and obligations under the Administration Agreement, which in the opinion of the Trustee is materially prejudicial to the holders of the Most Senior Class of Notes (except where, in the reasonable opinion of the Trustee, such default is incapable of remedy, when no such continuation and/or notice as is hereinafter mentioned will be required) such default continues unremedied for a period of 14 days after the earlier of the Administrator becoming aware of such default and receipt by the Administrator of written notice from the Trustee requiring the same to be remedied. If the relevant default occurs as a result of a default by any person to whom the Administrator has sub-contracted or delegated part of its obligations under the Administration Agreement such default shall not result in the termination of the appointment of the Administrator if within such 14 day period the Administrator terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Issuer or the Trustee may reasonably specify to remedy such default or to indemnify the Issuer and the Trustee against the consequences of such default; and
- (c) the occurrence of an Insolvency Event (as defined below) in relation to the Administrator.

In this Prospectus:

"**Insolvency Event**" means, in respect of a company, any of the following:

- (i) an order being made or an effective resolution being passed for winding up of such company;
- (ii) such company ceasing or threatening to cease to carry on its business or a substantial part of its business or stopping payment or threatening to stop payment of its debts or such company being 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) or becoming unable to pay its debts as they fall due or the value of its assets falling to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becoming insolvent; or
- (iii) proceedings being initiated against such company under any applicable liquidation, administration, insolvency, composition, reorganisation (other than a reorganisation the terms of which have been approved by the Trustee and where such company is solvent) or other similar laws, save where such proceedings are being contested in good faith by the Administrator, or an administrative or other receiver, administrator or other similar official is appointed in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of such company, or a distress, execution, diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of such company and in any of the foregoing cases it shall not be discharged within 15 days; or if the company shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally.

Following the occurrence of an Administrator Termination Event, the Issuer or Trustee may terminate the appointment of the Administrator by notice in writing to the Administrator with effect from a date specified in the notice (not earlier than the date of the notice).

In addition the Administrator's appointment will, unless the Administrator, the Trustee and the Issuer agree otherwise, be terminated with immediate effect if at any time:

- (d) the Administrator (or any sub-contractor or delegate of the Administrator appointed by the Administrator to perform the relevant services) does not have any authorisation under the FSMA which it is required to have in order to enable it to perform the services which it is to agree in the Administration Agreement to perform without it; or
- (e) the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of the FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.

The appointment of MAAL as Administrator under the Administration Agreement may also be terminated upon the expiry of not less than 6 months' notice of termination given by MAAL to each of the Issuer and the Trustee, if:

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

#### **Substitute Administrator**

Homeloan Management Limited ("**HML**") in its capacity as the substitute administrator (the "**Substitute Administrator**") has agreed pursuant to an agreement to be entered into on the Closing Date with the Issuer and the Trustee (the "**Substitute Administrator Agreement**") that it will agree to be a substitute administrator to perform the services under the Administration Agreement upon the termination of MAAL's appointment as Administrator.

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

HML may at any time prior to assuming the duties and obligations of the Administrator by serving notice in writing to the Issuer, terminate its appointment as Substitute Administrator (and shall be released from all obligations under the Substitute Administrator Agreement) if:

- (i) the Issuer fails to make any payment due to HML hereunder on the due date for payment thereof or within 20 Business Days thereafter;
- (ii) any amendment, addition or modification is made without HML's consent (such consent not to be unreasonably withheld or delayed) to the Relevant Documents which, in the reasonable opinion of HML, is materially prejudicial to HML without an appropriate increase in its fees being agreed by HML;
- (iii) provided that it has fully complied with its obligations under the Substitute Administrator Agreement, HML no longer holds the authorisations required for it lawfully to carry out all the obligations of the Administrator contemplated by the Administration Agreement and/or the Substitute Administrator Agreement, including any authorisations under FSMA and the CCA; or
- (iv) the Administrator fails to provide:

- (a) certain information to the Substitute Administrator and such failure is not remedied within 15 Business Days of the date on which such information is required to be delivered or requested;
- (b) any access to, amongst other things, the Administrator's office space, facilities, equipment, systems, software, and staff then in use by the Administrator; and
- (c) any co-operation to the Substitute Administrator,

each as required under the Substitute Administrator Agreement.

