

# Paragon Mortgages (No. 3) PLC

*(Incorporated with limited liability in England and Wales with registered number 2231301)*

**£306,000,000**

*Class A Mortgage Backed Floating Rate Notes Due 2031*

**Issue price: 100%**

**£34,000,000**

*Class B Mortgage Backed Floating Rate Notes Due 2043*

**Issue price: 100%**

The £306,000,000 Class A Mortgage Backed Floating Rate Notes Due 2031 of Paragon Mortgages (No. 3) PLC (the "Issuer") (the "Class A Notes") will be issued by the Issuer together with the £34,000,000 Class B Mortgage Backed Floating Rate Notes Due 2043 of the Issuer (the "Class B Notes") (the Class A Notes and the Class B Notes together being the "Notes").

Interest on the Notes will be payable in pounds sterling quarterly in arrear on 7th February, 7th May, 7th August and 7th November in each year subject to adjustment in the manner described in this Offering Circular (each date as so adjusted, an "Interest Payment Date"), the first interest payment being made on 7th August 2001. Interest on the Class B Notes will be paid on an Interest Payment Date only to the extent that there are funds available to the Issuer on the Principal Determination Date (as defined herein) applicable to such Interest Payment Date to pay interest on such Notes, as more particularly described herein. To the extent that such funds are insufficient to pay the full amount of interest on the Class B Notes on such Interest Payment Date, payment of the shortfall will be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such shortfall, on which Interest Payment Date payment of the shortfall will be made to the extent of such available funds. Such deferred interest will accrue interest at the rate of interest accruing on the Class B Notes from time to time. The interest rates applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate ("LIBOR") for three month sterling deposits (or, in the case of the first Interest Period, by reference to a linear interpolation between three month and four month sterling deposits), plus a margin which will differ for each class of Notes. The margins applicable to each class of Notes, and the Interest Periods (as defined herein) for which such margins apply, will be as set out below:

- (i) Class A Notes: 0.28% per annum up to and including the Interest Period ending in May 2007 and thereafter 0.56% per annum; and
- (ii) Class B Notes: 0.80% per annum up to and including the Interest Period ending in May 2007 and thereafter 1.60% per annum.

The first Interest Period is expected to commence on (and include) 27th April 2001 and end on (but exclude) 7th August 2001. Interest payments on the Notes will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor.

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

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

The Class A Notes are expected, on issue, to be assigned an Aaa rating by Moody's Investors Service Limited ("Moody's") and an AAA rating by Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc. ("Standard & Poor's" (and together with Moody's, the "Rating Agencies")). The Class B Notes are expected, on issue to be assigned an A2 rating by Moody's and an A rating by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

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

The Notes of each class will initially be represented by a Temporary Global Note (as defined in "Summary-Global Notes" below), without coupons or talons, which will be deposited with a common depository (the "Common Depository") for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme, Luxembourg ("Clearstream, Luxembourg") at the closing of the issues of the Notes (which is expected to be on 27th April 2001). The Temporary Global Note relating to each class of Notes will be exchangeable 40 days after the closing of the issues of the Notes (provided that certification of non-U.S. beneficial ownership has been received) for interests in a Permanent Global Note relating to the same class which will also be deposited with the Common Depository. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

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

## Managers

### Barclays Capital

**ING Barings/BBL**

**JPMorgan**

**SG Investment Banking**

**The Royal Bank of Scotland**

The date of this Offering Circular is 24th April 2001

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

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

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

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

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

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

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

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

## TABLE OF CONTENTS

	Page
Summary.....	4
Special Considerations .....	31
Credit Structure .....	37
The Luxembourg Loan.....	41
Description Of The Class A Notes, The Global Class A Notes And The Security.....	46
Description Of The Class B Notes, The Global Class B Notes And The Security .....	62
Use Of Proceeds .....	79
Ratings .....	79
The Issuer .....	80
Paragon Mortgages (No. 4) S.A. ....	89
The Paragon Vat Group .....	92
Lending Guidelines .....	99
Insurance Coverage.....	102
Historical Data Relating To Paragon Mortgages Limited's Mortgage Business .....	104
The Provisional Mortgage Pool .....	106
Mortgage Administration.....	112
United Kingdom Taxation.....	120
Subscription And Sale .....	122
General Information .....	124
Glossary Of Key Terms And Definitions.....	125

## SUMMARY

The information on the first page, page 2 and the information in this Summary relating to the Notes, the Issuer Mortgages, the PSA4 Mortgages and the Luxembourg Loan Agreement is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular.

This Offering Circular and the transactions described in it have been prepared on the basis of the existing laws of Scotland, England and Wales relating to withholding tax in force at its date and therefore contemplate that the Corporate Mortgages referred to below will be purchased by PSA4 to enable the borrowers to continue to make payments of interest without having to make a deduction for or on account of UK tax. However in a budget notice issued by the Inland Revenue on 7 March 2001, the Chancellor of the Exchequer announced a proposed change to such laws which, if implemented, would enable borrowers under the Corporate Mortgages to continue to make payments of interest without such deduction even if those Corporate Mortgages were purchased by the Issuer. If such change has become effective prior to 23rd April, 2001, the Issuer will not make the Initial PSA4 Advance but instead the Issuer will use that part of the proceeds of the Notes which it would otherwise have lent to PSA4 by way of the Initial PSA4 Advance to purchase the Corporate Mortgages. In these circumstances, the Luxembourg Loan Agreement and the Security Trust Deed would not be entered into and PSA4 and the Security Trustee will not become, or will cease to be, a party to the documents and transactions described in this Offering Circular.

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

<b>Issuer</b>	Paragon Mortgages (No. 3) PLC, a public company incorporated under the laws of England, registered number 2231301 and a subsidiary of The Paragon Group of Companies PLC (“PGC”). The ordinary shares of PGC are listed by the UK Listing Authority and traded on the London Stock Exchange.
<b>PFPLC</b>	Paragon Finance PLC (“PFPLC” or the “Administrator”), a public company incorporated under the laws of England and a wholly owned subsidiary of PGC.
<b>PML</b>	Paragon Mortgages Limited (“PML”), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC.
<b>PSA</b>	Paragon Mortgages S.A. (“PSA”), a company incorporated under the laws of Luxembourg and a wholly owned subsidiary of PGC.
<b>PSA4</b>	Paragon Mortgages (No. 4) S.A. (“PSA4”), a company incorporated under the laws of Luxembourg and a wholly owned subsidiary of PGC.
<b>PSFL</b>	Paragon Second Funding Limited (“PSFL”), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC.
<b>CMS5</b>	Collateralised Mortgage Securities (No. 5) PLC (“CMS5”), a public company incorporated under the laws of England and a wholly owned subsidiary of PGC.
<b>Mortgage Originator</b>	All of the Mortgages were, or will have been, originated by PML.
<b>Administrator</b>	PFPLC will be appointed to act as administrator of the Mortgages and to perform certain corporate, administrative and cash management services on behalf of the Issuer and PSA4.
<b>Trustee</b>	Citicorp Trustee Company Limited (the “Trustee”) will act as trustee for the Noteholders and will hold the benefit of the security created by the Issuer on trust for, <i>inter alios</i> , the Noteholders.
<b>Security Trustee</b>	If the Security Trust Deed is entered into, Citicorp Trustee Company Limited (the “Security Trustee”) will act as security trustee for the Issuer under the Security Trust Deed and will hold the benefit of the security created by PSA4 on trust for, among other persons, the Issuer.

## The Notes

£306,000,000 Class A Mortgage Backed Floating Rate Notes Due 2031 and £34,000,000 Class B Mortgage Backed Floating Rate Notes Due 2043.

**The Notes will be obligations of the Issuer. The Notes will not be obligations or the responsibility of any person other than the Issuer. The Notes will not be guaranteed by any person. In particular, the Notes will not be obligations or the responsibility of CMS5, PFPLC, PML, PGC, PSA4, any company in the same group of companies as PGC (other than the Issuer), the Trustee, the Security Trustee, any of the Managers or any other person other than the Issuer.**

**No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by CMS5, PFPLC, PML, PGC, PSA4, any company in the same group of companies as PGC (other than the Issuer), the Trustee, the Security Trustee, any of the Managers or by any other person other than the Issuer.**

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

## Interest

The interest rates applicable to the Notes from time to time will be determined by reference to LIBOR for three month sterling deposits (or, in the case of the first Interest Period, by reference to a linear interpolation between three month and four month sterling deposits) plus a margin which will differ for each class of Notes. The margins applicable to each class of Notes, and the Interest Periods for which such margins apply, will be as set out below:

Class A Notes: 0.28% per annum up to and including the Interest Period ending in May 2007 and thereafter 0.56% per annum; and

Class B Notes: 0.80% per annum up to and including the Interest Period ending in May 2007 and thereafter 1.60% per annum.

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

**To the extent that funds are insufficient to pay the interest otherwise due on the Class B Notes, the deficit will not then be paid but will only be paid on subsequent Interest Payment Dates if and when permitted by subsequent cashflow which is surplus to the Issuer's liabilities of a higher priority (see "Priority of Payments" below) on the relevant Interest Payment Date. Such shortfall will accrue interest during the time it remains unpaid.**

Interest is payable in respect of the Notes (provided certification of non-U.S. beneficial ownership by the Noteholders has been received) in pounds sterling quarterly in arrear on 7th February, 7th May, 7th August and 7th November in each year or, if any such day is either a Saturday or Sunday and/or is not a day on which banks are generally open for business in London (a "Business Day"), on the immediately succeeding Business Day, the first payment being made on 7th August 2001.

The first Interest Period will commence on (and include) the date of the closing of the issue of the Notes, which is expected to be 27th April 2001 or such later date as may be agreed between the Issuer and the Managers for each class of Notes (the "Closing Date"), and end on

(but exclude) 7th August 2001. Each subsequent Interest Period applicable to the Notes will commence on (and include) an Interest Payment Date and end on (but exclude) the next succeeding Interest Payment Date.

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

#### **Security for the Notes**

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

(i) the Issuer Mortgages (as defined in “The Issuer Mortgages” below) to be purchased by the Issuer (including any Non-Verified Mortgages and any PSA4 Mortgages purchased by the Issuer from PSA4 on the Option Completion Date) and mortgage indemnity insurance (if applicable) relating thereto;

(ii) various other insurance policies relating to the Issuer Mortgages in which the Issuer has an interest;

(iii) all of the Issuer’s right, title, interest and benefit, present and future in, to and under the Luxembourg Loan Agreement (if entered into) and the Security Trust Deed (if entered into);

(iv) the Issuer’s rights under the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Administration Agreement, the CMS5 Subordinated Loan Agreement, the Fee Letter, the Swap Agreement, the No. 1 Collection Account Declaration of Trust, the Caps (as defined in “Hedging Arrangements” below) and other hedging arrangements entered into by the Issuer, the Substitute Administrator Agreement and the VAT Declaration of Trust;

(v) any investments in which the Issuer may place any cash which it owns; and

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

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

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

Certain other amounts will also have the benefit of the security interests referred to above, including the amounts owing to the Trustee and any receiver, any amounts payable to Global Home Loans Limited (the “Substitute Administrator”) in its capacity as administrator of last resort under the Substitute Administrator Agreement, any amounts payable to the Swap Counterparty (as defined below) under the Swap Agreement, the fees and expenses of, and commissions payable to, and all other amounts owing to, the

Administrator and/or any substitute administrator, all amounts owing to PFPLC and PML under, among other things, the UK Mortgage Sale Agreement, the Fee Letter and the Services Letter (as defined in “The Issuer” below) and amounts owing to CMS5 under the CMS5 Subordinated Loan Agreement referred to below.

#### **Use of Ledgers-the Issuer**

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

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

- (i) all principal amounts received from borrowers in respect of the Issuer Mortgages or otherwise paid or recovered in respect of the Issuer Mortgages; and
- (ii) all amounts of principal received by the Issuer from PSA4 pursuant to the Luxembourg Loan Agreement (if entered into).

The Administrator will be required to credit all other amounts received by the Issuer to the Issuer Revenue Ledger (apart from (i) drawings under the CMS5 Subordinated Loan Agreement which are to be used for the purposes of establishing or increasing the First Loss Fund and the Shortfall Fund referred to below; (ii) drawings under the CMS5 Subordinated Loan Agreement in order to restore to zero the Principal Deficiency Ledger and thus to enable the Issuer to make any Discretionary Further Advances in respect of Issuer Mortgages or, if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date, to fund any Additional PSA4 Advances under the Luxembourg Loan Agreement, to enable PSA4 to make any Discretionary Further Advances in respect of PSA4 Mortgages, which drawings will not form part of the priority of payments prior to enforcement of the security constituted by the Deed of Charge (see “Priority of Payments – prior to Enforcement” below) but will be credited directly to the Principal Deficiency Ledger (as defined below) and will be deemed to be principal received for the purposes of calculating Available Redemption Funds (as defined below); and (iii) drawings under the CMS5 Subordinated Loan Agreement in order to fund the Issuer in making any Discretionary Further Advances in respect of Issuer Mortgages or, if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date, to fund the Issuer in making any Additional PSA4 Advances under the Luxembourg Loan Agreement, to enable PSA4 to make any Discretionary Further Advances in respect of PSA4 Mortgages, each of which will be credited to the Issuer Principal Ledger).

The Administrator will also be required to maintain a “Principal Deficiency Ledger” to which will be debited amounts representing principal losses incurred on the Issuer Mortgages and the PSA4 Mortgages and principal receipts which are applied in paying interest on the Class A Notes, in paying amounts (other than Swap Termination Amounts and Withholding Compensation Amounts) under the Swap Agreement or other hedging arrangements entered into by the Issuer and in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Issuer Mortgages.

#### **Use of Ledgers-PSA4**

If and for so long as PSA4 is the beneficial owner of the PSA4 Mortgages, the Administrator will also be required to maintain in the books of PSA4 certain ledgers, which shall include the PSA4 Revenue Ledger and the PSA4 Principal Ledger. These Ledgers shall together

**Priority of Payments-prior to Enforcement**

reflect all amounts from time to time held by PSA4 or the Security Trustee on behalf of PSA4, and shall include amounts standing to the credit of the PSA4 Transaction Account. The Administrator shall also maintain a record, which shall reflect the principal amount from time to time owing under the Luxembourg Loan Agreement to the Issuer.

Moneys in the Issuer's Transaction Account representing the credit balance on the Issuer Revenue Ledger will be applied from time to time (including on an Interest Payment Date) in making payment of certain moneys which properly belong to third parties (such as overpayments by borrowers) and of sums due to third parties under obligations incurred in the course of the Issuer's business and in making certain provisions. In addition, if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date, such moneys will also be applied in making payment of sums due to third parties under obligations incurred in the course of PSA4's business, such sums being paid by the Issuer on behalf of PSA4 (save that the Issuer shall cease to be liable for payment of sums attributable to PSA4's business incurred after the Option Completion Date, save to the extent directly attributable to the exercise of the Luxembourg Call Option).

Until enforcement of the security for the Notes, the following payments and provisions are required to be made out of such moneys standing to the credit of the Issuer Revenue Ledger on each Interest Payment Date in the following order of priority (in each case only if and to the extent that payments and provisions of a higher priority have been made in full):

(i) *pro rata* according to the respective amounts thereof, payment of amounts payable by the Issuer to the Trustee (if any), payment of amounts payable by the Issuer to the Security Trustee which were due up to the Option Completion Date and payment of amounts payable by the Issuer to the Substitute Administrator pursuant to the Substitute Administrator Agreement (other than the commitment fee referred to therein);

(ii) *pro rata* according to the respective amounts thereof, payment of all fees, costs, expenses and commissions payable to the Administrator and/or PML and/or any substitute administrator under the Administration Agreement and the commitment fee payable to the Substitute Administrator pursuant to the Substitute Administrator Agreement;

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

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

(v) *pro rata* according to the respective amounts thereof, payment of sums due to third parties under obligations incurred in the course of the Issuer's and/or (but, in this case, only if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and on or prior to the Option Completion Date or where directly attributable to the exercise of the Luxembourg Call Option) PSA4's business and provision for and payment of the Issuer's and (but, in this case, only if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and on or prior to the Option Completion Date or



where directly attributable to the exercise of the Luxembourg Call Option) PSA4's liability (if any) to value added tax and to corporation tax and/or the balance, if any, of the VAT liability of the Paragon VAT Group following a demand being made by H.M. Customs & Excise on the Issuer where the VAT liability is not satisfied in full in accordance with the Deed of Charge, the Administration Agreement and the VAT Declaration of Trust (see "The Paragon VAT Group" below);

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

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

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

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

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

(xi) provision for interest due under the CMS5 Subordinated Loan Agreement;

(xii) provision for the repayment of the outstanding amount of any advances made under the CMS5 Subordinated Loan Agreement, subject to a maximum provision of the lesser of (a) the aggregate of (i) any amounts utilised to establish or increase the Shortfall Fund (as defined in "Shortfall Fund" below), (ii) any amount in excess of the Required Amount released from the First Loss Fund and (iii) any amounts utilised to reduce the Principal Deficiency Ledger to zero; and (b) the amount available for application having made in full all provisions and payments referred to at (i) to (xi) above;

(xiii) provision for payment to the Administrator or PFPLC of such fees as the Issuer and the Administrator or PFPLC, as the case may be, may agree (including, without limitation, in the Services Letter) in respect of facilities or services provided to the Issuer and/or (if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date or where directly attributable to the exercise of the Luxembourg Call Option) PSA4 by the Administrator or PFPLC, as the case may be, other than fees provided for above;

(xiv) after the Notes have been redeemed in full, repayment and payment of all principal and interest due and payable to PSA4 (or any assignee of PSA4 who has become a party to the Deed of Charge referred to below) in respect of the 0.125 per cent. Amount Loan, if any; and

(xv) the balance to the Issuer to enable it to pay or provide for the payment of any dividends or other distributions to be made by the Issuer,

all as set out in a deed of sub-charge and assignment to be entered into between, among other persons, the Issuer, the Trustee, the Security Trustee, PFPLC, PML, PSA4, CMS5, the Administrator, the Swap Counterparty and the Substitute Administrator (the “Deed of Charge”).

If and to the extent that the provisions specified in paragraphs (x), (xi), (xii) and (xiii) are made on such Interest Payment Date, the relevant amounts shall be paid to the persons entitled thereto on or after the first Business Day after such Interest Payment Date to the extent that the amounts credited to the Issuer Revenue Ledger are sufficient for such purpose.

If on any Interest Payment Date, while any Class A Note remains outstanding, application of moneys in the Issuer’s Transaction Account representing a credit balance on the Issuer Revenue Ledger in the order set out above would result in the sum of: -

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

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

exceeding the sum of: -

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

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

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

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

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

#### **Priority of Payments-post-enforcement**

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

(i) (a) remuneration payable to any receiver appointed under the Deed of Charge and/or the Security Trust Deed (if entered into) and any costs, charges, liabilities and expenses incurred by such receiver together with interest as provided in the Deed of Charge or the Security Trust Deed (if entered into) (as appropriate); (b) amounts due from the Issuer to the Trustee and/or the Security Trustee, together with interest thereon as provided in the Deed of Charge or the Security Trust Deed (if entered into) (as appropriate); and (c) amounts due from the Trustee to borrowers relating to Mandatory Further Advances in respect of the Issuer Mortgages or (if the Luxembourg

Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date) due from the Trustee to the Security Trustee in relation to advancing moneys in accordance with the terms of the Luxembourg Loan Agreement in order to permit the Security Trustee to fund Mandatory Further Advances in respect of the PSA4 Mortgages;

(ii) certain fees and out-of-pocket expenses and commissions of the Administrator, certain commissions previously received by the Issuer which have not previously been paid to PML, and all moneys due and payable under the Substitute Administrator Agreement (including the commitment fee payable to the Substitute Administrator);

(iii) (a) all amounts due and payable by the Issuer to the Swap Counterparty or to any Permitted Hedge Provider (other than any Withholding Compensation Amounts and any Swap Termination Amounts), (b) all interest unpaid in respect of the Class A Notes (together with any unpaid interest thereon), (c) all principal moneys due in respect of the Class A Notes and (d) any other amounts due in respect of the Class A Notes;

(iv) (a) all interest in respect of the Class B Notes (together with any unpaid interest thereon), (b) all principal moneys due in respect of the Class B Notes and (c) any other amounts due in respect of the Class B Notes;

(v) any Withholding Compensation Amounts and any Swap Termination Amounts due and payable by the Issuer to the Swap Counterparty or to any Permitted Hedge Provider;

(vi) all amounts due and payable by the Issuer (a) to CMS5 under the CMS5 Subordinated Loan Agreement, (b) to PFPLC under the Fee Letter, the Services Letter and the Deed of Charge, (c) to PML under the UK Mortgage Sale Agreement, the Administration Agreement, the Fee Letter and the Deed of Charge, (d) to any other lender under the CMS5 Subordinated Loan Agreement and (e) to PSA4 (or any assignee of PSA4 who has become a party to the Deed of Charge) under the Luxembourg Loan Agreement (if any); and

(vii) the surplus (if any) to the Issuer.

#### **Mandatory Redemption in Part**

Prior to enforcement, the Notes will be subject to mandatory redemption in part on each Interest Payment Date in an aggregate principal amount calculated by reference to the Available Redemption Funds as determined on the last Business Day of the month preceding that in which such Interest Payment Date falls (each such Business Day, a "Principal Determination Date").

Up to and including the later of the Interest Payment Date falling in May 2006 and the Interest Payment Date on which the ratio of the aggregate Principal Amount Outstanding of the Class B Notes to the aggregate Principal Amounts Outstanding of the Notes is 68:340 or more (such circumstance constituting the "Determination Event"), all Available Redemption Funds will be applied in mandatory redemption of the Class A Notes.

After the occurrence of the Determination Event, on each Interest Payment Date, provided that on the immediately preceding Principal Determination Date (a) there is a balance of zero on the Principal Deficiency Ledger and (b) the then outstanding balance, including arrears of interest and all other sums due but unpaid (the "Current Balance") of Mortgages which are more than three months in arrears represents less than 10% of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in

aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised within the 12 months immediately preceding such time), Available Redemption Funds will be applied in *pro rata* redemption of the Class A Notes and the Class B Notes, where the Class A Notes have not been redeemed in full, so as to achieve and then maintain the ratio referred to in the preceding paragraph provided that:

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

(ii) while any Class A Note remains outstanding, the aggregate Principal Amount Outstanding of the Class B Notes may not be less than £16,000,000.

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

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

(a) the aggregate of:

(i) the sum of (1) all principal received or recovered in respect of the Issuer Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on repurchase or purchase of any Issuer Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Arrears and Accruals relating thereto but excluding any such amount which under the UK Mortgage Sale Agreement or the Luxembourg Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger, thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the “relevant Collection Period”) and (2) any amounts of principal to be repaid or prepaid by PSA4 under the Luxembourg Loan Agreement (if entered into) (other than principal received or to be received from PSA4 which under the terms of the Luxembourg Loan Agreement or the Administration Agreement is excluded from the definition of principal for the purposes of this definition) on the next following Interest Payment Date as determined on the Principal Determination Date on which such calculation occurs;

(ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Notes on issue, and (b) the amount drawn down on the Closing Date by the Issuer under the CMS5 Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid by the Issuer to PML by way of purchase price for the Issuer Mortgages purchased by the Issuer on the Closing Date in accordance with the UK Mortgage Sale Agreement or the Luxembourg Mortgage Sale Agreement (b) the aggregate principal amount advanced on the Closing Date by the Issuer to PSA4 under the Luxembourg Loan Agreement, (c) the amount applied to establish the First Loss Fund on the Closing Date and (d) amounts debited from the Pre-Funding Reserve Ledger up to and including the first Principal Determination Date;

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

(iv) any part of the amount deducted pursuant to (b)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances in respect of the Issuer Mortgages or (if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date) in making Additional PSA4 Advances or in paying interest on the Class A Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer in each case on or prior to the preceding Interest Payment Date;

less

(b) the aggregate of:

(i) the aggregate principal amount of Discretionary Further Advances in respect of the Issuer Mortgages made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the CMS5 Subordinated Loan Agreement;

(ii) the aggregate principal amount of Mandatory Further Advances in respect of Issuer Mortgages made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the CMS5 Subordinated Loan Agreement;

(iii) (if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date) the aggregate principal amount of Additional PSA4 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 CMS5 Subordinated Loan Agreement;

(iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on that Interest Payment Date; and

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

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

#### **Optional Redemption of Class A Notes**

In the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class A Notes, or in the event that the Issuer or the Swap Counterparty is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under the Swap Agreement, or in the event of certain other United Kingdom taxation changes then, provided that all the Class B Notes are to be redeemed in full at the

same time, all (but not some only) of the Class A Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date. The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction save that the Issuer has agreed under the Swap Agreement that it will, subject to and in accordance with the agreed order of priority of payments referred to under “Priority of Payments-prior to enforcement” above, pay Withholding Compensation Amounts to the Swap Counterparty (see “The Issuer-Hedging Arrangements”). Furthermore, the Issuer will also be entitled, but not obliged, to redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling on or after May 2004 provided that all the Class B Notes are to be redeemed in full at the same time.

All (but not some only) of the Class A Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes then outstanding is less than £68,000,000 provided that all the Class B Notes are to be redeemed in full at the same time.