The Issuer may at any time terminate the appointment of HML as Substitute Administrator if:

- (i) default is made by HML in the performance or observance of any of its covenants and obligations under the Substitute Administrator Agreement where, in the opinion of the Trustee, such default or breach is materially prejudicial to the interests of the Most Senior Class of Notes and such default is not remedied for a period of 30 days after the earlier of HML becoming aware of such default and receipt by HML of written notice from the Issuer or, following delivery of an Enforcement Notice, the Trustee requiring the same to be remedied;
- (ii) it is or will become unlawful for HML to perform or comply with any of its obligations under the Substitute Administrator Agreement; or
- (iii) an Insolvency Event occurs in relation to HML.

The appointment of HML as Substitute Administrator under the Substitute Administrator Agreement may be terminated by HML or the Issuer on the date falling 6 months after the date of receipt of a notice from HML or the Issuer, as the case may be, of an intention to terminate such appointment, provided that if upon such date a replacement Substitute Administrator which satisfies the applicable criteria of the Rating Agencies necessary to maintain the then current ratings of the Most Senior Class has not been appointed by the Issuer the appointment of HML as Substitute Administrator under the Substitute Administrator Agreement shall instead terminate on the earlier of:

- (a) the date falling 12 months after the date of receipt by the other parties to this Agreement of written notice from HML or the Issuer (each with a copy to the Trustee), as the case may be, of an intention to terminate this Agreement; and
- (b) the date of appointment of a replacement Substitute Administrator which satisfies the applicable criteria of the Rating Agencies necessary to maintain the then current ratings of the Most Senior Class of Notes.

Under the Substitute Administrator Agreement HML's liability in contract, tort (including negligence or breach of statutory or regulatory duty) or otherwise howsoever, and whatever the cause thereof, arising by reason of or in connection with the Substitute Administrator Agreement, the Administration Agreement or any other Relevant Document shall be limited in any calendar year to £10 million in aggregate and shall not include any claim for any increased costs and expenses, loss of profit, business, contracts, revenues or anticipated savings or any special indirect or consequential damage whatsoever which liability is hereby excluded.

### **Administration Fees**

The Administration Agreement will make provision for payments to be made to the Administrator and the Substitute Administrator.

The Issuer will pay to the Administrator fees for its services as an Administrator as follows: (i) an "**Administration Senior Fee**" at the rate of not more than 0.15 per cent. per annum, (ii) an "**Administration Subordinated Fee**" at the rate of not more than 0.15 per cent. per annum, in each case such fees being inclusive of any VAT and each such fee being calculated by applying such rate to the aggregate Interest Charging Balance of the outstanding Mortgages administered by the Administrator at the beginning of each Collection Period and each such fee will be due quarterly in arrear on each Interest Payment Date and paid as specified in accordance with the applicable priority of payments. A higher fee at a rate agreed by the Issuer (but which does not exceed the rate then commonly charged by providers of

mortgage administration services) may be payable to the Substitute Administrator appointed following termination of MAAL's appointment as Administrator.

The Issuer will pay to the Substitute Administrator fees for its services as follows:

- (iv) prior to being appointed as Administrator (in place of MAAL), a "**Substitute Administrator Commitment Fee**" (exclusive of any VAT) in an amount equal to the greater of (a) £8,000 per annum and (b) 0.004 per cent. per annum of the daily average Interest Charging Balance of Mortgages in the Mortgage Portfolio during the relevant annual period, and such fee will be due annually in advance on the Closing Date and thereafter (following the anniversary of the Closing Date) on the Interest Payment Date falling in January of each year; and
- (v) upon being appointed as Administrator (in place of MAAL), the Administration Senior Fee and the Administration Subordinated Fee, in each case, such fees being exclusive of any VAT.

The Administrator and the Seller will be entitled to receive from the Issuer for their own account any commissions due to them from insurers out of premiums paid by borrowers as a result of their having placed buildings insurance in relation to the Mortgages with such insurers.

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

"**Interest Charging Balance**" means, in relation to any Mortgage, the principal amount outstanding secured by that Mortgage as at the date of origination together with the amount of any further advances made, capitalised fees, capitalised interest and accrued interest which has become due and remains unpaid (and interest accrued thereon) since the date of origination less any amount applied to reduce the principal amount secured by that Mortgage since the date of origination, provided that (i) in relation to any Repayment Mortgage, the principal secured thereby shall for these purposes be deemed to be reduced at such intervals and by such amounts as correspond to the Seller's normal practice from time to time for determining the balance on which interest is charged for Repayment Mortgages and (ii) after completion of the enforcement procedures in relation to that Mortgage, any amount of principal secured by that Mortgage not then received shall not be treated as outstanding.