**Optional Redemption of Class B Notes**

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

Provided that there are no Class A Notes then outstanding or all the Class A Notes are to be redeemed in full at the same time, all (but not some only) of the Class B Notes may, at the option of the Issuer, be redeemed in full at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling on or after May 2004 or, if the Class A Notes have already been redeemed in full, on any Interest Payment Date falling on or after the date on which all the Class A Notes were redeemed in full.

**Purchase of Notes**

The Issuer may not purchase Notes at any time.

**Final Redemption**

To the extent not otherwise redeemed, (i) the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in August 2031, and (ii) the Class B Notes will be redeemed at their Principal Amount Outstanding (less the amount by which the Principal Deficiency exceeds the then balance of the First Loss Fund) on the Interest Payment Date falling in August 2043.

**Principal Amount Outstanding and Pool Factor**

The Principal Amount Outstanding of a Note, irrespective of class, will be its initial principal amount of £10,000 less the aggregate amount of the principal repayments that have been made or fallen due

(whether or not paid) on that Note. The Pool Factor for each Note during an Interest Period will be determined by dividing the Principal Amount Outstanding of such Note on the first day of that Interest Period (after deducting any principal repayment due on that day) by 10,000 and expressing the quotient to the sixth decimal place.

The Issuer will cause the Administrator to determine the Principal Amount Outstanding and the Pool Factor for each Note for each Interest Period and such determination will be published on the Reuters Screen by not later than the fifth Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date, or as soon as practicable thereafter.

#### **The Issuer Mortgages**

The mortgages, the beneficial interest in which will be acquired by the Issuer (including any Mortgages to be purchased by the Issuer from PSA4 pursuant to the Luxembourg Call Option) and which will form part of the security for the Notes (the “Issuer Mortgages”), will comprise mortgages which were originated by PML and in respect of which PML remains the legal owner. The borrowers in respect of the Issuer Mortgages are either individuals or, if sold pursuant to the Luxembourg Mortgage Sale Agreement or pursuant to the Luxembourg Call Option, limited liability companies incorporated in England and Wales or Scotland.

The Issuer Mortgages will be acquired by the Issuer pursuant to any of: (i) a mortgage sale agreement to be dated on or before the Closing Date, between the Issuer, PML, the Trustee and PSFL (the “UK Mortgage Sale Agreement”) or (ii) the Luxembourg Mortgage Sale Agreement or (iii) the exercise of the call option (the “Luxembourg Call Option”) contained in the Luxembourg Loan Agreement which entitles the Issuer to purchase from PSA4 the PSA4 Mortgages following the occurrence of the Luxembourg Tax Trigger Event (see “The Luxembourg Call Option” below). Under the UK Mortgage Sale Agreement and, after the Luxembourg Tax Trigger Event, the Luxembourg Mortgage Sale Agreement, the Issuer may purchase Non-Verified Mortgages from PML at any time up to and including the first Principal Determination Date in accordance with, and to the extent permitted by, the UK Mortgage Sale Agreement and the Luxembourg Mortgage Sale Agreement and the Administration Agreement, provided that there is a sufficient credit balance on the Pre-Funding Reserve Ledger, and that the other conditions precedent to such further purchase set out in the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement and the Administration Agreement have been met.

#### **The PSA4 Mortgages**

The mortgages, the beneficial interest in which will be acquired by PSA4 (i) on the Closing Date (if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001) and (ii) thereafter, from the Closing Date until the earlier of the occurrence of the Luxembourg Tax Trigger Event and the first Principal Determination Date, and which in each case will form part of the security for the Luxembourg Loan Agreement (if entered into) (the “PSA4 Mortgages”), will comprise mortgages which were originated by PML and in respect of which PML remains the legal owner. The borrowers in respect of the PSA4 Mortgages are limited liability companies incorporated in England and Wales or Scotland (such mortgages, “Corporate Mortgages”).

The PSA4 Mortgages will be acquired pursuant to a mortgage sale agreement to be dated on or before the Closing Date between the Issuer, PML, PSA, PSA4 and the Security Trustee (the “Luxembourg Mortgage Sale Agreement”). In addition, prior to the Luxembourg Tax Trigger Event, PSA4 may purchase Non-Verified Mortgages from

PML at any time up to and including the first Principal Determination Date in accordance with, and to the extent permitted by, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement and the Administration Agreement, in which event the Issuer will make a Non-Verified Mortgage Advance to fund such purchase, as described below in “The Luxembourg Loan Agreement”.

If the Luxembourg Tax Trigger Event has occurred before 23rd April 2001, the purchaser under the Luxembourg Mortgage Sale Agreement will be the Issuer rather than PSA4 and PSA4 will not obtain or incur any rights or obligations under the Luxembourg Mortgage Sale Agreement.

#### **The Luxembourg Loan Agreement**

Part of the issue proceeds of the Notes, subject to the satisfaction of certain conditions precedent and provided that the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001, will be applied by the Issuer in making a term advance to PSA4 (the “Initial PSA4 Advance”) pursuant to the terms of a loan agreement to be entered into on the Closing Date between, among other persons, the Issuer, PSA4, the Trustee and the Security Trustee (the “Luxembourg Loan Agreement”).

If the Initial PSA4 Advance is to be made by the Issuer to PSA4 on the Closing Date, it will be made in an amount sufficient to enable PSA4 to purchase the PSA4 Mortgages, and will be applied by PSA4 solely for the purpose of purchasing the PSA4 Mortgages from PML on the Closing Date. Unless the Luxembourg Tax Trigger Event has occurred, PSA4 may purchase Non-Verified Mortgages at any time, and from time to time, up to and including the first Principal Determination Date in accordance with, and to the extent permitted by, the Luxembourg Mortgage Sale Agreement and the Administration Agreement, in which event PSA4, at such time, will request further drawdowns under the Luxembourg Loan Agreement in an aggregate principal amount not exceeding the credit balance in the Pre-Funding Reserve Ledger as at the date of such request. Upon such requests, the Issuer will agree, subject to the satisfaction of certain conditions precedent, to make further advances to PSA4 (the “Non-Verified Mortgage Advances”) to fund the purchase by PSA4 of such Non-Verified Mortgages.

In addition, under the terms of the Luxembourg Loan Agreement, the Issuer will agree, subject to certain conditions, to make further advances available to PSA4 (the “Additional PSA4 Advances”) prior to the Option Completion Date to enable PSA4 to make any further advances to borrowers under the PSA4 Mortgages if and to the extent that PSA4 is permitted to do so under the terms of the Administration Agreement.

As security for, among other things, its obligations under the Luxembourg Loan Agreement, PSA4 will enter into a security trust deed (the “Security Trust Deed”) pursuant to which it will create in favour of the Security Trustee for the benefit of, among other persons, the Security Trustee and the Issuer first ranking security interests over:-

- (i) PSA4’s right, title and interest in the PSA4 Mortgages and certain insurances relating thereto in which PSA4 has an interest;
- (ii) PSA4’s rights under the Luxembourg Loan Agreement, the Luxembourg Mortgage Sale Agreement, the Administration Agreement, the Substitute Administrator Agreement and the No. 2 Collection Account Declaration of Trust;



(iii) PSA4's rights to all moneys standing to the credit of the bank account of PSA4 with National Westminster Bank Plc at its branch at 4 High Street, Solihull, West Midlands B91 3WL (or such other bank as PSA4, subject to certain restrictions and with the consent of the Security Trustee, may from time to time select for such purpose) into and out of which all payments to and by PSA4 will be made (the "PSA4 Transaction Account") and any other bank accounts in which PSA4 has an interest; and

(iv) any investments in which PSA4 may place any cash which it owns.

These security interests will be fixed except in relation to certain investments and moneys standing to the credit of such bank accounts over which the security may be by way of floating charge (thus ranking behind claims of certain creditors preferred by law). In addition the Luxembourg Loan Agreement will be secured by a floating charge over all the assets and undertaking of PSA4 other than those covered by fixed security (but extending to all of PSA4's Scottish assets, including those covered by the fixed security).

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

If the Luxembourg Tax Trigger Event has occurred prior to 23rd April 2001, the Luxembourg Loan Agreement and the Security Trust Deed will not be entered into.

#### **Luxembourg Call Option**

Following the budget statement of the Chancellor of the Exchequer on 7 March 2001, it is expected that a Finance Bill will be introduced to the House of Commons making provision to entitle a corporate borrower to make payments of interest to its mortgage lender free of UK withholding tax if that mortgage lender is itself a company within the charge to UK corporation tax (the granting of Royal Assent for the enactment of such provision being the "Luxembourg Tax Trigger Event"). If the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001, PSA4 will purchase the PSA4 Mortgages and PSA4 will enter into the Luxembourg Loan Agreement, pursuant to which it will grant the Luxembourg Call Option to the Issuer entitling the Issuer to purchase the PSA4 Mortgages from PSA4 on any Interest Payment Date following the Luxembourg Tax Trigger Event. Upon exercise of the Luxembourg Call Option, the PSA4 Mortgages will be purchased by the Issuer for a consideration equal to the total principal amount then outstanding of the Luxembourg Loan together with, to the extent applicable, all interest and other amounts accrued thereunder (whether or not due). With effect from the completion of the purchase of the PSA4 Mortgages by the Issuer, which must take place on an Interest Payment Date (the "Option Completion Date"), the PSA4 Mortgages will thereafter become Issuer Mortgages and arrangements will be put in place to ensure that the PSA4 Mortgages and the monies attributable to the PSA4 Mortgages will, following their transfer to the Issuer, be secured under or pursuant to the Deed of Charge in the same manner as all other Issuer Mortgages.

#### **Location of the properties secured by the Issuer Mortgages and the PSA4 Mortgages**

The Issuer Mortgages and the PSA4 Mortgages (if any) (together, the "Mortgages" and collectively the "Mortgage Pool") are, or will be, secured by charges (the "English Mortgages") over freehold or leasehold residential properties located in England or Wales (the "English Properties") or by standard securities (the "Scottish Mortgages") over feudal or long leasehold residential properties located in Scotland (the "Scottish Properties" and, together with the English Properties, the "Properties").

Mortgages purchased by the Issuer or PSA4 may be mortgages which have been originated subsequent to the Provisional Pool Date (as defined in “The Provisional Mortgage Pool” below) and on or prior to the first Principal Determination Date.

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

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

As at the Closing Date (or, in the case of a Non-Verified Mortgage, on the date of purchase by the Issuer or PSA4, as the case may be), there will be Mortgages which are to be sold to the Issuer or PSA4 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 comprised £1,271,395.43 by aggregate principal balance of the Provisional Mortgage Pool (as defined under “Selection of Mortgages” below). Any arrears of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) in respect of any Issuer Mortgage other than an Arrears Mortgage (“Retained Pre-Closing Accruals and Arrears”) will not be purchased by the Issuer, and any payments received in respect of such Issuer Mortgage after the date of its purchase will be applied first to those arrears, other amounts and accrued interest and will be accounted for to PML.

The maximum aggregate principal amount of Arrears Mortgages which may be purchased by the Issuer and/or PSA4 (whether at or after Closing Date) (when aggregated with any other Arrears Mortgages previously purchased) is £3,000,000 at the time of purchase.

Any arrears of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) in respect of any PSA4 Mortgage and any Issuer Mortgage which is an Arrears Mortgage (together, the “Purchased Pre-Closing Accruals and Arrears”) will be purchased by PSA4 and the Issuer, respectively. Any amount received by the Administrator representing Purchased Pre-Closing Accruals and Arrears will be treated as principal moneys received by the Issuer or PSA4, as applicable.

#### **Selection of Mortgages**

The majority of the Mortgages will be selected from a larger pool of mortgages to which the statistical and other information contained in this Offering Circular relates (see “The Provisional Mortgage Pool” below) but Mortgages not included in the Provisional Mortgage Pool may also be purchased by the Issuer, or (if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001) PSA4, as the case may be on the Closing Date and at any time on or prior to the first Principal Determination Date. Mortgages purchased by the Issuer or PSA4, as the case may be, after the Closing Date but on or prior to the first Principal Determination Date (the “Non-Verified Mortgages”) must meet the criteria specified in the section “Pre-Funding Reserve” below.

All of the Mortgages to be purchased by the Issuer or PSA4, as the case may be, will have had original maturities of no more than 28 years save for certain Mortgages with a combined maximum principal amount outstanding of £10,000,000 which will have had original maturities of up to 40 years. The Corporate Mortgages to be purchased by PSA4 or, if applicable, the Issuer at any time up to and including the first Principal Determination Date will have an aggregate outstanding principal amount of not more than

£60,000,000. Principal payments may be made in whole or in part at any time during the term of a Mortgage at the option of the relevant borrower. Any such payments received by the Issuer in respect of an Issuer Mortgage (whether or not scheduled) will form part of the moneys included in the calculation of Available Redemption Funds. Any such payments received by PSA4 in respect of a PSA4 Mortgage (whether or not scheduled) will form part of the moneys included in the calculation of Available Loan Redemption Funds under the Luxembourg Loan Agreement (if entered into) and, to the extent that such moneys are therefore paid into the Issuer's Transaction Account pursuant to the terms of the Luxembourg Loan Agreement and the Administration Agreement, and accordingly credited to the Issuer Principal Ledger, will thus form part of the moneys included in the calculation of Available Redemption Funds. The calculation of Available Redemption Funds also includes deductions from the foregoing amounts to the extent of Permitted Mandatory Further Advances or Discretionary Further Advances.

All of the Mortgages in the Mortgage Pool will comprise Standard Mortgages, Fixed Rate Mortgages, LIBOR-Linked Mortgages and/or Capped Rate Mortgages (see "The Mortgages" below) which met certain lending criteria (see "Lending Guidelines" below) at the time of origination by PML. The Issuer will have the benefit of warranties given by PML in relation to the Issuer Mortgages, and PSA4 will (to the extent that it actually acquires any Mortgages from PML pursuant to the Luxembourg Mortgage Sale Agreement) have the benefit of warranties given by PML in relation to the PSA4 Mortgages (the benefit of which will be assigned by PSA4 to the Issuer on the Option Completion Date). PML will be required to purchase, any Issuer Mortgage or PSA4 Mortgage sold by it in relation to which there is a material breach of warranty.

#### **Pre-Funding Reserve**

On the Closing Date the Issuer will credit an amount to the Transaction Account, crediting a ledger (the "Pre-Funding Reserve Ledger"), which will equal the balance of the gross proceeds of the issue of the Notes and the drawing under the CMS5 Subordinated Loan Agreement which is not applied on the Closing Date in purchasing Issuer Mortgages or in making the Initial PSA4 Advance (if any) or in establishing the First Loss Fund (the "Pre-Funding Reserve").

It is expected that the Pre-Funding Reserve, as at the Closing Date, will be approximately £60,000,000.

The Issuer will only be entitled to apply such amount in purchasing Non-Verified Mortgages and/or, as applicable, in making a Non-Verified Mortgage Advance (which, in turn, will fund the purchase of Non-Verified Mortgages by PSA4) at any time up to and including the first Principal Determination Date if and to the extent that the Issuer or PSA4, as the case may be, is permitted to do so by, and in accordance with, the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement (if entered into) and the Administration Agreement. In particular, any such purchase of Non-Verified Mortgages by the Issuer or PSA4, as the case may be, will be subject to:

- (i) the confirmation of the Rating Agencies that such purchase will not adversely affect any of the then current ratings of the Notes;
- (ii) the satisfaction as at the date of such purchase of those conditions precedent which were required in respect of the purchase of similar Mortgages as at the Closing Date;

(iii) the Non-Verified Mortgages meeting the same lending criteria as those which applied to similar Mortgages purchased on the Closing Date;

(iv) no Enforcement Notice having been served and there being no existing event of default under the Notes;

(v) the provision, by each of the Issuer, PML, PSA4, PSFA and PSA, as applicable having regard to the identity of the seller thereof, of solvency certificates, each dated the date of such purchase, signed by an authorised officer of the relevant company;

(vi) the amounts outstanding under the Luxembourg Loan Agreement (if entered into) not having been accelerated following a default and there being no existing event of default under the Luxembourg Loan Agreement;

(vii) there being no existing termination event in relation to the Administrator under the Administration Agreement; and

(viii) in the case of PSA4, such purchase being completed prior to the earlier of the Luxembourg Tax Trigger Event and the Option Completion Date.

PML and PFPLC (in its capacity as administrator) must provide a certificate to the Trustee and the Security Trustee dated the date of such purchase of any Non-Verified Mortgages, to the effect that, among other things, the conditions precedent listed in items (i) to (viii) above in this paragraph, and such other conditions precedent as are specified in the Administration Agreement have been satisfied as at the date of such certificate. In addition, PML will be required, pursuant to the terms of the UK Mortgage Sale Agreement and the Luxembourg Mortgage Sale Agreement respectively, to make, as at the date of purchase, the same representations and warranties (including a warranty that at least one payment in respect of each Mortgage has fallen due and that the full amount of such payment was received) in respect of any purchases of Non-Verified Mortgages which PML gave as at the Closing Date in relation to the similar Mortgages purchased on such date.

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

**Further Advances in respect of the Mortgages**

Each further advance in respect of a Mortgage made to complete any part of the original advance retained pending completion of construction or refurbishment is referred to as a “Mandatory Further Advance”. Any further advance other than a Mandatory Further Advance is referred to as a “Discretionary Further Advance”.

Subject to the satisfaction of certain conditions, the Issuer may make or fund Discretionary Further Advances on the Issuer Mortgages, and/or, as applicable, PSA4 may make or fund Discretionary Further Advances on the PSA4 Mortgages, provided in each case that there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date and provided that the sum of (i) all Discretionary Further Advances in respect of both Issuer Mortgages and PSA4 Mortgages (other than by way of capitalisation of arrears) and (ii) all Mandatory Further Advances in respect of both Issuer Mortgages and PSA4 Mortgages which have been made or funded or which may be required to be made or funded on or after the making or funding of any such Discretionary Further Advance which,

in each such case has been funded by the Issuer and PSA4 out of principal received or recovered or deemed to have been received or recovered in respect of the Issuer Mortgages and the PSA4 Mortgages, does not, at the date of the relevant Discretionary Further Advance, exceed a combined aggregate cumulative limit of £50,000,000.

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

#### **Conversion of Mortgages**

Any Mortgage may, subject to certain conditions, be converted into a different type of mortgage (a "Converted Mortgage"). Accordingly, any Converted Mortgage may differ from the Mortgages described under "The Mortgages" below.

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

#### **Receipt of Moneys in respect of Mortgages**

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages will be paid into a PML collection account. All moneys received in respect of the Issuer Mortgages will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account, and, prior to the Option Completion Date, all moneys received in respect of the PSA4 Mortgages will be transferred on the next following Business Day, or as soon as practicable thereafter, to the PSA4 Transaction Account.

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

Under the No. 2 Collection Account Declaration of Trust, PML will declare that all direct debit payments made by borrowers under the PSA4 Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any PSA4 Mortgages and certain other sums in respect of the PSA4 Mortgages which are credited to its collection account are held on trust for PSA4 or, if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and on and with effect from the Option Completion Date, the Issuer until they are applied to the PSA4 Transaction Account or, on and with effect from the Option Completion Date, the Transaction Account also in the manner described above.

#### **Mortgage Administration**

Pursuant to an agreement to be entered into between PFPLC, PML, PSA4, the Issuer, the Trustee and the Security Trustee (the "Administration Agreement"), PFPLC will administer the Issuer Mortgages on behalf of the Issuer and, until the Option Completion Date, the PSA4 Mortgages on behalf of PSA4 or, on and with effect from the Option Completion Date, the Issuer. The Administrator will set the rates of interest applicable to the Mortgages (where relevant).

The Administrator will receive, in priority to payments of interest on the Notes, an annual fee of not more than 0.30% (inclusive of VAT) on the aggregate interest charging balance of the outstanding Mortgages, payable quarterly in arrear solely by the Issuer. Any substitute administrator appointed (other than as administrator of last resort) would receive a fee consistent with that commonly charged at that time for the provision of mortgage administration services. Pursuant to an agreement to be entered into on the Closing Date with the Substitute Administrator (the "Substitute Administrator Agreement"), the Substitute Administrator will agree to be administrator of last resort and, in the event that it became the administrator, an annual fee of 0.30% (exclusive of VAT) on the aggregate interest charging balances of the Mortgages payable quarterly in arrear on each Interest Payment Date would be payable solely by the Issuer.

Under the Administration Agreement, the Administrator is given the duty, on behalf of the Issuer, PSA4, the Trustee and the Security Trustee, of taking all reasonable steps to recover sums due to the Issuer and/or PSA4, as the case may be, including under the Issuer Mortgages and/or the PSA4 Mortgages, respectively, and in respect of the Issuer's, PSA4's, the Trustee's and the Security Trustee's rights in the insurance policies referred to below.

If the Luxembourg Tax Trigger Event occurs prior to 23rd April 2001 PSA4 will obtain no rights and incur no obligations under the Administration Agreement.

## **Insurances**

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

In addition, with respect to Interest-only Mortgages there is no scheduled amortisation of principal, and consequently, upon the maturity of such a Mortgage, the borrower will be required to make a "bullet" payment that will represent the entirety of the principal amount outstanding. The ability of such a borrower to repay an Interest-only Mortgage at maturity may depend on such borrower's ability to refinance the Property or obtain funds from another source (such as a pension policy or a unit trust or an endowment policy), although the conditions of such Mortgages do not require such borrowers to put in place such alternative funding arrangements. The Issuer will also have the benefit of a mortgage indemnity insurance policy written by Lloyd's of London ("Lloyd's") insofar as it relates to Issuer Mortgages and will charge the benefit of it to the Trustee (see "Special Considerations" below).

## **First Loss Fund**

On the Closing Date, the Issuer will draw down under the CMS5 Subordinated Loan Agreement an amount (the "2% amount") which equals 2% of the sum of (i) the then Current Balance of all of the Mortgages purchased on the Closing Date by the Issuer and PSA4 and (ii) the amounts standing to the credit of the Pre-Funding Reserve Ledger of the Transaction Account as at the Closing Date for the purpose of establishing a fund (the "First Loss Fund"). The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of the amounts referred to in items (i) to (iii) and, subject to the next paragraph, (iv) and (v) in the priority of

payments set out in “Priority of Payments-prior to enforcement” above where the income of the Issuer and the amount available to the Issuer (if any) on such Interest Payment Date in any Shortfall Fund as described below, is insufficient to pay such amounts.

The First Loss Fund will not be applied towards payment of items (iv) and (v) in the priority of payments set out in “Priority of Payments-prior to enforcement” above to the extent that the priority of payment of such items is postponed (as set out in “Priority of Payments-prior to enforcement” above).

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

On each Interest Payment Date revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (v) inclusive (or, to the extent that the priority of the payments or provisions referred to in paragraphs (iv) and (v) in the priority of payments set out in “Priority of Payments-prior to enforcement” above, is postponed, items (i) to (iii) inclusive) will be applied to replenish the First Loss Fund to the Required Amount.

Subject as provided in the next paragraph, the Required Amount (the “Required Amount”) will be the amount of the First Loss Fund on the first Principal Determination Date unless otherwise reduced as described in this paragraph or such other amount (including a reduction thereof) as may have been agreed with the Rating Agencies. If, on any Interest Payment Date falling in or after May 2006, (a) there is a balance of zero on the Principal Deficiency Ledger, (b) the then Current Balances of Mortgages which are then more than three months in arrears in aggregate comprise less than 6% of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised within the 12 months immediately preceding such time) and (c) the amount which is 4% of the then Current Balances of the Mortgages (the “4% amount”) is less than the amount of the First Loss Fund on the first Principal Determination Date or, as the case may be, any lower figure to which the Required Amount has been reduced on any previous Interest Payment Date as described in this paragraph, the Required Amount will be reduced on such Interest Payment Date to the 4% amount provided that while any of the Notes remain outstanding the Required Amount may not be less than the greater of £500,000 and the amount which is two times the outstanding principal balance of the largest Mortgage owned by the Issuer or PSA4. If on any such Interest Payment Date the conditions in (a), (b) and (c) of this paragraph are not satisfied, the then current Required Amount will not be reduced but will remain at the Required Amount on the immediately preceding Interest Payment Date.

If at any time, as a result of the rate at which amounts are received in respect of Purchased Pre-Closing Accruals and Arrears, Moody’s and/or Standard & Poor’s notifies the Issuer that the then current Required Amount would have to be increased to a higher amount (the “Increased Required Amount”) in order to maintain the then current ratings of the Notes, the Required Amount shall be so increased to such higher amount with effect from the date on which Moody’s and/or Standard & Poor’s so notifies the Issuer and such Increased Required Amount (or any subsequent Increased Required Amount specified by Moody’s and/or Standard & Poor’s) shall

continue to apply as the Required Amount until such time as Moody's and/or Standard & Poor's confirms to the Issuer that the Required Amount may be reduced to the amount which would otherwise have applied, or otherwise specifies a new Increased Required Amount. If after application of any funds required to be applied from the First Loss Fund 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 CMS5 Subordinated Loan Agreement.

### **Shortfall Fund**

The Issuer may at any time with the prior consent of CMS5 drawdown under the CMS5 Subordinated Loan Agreement for the purpose of establishing a shortfall fund (the "Shortfall Fund"). If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer and, as applicable, PSA4, from the investment of funds standing to the credit of the Transaction Account and the PSA4 Transaction Account, respectively (as to which see "Reinvestment of Income" below) is less than 1.6% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until (and including) the Interest Payment Date falling in May 2007 and 2.0% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter, in each case above the LIBOR applicable to the Notes for the then current Interest Period, then the Administrator may do so only if there is a sufficient credit balance in the Shortfall Fund (net of all provisions previously made during the then current Interest Period) in order to provide for the shortfall which would arise at the end of the then current Interest Period and the Issuer makes a provision in the Shortfall Fund equal to such shortfall.