### **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 Seller, Trustee and the Issuer will be required to execute powers of attorney in favour of the Administrator which, *inter alia*, will enable it to discharge the Mortgages from the security created over them in favour of the Trustee under the Deed of Charge, without reference to the Trustee or the Issuer or the Seller.

The Administration Agreement and all non-contractual obligations arising out of it are governed by, and shall be construed in accordance with, English law.

## UNITED KINGDOM TAXATION

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes and of the United Kingdom stamp duty and stamp duty reserve tax position on the issue or transfer of the Notes. It is based on current law and the practice of HMRC, which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

### **Interest on the Notes**

#### *Withholding tax on payments of interest on the Notes*

The Notes will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Securities will be "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000). The London Stock Exchange is a recognised stock exchange, and accordingly the Notes will constitute quoted Eurobonds provided they are and continue to be included in the United Kingdom official list and admitted to trading on the Regulated Market of that Exchange.

In all cases falling outside the exemption described above, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

### **Provision of Information**

Noteholders should note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. In certain circumstances, the information so obtained may be passed by HMRC to the tax authorities of certain other jurisdictions.

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive.

### **EU Savings Directive**

Under the EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg are required to instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. unless they elect otherwise. The transitional period is to terminate at the end of the first full fiscal year

following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, broaden the scope of the requirements described above. Holders of Notes who are in any doubt as to their position should consult their professional advisers.

#### **Other Rules Relating to United Kingdom Withholding Tax**

Where interest has been paid under deduction of United Kingdom income tax, holders of the Notes who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

#### **Stamp Duty and Stamp Duty Reserve Tax**

No stamp duty or stamp duty reserve tax is payable in the United Kingdom on the issue or transfer of any Note.

## SUBSCRIPTION AND SALE

Lloyds TSB, Macquarie Bank Limited, London Branch and Morgan Stanley & Co. International plc (together, the "**Joint Lead Managers**") have, pursuant to a subscription agreement dated on or about 22 October 2012 (to which, among others, the Seller is also party) (the "**Subscription Agreement**") jointly and severally agreed, subject to certain conditions, to subscribe, or procure subscriptions, for the Class A Notes, the Class B Notes and the Class C Notes in each case at the issue price indicated in the following table:

| <u>Class of Notes</u> | <u>Issue price</u> | <u>Commission rate</u> |
|-----------------------|--------------------|------------------------|
| Class A.....          | 100%               | 0.30%                  |
| Class B.....          | 100%               | 0.30%                  |
| Class C.....          | 100%               | 0.30%                  |

The Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes. The Issuer has agreed to pay the Joint Lead Managers a combined selling, management and underwriting commission in respect of the Rated Notes at the rate indicated in the above table (being a percentage of the Initial Principal Amount of the Rated Notes). The Issuer gives certain representations and warranties and undertakings to the Joint Lead Managers in the Subscription Agreement. The Subscription Agreement is subject to a number of conditions and may be terminated by the Joint Lead Managers in certain circumstances prior to payment for the Notes to the Issuer.

Idem (No.1) Limited, a subsidiary of the Paragon Group of Companies, has, pursuant to the Subscription Agreement, agreed with the Issuer, subject to certain conditions, to subscribe and pay for 100 per cent. of the Class D Notes at an issue price of 100 per cent. of the aggregate Initial Principal Amount of the Class D Notes as at the Closing Date.

This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

### **United Kingdom**

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### **United States**

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S) except pursuant to an exemption from registration requirements. Accordingly, the Notes are being offered and sold in offshore transactions in reliance on Regulation S.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering and the closing date within the United States or to, or for the account or benefit of, U.S. Persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. See the section entitled "*Transfer Restrictions and Issuer Representations*" below.

## **Australia**

Neither this Prospectus nor any other disclosure document (as defined in the Corporations Act 2001 of Australia) in relation to the Notes has been or will be lodged with the Australian Securities and Investments Commission ("ASIC"). Each of the Joint Lead Managers has represented and agreed that it:

- (a) has not (directly or indirectly) offered or invited applications, and will not offer or invite applications, for the issue or sale of the Notes in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, any prospectus, draft, preliminary or definitive offering memorandum, advertisement or other offering material relating to the Notes in Australia,

unless:

- (i) the aggregate consideration payable by each offeree or invitee is at least AUD 500,000 (or its equivalent in other currencies, but disregarding any monies lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with either Part 6D.2 or Chapter 7 of the Corporations Act 2001 of Australia;
- (ii) the offeree or invitee is not a "retail client" (within the meaning of Section 761G of the Corporations Act 2001 of Australia);
- (iii) such action complies with all applicable laws, regulations and directives; and
- (iv) such action does not require any document to be lodged with the ASIC.