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

### **Hedging Arrangements**

On the Closing Date, the Issuer will have entered into a master interest rate exchange agreement (together with any confirmations for specific transactions, the "Swap Agreement") with Morgan Guaranty Trust Company of New York as swap counterparty (the "Swap Counterparty" or the "Swap Provider") and one or more interest rate swaps or caps or other hedging arrangements thereunder, each in accordance with Moody's and Standard & Poor's requirements to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages that are acquired by it or by PSA4 on the Closing Date.

In relation to any Fixed Rate Mortgages or Capped Rate Mortgages acquired by the Issuer or by PSA4 following the Closing Date or arising upon conversion of any Mortgages into Fixed Rate Mortgages or Capped Rate Mortgages, the Issuer will be obliged to enter into hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes. These hedging arrangements may be provided by any bank or financial institution provided that on the date on which it makes such arrangements available to the Issuer, such bank or financial institution has a rating for its long term or short term debt obligations sufficient to maintain the then ratings of the Notes (unless such arrangements are guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then 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”).

Hedging arrangements may, but need not, include one or more interest rate caps (each a “Cap”) which will be made available to the Issuer by means of one or more cap agreements entered into with a counterparty (a “Cap Provider”) or may comprise other hedging arrangements entered into with the Swap Provider under the Swap Agreement.

#### **Reinvestment of Income**

Cash in the Transaction Account and the PSA4 Transaction Account must be invested in sterling denominated securities, bank accounts or other obligations of or rights against entities whose long-term debt is rated Aaa by Moody’s and AAA by Standard & Poor’s or whose short-term debt is rated at least P-1 by Moody’s and at least A-1 by Standard & Poor’s (or in such other sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes). Any investments made by the Issuer or PSA4 must also satisfy certain further criteria described in “Mortgage Administration-Reinvestment of Income” below.

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

#### **Global Notes**

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

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

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

**Relationship between Noteholders**

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

**Fee Letter**

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

**Services Letter**

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

**CMS5 Subordinated Loan Agreement**

CMS5 will make available to the Issuer under a subordinated loan agreement to be entered into on or before the Closing Date (the “CMS5 Subordinated Loan Agreement”) a subordinated loan facility

under which an amount or amounts will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund and to achieve the initial ratings on the Notes.

CMS5 will also agree to make advances available to the Issuer, if and to the extent that the Issuer does not have sufficient Available Redemption Funds, to enable it to make any Mandatory Further Advances in respect of the Issuer Mortgages which it is required to make and, as applicable, where PSA4 has insufficient Available Loan Redemption Funds, to fund the obligations of the Issuer to make Additional PSA4 Advances under the Luxembourg Loan Agreement to enable PSA4 to make any Mandatory Further Advances in respect of the PSA4 Mortgages. In addition, CMS5 may, at its discretion, make available to the Issuer further amounts under the CMS5 Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances in respect of Issuer Mortgages, or in the event that the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001, and, where, prior to the Option Completion Date, PSA4 also has insufficient Available Loan Redemption Funds, to fund any Additional PSA4 Advances under the Luxembourg Loan Agreement, to enable PSA4 to make any Discretionary Further Advances in respect of PSA4 Mortgages. Neither the Issuer nor PSA4 shall be entitled to make a Discretionary Further Advance where it is unable to fund such Discretionary Further Advance accordingly.

In addition, CMS5 may, at its discretion, make available to the Issuer further amounts under the CMS5 Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order to restore to zero the Principal Deficiency Ledger and thus enable the Issuer to make any Discretionary Further Advances in respect of Issuer Mortgages or as applicable, to fund any Additional PSA4 Advances under the Luxembourg Loan Agreement (if entered into), to enable PSA4 to make any Discretionary Further Advances in respect of PSA4 Mortgages and/or (ii) to enable the Issuer to make any Discretionary Further Advances or to fund any Additional PSA4 Advances under the Luxembourg Loan Agreement (if any) to enable PSA4 to make any Discretionary Further Advances when the cumulative limit of £50,000,000 referred to under "Further Advances in respect of the Mortgages" above is exceeded.

CMS5 will also agree to make further advances to the Issuer under the CMS5 Subordinated Loan Agreement, as follows: (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it, after making the payments and provisions specified in items (i) to (vii) inclusive in the priority of payments set out in "Priority of Payments-prior to enforcement" above, by paying directly to the Swap Provider or relevant Permitted Hedge Provider any Swap Termination Amounts due and payable on such Interest Payment Date and (ii) at any time where the Issuer or PSA4, or the Administrator on the Issuer's or PSA4's behalf, waives any prepayment charges applicable to any Mortgage, by paying to the Issuer an amount equal to such waived prepayment charge.

Further drawings may be made by the Issuer under the CMS5 Subordinated Loan Agreement, with the prior consent of CMS5, for the purpose of establishing or increasing the Shortfall Fund, and, in addition, if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date or where directly attributable to the exercise of the Luxembourg Call Option, to

fund the payment of certain expenses (including any unforeseen expenses) of PSA4. The Issuer may from time to time borrow further sums from CMS5 or other lenders (“Subordinated Lenders”) on the terms of the CMS5 Subordinated Loan Agreement.

In addition, further drawings will be made by the Issuer under the CMS5 Subordinated Loan Agreement in order to fund (if necessary) purchases of (i) amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages by the Issuer, and/or as applicable, to fund a Non-Verified Mortgage Advance (to enable PSA4 also to purchase amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages) or (ii) with the prior consent of CMS5, Caps or other hedging arrangements (and any related guarantee) to hedge the Issuer’s interest rate exposure on Fixed Rate Mortgages or Capped Rate Mortgages.

On any Interest Payment Date, sums borrowed under the CMS5 Subordinated Loan Agreement will be repaid to the extent of any amounts released from the First Loss Fund (as described in “First Loss Fund” above), and, to the extent there is outstanding any advance made to establish or increase the Shortfall Fund or to reduce the Principal Deficiency to zero, sums borrowed for such purposes may be repaid to the extent of the funds available to the Issuer to do so (see “Priority of Payments-prior to enforcement” above). For further details of the CMS5 Subordinated Loan Agreement see “The Issuer-Subordinated Loan Facility from CMS5” below.

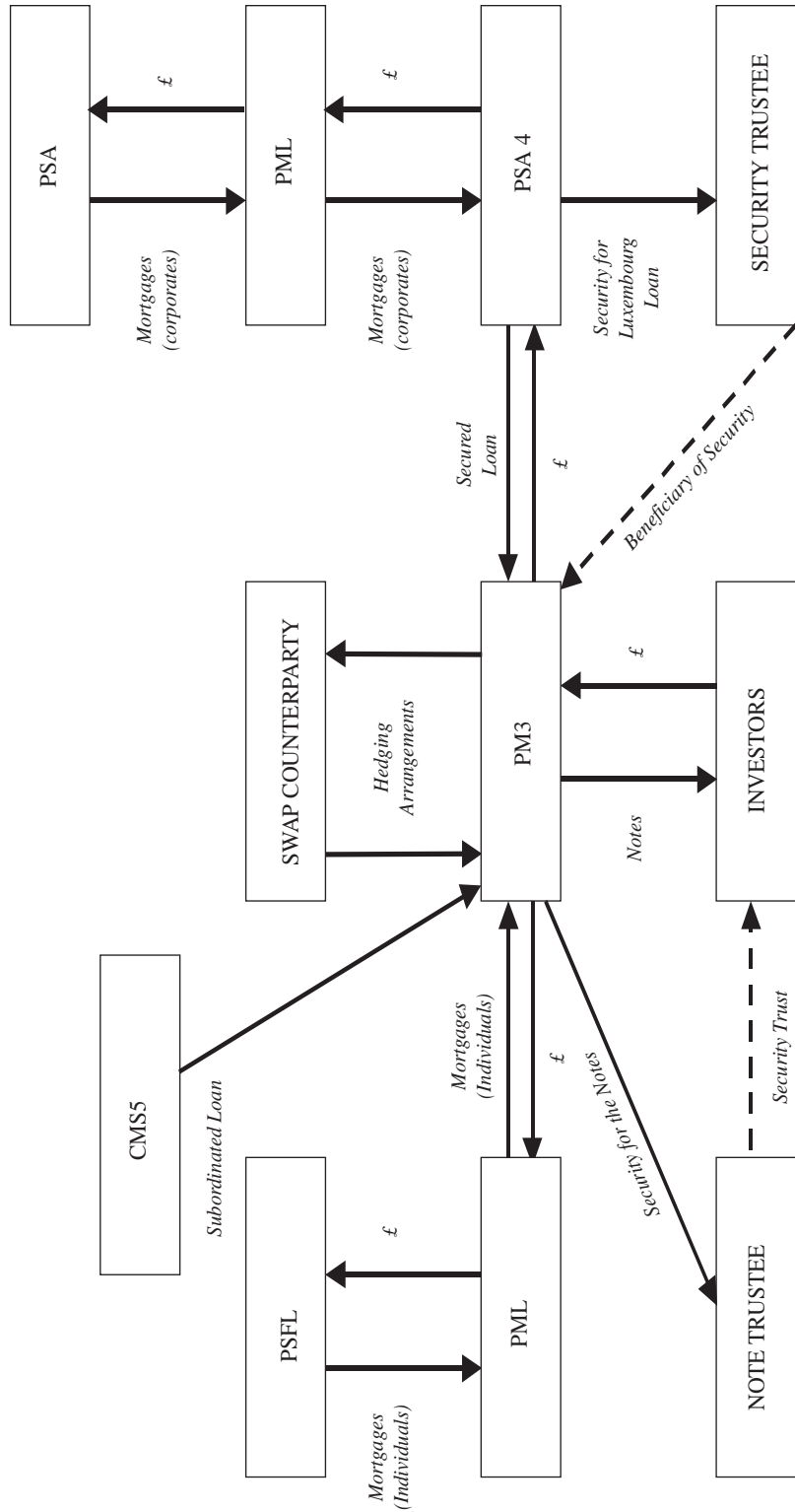
#### **Post Enforcement Call Option**

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

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

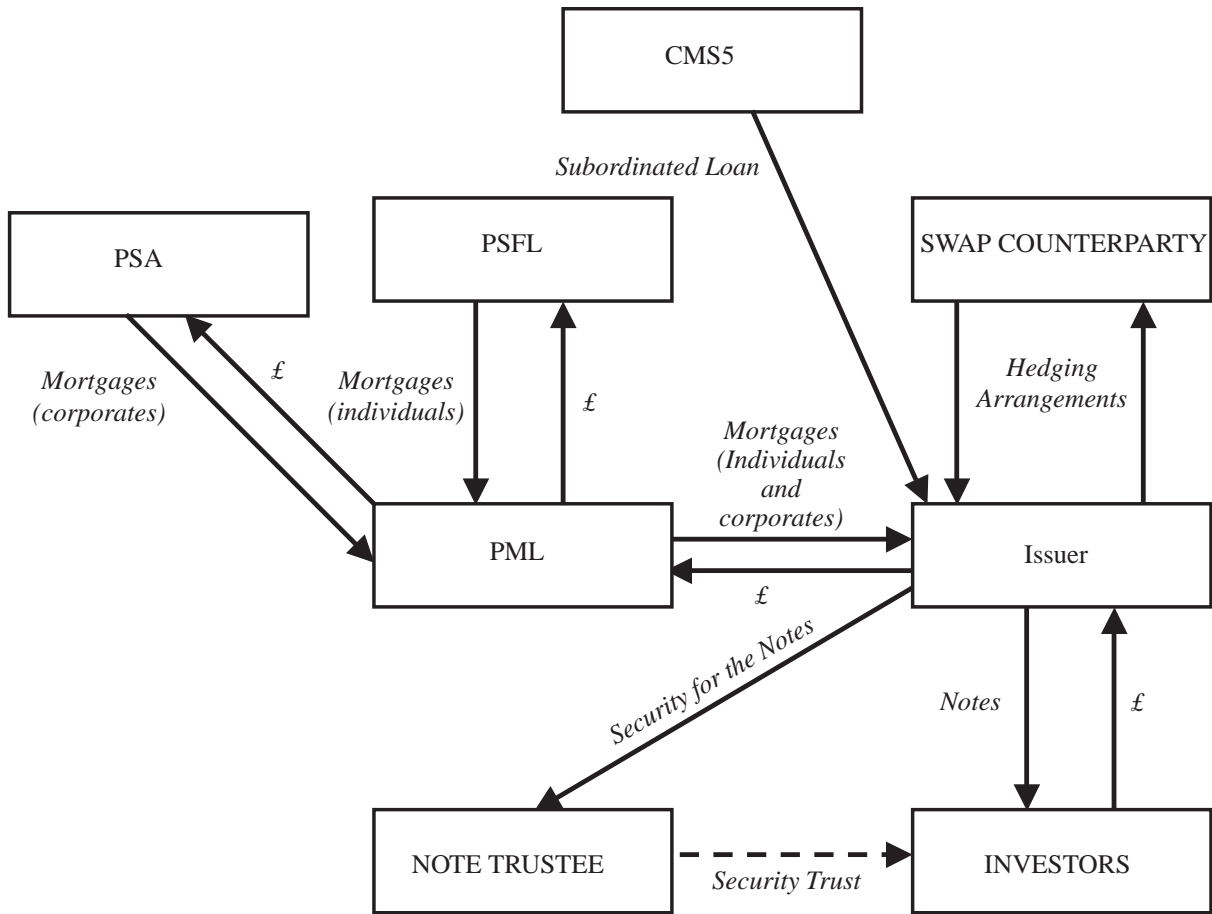
**STRUCTURE DIAGRAM 1**

(showing the structure where the Corporate Mortgages are sold to PSA4 and PSA4 is funded by the Luxembourg Loan Agreement)



## STRUCTURE DIAGRAM 2

(showing the structure where the Corporate Mortgages are sold directly to the Issuer)



## SPECIAL CONSIDERATIONS

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

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

The Notes will be solely the obligations of the Issuer. The Notes will not be obligations or the responsibility of, CMS5, PFPLC, PML, PGC, POPLC or PSA4, any other company in the same group of companies as PGC (other than the Issuer), the Trustee, the Managers or any other person other than the Issuer. Furthermore, none of CMS5, PFPLC, PML, PGC, POPLC, PSA4, the Trustee, the Managers nor any person other than the Issuer will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes. The Notes will not be guaranteed by any person.

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

#### *Funds available to the Issuer*

The ability of the Issuer to meet its obligations to pay principal of and interest on the Notes and its operating and administration expenses will be dependent on funds being received under the Issuer Mortgages, (if they come into existence and for so long as they remain outstanding) the Luxembourg Loan Agreement and the Security Trust Deed, the Transaction Account deposit arrangements, any hedging arrangements whether entered into under the Swap Agreement or otherwise, any Caps and any related guarantees, any permitted investments, the CMS5 Subordinated Loan Agreement and the insurances in which the Issuer has an interest.

### **PSA4's ability to meet its obligations under the Luxembourg Loan Agreement**

#### *Funds available to PSA4*

If it comes into existence and for so long as the Luxembourg Loan remains outstanding, PSA4's ability to meet its obligations to pay principal of and interest on the Luxembourg Loan will be dependent upon funds being received under the PSA4 Mortgages and the collateral security therefor, the PSA4 Transaction Account deposit arrangements and the insurances in which PSA4 has an interest.

#### *Security for the Luxembourg Loan*

If it comes into existence and for so long as the Luxembourg Loan remains outstanding, if it becomes necessary to enforce the security for the Luxembourg Loan, the Security Trustee will have recourse only to the PSA4 Mortgages and any other assets of PSA4 then in existence. All moneys received or recovered by the Security Trustee following the security becoming enforceable will be applied first, in or towards paying, to the extent not previously paid by the Issuer, any fees, costs, expenses or other amounts payable to the Security Trustee or any receiver appointed by it and amounts due from the Security Trustee to borrowers in respect of Mandatory Further Advances in respect of PSA4 Mortgages and thereafter in or towards satisfaction of the amounts due and owing by PSA4 to the Issuer under the terms of the Luxembourg Loan Agreement.

The ability of PSA4 to repay the Luxembourg Loan in full will depend upon whether the PSA4 Mortgages and related security and insurances can be realised to obtain an amount sufficient to repay the Luxembourg Loan. If the net proceeds of the security are not sufficient to make all or any payments due in respect of the Luxembourg Loan, the Issuer may, in turn, have insufficient funds to meet its payment obligations under the Notes.

#### *Withholding tax on the Luxembourg Loan*

Under the terms of the Luxembourg Loan Agreement (if it comes into existence), PSA4 will be required to make payments of interest without deduction or withholding for or on account of tax unless required to do so by law. Under current legislation applicable in Luxembourg there is no requirement to deduct or withhold Luxembourg tax on payments of interest by PSA4 to the Issuer. The Luxembourg Loan Agreement (if it comes into existence) will not contain any obligation on the part of PSA4 to make any additional payments to the Issuer in respect of any withholding or deduction for or on account of tax which may be imposed in the future and, accordingly, if the position were to change, PSA4 would only make net payments of interest. This would reduce the amount of cash received by the Issuer and therefore potentially affect its ability to meet payments of interest on the Notes on a timely basis. There is, in addition, a

possibility that the UK Inland Revenue will regard the interest payable under the Luxembourg Loan Agreement (if it comes into existence) as UK source interest, which would impose on PSA4 a requirement to withhold UK tax in respect of payments of interest at the current rate of 20 per cent..

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

#### *Withholding tax on the PSA4 Mortgages*

Under current UK tax legislation, borrowers under the PSA4 Mortgages (if any) will only be entitled to pay interest under the PSA4 Mortgages without deduction of UK tax to PSA4 if PSA4 applies for and obtains an exemption under the UK/Luxembourg Double Tax Treaty. Exemption under the Double Tax Treaty cannot be given in respect of PSA4 until the PSA4 Mortgages are transferred to it. However, the Inland Revenue has given relief in respect of earlier transactions, including a transaction involving PSA, the current owner of the PSA4 Mortgages, and therefore it is anticipated that the process of receiving exemption for PSA4 will not be problematic. Until this exemption is granted borrowers under the PSA4 Mortgages should make payments of interest under the PSA4 Mortgages subject to a deduction of income tax at the current rate of 20 per cent. If and to the extent that they do so, this will reduce the amount available to PSA4 and therefore the amount available to it to meet its obligations to make payments of interest to the Issuer under the Luxembourg Loan (if it comes into existence). There is no obligation on the part of the borrowers to make any additional payments in respect of any amounts so deducted and accordingly any deduction may affect the ability of the Issuer to make payments of interest on the Notes on a timely basis.

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

#### *UK budget statement of 7 March 2001*

The Chancellor of the Exchequer, in his budget statement of 7 March 2001 and in a budget notice issued by the Inland Revenue on the same date, announced proposed changes to the UK laws relating to withholding tax which, if implemented, will enable borrowers under Corporate Mortgages to pay interest under those Mortgages to their mortgagee free of UK withholding tax, if that mortgagee is within the charge to UK corporation tax (as is the case for the Issuer). Accordingly if such change is implemented prior to 23rd April 2001 (which cannot be guaranteed) the Corporate Mortgages will be purchased by the Issuer from PML pursuant to the Luxembourg Mortgage Sale Agreement. If such change takes place on or after 23rd April 2001 the Issuer will be entitled, pursuant to the Luxembourg Call Option, to purchase the PSA4 Mortgages from PSA4, and, if it does so, the Luxembourg Loan structure (including the security constituted by the Security Trust Deed) will be unwound and, thereafter, the PSA4 Mortgages will be Issuer Mortgages and the borrowers under those Corporate Mortgages will be treated, for withholding tax purposes, in the same manner as those borrowers under Issuer Mortgages owned by the Issuer prior to the Option Completion Date (ie prior to the date of transfer of the PSA4 Mortgages to the Issuer).

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

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

The Administrator will, on behalf of the Issuer and the Trustee, in respect of the Issuer Mortgages, and, if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date, on behalf of PSA4 and the Security Trustee in respect of the PSA4 Mortgages, set, where relevant, the rates of interest applicable to the relevant Mortgages (other than Fixed Rate Mortgages and Capped Rate Mortgages during the applicable fixed rate or capped rate period). The Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer or, prior to the Option Completion Date, PSA4, from the investment of funds standing to the credit of the Transaction Account and the PSA4 Transaction Account, respectively is not less than 1.6% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until and including the Interest Payment Date falling in May 2007 and 2.0% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter in each case above the LIBOR applicable to the



Notes at that time. The Administrator may set or maintain a lower average mortgage interest rate if and to the extent that the resultant shortfall can be provided for out of an available credit balance in any Shortfall Fund.

In respect of Fixed Rate Mortgages, the Administrator is unable to vary the rate of interest during the fixed rate period set out in the relevant Mortgage Conditions; in respect of Capped Rate Mortgages, the Administrator is unable to increase the rate of interest above the capped rate during the capped rate period set out in the relevant Mortgage Conditions; and in respect of LIBOR-Linked Mortgages, the interest rate is set at a fixed margin over three-month LIBOR. As a result, the Issuer may be exposed to the risk of an adverse interest differential between the rate of interest receivable in respect of the Fixed Rate Mortgages, Capped Rate Mortgages and LIBOR-Linked Mortgages, on the one hand, and the rate of interest payable on the Notes on the other hand. In relation to any Fixed Rate Mortgages and/or Capped Rate Mortgages that are acquired by the Issuer on the Closing Date, the Issuer will on the Closing Date have entered into hedging arrangements relating thereto. If, and to the extent that, after the Closing Date Mortgages are converted into Fixed Rate Mortgages or Capped Rate Mortgages, or where the Issuer acquires further Issuer Mortgages, or PSA4 acquires further PSA4 Mortgages, in each case at any time up to and including the first Principal Determination Date, the Issuer will be required to enter into hedging arrangements in respect of the relevant Mortgages but only if not to do so would adversely affect any of the then current ratings of the Notes.

In limited circumstances and other than in relation to Fixed Rate Mortgages and Capped Rate Mortgages during the applicable fixed rate or capped rate period, the Trustee or the Issuer in relation to the Issuer Mortgages or (if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date) PSA4 or the Security Trustee in relation to the PSA4 Mortgages or, in relation to any Mortgages, any substitute administrator appointed by the Trustee or the Substitute Administrator (when acting in its capacity as administrator of last resort) will be entitled to set the rates of interest applicable to the Mortgages. These circumstances include a breach by the Administrator of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders. In such circumstances, the Trustee may terminate the Administrator's authority to set the rates of interest applicable to the Mortgages and/or terminate the appointment of the Administrator.

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

#### *Representations and Warranties*

PML will warrant in the UK Mortgage Sale Agreement and in the Luxembourg Mortgage Sale Agreement, among other things, that, prior to it making the initial advance to a borrower under a Mortgage, PML carried out all investigations, searches and other actions as would a reasonably prudent mortgage lender and nothing which would cause such a mortgage lender to decline to proceed with the advance on the proposed terms was disclosed. If the Issuer exercises the Luxembourg Call Option, PSA4 will, on the Option Completion Date, assign to the Issuer certain of its rights under the Luxembourg Mortgage Sale Agreement, including the benefit of the warranties given to PSA4 by PML at the time PSA4 purchased the PSA4 Mortgages from PML. Except as described under "The Mortgages – Acquisition of Mortgages" below, neither the Issuer nor the Trustee nor PSA4 nor the Security Trustee has undertaken or will undertake any such investigations, searches or other actions and each will rely instead on the warranties given in the relevant Mortgage Sale Agreement by PML. The sole remedy against PML in respect of breach of warranty shall be to require PML to purchase, any relevant Mortgage provided that this shall not limit any other remedies available if PML fails to purchase, or procure the repurchase of, a Mortgage when obliged to do so. There can be no assurance that PML will have the financial resources to meet its obligations to repurchase, or procure the repurchase of, any Mortgage in respect of which such a breach of warranty arises.

#### *Perfection of title*

The sales by PML to the Issuer or PSA4 of the Issuer Mortgages and the PSA4 Mortgages, respectively and the sale of the PSA4 Mortgages by PSA4 to the Issuer pursuant to the Luxembourg Call Option, will only be perfected in certain circumstances by the execution of transfer of Mortgages to the Issuer or PSA4 as the case may be, the carrying out of requisite registrations and giving of notice to any borrower or guarantor and in respect of Scottish Mortgages also by the execution of a declaration of trust

over such Mortgages. In the meantime, neither the Issuer, PSA4, the Trustee nor the Security Trustee will acquire legal title to any of the Mortgages of English Properties or to the Scottish Mortgages and they will not be able to apply to H.M. Land Registry, the Central Land Charges Registry or the Registers of Scotland to register transfers of the Mortgages to perfect their interests. They will not be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages. For further information, see “The Mortgages – Perfection of title” below.