## **General**

Each Joint Lead Manager has acknowledged that, save for having obtained the approval of the Prospectus as a prospectus in accordance with Part VI of the FSMA, having applied for the admission of the Notes to the Official List and admission to trading on the London Stock Exchange, no further action has been or will be taken in any jurisdiction by the relevant Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering material in relation to the Notes, in any country or jurisdiction where such further action for that purpose is required.

Each Joint Lead Manager and has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

### Offers and Sales by the Purchasers

The Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) may only be offered, sold, resold, delivered or transferred (i) outside the United States to a non-U.S. Person in an offshore transaction in reliance on Rule 903 or 904 of Regulation S or (ii) following the expiration of the distribution compliance period, pursuant to an applicable exemption from the registration requirements of the Securities Act and in accordance with any applicable securities law of any state of the United States.

### Investor Representations and Restrictions on Resale

By its purchase of the Notes, each purchaser of the Notes (each initial purchaser, together with each subsequent transferee are referred to herein as the "**Purchaser**", which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented and agreed to the following (undefined terms used in this section that are defined in Regulation S are used herein as defined therein):

- (a) the Notes have not been and will not be registered under the Securities Act and such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will offer, resell, pledge or transfer such Notes only (i) to a purchaser who is not a U.S. Person (as defined in Regulation S) or an affiliate of the Issuer or a person acting on behalf of such an affiliate, and who is not acquiring the Notes for the account or benefit of a U.S. Person and who is acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; **provided, that** the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;
- (b) unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes (as applicable) from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (a) above, (iii) such transferee shall be deemed to have represented that such transferee is acquiring the Notes in an offshore transaction and that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing;
- (c) the Issuer, the Registrar, the Arranger, each Joint Lead Manager and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements;
- (d) the Notes and related documentation may be amended or supplemented from time to time to modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resales or transfer of securities such as the Notes generally, and that it will be deemed, by its acceptance of such Notes, to have agreed to any such amendment or supplement;
- (e) the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries, and that those participants may further disclose to the Issuer the names and positions of holders of its securities; and
- (f) it will promptly (i) inform the Issuer if, during any time it holds a Note, there shall be any change in the acknowledgements, representations and agreements contained above or if they shall become false for any reason and (ii) deliver to the Issuer such other representations and agreements as to such matters as the Issuer may, in the future, request in order to comply with applicable law and the availability of any exemption therefrom.

Each Purchaser understands that (i) the sale of the Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) to it is being made in reliance on Regulation S, and (ii) the Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) may not be reoffered, resold, pledged or otherwise transferred except in accordance with the legend set forth below:

THIS NOTE HAS NOT BEEN REGISTERED AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND THE ISSUER (AS DEFINED IN THE TRUST DEED) HAS NOT BEEN REGISTERED AND DOES NOT INTEND TO REGISTER AS AN "INVESTMENT COMPANY" UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**") AND, AS A MATTER OF U.S. LAW, PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE CLOSING OF THE OFFERING THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE EXCEPT TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND IN PRINCIPAL AMOUNT OF NOT LESS THAN £100,000.

THE PURCHASER OF THIS NOTE OR ANY INTEREST IN THIS NOTE SHALL BE DEEMED TO HAVE REPRESENTED, WARRANTED AND AGREED THAT (I) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST IN THIS NOTE WILL NOT BE, A BENEFIT PLAN INVESTOR AS DEFINED IN SECTION 3(42) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), AND (II) IF IT IS OR MAY BECOME A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN WHICH IS NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, (THE "**CODE**"), ITS PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST IN THIS NOTE WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY U.S. FEDERAL, STATE OR LOCAL LAW OR ANY NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE. "**BENEFIT PLAN INVESTOR,**" AS DEFINED IN SECTION 3(42) OF ERISA, INCLUDES (1) ANY EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF ERISA) THAT IS SUBJECT TO PART 4 OF TITLE I OF ERISA, (2) ANY PLAN DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE CODE, AND (3) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS FOR THE PURPOSES OF ERISA OR SECTION 4975 OF THE CODE BY REASON OF A PLAN'S INVESTMENT IN THE ENTITY.