The effect of the agreement to transfer the Mortgages from PML to the Issuer or PSA4 pursuant to the UK Mortgage Sale Agreement or the Luxembourg Sale Agreement, as the case may be, and of any subsequent transfer of the PSA4 Mortgages by PSA4 to the Issuer pursuant to the Luxembourg Call Option remaining unperfected is that the rights of the Issuer (and, therefore, in turn, the Trustee or, as applicable, the Security 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 or, as applicable, PSA4 acquiring and perfecting their respective legal interests. Furthermore, the Issuer’s or, as applicable, PSA4’s interests will be or become subject to such equitable interests of third parties as may rank in priority to its interest in accordance with the normal rules governing the priority of equitable interests in the case of both registered and unregistered land.

#### *Other matters*

Third party rights (for example, rights of occupation or rights of a subsequent mortgagee or security holder) may arise subsequent to the completion of the initial advance to a borrower. None of PFPLC, CMS5, PML, PSA, the Issuer, the Trustee, PSA4 or the Security Trustee has undertaken or will undertake any investigation or search of any kind prior to the making of a Mandatory Further Advance to a borrower or, in some circumstances, the making of a Discretionary Further Advance.

In respect of certain Mortgages contained in the Mortgage Pool, Mandatory Further Advances are required to be made to borrowers. The Issuer expects to fund Mandatory Further Advances to be made by it for any given period from the moneys referred to in paragraph (A) of the definition of “Available Redemption Funds” in Condition 5(a) of the Class A Notes. The Issuer may not, however, receive sufficient amounts of principal to meet the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set-off the amounts of any Mandatory Further Advances which the Issuer has failed to make against amounts owing by those borrowers and/or to sue the Issuer for damages for breach of contract. Accordingly, if and to the extent that, the Issuer does not have sufficient funds to make any such Mandatory Further Advances, the Issuer will be entitled to borrow further amounts from CMS5 under the CMS5 Subordinated Loan Agreement and CMS5 will be under an obligation to make any such amounts available to the Issuer. Similar considerations apply in relation to the PSA4 Mortgages. Prior to the Option Completion Date and if PSA4 has acquired any PSA4 Mortgages, PSA4 expects to fund Mandatory Further Advances from principal recoveries from the PSA4 Mortgages or, failing that, from further advances by the Issuer under the Luxembourg Loan Agreement (if entered into) (which, in turn, may be funded either by the Issuer from principal monies available to it or further drawing under the CMS5 Subordinated Loan Agreement).

#### *Directors’ certificates*

The directors of each of PSFL, PFPLC, PML, PM3, PSA4, PSA and CMS5 consider the relevant company of which they are directors to be solvent and it is a condition to the closing of the issue of the Notes that a duly authorised officer of the relevant company certify (i) that, in his or her opinion, such company is not unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 and would not become unable to do so within the meaning of that section in consequence of entering into the Relevant Documents (as defined in Condition 3(A)(1)(b) of the Class A Notes below) to which such company is a party and the performance of its obligations under such Relevant Documents and (ii) that, in his or her opinion, there is no reason to believe the foregoing state of affairs will not continue thereafter.

#### *Risks Associated with Non-Owner Occupied Properties*

As at the Provisional Pool Date, 3568 of the Properties relating to the Mortgages, representing approximately 94.51 per cent. by value of the Mortgages in the Provisional Mortgage Pool, were not owner occupied. Other Properties relating to Non-Verified Mortgages to be sold to the Issuer or PSA4 may also not be owner-occupied. It is intended that all such Properties will be let by the relevant borrower to tenants but there can be no guarantee that each such Property will be the subject of an existing tenancy when the relevant Mortgage is acquired by the Issuer or PSA4 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 the 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 the 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 (unless the Property is situated in Scotland) in which case such a receiver must collect any rents payable in respect of the Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage. For further information, see "Mortgage Administration – Arrears and defaults procedures" below.

#### *Risk of Losses Associated with Interest-only Mortgages*

Approximately 58.33 per cent. of the Mortgages in the Provisional Mortgage Pool by value constitute Interest-only Mortgages (as defined under "The Mortgages" below). Interest-only Mortgages are originated with a requirement that the borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest-only Mortgage, the borrower will be required to make a "bullet" payment that will represent the entirety of the principal amount outstanding. The ability of such a borrower to repay an Interest-only Mortgage at maturity frequently may depend on such borrower's ability to refinance the Property or obtain funds from another source such as a pension policy or a unit trust or an endowment policy. The ability of a borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the borrower's equity in the Property, the financial condition of the borrower, tax laws and general economic conditions at the time. Moreover, the conditions of Interest-only Mortgages do not require a borrower to put in place alternative funding arrangements.

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

#### *European Monetary Union*

It is possible that prior to the maturity of the Notes the United Kingdom may become a participating member state in Economic and Monetary Union and the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of the Notes and/or the Mortgages may become payable in euros; (ii) applicable provisions of law may allow the Issuer to redenominate the Notes into euros and take additional measures in respect of the Notes and/or the Mortgages to be redenominated into euros and/or additional measures to be taken in respect of the Mortgages by one or both of the parties thereto; and (iii) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Notes and/or the Mortgages or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect the borrower's ability to repay the Mortgages as well as adversely affect investors. It cannot be said with certainty what effect, if any, the adoption of the euro by the United Kingdom would have on investors in the Notes.

#### *European Union proposals for the taxation of savings scheme*

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments. The proposals are not yet final, and they may be subject to further amendment and/or clarification.

#### *Provision of information*

Holders who are individuals should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a "paying agent"), or is received by any person in the United Kingdom acting on behalf of the relevant holder (other than solely by clearing or arranging the clearing of a cheque) (a "collecting agent"), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to the United Kingdom Inland Revenue details of the payment and certain details

relating to the holder (including the holder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the holder is resident in the United Kingdom for United Kingdom taxation purposes. Where the holder is not so resident, the details provided to the United Kingdom Inland Revenue may, in certain cases, be passed by the United Kingdom Inland Revenue to the tax authorities of the jurisdiction in which the holder is resident for taxation purposes.

## CREDIT STRUCTURE

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

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

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

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

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

To the extent that on any day prior to the enforcement of the Notes the credit balance on the Issuer Revenue Ledger exceeds the aggregate of the payments and provisions required to be met in priority to item (v), or, in certain circumstances, item (iii) of the priority of payments specified under “Summary – Priority of Payments – prior to enforcement” above on the next Interest Payment Date, such excess is available to replenish the First Loss Fund to the Required Amount and thereafter may be applied (after making payments or provisions of a higher priority) on such Interest Payment Date towards reducing any debit balance on the Principal Deficiency Ledger.

### 2. First Loss Fund

On the Closing Date, the Issuer will draw down under the CMS5 Subordinated Loan Agreement an amount equal to 2% of the sum of (1) the then Current Balance of all of the Mortgages purchased on the Closing Date by the Issuer and PSA4 and (2) the amounts standing to the credit of the Pre-Funding Reserve Ledger of the Transaction Account as at the Closing Date for the purpose of establishing the First Loss Fund. The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of the amounts referred to in items (i) to (iii) in the priority of payments specified under “Summary – Priority of Payments-prior to enforcement” above and, save where payment of items (iv) and (v) in such priority of payments is postponed (as to which, see “Summary – Priority of Payments – prior to enforcement” above and “6. The Class B Notes” below), towards payment of items (iv) and (v), where the income of the Issuer, and the amount available to the Issuer on such Interest Payment Date in the Shortfall Fund, is insufficient to pay such amounts.

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

If, after application of any funds required to be applied from the First Loss Fund towards the items referred to above, there remains on any Interest Payment Date a surplus over the Required Amount in the First Loss Fund, that surplus will be released from the First Loss Fund and applied in repayment of principal amounts outstanding under the CMS5 Subordinated Loan Agreement.

### 3. Shortfall Fund

The Issuer may at any time with the prior consent of CMS5 draw down under the CMS5 Subordinated Loan Agreement for the purpose of establishing the Shortfall Fund. If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages taking account all hedging arrangements entered into by the Issuer and all income received by the Issuer or, if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date, PSA4, from the investment of funds standing to the credit of the Transaction Account and the PSA4 Transaction Account, respectively is less than 1.6% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until (and including) the Interest Payment Date falling in May 2007, and 2.0% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter, in each case above the LIBOR applicable to the Notes at that time, then the Issuer may do so provided that

(1) there is a sufficient credit balance in the Shortfall Fund (net of all provisions previously made during the then current Interest Period) in order to provide for the shortfall which would arise and (2) the Issuer makes a provision in the Shortfall Fund equal to such shortfall. On each Interest Payment Date, the full amount of the Shortfall Fund will be available to the Issuer to be applied, together with the Issuer's other net income, to the items referred to in "Summary – Priority of Payments – prior to enforcement" above.

#### **4. Transfer of Funds from the PML Collection Account**

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages will generally be paid into the PML Collection Account. All moneys received in respect of the Issuer Mortgages will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account, and all moneys received in respect of the PSA4 Mortgages will be transferred on the next following Business Day, or as soon as practicable thereafter, to the PSA4 Transaction Account or, on and after the Option Completion Date, the Transaction Account.

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

Under the No. 2 Collection Account Declaration of Trust, PML will make a similar declaration as under the No. 1 Collection Account Declaration of Trust, save that it will relate to such moneys which are paid and/or recovered in respect of the PSA4 Mortgages and save that PML will hold such moneys on trust for PSA4 or, if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and on and with effect from the Option Completion Date, the Issuer.

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

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

If on any Interest Payment Date there are insufficient funds standing to the credit of the Issuer Revenue Ledger, the First Loss Fund and the Shortfall Fund to pay interest on the Class A Notes, to pay amounts (other than Withholding Compensation Amounts or Swap Termination Amounts) payable to the Swap Counterparty under the Swap Agreement or to any Permitted Hedge Provider under any other hedging arrangements entered into by the Issuer and to meet certain other expenses of the Issuer, the Issuer may apply funds standing to the credit of the Issuer Principal Ledger in the payment of such interest, amounts and expenses. In addition, the Issuer may receive an amount in respect of the Issuer Mortgages under a direct debit which subsequently has to be repaid to the bank making the payment if that bank is unable to recoup such amount itself from its customer's account. If the Issuer has insufficient revenue funds to make the repayment, such an amount may be repaid by applying funds standing to the credit of the Issuer Principal Ledger. Either of these events may lead to the consequences set out in the following paragraph.

The Issuer will also keep a Principal Deficiency Ledger. Amounts will be debited from the Principal Deficiency Ledger representing principal losses incurred on the Issuer Mortgages and the PSA4 Mortgages and funds standing to the credit of the Issuer Principal Ledger applied as described in the preceding paragraph in paying interest on the Class A Notes or amounts ranking *pari passu* therewith or in priority thereto, in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Issuer Mortgages.

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

Amounts may also be drawn, at the discretion of CMS5, under the CMS5 Subordinated Loan Agreement in order to restore to nil the Principal Deficiency Ledger and thus to enable the Issuer to make any Discretionary Further Advances in respect of Issuer Mortgages or, if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date, to fund any Additional PSA4 Advances under the Luxembourg Loan Agreement (if entered into), to enable PSA4 to make any Discretionary Further Advances in respect of PSA4 Mortgages.

## **6. The Class B Notes**

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

In the event that on any Interest Payment Date, while any Class A Note remains outstanding, application in the order set out in the priority of payments referred to in the preceding paragraph would result in:

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

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

then, to the extent of such excess, the payments or provisions specified in item (iv) (and also item (v) which relates to sums due to third parties and to the Issuer’s and PSA4’s liability to value added tax and to any corporation tax) of such order of priority of payments shall be postponed and shall instead be paid after any provisions referred to in items (vi) and (vii) (but prior to any payment referred to in item (viii)).

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

## **7. CMS5 Subordinated Loan Agreement**

CMS5 will make available to the Issuer a subordinated loan facility under which an amount or amounts will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund and to achieve the initial rating on the Notes.

CMS5 will also agree to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances in respect of Issuer Mortgages, and, also, in the event that the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date where PSA4 has insufficient Available Loan Redemption Funds, to fund the obligations of the Issuer to make Additional PSA4 Advances under the Luxembourg Loan Agreement to enable PSA4 to make any Mandatory Further Advances in respect of PSA4 Mortgages. In addition, CMS5 may, at its discretion, make available to the Issuer further amounts under the CMS5 Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances in respect of Issuer Mortgages, or, in the event that the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and, prior to the Option Completion Date, where PSA4 also has insufficient Available Loan Redemption Funds, to fund any Additional PSA4 Advances under the Luxembourg Loan Agreement (if entered into), to enable PSA4 to make any Discretionary Further Advances in respect of PSA4 Mortgages. In addition, CMS5 may, at its discretion, make available to the Issuer further amounts under the CMS5 Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order to restore to zero the Principal Deficiency Ledger and thus enable the Issuer to make any Discretionary Further Advances in respect of Issuer Mortgages or, in the event that the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and, prior to the Option Completion Date, to fund any Additional PSA4 Advances under the Luxembourg Loan Agreement, to enable PSA4 to make any Discretionary Further Advances in respect of PSA4 Mortgages and/or (ii) to enable the Issuer to make any Discretionary Further Advances when the cumulative limit of £50,000,000 referred to under “Further Advances in respect of the Mortgages” above, is exceeded. CMS5 will also agree to make further advances to the Issuer under the CMS5 Subordinated Loan Agreement, as follows:

- (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it, after making the payments and provisions specified in items (i) to (vii) inclusive set out in “Summary – Priority of Payments – prior to enforcement” above, to pay any Swap Termination Amounts due and payable to the Swap Provider or any Permitted Hedge Provider on such Interest Payment Date;

- (ii) at any time where the Issuer or PSA4, or the Administrator on the Issuer's or PSA4's behalf, waives any prepayment charges applicable to any Mortgage, in an amount equal to such waived prepayment charge; and
- (iii) to fund (if necessary) purchases of amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages by the Issuer, and/or, if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date, to fund a Non-Verified Mortgage Advance (to enable PSA4 also to purchase amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages).

Further drawings may be made by the Issuer under the CMS5 Subordinated Loan Agreement, with the prior consent of CMS5 (1) for the purpose of establishing or increasing the Shortfall Fund, (2) if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date or where directly attributable to the exercise of the Luxembourg Call Option, to fund the payment of certain expenses (including any unforeseen expenses) of PSA4 and (3) to fund the purchase of Caps or other hedging arrangements (or any related guarantees) to hedge the Issuer's interest rate exposure on the Issuer or, (in the event that the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and (prior to the Option Completion Date or where directly attributable to the exercise of the Luxembourg Call Option) PSA4 acquiring, or upon conversion of any Mortgages into, Fixed Rate Mortgages or Capped Rate Mortgages. The Issuer may from time to time borrow further sums from CMS5 or other lenders on the terms of the CMS5 Subordinated Loan Agreement.

On any Interest Payment Date, sums borrowed under the CMS5 Subordinated Loan Agreement will be repaid to the extent of any amounts released from the First Loss Fund and, to the extent there is outstanding any advance made to establish or increase the Shortfall Fund or to reduce the Principal Deficiency Ledger to zero, sums borrowed for such purposes may be repaid to the extent of the funds available to the Issuer to do so.

## **8. Hedging Arrangements**

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

On the Closing Date, the Issuer will have entered into hedging arrangements under the Swap Agreement, in accordance with the requirements of the Rating Agencies, to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages which were acquired by it or by PSA4 on the Closing Date. In addition, in relation to any Fixed Rate Mortgages or Capped Rate Mortgages which arise upon conversion of any Mortgages subsequent to the Closing Date, or which are acquired by the Issuer or PSA4 subsequent to the Closing Date, the Issuer will be obliged to enter into hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes.

## **9. Pre-Funding Reserve**

The Issuer will be entitled to apply any amount standing to the credit of the Pre-Funding Reserve Ledger of the Transaction Account in purchasing Non-Verified Mortgages and/or, if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date, in making a Non-Verified Mortgage Advance (so as to enable PSA4 to purchase Non-Verified Mortgages), if and to the extent that the Issuer or PSA4, as the case may be, is permitted to do so by, and in accordance with, the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement (if entered into) and the Administration Agreement. In particular, any such purchase of Non-Verified Mortgages will require the confirmation from the Rating Agencies, that such purchase will not adversely affect any of the then current ratings of the Notes.

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



## THE LUXEMBOURG LOAN

The Luxembourg Loan Agreement will only be entered into if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001. Under the terms of the Luxembourg Loan Agreement the Issuer will, on the Closing Date, make a loan facility available to PSA4 to enable PSA4 to purchase the PSA4 Mortgages (including any Non-Verified Mortgages) and, prior to the Option Completion Date, to make further advances in respect of the PSA4 Mortgages. The main terms of the Luxembourg Loan Agreement are summarised below.

### Availability and use

Subject to satisfaction of certain conditions precedent contained in the Luxembourg Loan Agreement, the Issuer will make the Initial PSA4 Advance to PSA4 on the Closing Date in an amount sufficient to enable PSA4 to purchase the PSA4 Mortgages on such date. The terms of the Luxembourg Loan Agreement will provide that PSA4 will use the proceeds of the Initial PSA4 Advance solely towards payment of the purchase price for the PSA4 Mortgages to be acquired by PSA4 from PML on the Closing Date pursuant to the Luxembourg Mortgage Sale Agreement. The terms of the Luxembourg Loan Agreement will provide that PSA4 will be entitled to make further drawdowns (each such drawdown, a “Non-Verified Mortgage Advance”) to purchase Non-Verified Mortgages at any time up to and including the earlier of the day prior to the Option Completion Date and the first Principal Determination Date, if and to the extent that it is entitled to do so under the Luxembourg Mortgage Sale Agreement and the Administration Agreement.

The Issuer will also agree, subject to the satisfaction of certain conditions, to make Additional PSA4 Advances on any Business Day prior to the Option Completion Date to enable PSA4 to make further advances to borrowers under the PSA4 Mortgages. The Issuer will only be obliged to make Additional PSA4 Advances to PSA4 if and to the extent that:

- (a) the cumulative amount of further advances on Issuer Mortgages and PSA4 Advances funded out of funds representing principal received or recovered or deemed to have been received or recovered in respect of both the Issuer Mortgages and the PSA4 Mortgages has not exceeded £50,000,000 and PSA4 has insufficient funds standing to the credit of the PSA4 Transaction Account and the Issuer itself has funds standing to the credit of the Transaction Account or the Issuer has drawn down funds from CMS5 under the CMS5 Subordinated Loan Agreement in order to enable the Issuer to make such Additional PSA4 Advance, or
- (b) PSA4 has sufficient funds standing to the credit of the PSA4 Transaction Account but the cumulative amount of further advances on Issuer Mortgages and PSA4 Advances funded out of funds representing principal received or recovered or deemed to have been received or recovered in respect of both the Issuer Mortgages and the PSA4 Mortgages has exceeded £50,000,000 and the Issuer has drawn down funds from CMS5 under the CMS5 Subordinated Loan Agreement in order to enable the Issuer to make such Additional PSA4 Advance.

### Interest

Interest on the outstanding balance of the Initial PSA4 Advance, any Non-Verified Mortgage Advance and any Additional PSA4 Advances (such Advances together constituting the “Luxembourg Loan”) will accrue by reference to successive interest periods corresponding to the Interest Periods applicable to the Notes, and will be payable on each date which is an Interest Payment Date under the Notes (each such date, a “Loan Payment Date”). Interest immediately prior to that Loan Payment Date will be determined by reference to the outstanding credit balance as at the relevant Principal Determination Date on the PSA4 Revenue Ledger of the PSA4 Transaction Account less an amount equal to a quarter of 0.125 per cent. of the principal amount outstanding in respect of the Luxembourg Loan Agreement on the Principal Determination Date immediately prior to the Loan Payment Date (the “0.125 per cent. Amount”).

### Subordinated Loan to the Issuer

On each Loan Payment Date, PSA4 will, in turn, make an advance (each such advance, a “0.125 per cent. Amount Loan”) to the Issuer of an amount equal to the 0.125 per cent. Amount, pursuant to the terms of the Luxembourg Loan Agreement, and such amount shall be credited to the Issuer Revenue Ledger. The 0.125 per cent. Amount Loan will bear interest at a fair commercial rate, and both principal and interest in respect of the 0.125 per cent. Amount Loan will only become due and payable at such time following the date the Notes have been redeemed in full. The Issuer will, in turn, agree, under the

Luxembourg Loan Agreement, (i) to discharge any tax liability of PSA4 and any other sums due to third parties from PSA4 which in any such case are payable prior to the Option Completion Date or which are directly attributable to the exercise of the Luxembourg Call Option, and (ii) to repay the 0.125 per cent. Amount Loan and any accrued interest thereon to PSA4 on any date after the Notes have been redeemed in full, in each case subject to and in accordance with the agreed order of priority of payments (see “Priority of Payments-prior to enforcement” in the Summary above). Upon the exercise of the Luxembourg Call Option, and if so requested by PSA4, the 0.125 per cent. Amount Loan (including all outstanding principal and accrued interest) will be assigned to PGC provided that PGC agrees to become a party to the Deed of Charge.

### **Repayment**

To the extent not previously prepaid in accordance with the terms of the Luxembourg Loan Agreement PSA4 will repay the outstanding principal balance of the Luxembourg Loan to the Issuer on the Loan Payment Date falling in August 2031, unless agreed otherwise by the Trustee and the Security Trustee.

### **Prepayment**

Under the terms of the Luxembourg Loan Agreement, PSA4 will be required to make mandatory prepayments of principal of the Luxembourg Loan on each Loan Payment Date in an amount equal to the Available Loan Redemption Funds, as determined by the Administrator on the Principal Determination Date immediately preceding such Loan Payment Date.

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

- (a) the aggregate of:
  - (i) all principal and Purchased Pre-Closing Accruals and Arrears received or recovered in respect of the PSA4 Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to PSA4 (other than in respect of accrued interest which does not represent Purchased Pre-Closing Accruals and Arrears) on repurchase or purchase of any PSA4 Mortgages other than a purchase pursuant to the Luxembourg Call Option) pursuant to the terms of the Relevant Documents but excluding any such principal (if any) which under the Luxembourg Mortgage Sale Agreement is held on trust for, or to be accounted for to, a person other than PSA4 during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Loan Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date in question (the “relevant Collection Period”);
  - (ii) in the case of the first Principal Determination Date, the amount (if any) by which the aggregate principal amount of the Initial PSA4 Advance exceeds the aggregate of the amounts paid by PSA4 to PML by way of purchase price for the PSA4 Mortgages purchased by PSA4 on the Closing Date;
  - (iii) the amount of any Available Loan Redemption Funds on the immediately preceding Principal Determination Date not applied in prepayment of amounts outstanding under the Luxembourg Loan Agreement on the Loan Payment Date relative thereto;
  - (iv) any part of the amount deducted pursuant to (b)(i) and/or (ii) below in determining the Available Loan Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances in respect of the PSA4 Mortgages or Mandatory Further Advances in respect of the PSA4 Mortgages, in each case on or prior to the preceding Loan Payment Date;

less

- (b) the aggregate of:
  - (i) the aggregate principal amount of Discretionary Further Advances made by PSA4 in respect of the PSA4 Mortgages during the relevant Collection Period (or expected to be made on or prior to the Loan Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings pursuant to the Luxembourg Loan Agreement;

- (ii) the aggregate principal amount of Mandatory Further Advances made by PSA4 in respect of the PSA4 Mortgages during the relevant Collection Period (or expected to be made on or prior to the Loan Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings pursuant to the Luxembourg Loan Agreement;
- (iii) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the PSA4 Mortgages,

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

### **Payments**

All payments by PSA4 in respect of the Luxembourg Loan will be made by PSA4 without deduction or withholding for or on account of tax unless such deduction or withholding is required by law. In that event, PSA4 shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amounts so required to be withheld or deducted. PSA4 will not be obliged to make any additional payments to the Issuer in respect of such withholding or deduction.

### **Events of default**

The Luxembourg Loan Agreement will contain events that may lead to a default and acceleration of the amounts outstanding. These include events for non-payment, breach of covenant and insolvency of PSA4. In addition, an Event of Default under the Notes will trigger a default under the Luxembourg Loan Agreement. However, an event of default under the Luxembourg Loan Agreement will not trigger automatically an Event of Default under the Notes (although such an event of default may result in the amounts which are credited to the Issuer Revenue Ledger or the Issuer Principal Ledger of the Transaction Account being insufficient to enable the Issuer to meet its payment obligations on the Notes).

### **Governing Law**

The Luxembourg Loan Agreement will be governed by English Law.

### **Security Trust Deed**

The Security Trust Deed will only be entered into if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001. If entered into, the Security Trust Deed will be entered into on the Closing Date by PFPLC, the Issuer, PML, PSA4, the Trustee and the Security Trustee.

Under the terms of the Security Trust Deed, amounts payable by PSA4 to the Issuer under the Luxembourg Loan Agreement will be secured by first ranking security interests over:

- (1) certain mortgages (or the beneficial interest therein) to be purchased by PSA4 on the Closing Date and on any date following the Closing Date up to and including the first Principal Determination Date;
- (2) various insurance policies relating to the PSA4 Mortgages in which PSA4 has an interest;
- (3) PSA4's rights under the Luxembourg Loan Agreement, the Luxembourg Mortgage Sale Agreement, the Administration Agreement, the No. 2 Collection Account Declaration of Trust and the Substitute Administrator Agreement;
- (4) any investments in which PSA4 may place its cash resources;
- (5) PSA4's rights to all moneys standing to the credit of the PSA4 Transaction Account (or such account at such other bank as PSA4, subject to certain restrictions and with the consent of the Security Trustee, may from time to time select for such purpose) into and out of which all payments to and by PSA4 will be made and any other bank accounts in which PSA4 has an interest.

The security interests will be fixed except in relation to certain investments and moneys standing to the credit of such bank accounts over which the security may be by way of floating charge (thus ranking behind claims of certain creditors preferred by law). In addition, amounts payable by PSA4 to the Issuer under the Luxembourg Loan Agreement will be secured by a floating charge over all the assets and undertaking of PSA4 other than those covered by fixed security (but extending to all PSA4's Scottish assets, including those covered by the fixed security).

After the Option Completion Date, the Security Trust Deed will solely secure the obligation by PSA4 (but only for so long as such obligation remain vested in PSA4) to transfer legal title in certain circumstances to the Issuer.

#### **Priority of Payments-Prior to Enforcement**

PSA4 will be able to make certain payments out of the PSA4 Transaction Account otherwise than on a Loan Payment Date to the extent permitted by the Security Trust Deed. Until enforcement of the security in respect of the Luxembourg Loan Agreement, moneys in the PSA4 Transaction Account and credited to the PSA4 Revenue Ledger will be applied on each Loan Payment Date in making (i) to the extent not previously paid by the Issuer, payment of amounts payable to the Security Trustee, (ii) to the extent not previously paid by the Issuer, provision for any payment payable to the tax authorities of Luxembourg, (iii) payment of interest due on the Luxembourg Loan, and (iv) the 0.125 per cent. Amount Loan in respect of such Loan Payment Date.

#### **Priority of Payments-Post-Enforcement**

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

- (i) *pro rata* according to the respective amounts thereof:
  - (a) fees, costs, expenses or other amounts payable to the Security Trustee and remuneration then payable to any receiver and any costs, charges, liabilities and expenses then incurred by such receiver together with interest, to the extent not previously paid by the Issuer, as provided in the Security Trust Deed; and
  - (b) amounts due from the Security Trustee to borrowers in respect of Mandatory Further Advances in respect of the PSA4 Mortgages;
- (ii) all principal, interest and any other amounts due and payable in respect of the Luxembourg Loan Agreement; and
- (iii) the surplus (if any) to PSA4.

#### **Restrictions on activities**

PSA4 will covenant in the Security Trust Deed to observe restrictions on its activities similar to those restrictions assumed by the Issuer under the terms and conditions of the Notes.

#### **Effect of Exercise of Luxembourg Call Option**

Under the Luxembourg Loan Agreement, PSA4 will grant to the Issuer the Luxembourg Call Option, exercisable by written notice from the Issuer to PSA4 (with a copy to the Trustee and the Security Trustee) at any time on or after the date on which the Luxembourg Tax Trigger Event occurs, to require PSA4 to sell the PSA4 Mortgages to the Issuer.

The principal effects of the exercise by the Issuer of the Luxembourg Call Option are summarised as follows:

- (a) on the Option Completion Date (which must be an Interest Payment Date), the Issuer will purchase from PSA4 the PSA4 Mortgages which will henceforth become Issuer Mortgages;
- (b) PSA4 will assign to the Issuer certain of its rights under the Luxembourg Mortgage Sale Agreement including the benefit of the warranties it received from PML under the Luxembourg Mortgage Sale Agreement;
- (c) in consideration for the sale, the outstanding principal amount of the Luxembourg Loan together with, to the extent applicable, all interest and other amounts accrued thereunder (whether or not due) will be satisfied in full by the transfer of the PSA4 Mortgages;
- (d) if so requested by PSA4 but provided that the assignee agrees to become a party to the Deed of Charge in place of PSA4, the 0.125 per cent. Amount Loan (including all outstanding principal and accrued interest) will be assigned to PGC provided that PGC agrees to become a party to the Deed of Charge;
- (e) all purchases of Corporate Mortgages following the Option Completion Date will be made directly by the Issuer from PML under the Luxembourg Mortgage Sale Agreement;

- (f) as soon as practicable, the functions of the No.2 Collection Account and the PSA4 Transaction Account will be transferred to the No.1 Collection Account and the Issuer Transaction Account respectively; and
- (g) following the Option Completion Date, all of the Issuer Mortgages (including those Mortgages which were PSA4 Mortgages prior to the Option Completion Date) will be secured by or pursuant to the Deed of Charge instead of the Security Trust Deed.

The Luxembourg Call Option will only come into existence if the Luxembourg Loan Agreement comes into existence. The Luxembourg Loan Agreement will not come into existence if the Luxembourg Tax Trigger Event occurs before 23rd April 2001.

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

The issue of the Class A Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on 24th and 26th April 2001. The Class A Notes will be constituted by a trust deed (the "Trust Deed") expected to be dated 27th April 2001 between the Issuer and Citicorp Trustee Company Limited (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class A Notes (the "Class A Noteholders") and the holders for the time being of the Class B Notes (the "Class B Noteholders"). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to Paragon Mortgages Limited ("PML") of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement to be dated the Closing Date (the "UK Mortgage Sale Agreement") and in making a term advance to Paragon Mortgages (No. 4) S.A. ("PSA4") pursuant to the terms of a loan agreement between, among other persons, the Issuer and PSA4 (the "Luxembourg Loan Agreement") or, in certain circumstances, in purchasing certain other Mortgages from PML pursuant to a further mortgage sale agreement also to be dated the Closing Date (the "Luxembourg Mortgage Sale Agreement").

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PFPLC, PML, PSA4, CMS5, the Administrator, Global Home Loans Limited (the "Substitute Administrator") and the Swap Provider (the "Deed of Charge"). The Trust Deed will include the form of the Global Class A Notes and the definitive Class A Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the "Agency Agreement") expected to be dated the Closing Date between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the "Principal Paying Agent", which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the "Reference Agent", which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the "Paying Agents", which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class A Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class A Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement (if entered into) and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof, Third Floor, Cottons Centre, Hays Lane, London SE1 2QT, and at the specified offices for the time being of the Paying Agents.

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

### **Global Class A Notes**

The Class A Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class A Note in bearer form, without coupons or talons, in the principal amount of £306,000,000. The Temporary Global Class A Note will be deposited on behalf of the subscribers of the Class A Notes with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme, Luxembourg ("Clearstream, Luxembourg"), (the "Common Depositary") on the Closing Date. Upon deposit of the Temporary Global Class A Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class A Notes with the principal amount of Class A Notes for which it has subscribed and paid. Interests in the Temporary Global Class A Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class A Noteholders has been received) for interests in the Permanent Global Class A Note, in bearer form, without coupons or talons, in an equivalent principal

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

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

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

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

If (i) the principal amount of the Class A Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 23rd April 2001, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class A Notes which would not be required were the Class A Notes in definitive form, then the Issuer will (at the Issuer’s expense) issue definitive Class A Notes represented by the Permanent Global Class A Note in exchange for the whole outstanding interest in the Permanent Global Class A Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

## **Security**

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

- (1) a sub-charge over the Issuer Mortgages (including any Non-Verified Mortgages and any PSA4 Mortgage purchased by the Issuer from PSA4 on the Option Completion Date) which comprise English Mortgages and an assignation in security of the Issuer’s interest in the Issuer Mortgages which comprise Scottish Mortgages (including any Non-Verified Mortgages) purchased by the

Issuer from PML under the UK Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment or assignation in security of the benefit of the guarantee;

- (2) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Issuer Mortgages;
- (3) an assignment by way of first fixed security over all of the Issuer's right, title, interest and benefit, present and future, in, to and under the Luxembourg Loan Agreement (if entered into) and the Security Trust Deed (if entered into) (as defined in the Trust Deed);
- (4) an assignment of the Issuer's rights under the UK Mortgage Sale Agreement and the Luxembourg Mortgage Sale Agreement under the Services Letter, under the CMS5 Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the No. 1 Collection Account Declaration of Trust, under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (5) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at National Westminster Bank Plc (the "Transaction Account") and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (6) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and
- (7) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class A Notes, are referred to as the "Security". The Security will also stand as security for any amounts payable by the Issuer to the Class B Noteholders and to any Receiver, the Trustee, the Substitute Administrator, the Administrator, PML, CMS5, PSA4, PFPLC, any Subordinated Lender and the Swap Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement (if entered into), the Deed of Charge, the Fee Letter, the Services Letter, the CMS5 Subordinated Loan Agreement and the Swap Agreement. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto.

## **Terms and Conditions**

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

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

The £306,000,000 Class A Mortgage Backed Floating Rate Notes Due 2031 of the Issuer (the "Class A Notes") are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons ("Interest Coupons") and principal coupons ("Principal Coupons") (severally or together "Coupons") and talons ("Talons") attached. Title to the Class A Notes, the Coupons and the Talons shall pass by delivery.

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

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents (as defined in a trust deed (the "Trust Deed") dated 27th April 2001 between the Issuer and Citicorp Trustee Company Limited (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (the "Class A Noteholders") and the holders for the time being of the Class B Notes (as defined below) (the "Class B Noteholders")) may treat the holder of any Class A Note, Coupon or Talon as the absolute owner thereof (whether or not such Class A



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

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

The Class A Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “Deed of Charge”) dated 27th April 2001 between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, Paragon Mortgages (No. 4) S.A., Collateralised Mortgages Securities (No. 5) Plc, Global Home Loans Limited (the “Substitute Administrator”) and the Swap Provider) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

The £34,000,000 Class B Mortgage Backed Floating Rate Notes Due 2043 of the Issuer (the “Class B Notes”) are constituted by the Trust Deed and are secured by the same security as secures the Class A Notes but the Class A Notes will rank in priority to the Class B Notes in the event of the security being enforced. The Trust Deed and Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class A Noteholders and the Class B Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders or the other persons entitled to the benefit of the Security.

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

- (A) So long as any of the Class A Notes or the Class B Notes remains outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:
- (1) carry on any business other than as described in the Offering Circular dated 24th April 2001 relating to the issues of the Class A Notes and the Class B Notes (and then only in relation to the Issuer Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
    - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances in relation to the Issuer Mortgages;
    - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Class A Notes, the Coupons and Talons and the Class B Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes and the Class B Notes and the other agreements relating to the issues of the Class A Notes and the Class B Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the CMS5 Subordinated Loan Agreement, the Issuer Mortgages, the Deed of Charge, the No. 1 Collection Account Declaration of Trust, the Security Trust Deed (if entered into), the Luxembourg Loan Agreement (if entered into), the Swap Agreement, any Caps, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declaration of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes and the Class B Notes (all as defined in the Trust Deed, the Deed of Charge or the UK Mortgage Sale Agreement) (together the “Relevant Documents”);
    - (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, among other things, make claims, payments and surrenders in respect of certain tax reliefs;

- (d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem the Class A Notes or the Class B Notes in accordance with their respective terms and conditions; and
  - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;
- (2) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding for the avoidance of doubt, indebtedness under the Deed of Charge, the Fee Letter, the Services Letter, the Swap Agreement, the Substitute Administrator Agreement and the VAT Declaration of Trust and excluding any borrowing in accordance with the provisions of the CMS5 Subordinated Loan Agreement and, if entered into, the Luxembourg Loan Agreement;
  - (3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
  - (4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
    - (a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes and the Class B Notes and the performance and observance of every covenant in the Trust Deed and in these Class A Conditions on the part of the Issuer to be performed or observed;
    - (b) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;
    - (c) the Trustee is satisfied that the interests of the Class A Noteholders and the Class B Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
    - (d) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and
    - (e) the then current ratings of the Class A Notes and the Class B Notes are not adversely affected;
  - (5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
  - (6) in a manner which adversely affects the then current ratings of the Class A Notes or the Class B Notes, have any employees or premises or have any subsidiary; or
  - (7) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust) and the Collection Account (as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it.
- (B) So long as any of the Class A Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the “Administrator”). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales and Scotland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, among other things, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any

other substitute administrator, the Substitute Administrator will act as administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the UK Mortgage Sale Agreement or the Luxembourg Mortgage Sale Agreement.

#### **4. Interest**

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

Each Class A Note bears interest on its Principal Amount Outstanding (as defined in Class A Condition 5(b)) from and including 27th April 2001 or such later date as may be agreed between the Issuer and the Managers for the issue of the Class A Notes (the "Closing Date"). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class A Notes, interest in respect of such Class A Notes is payable quarterly in arrear on 7th August 2001 and, thereafter, on 7th February, 7th May, 7th August and 7th November in each year (or, if such date is not a Business Day, the next succeeding day) (each, including 7th August 2001, an "Interest Payment Date"). As used in these Class A Conditions except Class A Condition 6, "Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an "Interest Period". Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on 7th August 2001 in respect of the period from (and including) the Closing Date to (but excluding) 7th August 2001.

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

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

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

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

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

- (i) On the Closing Date (an "Interest Determination Date") in respect of the first Interest Period, the Reference Agent will determine the interest rate on a linear interpolation between sterling deposits for a period of three months and sterling deposits for a period of four months, in each case quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an "Interest Determination Date") in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable to the Class A Notes for

the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.28% per annum up to and including the Interest Period ending in May 2007 and thereafter 0.56% per annum.

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

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

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

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

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

*(f) Determination or Calculation by Trustee*

If the Reference Agent at any time for any reason does not determine the Rate of Interest or calculate an Interest Payment for a Class A Note in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest for such Class A Note at such rate as, in its absolute discretion (having

such regard as it shall think fit to the procedure described in paragraph (c) above, but subject to the terms of the Trust Deed), it shall deem fair and reasonable in all the circumstances or, as the case may be, the, Trustee shall calculate the Interest Payment for such Class A Note in accordance with paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

(g) *Reference Banks and Reference Agent*

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

## 5. **Redemption and Purchase**

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

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

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

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

(A) the aggregate of:

- (i) the sum of (1) all principal received or recovered in respect of the Issuer Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Issuer Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Arrears and Accruals relating thereto but excluding any such amount which under the UK Mortgage Sale Agreement or the Luxembourg Mortgage Sale Agreement, is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger, thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs the “relevant Collection Period”) and (2) any amounts of principal to be repaid or prepaid by PSA4 under the Luxembourg Loan Agreement, if entered into, (other than principal received or to be received from PSA4 which under the terms of the Luxembourg Loan Agreement is excluded from the definition of principal for the purposes of this definition) on the next following Interest Payment Date as determined on the Principal Determination Date on which such calculation occurs;
- (ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Class A Notes and the Class B Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the CMS5 Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid by the Issuer to PML by way of purchase price for the Issuer Mortgages purchased by the Issuer on the Closing Date in accordance with the UK Mortgage Sale Agreement or the Luxembourg

Mortgage Sale Agreement, (b) the aggregate principal amount advanced on the Closing Date by the Issuer to PSA4 under the Luxembourg Loan Agreement, if entered into (c) the amount applied to establish the First Loss Fund on the Closing Date and (d) amounts debited from the Pre-Funding Reserve Ledger up to and including the first Principal Determination Date;

- (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes or Class B Notes on the Interest Payment Date relative thereto;
- (iv) any part of the amount deducted pursuant to (B)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances in respect of Issuer Mortgages or Mandatory Further Advances in respect of Issuer Mortgages or (if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date) Additional PSA4 Advances, or in paying interest on the Class A Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer, in each case on or prior to the preceding Interest Payment Date;

less

(B) the aggregate of:

- (i) the aggregate principal amount of Discretionary Further Advances in respect of Issuer Mortgages made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the CMS5 Subordinated Loan Agreement;
- (ii) the aggregate principal amount of Mandatory Further Advances in respect of the Issuer Mortgages made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the CMS5 Subordinated Loan Agreement;
- (iii) (if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date) the aggregate principal amount of Additional PSA4 Advances (as defined in the Deed of Charge) 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 CMS5 Subordinated Loan Agreement;
- (iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on that Interest Payment Date; and
- (v) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Issuer Mortgages,

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

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the later of the Interest Payment Date falling in May 2006 and the first Interest Payment Date on which the ratio of (I) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes

and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes is 68:340 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and

- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Class B Available Redemption Funds determined as at such date.

The Class B Available Redemption Funds shall equal:

- (i) where such Principal Determination Date falls prior to the occurrence of the Determination Event or (thereafter) if on such Principal Determination Date (a) there is any balance on the Principal Deficiency Ledger or (b) the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 10% or more of the then Current Balances of all of the Mortgages, nil; and
- (ii) on any other Principal Determination Date, provided (a) there is a balance of zero on the Principal Deficiency Ledger and (b) the then Current Balances of Mortgages which are more than three months in arrears represent less than 10% of the then Current Balances of all of the Mortgages, that amount of the Available Redemption Funds determined as at such date which, if applied to the redemption of the Class B Notes, would cause the ratio of (I) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 68:340; provided that the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £16,000,000.

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

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

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

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

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

(c) *Redemption for Taxation or Other Reasons*

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

(d) *Optional Redemption in Full*

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class A Noteholders, and provided no Enforcement Notice has been served following an Event of Default, the Issuer may redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after May 2004 provided that on the Interest Payment Date on which redemption is to be made the Issuer also redeems in full all of the Class B Notes outstanding in accordance with the terms and conditions thereof and provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on such Interest Payment Date and the full amount of any Deferred Interest and Additional Interest (as defined in the terms and conditions of the Class B Notes) which has not been paid on any previous Interest Payment Date pursuant to the terms and conditions thereof) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes and the Class B Notes, or the Trustee is otherwise directed by Extraordinary Resolutions (as defined in the Trust Deed) of the Class A Noteholders and the Class B Noteholders.

All (but not some only) of the Class A Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the sum of (1) the aggregate of the Principal Amount Outstanding of the Class A Notes, and (2) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes is less than £68,000,000 provided that on the Interest Payment Date on which redemption is to be made the Issuer also redeems in full all of the Class B Notes outstanding in accordance with the terms and conditions thereof and provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and all its liabilities in respect of the Class B Notes (including the full amount of



interest payable on the Class B Notes on such Interest Payment Date and the full amount of any Deferred Interest and Additional Interest (as defined in the terms and conditions of the Class B Notes) which has not been paid on any previous Interest Payment Date pursuant to the terms and conditions thereof) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes and the Class B Notes, or the Trustee is otherwise directed by Extraordinary Resolutions (as defined in the Trust Deed) of the Class A Noteholders and the Class B Noteholders.

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in August 2031.

(f) *Purchases*

The Issuer may not purchase Class A Notes.

(g) *Cancellation*

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

(h) *Certification*

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

## 6. Payments

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

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

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

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

If the due date for payment of any amount of principal or interest in respect of any Class A Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay. In this Class A Condition 6 the expression "Business Day" means any day (other than a Saturday or a

Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class A Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class A Note for definitive Class A Notes, on which both Euroclear and Clearstream, Luxembourg are open for business.

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

## **7. Taxation**

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

## **8. Prescription**

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

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

## **9. Events of Default**

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class A Notes outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders (subject, in each case, to being indemnified to its satisfaction) shall (but, in the case of the happening of any of the events mentioned in (ii) to (v) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders) give notice (an “Enforcement Notice”) to the Issuer that the Class A Notes are, and each Class A Note shall accordingly forthwith become, immediately due and repayable at its Principal Amount Outstanding, together with accrued interest as provided in the Trust Deed, if any of the following events (each an “Event of Default”) shall occur:

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

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

- (iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Class A Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Class A Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the CMS5 Subordinated Loan Agreement, the Fee Letter and the Services Letter) or otherwise becomes insolvent.

## **10. Enforcement**

At any time after the Class A Notes become due and repayable at their Principal Amount Outstanding, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the security for the Class A Notes and Coupons and to enforce repayment of the Class A Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or so requested in writing by Class A Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing, if the Class A Notes have become due and repayable pursuant to Class A Condition 9 otherwise than by reason of a default in payment of any amount due on the Class A Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class A Noteholders and the Couponholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cashflow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class A Noteholders and the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class A Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

## **11. Replacements of Class A Notes, Coupons and Talons**

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

## **12. Notices**

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

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

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

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

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

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

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

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

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

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

#### **16. Governing Law**

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

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

The issue of the Class B Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on 24th and 26th April 2001. The Class B Notes will be constituted by a trust deed (the “Trust Deed”) expected to be dated 27th April 2001 between the Issuer and Citicorp Trustee Company Limited (the “Trustee”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class B Notes (the “Class B Noteholders”) and the holders for the time being of the Class A Notes (the “Class A Noteholders”). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to Paragon Mortgages Limited (“PML”) of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement to be dated the Closing Date (the “UK Mortgage Sale Agreement”) and in making a term advance to Paragon Mortgages (No. 4) S.A. (“PSA4”) pursuant to the terms of a loan agreement between, among other persons, the Issuer and PSA4 (the “Luxembourg Loan Agreement”) or, in certain circumstances in purchasing certain other Mortgages from PML pursuant to a further mortgage sale agreement also to be dated the Closing Date (the “Luxembourg Mortgage Sale Agreement”).

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PML, PSA4, CMS5, the Administrator, Global Home Loans Limited (the “Substitute Administrator”) and the Swap Provider (the “Deed of Charge”). The Trust Deed will include the form of the Global Class B Notes and the definitive Class B Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the “Agency Agreement”) expected to be dated the Closing Date between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the “Principal Paying Agent”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “Reference Agent”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “Paying Agents”, which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class B Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class B Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement (if entered into) and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof, Third Floor, Cottons Centre, Hays Lane, London SE1 2QT, and at the specified offices for the time being of the Paying Agents.

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

### **Global Class B Notes**

The Class B Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class B Note in bearer form, without coupons or talons, in the principal amount of £34,000,000. The Temporary Global Class B Note will be deposited on behalf of the subscribers of the Class B Notes with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme, Luxembourg (“Clearstream, Luxembourg”), (the “Common Depositary”) on the Closing Date. Upon deposit of the Temporary Global Class B Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class B Notes with the principal amount of Class B Notes for which it has subscribed and paid. Interests in the Temporary Global Class B Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received) for interests in the Permanent Global Class B Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class B Note (the expression “Global Class B Notes” and “Global Class

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

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

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

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

If (i) the principal amount of the Class B Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 23rd April 2001, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class B Notes which would not be required were the Class B Notes in definitive form, then the Issuer will (at the Issuer’s expense) issue definitive Class B Notes represented by the Permanent Global Class B Note in exchange for the whole outstanding interest in the Permanent Global Class B Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

## **Security**

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

- (1) a sub-charge over the Issuer Mortgages (including any Non-Verified Mortgages and any PSA4 Mortgage purchased by the Issuer from PSA4 on the Option Completion Date) which comprise English Mortgages and an assignation in security of the Issuer’s interest in the Issuer Mortgages which comprise Scottish Mortgages including any Non-Verified Mortgages purchased by the

Issuer from PML under the UK Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment or assignation in security of the benefit of the guarantee;

- (2) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Issuer Mortgages;
- (3) an assignment by way of first fixed security over all of the Issuer's right, title, interest and benefit, present and future, in, to and under the Luxembourg Loan Agreement (if entered into) and the Security Trust Deed (if entered into) (as defined in the Trust Deed);
- (4) an assignment of the Issuer's rights under the UK Mortgage Sale Agreement, and the Luxembourg Mortgage Sale Agreement, under the Services Letter, under the CMS5 Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the No. 1 Collection Account Declaration of Trust, under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (5) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at National Westminster Bank Plc (the "Transaction Account"), and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (6) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and
- (7) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class B Notes, are referred to as the "Security". The Security will also stand as security for any amounts payable by the Issuer to the Class A Noteholders and to any Receiver, the Trustee, the Substitute Administrator, the Administrator, PML, CMS5, PSA4, PFPLC, any Subordinated Lender and the Swap Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement (if entered into), the Deed of Charge, the Fee Letter, the Services Letter, the CMS5 Subordinated Loan Agreement and the Swap Agreement. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto.

## **Terms and Conditions**

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

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

The £34,000,000 Class B Mortgage Backed Floating Rate Notes Due 2043 of the Issuer (the "Class B Notes") are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons ("Interest Coupons") and principal coupons ("Principal Coupons") (severally or together "Coupons") and talons ("Talons") attached. Title to the Class B Notes, the Coupons and the Talons shall pass by delivery.

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

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents (as defined in a trust deed (the "Trust Deed") dated 27th April 2001 between the Issuer and Citicorp Trustee Company Limited (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (as defined below) (the "Class A Noteholders") and the holders for the time being of the Class B Notes (the "Class B Noteholders")) may treat the holder of any Class B Note, Coupon or Talon as the absolute owner thereof (whether or not such



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

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

The Class B Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “Deed of Charge”) dated 27th April 2001 between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, Paragon Mortgages (No. 4) S.A., Collateralised Mortgage Securities (No.5) PLC, Global Home Loans Limited (the “Substitute Administrator”) and the Swap Provider) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

Payments of principal and interest on the Class B Notes are subordinated to, among other things, payments of principal and interest on the £306,000,000 Class A Mortgage Backed Floating Rate Notes Due 2031 of the Issuer (the “Class A Notes”) in accordance with the provisions of Class B Condition 7, the Trust Deed and the Deed of Charge.