THE PURCHASER IS HEREBY NOTIFIED THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES, AND THAT THOSE PARTICIPANTS MAY FURTHER DISCLOSE TO THE ISSUER THE NAMES AND POSITIONS OF HOLDERS OF ITS SECURITIES.

PRIOR TO THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD, AN INTEREST IN THIS NOTE MAY BE HELD ONLY THROUGH EUROCLEAR OR CLEARSTREAM, LUXEMBOURG.

*Because of the foregoing restrictions, purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.*

## GENERAL INFORMATION

(a) It is expected that listing of the Notes to the Official List of the UK Listing Authority will occur, and that the Notes will be admitted to trading on the regulated market of the London Stock Exchange on or around 25 October 2012, subject only to the issue of the Global Notes. Prior to the official listing, however, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules. The listing of the Notes will be cancelled if the Global Notes are not issued.

(b) The following Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg:

|               | Common<br>Code | ISIN         |
|---------------|----------------|--------------|
| Class A ..... | 084332259      | XS0843322594 |
| Class B ..... | 084332631      | XS0843326314 |
| Class C ..... | 084332828      | XS0843328286 |
| Class D ..... | 084332844      | XS0843328443 |

(c) Transactions will normally be effected for settlement in Sterling for delivery on the third calendar day after the date of the transaction.

(d) Since the date of its incorporation the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business other than the Subscription Agreement.

(e) So long as the Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the Regulated Market of 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.

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

(g) The registered office address of the Seller is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE.

(h) Copies of the following documents may be inspected during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the registered office of the Issuer and the Specified Office of the Principal Paying Agent in London:

- (i) the Memorandum and Articles of Association of the Issuer; and
- (ii) the Trust Deed to constitute the Notes (including the forms of the Global Notes and Definitive Notes), the Mortgage Sale Agreement, the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, the Agency Agreement, the Collection Account Declaration of Trust, the Hedge Agreement, the Subordinated Loan Agreement, the Issue Services Fee Letter, the Corporate Services Letter, the VAT Declaration of Trust, the Cross-collateral Mortgage Rights Deed, the Cross-collateral Mortgage Rights Accession Deed, the Article 122 Deed of Covenant and the Tax Deed of Covenant.

(i) The Administrator on behalf of the Issuer will make available (i) post issuance information in relation to each Mortgage and (ii) post issuance transaction information in the form of monthly and quarterly investor reports via the following website: [www.paragon-group.co.uk](http://www.paragon-group.co.uk) and refer to 'bond investor reporting'. The website and the contents thereof do not form part of this

Prospectus. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Mortgages.

- (j) The monthly investor reports will contain information in respect of the Mortgage Portfolio as set out in the Administration Agreement in respect of the Mortgages.
- (k) The quarterly investor reports will contain information as set out in the Administration Agreement including, but not limited to information in respect of the Mortgages, details relating to any repurchases of Mortgages by the Seller pursuant to the Mortgage Sale Agreement and details with respect to the rates of interest, Note principal and interest payments and other payments by the Issuer.
- (l) The credit ratings included or referred to in this Prospectus have been issued by the Rating Agencies, each of which is established in the European Union and is registered in accordance with the CRA Regulation.
- (m) The Issuer confirms that the Mortgages backing the issue of the Notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. However, investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Consequently, investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.
- (n) Deloitte LLP has given and not withdrawn its written consent to the inclusion herein of its accountant's report in the form and context in which it is included and has authorised the content of that part of the Prospectus for the purposes of rule 5.5.4(f) of the Prospectus Rules made under Part VI of FSMA. The auditors of the Issuer have no material interest in the Issuer.