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

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

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

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

- (1) carry on any business other than as described in the Offering Circular dated 24th April 2001 relating to the issues of the Class A Notes and the Class B Notes (and then only in relation to the Issuer Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
  - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances in relation to the Issuer Mortgages;
  - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Class B Notes, the Coupons and Talons and the Class A Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes and the Class B Notes and the other agreements relating to the issues of the Class A Notes and the Class B Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the CMS5 Subordinated Loan Agreement, the Issuer Mortgages, the Deed of Charge, the No. 1 Collection Account Declaration of Trust, the Security Trust Deed (if entered into), the Luxembourg Loan Agreement (if entered into), the Swap Agreement, any Caps, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declaration of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes and the Class B Notes (all as defined in the Trust Deed, the Deed of Charge or in the UK Mortgage Sale Agreement) (together the “Relevant Documents”);

- (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, *inter alia*, make claims, payments and surrenders in respect of certain tax reliefs;
  - (d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem the Class B Notes or the Class A Notes in accordance with their respective terms and conditions; and
  - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;
- (2) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding for the avoidance of doubt, indebtedness under the Deed of Charge, the Fee Letter, the Services Letter, the Swap Agreement, the Substitute Administrator Agreement and the VAT Declaration of Trust and excluding any borrowing in accordance with the provisions of the CMS5 Subordinated Loan Agreement and, if entered into, the Luxembourg Loan Agreement;
  - (3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
  - (4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
    - (a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes and the Class B Notes and the performance and observance of every covenant in the Trust Deed and in these Class B Conditions on the part of the Issuer to be performed or observed;
    - (b) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;
    - (c) the Trustee is satisfied that the interests of the Class A Noteholders and the Class B Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
    - (d) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and
    - (e) the then current ratings of the Class A Notes and the Class B Notes are not adversely affected;
  - (5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
  - (6) in a manner which adversely affects the then current ratings of the Class A Notes or the Class B Notes, have any employees or premises or have any subsidiary; or
  - (7) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust) and the Collection Account (as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it.
- (B) So long as any of the Class B Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the “Administrator”). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales and Scotland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, among other things, the Administrator is in breach of its obligations under the Administration Agreement which breach, in

the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, the Substitute Administrator will act as administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the UK Mortgage Sale Agreement or the Luxembourg Mortgage Sale Agreement.

#### **4. Interest**

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

Each Class B Note bears interest on its Principal Amount Outstanding (as defined in Condition 5(b)) from and including 27th April 2001 or such later date as may be agreed between the Issuer and the Manager for the issue of the Class B Notes (the "Closing Date"). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class B Notes, interest in respect of the Class B Notes is (subject to Class B Condition 7) payable quarterly in arrear on 7th August 2001 and, thereafter, on 7th February, 7th May, 7th August and 7th November in each year (or, if such date is not a Business Day, the next succeeding day) (each, including 7th August 2001, an "Interest Payment Date"). To the extent that the funds available to the Issuer to pay interest on the Class B Notes on the Principal Determination Date immediately preceding an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall ("Deferred Interest") which will be borne by each Class B Note, in a proportion equal to the proportion that the Principal Amount Outstanding of that Class B Note bears to the aggregate Principal Amount Outstanding of the Class B Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not then fall due but will instead, subject to Class B Condition 7, be deferred until the first Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available (after allowing for the Issuer's liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. Such Deferred Interest will accrue interest ("Additional Interest") at the rate of interest applicable from time to time to the Class B Notes and, subject to Class B Condition 7, payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest to the extent of such available funds. To the extent that any such Deferred Interest or Additional Interest is not subsequently paid, the Issuer's obligation to the Class B Noteholders in respect of any such Deferred Interest and/or Additional Interest will be subject to Class B Condition 7. As used in these Class B Conditions except Class B Condition 6, "Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an "Interest Period". Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on 7th August 2001 in respect of the period from (and including) the Closing Date to (but excluding) the 7th August 2001.

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

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

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

*(c) Rate of interest*

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

- (i) On the Closing Date (an “Interest Determination Date”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on a linear interpolation between sterling deposits for a period of three months and sterling deposits for a period of four months, in each case quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “Interest Determination Date”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.80%, per annum up to and including the Interest Period ending in May 2007 and thereafter 1.60% per annum.
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds Bank Plc, HSBC Bank Plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “Reference Banks”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for three-month and four-month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.
- (iii) There shall be no maximum or minimum Rate of Interest.

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

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable, subject to Class B Condition 7, on, a Class B Note (an “Interest Payment”) for the relevant Interest Period. The Interest Payment for a Class B Note shall be calculated by applying the Rate of

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

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

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

*(f) Determination or Calculation by Trustee*

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

*(g) Reference Banks and Reference Agent*

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

## 5. Redemption and Purchase

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

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

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

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

(A) the aggregate of:

- (i) the sum of (1) all principal received or recovered in respect of the Issuer Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Issuer Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Arrears and Accruals relating thereto but excluding any such amount which under the UK Mortgage Sale Agreement or the Luxembourg Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger, thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the “relevant Collection Period”) and (2) any amounts of principal to be repaid or prepaid by PSA4 under the Luxembourg Loan Agreement (if entered into) other than principal received or to be received from PSA4 which under the terms of the Luxembourg Loan Agreement is excluded from the definition of principal for the purposes of this definition on the next following Interest Payment Date as determined on the Principal Determination Date on which such calculation occurs;
- (ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Class A Notes and the Class B Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the CMS5 Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid by the Issuer to PML by way of purchase price for the Issuer Mortgages purchased by the Issuer on the Closing Date in accordance with the UK Mortgage Sale Agreement or the Luxembourg Mortgage Sale Agreement, (b) the aggregate principal amount advanced on the Closing Date by the Issuer to PSA4 under the Luxembourg Loan Agreement (if entered into), (c) the amount applied to establish the First Loss Fund on the Closing Date and (d) amounts debited from the Pre-Funding Reserve Ledger up to and including the first Principal Determination Date;
- (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes or Class B Notes on the Interest Payment Date relative thereto;
- (iv) any part of the amount deducted pursuant to (B)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances in respect of Issuer Mortgages or Mandatory Further Advances in respect of Issuer Mortgages or (if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date) Additional PSA4 Advances, or in paying interest on the Class A Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer, in each case on or prior to the preceding Interest Payment Date;

less

(B) the aggregate of:

- (i) the aggregate principal amount of Discretionary Further Advances in respect of the Issuer Mortgages made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the CMS5 Subordinated Loan Agreement;
- (ii) the aggregate principal amount of Mandatory Further Advances in respect of Issuer Mortgages made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the CMS5 Subordinated Loan Agreement;
- (iii) (if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date) the aggregate principal amount of Additional PSA4 Advances (as defined in the Deed of Charge) 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 CMS5 Subordinated Loan Agreement;
- (iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on that Interest Payment Date; and
- (v) the aggregate amount of principal applied during the relevant Collection Period in refunding direct debit payments, in respect of the Issuer Mortgages,

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

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

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the later of the Interest Payment Date falling in May 2006 and the first Interest Payment Date on which the ratio of (I) the aggregate Principal Amount Outstanding of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes and the aggregate Principal Amount Outstanding of the Class B Notes is 68:340 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Class B Available Redemption Funds determined as at such date.

The Class B Available Redemption Funds shall equal:

- (i) where such Principal Determination Date falls prior to the occurrence of the Determination Event or (thereafter) if on such Principal Determination Date (a) there is any balance on the Principal Deficiency Ledger or (b) the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 10% or more of the then Current Balances of all of the Mortgages nil; and
- (ii) on any other Principal Determination Date, provided (a) there is a balance of zero on the Principal Deficiency Ledger and (b) the then Current Balances of Mortgages which are more than three months in arrears represent less than 10% of the then Current Balances of all of the Mortgages, that amount of the Available Redemption Funds determined as at such date which, if applied to the redemption of the Class B Notes, would cause the ratio of (I) the aggregate Principal Amount Outstanding of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes and the aggregate Principal Amount Outstanding of the Class B Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal

Determination Date) after such application to become as nearly as possible equal to 68:340; provided that the aggregate Principal Amount Outstanding of the Class B Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £16,000,000.

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

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

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

*(c) Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class B Notes, or the Issuer or the Swap Provider or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under the Swap Agreement or any Permitted Hedge Agreement, any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, provided that on the Interest Payment Date on which such notice expires either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on the



Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class B Condition 7) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes, or the Trustee is otherwise directed by Extraordinary Resolution (as defined in the Trust Deed) of the Class B Noteholders, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class B Condition 13, redeem all, but not some only, of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date.

*(d) Optional Redemption in Full*

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class B Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class B Condition 7) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes or the Trustee is otherwise directed by Extraordinary Resolution of the Class B Noteholders, the Issuer may, on any Interest Payment Date falling in or after May 2004 or, if earlier, falling on or after the date on which all the Class A Notes are redeemed in full, redeem all (but not some only) of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption.

*(e) Redemption on Maturity*

If not otherwise redeemed, the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in August 2043.

*(f) Purchases*

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

*(g) Cancellation*

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

*(h) Certification*

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

## **6. Payments**

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

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

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

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

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

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

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

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

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

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class B Notes on any Interest Payment Date in accordance with this Class B Condition falls short of the aggregate amount of interest payable on the Class B Notes on that date pursuant to Class B Condition 4. Such shortfall shall accrue interest in accordance with the provisions of Class B Condition 4. Any such shortfall, together with any accrued interest thereon will, subject to this Condition 7, be payable on the next following Interest Payment Date. Any accrued but unpaid interest (together with any interest thereon) outstanding on the Interest Payment Date falling in August 2043 or on any earlier date upon which the Class B Notes are redeemed in full shall be due and payable on such Interest Payment Date or other earlier date.

## **8. Taxation**

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

## 9. Prescription

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

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

## 10. Events of Default

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

- (i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Class B Notes or any of them or for a period of 15 days or more in the payment on the due date of any interest upon the Class B Notes or any of them; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class B Noteholders; or
- (iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the Court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or
- (iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Class B Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or

interest on the Class B Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or

- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the CMS5 Subordinated Loan Agreement, the Fee Letter and the Services Letter) or otherwise becomes insolvent; or
- (vi) notice is given to the Issuer pursuant to the Trust Deed that the Class A Notes are immediately due and repayable.

## **11. Enforcement and Post Enforcement Call Option**

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

In the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class B Notes and Coupons under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class B Notes and all other claims ranking *pari passu* therewith, then the Class B Noteholders and the Class B Couponholders shall, upon the Security having been enforced and realised to the maximum possible extent as certified by the Trustee, be forthwith entitled to their respective shares of such remaining proceeds (as determined in accordance with the provisions of the Deed of Charge) and, after payment to each Class B Noteholder or Class B Couponholder (as the case may be) of its respective share of such remaining proceeds, all interests in the Permanent Global Class B Note will be automatically exchanged for equivalent interests in an equivalent amount of Class B Notes in definitive form and such Permanent Global Class B Note (if any) will be cancelled. On the date of such exchange (the "Option Exercise Date"), the Trustee (on behalf of all of the Class B Noteholders) will, at the request of Paragon Options PLC ("POPLC"), transfer for a consideration of £0.01 per Class B Note all (but not some only) of the Class B Notes to POPLC pursuant to the option granted to it by the Trustee (as agent for the Noteholders) pursuant to a post enforcement call option deed (the "Post Enforcement Call Option Deed") dated on or about 27th April 2001 between the Issuer, POPLC and the Trustee. POPLC will agree pursuant to a deed (the "Deed") dated on or about 27th April 2001 to exercise the option granted in its favour pursuant to the Post Enforcement Call Option Deed. Immediately upon such transfer, no such former Class B Noteholder shall have any further interest in the Class B Notes. Each of the Class B Noteholders acknowledges that the Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post Enforcement Call Option Deed and each Class B Noteholder, by subscribing for or purchasing Class B Notes, agrees to be so bound.

## **12. Replacements of Notes, Coupons and Talons**

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

## **13. Notices**

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

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

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

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

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

Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution. An Extraordinary Resolution passed at any meeting of the Class A Noteholders (or any particular class of Class A Noteholders) shall be binding on all Class B Noteholders and Couponholders, irrespective of its effect upon such holders or their interests.

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

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

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

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

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

#### **17. Governing Law**

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

## USE OF PROCEEDS

The gross proceeds from the issue of the Class A Notes will be £306,000,000 and those from the issue of the Class B Notes will be £34,000,000. Commissions of 0.175% of the principal amount of the Class A Notes and of 0.30% of the principal amount of the Class B Notes will be payable on the issues of the Notes. These commissions, together with certain other expenses of the issues, will be paid on behalf of or reimbursed to the Issuer by PML as described in “The Issuer-Fee Letter” below. The net proceeds from the issue of the Notes, which will be approximately £339,362,500, and the sums paid by PML to the Issuer in respect of such commissions on the Closing Date will be applied towards payment to PML of the purchase price for the Issuer Mortgages to be purchased pursuant to the UK Mortgage Sale Agreement. If the Luxembourg Tax Trigger Event has occurred before 23rd April 2001, such sums will also be applied towards payment to PML for the Issuer Mortgages to be purchased pursuant to the Luxembourg Mortgage Sale Agreement and otherwise such sums will be applied in making the Initial PSA4 Advance to PSA4 to enable PSA4 to purchase the PSA4 Mortgages on the Closing Date pursuant to the Luxembourg Mortgage Sale Agreement, subject to and in accordance with the provisions of the Luxembourg Loan Agreement, and, in addition (subject to certain conditions), in enabling the Issuer to purchase Non-Verified Mortgages and/or to make, pursuant to the Luxembourg Loan Agreement, any Non-Verified Mortgage Advances (so as to enable PSA4 to purchase Non-Verified Mortgages pursuant to the Luxembourg Mortgage Sale Agreement).

## RATINGS

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

## THE ISSUER

### Introduction

The Issuer was incorporated in England (registered number 2231301) as a public limited company under the Companies Act 1985 on 16 March 1988 as Majormammoth PLC. It has changed its name twice. The first change was to Collateralised Mortgage Securities (No. 10) PLC on 8 May 1991. The second change was to Paragon Mortgages (No. 3) PLC on 9 March 2001. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The Issuer is a subsidiary of PGC, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The ordinary share capital of PGC is listed by the UK Listing Authority and is traded on the London Stock Exchange.

The principal objects of the Issuer are set out in clause 4 of its Memorandum of Association and include acquiring and/or investing in mortgage loans or interests therein and lending or advancing money or giving credit to any persons or companies for any purpose whatsoever, borrowing or raising money and entering into hedging and/or derivative arrangements or transactions.

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

The Issuer has not engaged, since its incorporation, in any material activities other than (i) those incidental to its registration and re-registration as a public limited company under the Companies Act 1985, (ii) the authorisation and issue in May 1991 of £100,000,000 11<sup>3</sup>/<sub>4</sub> % Secured Bonds due 1996 and all activities and transactions related or incidental thereto (the "1996 Bonds"), the subsequent redemption of the 1996 Bonds on 31 May 1996 (in respect of which there are no outstanding actual or contingent liabilities), (iii) the activities described in the report set out under "Accountants' Report" below, (iv) the authorisation of the issue of the Notes and the matters contemplated in this Offering Circular and execution of the other documents referred to in this Offering Circular to which it is a party, (v) application for a standard licence under the Consumer Credit Act 1974, (vi) registering under the Data Protection Acts 1984 and 1998, and (vii) applying to join the Paragon VAT Group and, in each case, any other activities incidental to any of the foregoing.

### Directors and Secretary

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

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

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

The Issuer has no employees.



## **Management and Activities**

Pursuant to the Administration Agreement and a letter agreement from the Issuer to PFPLC to be dated the Closing Date (the “Services Letter”), PFPLC will, unless and until certain events occur, undertake the day to day management and administration of the business of the Issuer and unless the Luxembourg Tax Trigger Event has occurred before 23rd April 2001 and prior to the Option Completion Date, PSA4. The Issuer will agree (for and on behalf of itself and, unless the Luxembourg Tax Trigger Event has occurred before 23rd April 2001 and prior to the Option Completion Date, PSA4) to pay PFPLC, for the provision of the services provided pursuant to the Services Letter, a fee payable quarterly in arrears and calculated on the basis of an apportionment, according to the average gross value of mortgages under management during the relevant period, of the direct costs incurred by PFPLC in respect of those services, together with the central service and utility costs borne by PFPLC and together with such further amount as may from time to time be agreed between PFPLC and the Issuer. Amounts owing to PFPLC under the Services Letter will be subordinated in the manner described in “Summary – Priority of Payments” above.

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

## **Fee Letter**

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

## **Subordinated Loan Facility from CMS5**

By the CMS5 Subordinated Loan Agreement (which is to be made between CMS5, the Issuer and the Trustee and to be dated the Closing Date) CMS5 will agree to make available to the Issuer a loan facility, under which an amount or amounts will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund and to achieve the initial ratings on the Notes. Under the terms of the CMS5 Subordinated Loan Agreement, CMS5 will also agree to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make, or, if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date, where PSA4 also has insufficient Available Loan Redemption Funds, to fund any Additional PSA4 Advances under the Luxembourg Loan Agreement (if entered into) to enable PSA4 to make any Mandatory Further Advances in respect of PSA4 Mortgages. In addition, CMS5 may, at its discretion, make available to the Issuer further amounts under the CMS5 Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances in respect of Issuer Mortgages, or, if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date, where PSA4 also has insufficient Available Loan Redemption Funds, to fund any Additional PSA4 Advances under the Luxembourg Loan Agreement (if entered into), to enable PSA4 to make any Discretionary Further Advances in respect of PSA4 Mortgages. In addition, CMS5 may, at its discretion, make available to the Issuer further amounts under the CMS5 Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order to restore to zero the Principal Deficiency Ledger and thus enable the Issuer to make any Discretionary Further Advances in respect of Issuer Mortgages or to fund any Additional PSA4 Advances under the Luxembourg Loan Agreement, to enable, if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date, PSA4 to make any Discretionary Further Advances in respect of PSA4 Mortgages and/or (ii) to enable the Issuer to make any Discretionary Further Advances when the cumulative limit of £50,000,000 referred to under “Further Advances in respect

of the Mortgages” above is exceeded. Further drawings may be made by the Issuer under the CMS5 Subordinated Loan Agreement, with the prior consent of CMS5, for the purpose of establishing or increasing the Shortfall Fund and, in addition, prior to the Option Completion Date, to fund the payment of certain expenses of PSA4. CMS5 may lend further sums to the Issuer under the CMS5 Subordinated Loan Agreement to be used by the Issuer to purchase Caps or other hedging arrangements and related guarantees (where required) in respect of Converted Mortgages. The Issuer may from time to time borrow further sums from CMS5 or others on the terms of the CMS5 Subordinated Loan Agreement. Amounts owing to CMS5 and any Subordinated Lenders under the CMS5 Subordinated Loan Agreement will be subordinated in the manner described in “Summary – Priority of Payments – prior to enforcement” above.

CMS5 will also agree to make further advances to the Issuer under the CMS5 Subordinated Loan Agreement, as follows: (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it to pay any Swap Termination Amounts due and payable to the Swap Provider or any Permitted Hedge Provider on such Interest Payment Date; and (ii) at any time where the Issuer or PSA4, or the Administrator on the Issuer’s or PSA4’s behalf, waives any prepayment charges applicable to any Mortgage, in an amount equal to such waived prepayment charge.

In addition, further drawings may be made by the Issuer under the CMS5 Subordinated Loan Agreement in order to fund (if necessary) purchases of amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages by the Issuer, and/or, if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date, to fund a Non-Verified Mortgage Advance (to enable PSA4 also to purchase amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages).

Interest under the CMS5 Subordinated Loan Agreement will be payable by the Issuer quarterly on or after the first Business Day after each Interest Payment Date commencing with the Interest Payment Date falling on 7 August 2001 on the amount of the loan at the rate of 4% per annum above LIBOR (or such other rate which is a fair commercial rate at the relevant time). Principal will be repayable on the earlier of (i) the day following the last Interest Payment Date falling in August 2043 and (ii) the first day on which there are no Notes outstanding except that on any Interest Payment Date (a) sums borrowed under the CMS5 Subordinated Loan Agreement will be repaid to the extent of any amount released from the First Loss Fund (as described in “Summary – First Loss Fund” above); and (b) to the extent there is outstanding any advance made to establish or increase the Shortfall Fund or to reduce the Principal Deficiency Ledger to zero, sums borrowed for such purposes may be repaid to the extent of the funds available to the Issuer to do so (see “Summary – Priority of Payments – prior to enforcement” above). Payments of interest under the CMS5 Subordinated Loan Agreement may only be made by the Issuer if, after applying its net income (other than principal receipts in respect of the Mortgages) in making a number of other payments or provisions, the Issuer still has sufficient funds for the purpose as more particularly described in “Summary – Priority of Payments – prior to enforcement” above.

### **Hedging Arrangements**

On the Closing Date, the Issuer will have entered into hedging arrangements under the Swap Agreement in accordance with the Rating Agencies’ requirements to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages which are acquired by it or by PSA4 on the Closing Date.

In relation to any Fixed Rate Mortgages or, as the case may be, Capped Rate Mortgages, arising upon conversion of any Mortgages which are not as at the Closing Date Fixed Rate Mortgages, or, as the case may be, Capped Rate Mortgages, into Fixed Rate Mortgages or, as the case may be, Capped Rate Mortgages, or in relation to any Fixed Rate Mortgages or Capped Rate Mortgages acquired by the Issuer or PSA4 on a date following the Closing Date and on or prior to the first Principal Determination Date, the Issuer will be obliged to enter into hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes.

Hedging arrangements may be provided by any bank or financial institution provided that on the date on which it makes such arrangements available to the Issuer, such bank or financial institution has a rating for its long term or short term debt obligations sufficient to maintain the then ratings of the Notes unless such arrangements are guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge. Hedging arrangements may, but need not, include one or more Caps which will be made available to the Issuer by means of one or more cap agreements entered into with a Cap Provider or may comprise other hedging arrangements entered into with the Swap Provider under the Swap Agreement.

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

If the Issuer or the Swap Counterparty is required to make any deduction or withholding for or on account of United Kingdom tax from any amounts payable by it under the Swap Agreement on any Interest Payment Date, then under the terms of the Swap Agreement, (i) the Swap Counterparty will be obliged to pay additional amounts (“Additional Amounts”) to ensure that the Issuer receives the full amount it would otherwise have received from the Swap Counterparty and (ii) the Issuer shall make such payment after such withholding or deduction has been made (such withholding or deduction, a “Withheld Amount”) and shall not be obliged to make any additional payments to the Swap Counterparty in respect of such withholding or deduction.

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

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

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

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

### Capitalisation and indebtedness

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

<b>Share capital</b>	<b>£</b>
100,000 Ordinary Shares @ £1 each (all fully paid) .. .. .	100,000.00
	<u>100,000.00</u>
<b>Secured Loan Capital</b>	
£306,000,000 Class A Mortgage Backed Floating Rate Notes Due 2031 .. .. .	306,000,000
£34,000,000 Class B Mortgage Backed Floating Rate Notes Due 2043 .. .. .	34,000,000
	<u>340,000,000<sup>(1)</sup></u>

*Note:*

(1) In addition, an advance under the CMS5 Subordinated Loan Agreement will be made on the Closing Date in an amount sufficient, among other things, to enable the Issuer to achieve the initial ratings on the Notes. The amount of this advance is expected to be approximately £6,800,000.

The current financial period of the Issuer will end on 30 September 2001. The balance sheets of the Issuer as at 30 September 1999, 30 September 2000 and 24 April 2001 are set out below. As at the date of this Offering Circular, the Issuer has no actual or contingent liabilities other than as a result of the entry into the Class A Subscription Agreement and the Class B Subscription Agreement.

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

“The Directors  
Paragon Mortgages (No 3) Plc  
St Catherine’s Court  
Herbert Road  
Solihull  
West Midlands  
B91 3QE

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

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

Our Ref: PJNH/MDC

24 April 2001

Dear Sirs

**Paragon Mortgages (No 3) PLC (the “Company”)**

We report on the financial information set out below. This financial information has been prepared for inclusion in the Offering Circular dated 24 April 2001 (the “Offering Circular”) relating to the issue of £306,000,000 Class A Mortgage Backed Floating Rate Notes due 2031 and £34,000,000 Class B Mortgage Backed Floating Rate Notes due 2043 (the “Issue”).

**Basis of preparation**

The financial information set out in this report is based on the audited financial statements of the Company for the period from 1 October 1998 to 24 April 2001 to which no adjustments were considered necessary.

The Company was incorporated and registered as a public limited company in England and Wales on 16 March 1988 under the name of MAJORMAMMOTH PUBLIC LIMITED COMPANY. The name of the company was changed to COLLATERALISED MORTGAGE SECURITIES (NO 10) PLC on 8 May 1991. It changed its name to PARAGON MORTGAGES (NO 3) PLC on 9 March 2001.

The Company commenced trading on 31 May 1991 following the issue of £100,000,000 11<sup>3</sup>/<sub>4</sub>% Secured Bonds due 1996 (the “CMS10 Issue”) as detailed in the Offering Circular dated 24 May 1991. Those Bonds were repaid in full on 31 May 1996.

We have been auditors of the Company since our appointment on 23 September 1988.

This information does not constitute statutory financial statements.

**Responsibility**

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

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

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

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence

included that previously obtained by us relating to the audit of the statutory financial statements for the years ended 30 September 1999 and 30 September 2000, and that obtained by us relating to the audit of the non-statutory financial statements for the period ended 24 April 2001, underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

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

### Opinion

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

### PROFIT AND LOSS ACCOUNT

Years ended 30 September 1999, 30 September 2000, and period ended 24 April 2001

	<i>Notes</i>	<i>1999</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>
Interest receivable .. .. .	2	1	—	—
Operating expenses .. .. .		(1)	—	—
<b>Operating profit on ordinary activities before taxation</b> .. .. .	4	—	—	—
Taxation on profit on ordinary expenses .. .. .	5	—	—	—
<b>Profit on ordinary activities after taxation</b> .. .. .	8	—	—	—

All material activities derive from continuing operations.

There are no recognised gains and losses, or other movements in shareholders' funds.

### BALANCE SHEETS

As at 30 September 1999, 30 September 2000, and 24 April 2001

	<i>Notes</i>	<i>1999</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>
<b>ASSETS EMPLOYED</b>				
<b>Current Assets</b>				
Debtors.. .. .	6	83	—	—
Cash at bank and in hand .. .. .		15	16	24
		98	16	24
<b>FINANCED BY</b>				
<b>Equity Shareholders' Deficit</b>				
Called up share capital .. .. .	7	12	12	100
Profit and loss account .. .. .	8	(76)	(76)	(76)
		(64)	(64)	24
<b>CREDITORS</b>				
Amounts falling due within one year.. .. .	9	162	80	—
		98	16	24

## NOTES TO THE FINANCIAL INFORMATION

Years ended 30 September 1999, 30 September 2000 and period ended 24 April 2001

### 1. ACCOUNTING POLICIES

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

#### Accounting convention

The financial statements are prepared under the historical cost convention.

#### Transactions with other group companies

The company has taken advantage of the exemption granted by Financial Reporting Standard 8 – ‘Related Party Disclosures’ and does not therefore provide details of transactions with other group companies.

### 2. INTEREST RECEIVABLE

	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Interest receivable on investments .. .. .	1	—	—
	<u>1</u>	<u>—</u>	<u>—</u>

### 3. DIRECTORS AND EMPLOYEES

None of the four directors received any remuneration from the company during the period ended 24 April 2001 (years ended 30 September 2000 and 1999: £nil).

There were no other employees during either the period ended 24 April 2001 or the preceding two years.

### 4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit on ordinary activities before taxation is after charging:			
Auditors' remuneration – audit services .. .. .	1	—	—
	<u>1</u>	<u>—</u>	<u>—</u>

### 5. TAXATION

There was no tax charge for the period ended 24 April 2001 or the two years ended 30 September 2000.

There has been no provided or unprovided deferred tax at any of the above balance sheet dates.

### 6. DEBTORS

	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Amounts falling due within one year:			
Amounts due from group companies .. .. .	83	—	—
	<u>83</u>	<u>—</u>	<u>—</u>

## 7. CALLED UP SHARE CAPITAL

	30 September 1999		30 September 2000		24 April 2001	
	No.	£	No.	£	No.	£
Authorised						
Ordinary shares of £1 each .. .. .	50,000	50,000	50,000	50,000	100,000	100,000
	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>100,000</u>	<u>100,000</u>
Allotted:						
Ordinary shares of £1 each, 25p paid ..	49,998	12,500	49,998	12,500	—	—
Ordinary shares of £1 each, fully paid up	2	2	2	2	100,000	100,000
	<u>50,000</u>	<u>12,502</u>	<u>50,000</u>	<u>12,502</u>	<u>100,000</u>	<u>100,000</u>

The Company increased its authorised share capital on 28 March 2001 to 100,000 ordinary shares of £1 each. It issued an additional 50,000 £1 ordinary shares on 28 March 2001, for which £50,000 was received in consideration.

On 28 March 2001 the 49,998 shares that were 25p paid, were paid up to £1.

As a result of these changes in the Company's share capital, as at 28 March 2001, the Company had authorised and issued share capital of £100,000 consisting of 100,000 £1 ordinary shares.

## 8. RESERVES

	<i>Profit and loss account</i>	
	<i>2000</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
Balance at 1 October 1999/1 October 2000 .. .. .	(76)	(76)
Retained profit for the year/period .. .. .	—	—
Balance at 30 September 2000/24 April 2001 .. .. .	<u>(76)</u>	<u>(76)</u>

## 9. CREDITORS

	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Amounts falling due within one year:			
Amount due to parent company .. .. .	161	79	—
Accruals .. .. .	1	1	—
	<u>162</u>	<u>80</u>	<u>—</u>

#### **10. ULTIMATE PARENT COMPANY**

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

Yours faithfully

Deloitte & Touche  
Chartered Accountants'

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



## PARAGON MORTGAGES (No. 4) S.A.

### Introduction

Paragon Mortgages (No. 4) S.A. (“PSA4”) was incorporated as a company in Luxembourg with registered number B80149. PSA4 is a subsidiary of PGC. The registered office of PSA4 is at 33 boulevard du Prince Henri, L-1724 Luxembourg. PSA4 was incorporated on 22 December 2000 and operates as a “Professional of the Financial Sector” authorised under the Luxembourg Law of 5th April 1993 on the Financial Sector.

The principal objects of PSA4 are to purchase receivables, to raise or borrow money and to grant security over its assets for such purposes, to lend money, to invest in and acquire loans and other similar investments and to manage or administer loans, and are set out in Article 3 of its Articles of Incorporation.

Under the Security Trust Deed to be entered into on the Closing Date (unless the Luxembourg Tax Trigger Event has occurred on or before 23rd April 2001), PSA4’s only business is to draw down advances under the Luxembourg Loan Agreement and to purchase the PSA4 Mortgages.

PSA4 has not engaged, since its incorporation, in any material activities other than those incidental to the authorisation and entering into of the Luxembourg Loan Agreement, the Security Trust Deed, the Luxembourg Mortgage Sale Agreement, the matters contemplated in this Offering Circular and the authorisation and execution of the other documents referred to in this document to which it is a party.

PSA4 will enter into contractual arrangements which will restrict it from engaging in business other than as is necessary for it to fulfil its obligations arising from matters contemplated in this Offering Circular, and under the documentation to which it will be a party in connection with this transaction. These restrictions will be similar in nature to those into which the Issuer will enter under the Notes.

### Directors and Secretary

The Directors of PSA4 and their respective business addresses and principal activities are:

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

PSA4 has no employees.

### Management and Activities

Pursuant to the Administration Agreement, PFPLC will, unless and until certain events occur, undertake the administration of the PSA4 Mortgages and will act on behalf of PSA4 in relation to the Luxembourg Loan Agreement.

PSA4 will covenant to observe certain restrictions on its activities which are similar to those detailed in respect of the Issuer and are described in “Description of the Class A Notes, the Global Class Notes and the Security-Covenants of the Issuer” above.

### Capitalisation

The capitalisation of PSA4 as at 24th April 2001 is as follows:

<b>Share capital</b>	<b>£</b>
Authorised and issued	
25,000 Ordinary Shares of £4 each (all fully paid) .....	100,000
	<hr/>
	100,000
	<hr/> <hr/>

PSA4 has no loan capital, borrowings, indebtedness and/or contingent liabilities.

PGC holds 24,999 Ordinary Shares and PFPLC holds one Ordinary Share of PSA4. There are no subsidiaries of PSA4.

The current financial period of PSA4 will end on 30 September 2001. The balance sheet of PSA4 as at 24th April 2001 is set out below.

The following is the text of a report received by the Directors of PSA4 from Deloitte & Touche S.A., Réviseur d'entreprises, the Auditors to PSA4:

“The Board of Directors  
Paragon Mortgages (No. 4) S.A.  
33, boulevard du Prince Henri  
L-1724 LUXEMBOURG

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

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

April 24, 2001

Dear Sirs

**Paragon Mortgages (No. 4) S.A. (“PSA4” or “the Company”)**

We report on the financial information set out below. This financial information has been prepared for inclusion in the Offering Circular dated April 24, 2001, relating to the issue of £306,000,000 Class A Mortgage Backed Floating Rate Notes Due 2031 and £34,000,000 Class B Mortgage Backed Floating Rate Notes Due 2043 (the “Issue”) by Paragon Mortgages (No. 3) PLC (the “Offering Circular”).

**Basis of preparation**

PSA4 was incorporated on December 22, 2000.

At incorporation the Company issued 25,000 shares for a consideration of £100,000 fully paid up. The directors have represented to us that no material contracts or transactions have been entered into, or have been contemplated being entered into, save for those incidental to the authorisation and entering into of the Luxembourg Loan Agreement, the Security Trust Deed, the Luxembourg Mortgage Sale Agreement (all as defined in the Offering Circular) and the other documents referred to in the Offering Circular to which the Company is or will become a party.

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

We have been auditors of the Company since its incorporation on December 22, 2000.

The financial information set out in this report is based on the unaudited non-statutory accounts of the Company for the period from incorporation on December 22, 2000 to April 24, 2001, to which no adjustments were considered necessary.

No audited statutory financial statements have been prepared for submission to the shareholders of the Company in respect of any period. The first audited statutory financial statements of the Company will be prepared for the period ending September 30, 2001.

**Responsibility**

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

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

**Basis of opinion**

Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

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

### Opinion

In our opinion, the financial information set out below gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company as at April 24, 2001.

### Balance sheet of the Company at April 24, 2001

<b>Assets</b>	<b>£</b>
Cash at bank.....	98,165.31
Formation expenses .....	2,065.37
<b>Total</b> .....	<b>100,230.68</b>
<b>Liabilities</b>	
Authorised and fully subscribed share capital .....	100,000.00
Profit and loss account .....	230.68
<b>Total</b> .....	<b>100,230.68</b>

**Apart from interest income, bank charges and amortisation of formation expenses, there have been no entries in the profit and loss account in the period from December 22, 2000 to April 24, 2001.**

### Notes to the accounts

- The financial information has been prepared in accordance with Luxembourg GAAP. The particular accounting policy adopted is described below.  
The financial information has been prepared using the historic cost basis of accounting.
- The subscribed share capital as at April 24, 2001 consisted of 25,000 shares of £4 each, fully paid, which were issued on December 22, 2000 to provide the initial working capital of the Company of £100,000.
- The formation expenses to date are £2,213.69 and being capitalised in accordance with Luxembourg regulations. This asset is to be amortised over a maximum period of five years.
- The Company's ultimate parent company is The Paragon Group of Companies PLC, a company registered in England and Wales. Copies of the group's financial statements are available from that company's registered office at St. Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.

Yours faithfully

Deloitte & Touche S.A.  
Réviseur d'entreprises

Benoit SCHAUS  
Director"

Deloitte & Touche S.A. have given and not withdrawn their written consent to the inclusion of their report on PSA4 set out above in this Offering Circular and authorised contents of that part of the Listing Particulars and references to their name included therein in the form and context in which they appear for the purposes of section 152(1)(e) of the Financial Services Act 1986.

Since incorporation, there has been no material adverse change in the financial position or prospects of PSA4 and no significant change in the trading or (save as disclosed under "Paragon Mortgages (No. 4) S.A.-Capitalisation" above) financial position of PSA4.

PSA4 is not and has not been involved in any legal or arbitration proceedings which may have, or have had during the twelve months preceding the date of this Offering Circular, a significant effect on PSA4's financial position nor, so far as PSA4 is aware, are any such proceedings pending or threatened.

## **THE PARAGON VAT GROUP**

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

Morgan Guaranty Trust Company of New York is the trustee of the fund which currently amounts to approximately £120,000. The Issuer will on the Closing Date become one of the beneficiaries of the trust over the VAT Account, such trust being constituted by a declaration of trust dated 19th March 1993, as subsequently amended (the "VAT Declaration of Trust"). Neither PSA nor PSA4 is a member of the Paragon VAT Group.

## **MORGAN GUARANTY TRUST COMPANY OF NEW YORK**

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

Morgan Guaranty is a wholly owned subsidiary and the principal asset of J.P. Morgan Chase & Co. Incorporated ("Morgan"), a Delaware corporation whose principal office is located in New York, New York. Morgan Guaranty is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities.

## THE MORTGAGES

### Origination of the Issuer Mortgages

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

### Origination of the Corporate Mortgages

All the Corporate Mortgages forming part of the initial security for the Luxembourg Loan Agreement or, if they are purchased by the Issuer, for the Notes (in which case the Luxembourg Loan Agreement will not be entered into) have been originated by PML and sold by it to PSA, a company incorporated in Luxembourg with registered number B67 925. PML will repurchase such Corporate Mortgages on the Closing Date and sell them to PSA4 or the Issuer under the Luxembourg Mortgage Sale Agreement.

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

### Introduction of Mortgage Business

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

### Information on the Mortgages

#### *General*

The Mortgages will all have had original maturities of between 5 years and 28 years, save in respect of certain Mortgages with a maximum aggregate principal amount outstanding of £10,000,000, which will have had original maturities of between 28 years and 40 years. However, no Mortgage falls to be repaid later than 31 August 2041.

The Mortgages will comprise standard variable rate mortgages ("Standard Mortgages") and/or other types of mortgages ("Non-Standard Mortgages") described below. All the Mortgages upon origination consist, or will consist, of mortgage loans which meet or will meet certain lending criteria, and are secured by charges over freehold or leasehold properties located in England or Wales ("English Mortgages") or by standard securities over feudal or long leasehold residential properties located in Scotland ("Scottish Mortgages"). The Issuer will have the benefit of warranties by PML in relation to the Issuer Mortgages, and PSA4 will have the benefit of warranties by PML in relation to the PSA4 Mortgages, including in each case, warranties in relation to the lending criteria applied in advancing the loans.

The properties which are the subject of the Mortgages (the "Properties") are residential properties located in England or Wales (the "English Properties") or are residential properties located in Scotland (the "Scottish Properties") and are either freehold or leasehold or, in the case of the Scottish Properties, feudal or long leasehold (and in the case of leasehold or long leasehold the lease has at least 35 years to run beyond the term of the relevant Mortgage).

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

#### *Repayment Types*

Certain Mortgages will be mortgages under which monthly instalments covering both interest and principal are required to be paid by the borrower ("Repayment Mortgages"). The payment schedule applicable to such a Mortgage on origination is structured so that the principal element of the instalments

is small in the early years but increases in size during the life of the Mortgage until full repayment by maturity. PML recommends (but does not require) that borrowers arrange term life assurance in connection with Repayment Mortgages.

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

### **Particular Mortgage Types**

Standard Mortgages originated by PML may include the following:

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

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

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

- (iii) Lettings Mortgages, which relate to property purchased by the borrower and occupied by tenants. Lettings Mortgages will include loans to non-UK nationals and ex-patriates, or, in the case of Corporate Mortgages, limited liability companies incorporated in England and Wales or Scotland. It will normally be the intention that these properties will be let under an assured shorthold tenancy (or, in Scotland, a short assured tenancy) and in all cases that the occupier will have no statutory security of tenure. However, if the occupier’s tenancy has been approved by the lender, the lender will not be able to sell with vacant possession if it wishes to enforce its security, until such time as the tenancy comes to an end (see “Special Considerations -Matters relating to the Mortgages -Risks associated with Non-Owner Occupied Properties”).
- (iv) Right-to-Buy Mortgages, which relate to property purchased by borrowers from a local authority pursuant to statutory entitlement under “right-to-buy” legislation, consolidated in the Housing Act 1985 or the Housing (Scotland) Act 1987.
- (v) Variable Discount Mortgages under which, during a specified discount period running from the date of the advance and ending on the date stated in the Mortgage Conditions, PML agrees to accept interest payments at a stated percentage below the rate which would have been applicable to its Standard Mortgages.

- (vi) Rapid Remortgages under which certain borrowers are able to re-mortgage their property in a short time frame with the title checks being carried out in-house and title insurance being taken out in every case.

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

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

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

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

### **Redemption Provisions**

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

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

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

### **Scottish Mortgages**

A proportion of the Mortgages are Scottish Mortgages. These are secured over the relevant Properties by way of standard security, being the only means of creating a fixed charge or security over heritable property in Scotland. In respect of Scottish Mortgages, references in this Offering Circular to a "mortgage" and a "mortgagee" are to be read as references to such a standard security and the heritable creditor thereunder, respectively.

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

The main provisions of the Standard Conditions which cannot be varied by agreement relate to enforcement. Generally, where a breach by a borrower entitles the lender to require repayment an appropriate statutory notice must first be served. First, the lender may serve a "calling up notice", in which event the borrower has two months to comply and in default the lender may enforce its rights under the standard security by sale or the other remedies provided by statute (court application only being necessary where the borrower fails to vacate the property). Alternatively, in the case of remediable breaches, the lender may serve a "notice of default", in which event the borrower has only one month in which to

comply, but also has the right to object to the notice by court application within fourteen days of the date of service. In addition, the lender may in certain circumstances make direct application to the court without the requirement of a preliminary notice. The appropriate steps for enforcement will therefore depend on the circumstances of each case.

### **Acquisition of Issuer Mortgages**

Pursuant to the UK Mortgage Sale Agreement, PML will agree to re-purchase certain Issuer Mortgages from PSFL on the Closing Date. The Issuer will, in turn, agree to purchase (and PML will agree to sell) these Issuer Mortgages on the Closing Date. In addition, the Issuer may, subject to certain conditions to be specified in the UK Mortgage Sale Agreement and the Administration Agreement, purchase further Non-Verified Mortgages on any date following the Closing Date up to and including the first Principal Determination Date. Any such Non-Verified Mortgages purchased by the Issuer must meet the lending criteria referred to below under "Lending Guidelines". In addition, if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and with effect from the Option Completion Date, the Issuer will purchase the PSA4 Mortgages from PSA4 pursuant to the Luxembourg Call Option. With effect from the Option Completion Date, any PSA4 Mortgages will thereafter become Issuer Mortgages.

The purchase consideration in respect of the Mortgages purchased on the Closing Date will be paid on the Closing Date, and in respect of the Non-Verified Mortgages purchased on any date following the Closing Date up to and including the first Principal Determination Date, will be paid on such date of purchase. Upon exercise of the Luxembourg Call Option, the PSA4 Mortgages will be purchased by the Issuer for a consideration equal to the total amount then outstanding of the Luxembourg Loan.

Legal title to each of the English Mortgages has since origination remained with PML and will remain with PML until completion of the transfers of the English Mortgages (and in the case of registered land, their registration at H.M. Land Registry) and notification to any borrower or guarantor. Until these steps are taken, the sale of the English Mortgages will take effect in equity only (see "Matters Relating to the Mortgages – Perfection of Title" below).

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

### **Acquisition of Corporate Mortgages**

Pursuant to the Luxembourg Mortgage Sale Agreement, PML will agree to re-purchase the Corporate Mortgages from PSA on the Closing Date. PSA4 or, if the Luxembourg Tax Trigger Event occurs before 23rd April 2001, the Issuer, will, in turn, agree to purchase (and PML will agree to sell) these Corporate Mortgages on the Closing Date. In addition, subject to the satisfaction of certain conditions to be specified in the Luxembourg Mortgage Sale Agreement and the Administration Agreement, PSA4 or, if the Luxembourg Tax Trigger Event has occurred prior to 23rd April 2001, the Issuer, may purchase Non-Verified Mortgages on any date following the Closing Date up to and including the first Principal Determination Date (and in the case of PSA4, such purchase will be funded by way of a Non-Verified Mortgage Advance by the Issuer under the Luxembourg Loan Agreement). Any such Non-Verified Mortgages must meet the lending criteria referred to below under "Lending Guidelines".

If the Luxembourg Call Option is exercised, the PSA4 Mortgages will be sold to the Issuer, pursuant to the Luxembourg Call Option, on the Option Completion Date in consideration for a cash sum equal to the principal amount then outstanding under the Luxembourg Loan Agreement.

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

### **Perfection of title**

The sales by PML to the Issuer or PSA4 of the Issuer Mortgages and the Corporate Mortgages, respectively and the sale by PSA4 to the Issuer pursuant to the Luxembourg Call Option (if any) will only be perfected by the execution of transfers of the Mortgages, the carrying out of requisite registration and



giving notice to any borrower or guarantor and in respect of Scottish Mortgages also by the execution of a declaration of trust over such Mortgages in the circumstances set out below. Neither the Issuer, PSA4, the Trustee nor the Security Trustee will be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages. For so long as PML retains legal title to a Mortgage, a third party dealing with PML could obtain legal title free of the interests of the Issuer, PSA4, the Trustee and the Security Trustee (as the case may be). For so long as PML retains legal title, it must be joined as a party to any legal proceedings against any borrower or in relation to the enforcement of any Mortgage. In this regard PML has undertaken for the benefit of the Issuer, PSA4, the Trustee and the Security 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, PSA4, the Trustee and the Security Trustee may be or become subject to interests of third parties: for example, a later encumbrance or transfer of the Mortgages, and/or equities created or arising before the transfer of the legal title is perfected: for example, rights of set-off as between the relevant borrowers and PML. These could result in the Issuer or PSA4 receiving less money than anticipated. However, the risk of third party claims defeating or obtaining priority to the interests of the Issuer, PSA4, the Trustee or the Security Trustee would be likely to be limited to circumstances arising from a breach by PML of its contractual obligations or fraud, negligence or mistake on the part of PML, the Issuer, PSA4 or their respective personnel or agents.

Until the transfer of the legal title is perfected, the borrower may continue making payment to PML. Perfecting legal title would mean that the borrower would no longer be entitled to obtain a good receipt from PML as mortgagee. Under the UK and Luxembourg Mortgage Sale Agreements, PML 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 or PSA4 (as the case may be) it will hold the same on trust for the Issuer or PSA4 (as the case may be) as the beneficial owner thereof. Furthermore under the No. 1 and No. 2 Collection Account Declarations of Trust PML will declare that all direct debit payments made by borrowers under the Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Mortgages and certain other sums in respect of the Mortgages credited to PML's collection account are held on trust for the Issuer or PSA4 (as the case may be) until they are transferred to the Transaction Account or the PSA4 Transaction Account, as the case may be. Notice to borrowers in respect of the Mortgages would also prevent the Mortgages from being amended by PML or the borrowers without the involvement of the Issuer or PSA4 (as the case may be).

Upon the occurrence of certain events such as (i) the valid service of an Enforcement Notice or a Protection Notice (each as to be defined in the Deed of Charge) or a PSA4 Enforcement Notice (as defined in the Security Trust Deed (if entered into)) or (ii) the termination of PFPLC's role as administrator under the Administration Agreement or (iii) PML being required, by an order of a court of competent jurisdiction, or by a regulatory authority of which PML is a member or with whose instructions it is customary for PML (as the case may be) to comply, to perfect the transfer of legal title to the Mortgages or (iv) any change occurring in the law after 27th April 2001 rendering it necessary by law to take any of such actions or (v) the security under the Deed of Charge or the Security Trust Deed or any material part of such security being in jeopardy and the Trustee or the Security Trustee (as the case may be) deciding to take such action to reduce materially such jeopardy or (vi) the payment in full of all moneys and other liabilities due or owing under the Notes, the Trust Deed and the Deed of Charge, the Issuer or the Trustee (in the case of the Issuer Mortgages) or PSA4 or the Security Trustee (in the case of the PSA4 Mortgages) will have the right to perfect legal title to the Issuer Mortgages or the PSA4 Mortgages (as the case may be) by executing transfers of the Mortgages in the appropriate form (if necessary pursuant to irrevocable powers of attorney) effecting the necessary registrations and notifications and giving notice to the borrowers and any guarantors in respect of such Mortgages. The right of the Issuer, PSA4, the Trustee and the Security Trustee to exercise the powers of the registered proprietor of the Issuer Mortgages and the PSA4 Mortgages (as the case may be) pending registration will be secured by irrevocable powers of attorney granted by PML in favour of the Issuer and the Trustee or PSA4 and the Security Trustee (as the case may be).

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

Neither PFPLC, PML nor the Issuer nor the Trustee nor PSA4 nor the Security Trustee has made or caused to be made (or will make or cause to be made) on its behalf in relation to the Mortgages purchased by the Issuer or PSA4 any of the enquiries, searches or investigations which a prudent purchaser of the relevant security would normally make, other than (in the case of the Issuer in respect of the Issuer Mortgages, and PSA4 in respect of the PSA4 Mortgages only) a search, prior to completion of the purchase by the Issuer of the Issuer Mortgages, and by PSA4 of the PSA4 Mortgages, on the Closing Date and on

any date following the Closing Date up to and including the first Principal Determination Date upon which Non-Verified Mortgages are purchased by the Issuer, or by PSA4, as the case may be, against PML and PSFL in the relevant file held by the Registrar of Companies and in the Register of Inhibitions and Adjudications in Scotland. Neither the Issuer nor the Trustee nor PSA4 nor the Security Trustee has made nor will make any enquiry, search or investigation prior to the making of any Mandatory Further Advance or Discretionary Further Advance or at any time in relation to compliance by PML, the Administrator or any other person with any applicable lending guidelines, criteria or procedures or the adequacy thereof or with the provisions of the UK Mortgage Sale Agreement, the Administration Agreement, the Deed of Charge, the Luxembourg Mortgage Sale Agreement, the Security Trust Deed (if entered into) or with any applicable laws or in relation to the execution, legality, validity, perfection, adequacy or enforceability of any Mortgages purchased on the Closing Date or any date following the Closing Date up to and including the first Principal Determination Date or any other security or the insurance contracts relating to the Properties and the Mortgages referred to herein.