## GLOSSARY

The following terms used in this Prospectus are defined on the page numbers specified below:

### Defined Terms

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**ANNEX A**  
**HISTORIC FINANCIAL INFORMATION**  
**PARAGON MORTGAGES (NO. 17) PLC**  
**(Company Number 6356366)**

**BALANCE SHEETS AS AT 30 SEPTEMBER 2011 AND 30 SEPTEMBER 2010**

|                                       | <b>Note</b> | <b>2011<br/>£000</b> | <b>2010<br/>£000</b> |
|---------------------------------------|-------------|----------------------|----------------------|
| <b>CURRENT ASSETS</b>                 |             |                      |                      |
| Amounts owed by other group companies |             | 12                   | 12                   |
|                                       |             | <hr/>                | <hr/>                |
| <b>FINANCED BY</b>                    |             |                      |                      |
| <b>SHAREHOLDERS' FUNDS</b>            |             |                      |                      |
| Called-up share capital               | 2           | 12                   | 12                   |
|                                       |             | <hr/>                | <hr/>                |

**NOTES TO THE FINANCIAL INFORMATION:**

1. The financial information has been prepared in accordance with accounting practices generally accepted in the United Kingdom, adopting the historic cost convention.
2. The allotted share capital consists of two ordinary shares of £1 each called up and fully paid and 49,998 ordinary shares of £1 each, of which 25p is called up and paid.
3. The Company has not traded during the financial year and has received no income and incurred no expenditure. Consequently, during the year the Company has made neither a profit or a loss. There were no cash flows arising during either year and therefore no cash flow information has been presented.
4. The directors acknowledge their responsibility for:
  - i. ensuring the Company keeps accounting records which comply with section 386 of the Act: and
  - ii. preparing accounts which give a true and fair view of the state of affairs of the Company as at the end of its financial year, and of its profit and loss for the financial year in accordance with section 394 of the Act, and which otherwise comply with the requirements of the Act relating to accounts, so far as are applicable to the Company.
5. The Company's ultimate parent company and ultimate controlling party is The Paragon Group of Companies PLC, a company registered in England and Wales. This is the largest and smallest group of which the Company is a member and for which consolidated financial statements are drawn up. Copies of the Group's financial statements are available from the company's registered office at St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.
6. The Company has no subsidiaries and is not required to produce IFRS financials.

**ANNEX B**  
**ACCOUNTANTS REPORT**

The Board of Directors  
on behalf of Paragon Mortgages (No. 17) plc  
St Catherine's Court  
Herbert Road  
Solihull  
West Midlands  
B91 3QE

22 October 2012

Dear Sirs

**Paragon Mortgages (No. 17) plc**

We report on the financial information for the years ended 30 September 2010 and 30 September 2011 set out in Annex A of the prospectus dated 22 October 2012 of Paragon Mortgages (No.17) plc (the "Company" ) (the "Prospectus"). This financial information has been prepared for inclusion in the Prospectus on the basis of the accounting policies set out in note 1 to the financial information. This report is required by Annex VII item 8.2 BIS of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation)and is given for the purpose of complying with that requirement and for no other purpose.

**Responsibilities**

The Directors of the Company are responsible for preparing the financial information in accordance with UK Generally Accepted Accounting Principles ("UK GAAP").

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

Save for any responsibility arising under Prospectus Rule 5.5.4R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex VII item 9.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

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

**Opinion on financial information**

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Company as at 30 September 2010 and 30 September 2011 and of its results and cash flows for the years ended 30 September 2010 and 30 September 2011 in accordance with UK GAAP.

**Declaration**

For the purposes of Prospectus Rule 5.5.4R (2) (f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex VII item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

A handwritten signature in blue ink that reads "Deloitte LLP".

Deloitte LLP  
Chartered Accountants

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**Member of Deloitte Touche Tohmatsu Limited**

**REGISTERED OFFICE OF THE ISSUER**

**Paragon Mortgages (No.17) PLC**

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

**ADMINISTRATOR**

**Moorgate Asset Administration Limited**

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

**TRUSTEE**

**Citicorp Trustee Company Limited**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**REGISTRAR, REFERENCE AGENT, PRINCIPAL PAYING AGENT**

**Citibank, N.A., London Branch**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**LEGAL ADVISERS TO THE ISSUER AND THE ADMINISTRATOR**

*as to English law*

**Clifford Chance LLP**

10 Upper Bank Street  
Canary Wharf  
London E14 5JJ

**LEGAL ADVISERS TO THE MANAGERS**

*as to English law*

**Allen & Overy LLP**

One Bishops Square  
London E1 6AD

**LEGAL ADVISERS TO THE TRUSTEE**

*as to English law*

**Simmons & Simmons LLP**

CityPoint  
One Ropemaker Street  
London EC2Y 9SS

**AUDITORS TO THE ISSUER**

**Deloitte LLP**

Four Brindleyplace  
Birmingham B1 2HZ