In relation to all of the foregoing matters and the circumstances in which advances were made to borrowers prior to the purchase by the Issuer or PSA4 of the relevant Mortgages, the Issuer, the Trustee, PSA4 and/or the Security Trustee (if any) will rely entirely on the warranties to be given by PML to the Issuer, the Trustee, PSA4 and the Security Trustee (if any) contained in the UK Mortgage Sale Agreement and the Luxembourg Mortgage Sale Agreement, as the case may be. These include warranties in respect of Mortgages to be purchased on the Closing Date or, if applicable, on any date following the Closing Date up to and including the first Principal Determination Date as to the following: that, subject to registration, the Mortgages in relation to each Property constitute valid and binding obligations of the borrower and are valid and subsisting mortgages or standard securities over which no other mortgage or standard security has priority; as to the procedures followed prior to completion of the relevant Mortgage; as to the terms upon which each such Mortgage was granted; that the mortgage guarantee indemnity insurance policy is to the extent that it relates to Properties in full force and effect with respect to the Issuer Mortgages.

The Class A Subscription Agreements and the Class B Subscription Agreement referred to in “Subscription and Sale” below contain warranties by PFPLC and PML to the effect that the information in this Offering Circular with regard to the Mortgages to be purchased by the Issuer and PSA4, the Properties, the insurance contracts relating to the Properties and the Mortgages, PFPLC and its business and PML and its business is true and accurate in all material respects.

## LENDING GUIDELINES

### 1. Personal Details

- 1.1 The maximum number of applicants who may be party to the mortgage is four.
- 1.2 All applicants must be a minimum of 18 years of age at completion.
- 1.3 Other than where title insurance is in force, the solicitor acting should establish the identity of each applicant or guarantor (where applicable) in accordance with the Law Society's Green Card warning, dated May 1993 or, in respect of Scottish Mortgages, in accordance with the Solicitors (Scotland) Accounts Rules 1997.

### 2. Mortgage Requirements

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

<i>Loan Size</i>	<i>Maximum Loan to Value</i>
£1,000 – £300,000	100% including fees
£300,000 – £1,100,000	75% excluding fees

- 2.2 In the case of a let property, the loan will not usually exceed 85% of the lower of the purchase price or valuation. Applications in respect of a single let property for £300,000 or more will not usually exceed 75% of the lower of the purchase price or valuation. Multiple applications for let properties will be considered up to a total of £5,100,000 per borrower(s).
- 2.3 The maximum term for a loan is 40 years, the minimum is 5 years.
- 2.4 Loans may be taken on either a capital repayment or an interest only basis, or a combination of the two.

### 3. Property Details

- 3.1 Loans must be secured on residential property which, following a valuation by the PML valuer or a valuer appointed to act on PML's behalf or, in the case of a further advance application, an assessed valuation by reference to an applicable price index, is considered to be suitable security.
- 3.2 The following are unacceptable to PML:
  - Properties located other than in England, Wales and Scotland
  - Freehold flats and maisonettes
  - Properties designated under the Housing Act 1985
  - Property having agricultural restrictions
  - Properties subject to notice of mineral extraction, or previous mining subsidence and land fill
- 3.3 The following will be considered by PML on an individual basis:
  - Properties used for part commercial purposes
  - Properties with adjoining land used for commercial purposes or having agricultural or other planning restrictions
  - Properties on which buildings insurance is not available on block policy terms
  - Flats directly attached to or directly above commercial premises
  - Properties with an element of Flying Freehold
  - Self-build properties (pre and post completion)
  - Local Authority Flats being purchased under the Right to Buy Scheme
- 3.4 Properties under 10 years old must have the benefit of an NHBC Certificate or any other approved guarantee from an acceptable body. Architects' Certificates must also be provided for each stage of construction together with Local Authority approval in respect of properties under 10 years old that do not have the benefit of an NHBC Certificate. Similar requirements may be imposed for converted properties.

- 3.5 Where loans are required on properties which are not to be used for owner occupation, they may be let on an assured shorthold tenancy basis or in circumstances where the occupier (which may include a body corporate, charitable institution or public sector body) has no statutory security of tenure. Where the occupier is a body corporate, the maximum length of lease will normally be for a period no longer than 3 years. Where the occupier is a charitable institution or a public sector body, the maximum length of lease will normally be for a period of no longer than 5 years.
- 3.6 Where the tenure of the property is leasehold, the minimum length of the lease at the end of the mortgage term must be 35 years.
- 3.7 All properties must be insured for a minimum of the reinstatement amount shown on the valuation report, under either PML's block insurance policy, or through an equivalent index linked policy with an alternative insurance company.

#### **4. Credit History**

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

#### **5. Income and Employment Details**

- 5.1 Salaried applicants must derive their income from permanent or contracted employment which, other than in exceptional circumstances, is non-probationary. PML will seek a reference from the applicants' current employer and any previous employers where this is considered appropriate. In addition to the above, independent written verification of earnings is normally required. This may include, for example, the latest or most recent P60.
- 5.2 Where an applicant is defined as self-employed (see 5.3 below), PML will require proof of income over an extended period of time. Acceptable forms of proof of income include audited accounts, personal tax returns, bank statements or an accountant's reference. Such proof will normally be expected to cover a 3 year period, but this may be reduced where the information submitted is deemed sufficient to establish a usable income figure.
- 5.3 Applicants are defined as self employed where any of the following circumstances occur unless PML can be provided with proof that this is inappropriate:

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

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

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

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

Single applicant                   –     up to 4.25 x income

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

–     up to 3.25 x joint income

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

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

**6. PSA4 Mortgages**

6.1 All of the above, with the exception of 1.3, 2.2, 2.3, 2.4, 3, 4 and 5.5, do not apply to corporate applicants.

6.2 The borrower must be an unlisted limited liability company incorporated and trading under the laws of England and Wales or Scotland.

6.3 PML may request references and/or any other information deemed necessary in connection with an application (such as company accounts, corporate searches at Companies Registry, the computerised index of winding up petitions and the manual index of High Court petitions for administration orders at the Central Registry of Winding Up Petitions).

## **INSURANCE COVERAGE**

The following is a summary of the various insurance contracts which are relevant to the Mortgages to be purchased by the Issuer and PSA4 and the activities of the Issuer, PSA4 and the Administrator.

### **Mortgage Indemnity Insurance**

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

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

The benefit of PML's interests in the Lloyd's mortgage indemnity insurance policy as it relates to Properties which are subject to the Issuer Mortgages will extend to the Issuer and be charged by the Issuer to the Trustee. Any claim under such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

### **Buildings Insurance**

The following is a summary of the principal types of buildings insurance of which the Issuer and PSA4 will have the benefit from the date of completion of the acquisition of the Mortgages, which benefit will be charged to the Trustee pursuant to the Deed of Charge and to the Security Trustee pursuant to the Security Trust Deed, respectively.

All freehold Properties (or the Scottish equivalent) except those mentioned in the next paragraph will be insured under the comprehensive master and comprehensive block policies in the name of PGC, with the Issuer and PSA4 as additional assured, and with the interest of the Trustee and/or the Security Trustee, as the case may be, noted thereon for their reinstatement value, as recommended by the relevant valuer, from the date of completion of the acquisition of the Mortgages by the Issuer or PSA4, as the case may be. The relevant block policies are with Legal & General Insurance Limited or Groupama Insurance Company Limited. The premiums will be collected monthly by the Administrator with the interest payments due on the Mortgages.

In cases involving freehold Properties (or the Scottish equivalent) where the borrower specifically requested permission to make his own insurance arrangements PML has ensured that it has become a named insured or that its interest has been noted on the policy taken out by the borrower. The Issuer and PSA4 will have the benefit of insurance to provide cover in the event that such Properties are not, or are not adequately, insured. PML has the benefit of policies with ACE Insurance S.A.N.V. which cover losses arising from a failure by an insurer under a buildings policy arranged by a borrower to pay in full the amount of any otherwise valid claim under such policy by such borrower or by PML as a result of acts or omissions unknown to, or beyond the control of, PML.

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

In cases involving leasehold Property where the lease requires insurance to be effected by the landlord, the Issuer and/or PSA4, as the case may be, will have the benefit of insurance, the effect of which will be to provide cover if the leasehold Property is not, or is not adequately, insured under the terms of the lease. The Administrator may instruct a valuer to check that satisfactory reinstatement has taken place and to review the value of the Property for security purposes.

The Issuer and/or PSA4, as the case may be, will be or become a named insured under the insurance policies referred to above. The Issuer's and/or PSA4's interest, as the case may be, in all of the insurance policies referred to above will, if the Trustee and/or the Security Trustee, as the case may be, is not itself insured thereunder, be assigned to the Trustee and/or the Security Trustee, as the case may be, but no notice of each of these assignments will be given to the insurers. Any claim under any such insurance will be made by the Administrator on behalf of the Issuer and the Trustee, and/or PSA4 and the Security Trustee, as the case may be, pursuant to the Administration Agreement.

#### **Other Miscellaneous Insurances**

PML has insurance which covers loss arising from negligent acts, errors or omissions and dishonesty or fraud by the insured's staff, negligence or breach of duty by its directors and officers and fraudulent interference with computer systems or data. The Issuer and/or PSA4, as the case may be, will be endorsed as a named insured under each of these policies, and the Trustee's and/or the Security Trustee's interest, as the case may be, is expected to be noted on the policies, with effect from the completion of the acquisition of the Mortgages by the Issuer and/or PSA4 as the case may be, and execution of the Deed of Charge and/or the Security Trust Deed, as the case may be.

The solicitors who acted on behalf of PML in relation to the Mortgages are all covered by the professional indemnity scheme established by The Law Society or The Law Society of Scotland. This scheme should provide compensation in the event that PML or the Issuer and/or PSA4, as the case may be, has a claim against such solicitors for negligence which is not satisfied by such solicitors out of their own resources. Licensed conveyancers who acted on behalf of PML in relation to the Mortgages are all covered by a similar indemnity scheme established under the Administration of Justice Act 1985.

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

**HISTORICAL DATA RELATING TO PARAGON MORTGAGES LIMITED'S  
MORTGAGE BUSINESS**

The information given in the following tables relates to the whole of the mortgage business originated by PML. There has been no adjustment for the selection criteria used in compiling the Provisional Mortgage Pool and as such there can be no assurance that the experience of the Mortgages acquired by the Issuer or PSA4 will be similar.

**Write-Off Recovery Analysis**

<i>Financial period</i>	<i>Average outstanding current balance £'000</i>	<i>Current balance write-off £'000</i>	<i>Bad debts recovered £'000</i>	<i>Net balances written off £'000</i>
Quarter to September 2000 .....	750,852	26	0	26
Quarter to June 2000 .....	706,144	1	0	1
Quarter to March 2000 .....	669,581	15	0	15
Quarter to December 1999.....	633,233	0	0	0
Quarter to September 1999 .....	586,546	0	0	0
Quarter to June 1999 .....	535,230	2	0	2
Quarter to March 1999 .....	488,372	6	0	6
Quarter to December 1998.....	437,723	1	0	1
Quarter to September 1998 .....	372,640	0	0	0
Quarter to June 1998 .....	306,572	1	0	1
Quarter to March 1998 .....	260,558	4	0	4
Quarter to December 1997.....	221,976	4	0	4
Quarter to September 1997 .....	182,767	0	0	0
Quarter to June 1997 .....	150,265	0	0	0
Quarter to March 1997 .....	125,278	0	0	0
Quarter to December 1996.....	104,490	0	0	0
Quarter to September 1996 .....	87,907	0	0	0
Quarter to June 1996 .....	74,316	0	0	0
Quarter to March 1996 .....	58,880	0	0	0
Quarter to December 1995.....	38,528	0	0	0
Quarter to September 1995 .....	19,007	0	0	0
Quarter to June 1995 .....	8,168	0	0	0
Quarter to March 1995 .....	3,454	0	0	0
Quarter to December 1994.....	871	0	0	0
Quarter to September 1994 .....	25	0	0	0
Quarter to June 1994 .....	0	0	0	0
Quarter to March 1994 .....	0	0	0	0
Quarter to December 1993.....	0	0	0	0

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



## Delinquency Analysis

Date	Total out- standing current balance £'000	Performing		>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 accounts	
		£'000	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
As at September 2000 .....	776,706	763,254	98.3	9,745	1.3	2,301	0.3	606	0.1	144	0.02	400	0.05	256	0.03
As at June 2000 .....	724,998	712,782	98.3	8,873	1.2	2,060	0.3	511	0.1	498	0.07	0	0	274	0.04
As at March 2000.....	687,289	676,572	98.4	7,693	1.1	1,706	0.2	786	0.1	220	0.03	29	0	283	0.04
As at December 1999.....	651,872	639,688	98.1	9,288	1.4	1,977	0.3	531	0.1	110	0.02	77	0.01	201	0.03
As at September 1999 .....	614,593	605,106	98.5	7,021	1.1	1,387	0.2	638	0.1	182	0.03	43	0.01	215	0.03
As at June 1999 .....	558,499	549,870	98.5	5,914	1.1	1,924	0.3	381	0.1	172	0.03	42	0.01	197	0.04
As at March 1999.....	511,961	503,743	98.4	6,085	1.2	1,537	0.3	253	0	153	0.03	39	0.01	151	0.03
As at December 1998.....	464,783	454,771	97.8	8,259	1.8	1,033	0.2	242	0.1	213	0.05	0	0	265	0.06
As at September 1998 .....	410,662	405,528	98.7	4,038	1.0	746	0.2	62	0	28	0.01	0	0	259	0.06
As at June 1998 .....	334,619	329,978	98.6	3,579	1.1	651	0.2	243	0.1	0	0	0	0	167	0.05
As at March 1998.....	278,525	275,306	98.8	2,463	0.9	592	0.2	64	0	0	0	0	0	99	0.04
As at December 1997.....	242,591	239,736	98.8	2,365	1.0	410	0.2	79	0	0	0	0	0	0	0
As at September 1997 .....	201,361	198,439	98.5	2,361	1.2	396	0.2	58	0	0	0	0	0	106	0.05
As at June 1997 .....	164,174	162,778	99.1	1,037	0.6	117	0.1	56	0	0	0	0	0	185	0.11
As at March 1997.....	136,357	135,264	99.2	771	0.6	242	0.2	0	0	0	0	0	0	79	0.06
As at December 1996.....	114,199	113,264	99.2	693	0.6	165	0.1	35	0	41	0.04	0	0	0	0
As at September 1996* .....	94,782	93,987	99.2	794	0.8	0	0	0	0	0	0	0	0	0	0
As at June 1996* .....	81,033	80,492	99.3	540	0.7	0	0	0	0	0	0	0	0	0	0
As at March 1996*.....	67,600	67,456	99.8	143	0.2	0	0	0	0	0	0	0	0	0	0
As at December 1995*.....	50,161	50,078	99.8	82	0.2	0	0	0	0	0	0	0	0	0	0
As at September 1995 .....	26,895	26,894	100.0	0	0	0	0	0	0	0	0	0	0	0	0
As at June 1995 .....	11,120	11,119	100.0	0	0	0	0	0	0	0	0	0	0	0	0
As at March 1995.....	5,216	5,215	100.0	0	0	0	0	0	0	0	0	0	0	0	0
As at December 1994.....	1,692	1,691	99.9	0	0	0	0	0	0	0	0	0	0	0	0
As at September 1994 .....	51	51	100.0	0	0	0	0	0	0	0	0	0	0	0	0
As at June 1994.....	0	0	0.0	0	0	0	0	0	0	0	0	0	0	0	0
As at March 1994.....	0	0	0.0	0	0	0	0	0	0	0	0	0	0	0	0
As at December 1993 .....	0	0	0.0	0	0	0	0	0	0	0	0	0	0	0	0

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

## THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool, evidenced by the mortgages described below (the “Provisional Mortgage Pool”) as at 28 February 2001 (the “Provisional Pool Date”) consisted of 3,832 Mortgages having a Provisional Balance (as defined below) of £235,104,877.34.

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 and PSA4, as the case may be, on the Closing Date form part only of the Provisional Mortgage Pool which contains other mortgage loans that will not be sold by PML to the Issuer and PSA4, as the case may be. In addition, Mortgages originated after the Provisional Pool Date which were not included in the Provisional Mortgage Pool may be included in the Mortgages sold to the Issuer and PSA4, as the case may be, on the Closing Date and at any time up to and including the first Principal Determination Date. Therefore the information set out below in relation to the Provisional Mortgage Pool may not necessarily correspond to that for the Mortgages sold to the Issuer and PSA4 (see “Summary -Selection of Mortgages” above).

All of the Mortgages forming part of the Provisional Mortgage Pool were originated between 1 March 1997 and 28 February 2001.

The majority of the Mortgages to be purchased by the Issuer and PSA4, as the case may be, have a remaining term of no more than 28 years although certain Mortgages with a maximum aggregate principal amount of £10,000,000 may have maturities of up to 40 years with the latest scheduled maturity of any mortgage loan in the Provisional Mortgage Pool, or of any Non-Verified Mortgage, being not later than 31 August 2041. Certain Mortgages to be purchased by the Issuer or PSA4 may have maturities of more than 28 years but the Issuer and PSA4 together will not be permitted to purchase Mortgages with such maturities if the aggregate principal amount of all such Mortgages purchased by the Issuer and PSA4 on purchase would be greater than £10,000,000.

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

### Loan-to-Value Ratios (“LTV”)

<i>Loan-to-Value Ratios (%)</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
> 0 < = 25 .....	884,612.01	0.38%	28	0.73%
> 25 < = 50 .....	12,534,673.95	5.33%	261	6.81%
> 50 < = 55 .....	5,823,443.38	2.48%	96	2.51%
> 55 < = 60 .....	6,874,326.87	2.92%	105	2.74%
> 60 < = 65 .....	12,337,709.43	5.25%	194	5.06%
> 65 < = 70 .....	15,480,235.99	6.58%	253	6.60%
> 70 < = 75 .....	17,511,582.50	7.45%	300	7.83%
> 75 < = 80 .....	36,558,149.05	15.55%	631	16.47%
> 80 < = 85 .....	67,465,968.37	28.70%	1,001	26.12%
> 85 < = 90 .....	59,317,731.70	25.23%	959	25.03%
> 90 < = 95 .....	273,096.30	0.12%	3	0.08%
> 95 < = 100 .....	43,347.79	0.02%	1	0.03%
Over 100.....	0.00	0.00%	0	0.00%
<b>Total</b> .....	<b>235,104,877.34</b>	<b>100.00</b>	<b>3,832</b>	<b>100.00</b>

Average LTV weighted by Provisional Balance: 75.96%

### Product Summary by Rate Fixing Method

<i>Product</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Variable Rate .....	55,617,009.87	23.66%	1,005	26.23%
Fixed Rate .....	84,729,688.35	36.04%	1,314	34.29%
LIBOR-Linked .....	94,741,349.84	40.30%	1,512	39.46%
Capped Rate .....	16,829.28	0.01%	1	0.03%
<b>Total</b> .....	<b>235,104,877.34</b>	<b>100.00</b>	<b>3,832</b>	<b>100.00</b>

### Product Summary by Repayment Method

<i>Product</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Repayment.....	97,969,137.05	41.67%	1,768	46.14%
Interest-only.....	137,135,740.29	58.33%	2,064	53.86%
<b>Total</b> .....	<b>235,104,877.34</b>	<b>100.00</b>	<b>3,832</b>	<b>100.00</b>

## Loan Size

<i>(£)</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
0 – 15,000 .....	294,694.90	0.13%	21	0.55%
15,000.01 – 30,000 .....	19,008,533.81	8.09%	775	20.22%
30,000.01 – 45,000 .....	34,973,787.32	14.88%	950	24.79%
45,000.01 – 60,000 .....	35,886,412.04	15.26%	691	18.03%
60,000.01 – 70,000 .....	17,830,661.83	7.58%	274	7.15%
70,000.01 – 80,000 .....	21,911,439.00	9.32%	293	7.65%
80,000.01 – 90,000 .....	14,258,105.12	6.06%	168	4.38%
90,000.01 – 100,000 .....	10,757,673.01	4.58%	113	2.95%
100,000.01 – 110,000 .....	11,701,528.48	4.98%	112	2.92%
110,000.01 – 120,000 .....	9,395,981.17	4.00%	82	2.14%
120,000.01 – 130,000 .....	7,714,290.93	3.28%	62	1.62%
130,000.01 – 140,000 .....	7,001,004.37	2.98%	52	1.36%
140,000.01 – 150,000 .....	7,976,362.90	3.39%	55	1.44%
150,000.01 – 175,000 .....	12,656,429.17	5.38%	79	2.06%
175,000.01 – 200,000 .....	5,424,177.00	2.31%	29	0.76%
200,000.01 – 250,000 .....	11,594,894.49	4.93%	52	1.36%
over 250,000 .....	6,718,901.80	2.86%	24	0.63%
<b>Total</b> .....	<b>235,104,877.34</b>	<b>100.00%</b>	<b>3,832</b>	<b>100.00%</b>

Average loan size: £61,353.05

## Property Tenure

	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Freehold .....	154,271,629.35	65.62%	2,394	62.47%
Leasehold .....	77,655,463.28	33.03%	1,363	35.57%
Feudal .....	3,177,784.71	1.35%	75	1.96%
<b>Total</b> .....	<b>235,104,877.34</b>	<b>100.00%</b>	<b>3,832</b>	<b>100.00%</b>

## Seasoning of Mortgages

<i>Month of Completion</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
1997:				
March .....	24,348.43	0.01%	1	0.03%
1998:				
August .....	171,463.02	0.07%	4	0.10%
September .....	43,333.97	0.02%	2	0.05%
October.....	47,620.74	0.02%	1	0.03%
1999:				
April .....	233,550.00	0.10%	4	0.10%
May .....	45,874.66	0.02%	1	0.03%
June.....	43,347.79	0.02%	1	0.03%
July .....	221,968.52	0.09%	3	0.08%
August .....	30,897.69	0.01%	1	0.03%
September .....	233,009.39	0.10%	6	0.16%
October.....	309,789.93	0.13%	8	0.21%
November .....	24,987.58	0.01%	1	0.03%
December .....	44,250.00	0.02%	1	0.03%
2000:				
January.....	77,993.85	0.03%	1	0.03%
February.....	439,675.87	0.19%	9	0.23%
March.....	3,413,519.02	1.45%	38	0.99%
April .....	10,229,385.76	4.35%	177	4.62%
May .....	19,115,981.16	8.13%	340	8.87%
June.....	17,392,371.88	7.40%	319	8.32%
July .....	20,454,653.52	8.70%	326	8.51%
August .....	25,331,955.76	10.77%	406	10.59%
September .....	22,201,061.91	9.44%	367	9.58%
October.....	24,766,680.86	10.53%	365	9.53%
November .....	27,801,102.14	11.82%	433	11.30%
December .....	18,951,550.55	8.06%	306	7.99%
2001:				
January.....	22,329,335.35	9.50%	371	9.68%
February.....	21,125,167.99	8.99%	340	8.87%
<b>Total .....</b>	<b>235,104,877.34</b>	<b>100.00</b>	<b>3,832</b>	<b>100.00</b>

Weighted average seasoning: 4.75 months

## Maturity of Mortgage

<i>Years to Maturity<sup>(1)</sup></i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
> 0 < 5 .....	779,373.20	0.33%	13	0.34%
> = 5 < 10 .....	19,291,529.14	8.21%	353	9.21%
> = 10 < 15 .....	36,957,914.14	15.72%	616	16.08%
> = 15 < 20 .....	54,080,347.61	23.00%	864	22.55%
> = 20 < 25 .....	108,828,430.57	46.29%	1,754	45.77%
> = 25 < 30 .....	11,017,266.21	4.69%	178	4.65%
> = 30 < 35 .....	945,787.59	0.40%	10	0.26%
Over 35.....	3,204,228.88	1.36%	44	1.15%
<b>Total .....</b>	<b>235,104,877.34</b>	<b>100.00</b>	<b>3,832</b>	<b>100.00</b>

Weighted average remaining term in years: 20.39

## Loan Purpose

<i>Use of Proceeds</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
House/Flat Purchase .....	134,167,069.54	57.07%	2,128	55.53%
Remortgage .....	100,937,807.80	42.93%	1,704	44.47%
<b>Total</b> .....	<b>235,104,877.34</b>	<b>100.00</b>	<b>3,832</b>	<b>100.00</b>

## Type of Occupancy

<i>Occupancy</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
Owner Occupied .....	12,911,483.49	5.49%	264	6.89%
Letting (Non – Corporate) .....	184,353,381.26	78.41%	2,959	77.22%
Letting (Corporate) .....	37,840,012.59	16.09%	609	15.89%
<b>Total</b> .....	<b>235,104,877.34</b>	<b>100.00</b>	<b>3,832</b>	<b>100.00</b>

## Geographical Dispersion

<i>Defined Area</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>
North .....	6,954,504.72	2.96%	157	4.10%
North West .....	20,232,468.05	8.61%	427	11.14%
Yorkshire .....	22,717,875.75	9.66%	456	11.90%
East Midlands .....	9,286,817.13	3.95%	215	5.61%
West Midlands .....	12,467,092.42	5.30%	251	6.55%
East Anglia .....	9,191,727.13	3.91%	185	4.83%
South East (excluding Greater London) .....	72,445,377.63	30.81%	1,034	26.98%
South West .....	24,819,970.25	10.56%	373	9.73%
Greater London .....	42,775,637.40	18.19%	412	10.75%
Wales .....	11,035,622.15	4.69%	247	6.45%
Scotland .....	3,177,784.71	1.35%	75	1.96%
<b>Total</b> .....	<b>235,104,877.34</b>	<b>100.00</b>	<b>3,832</b>	<b>100.00</b>

## Number of months in arrears

<i>No. of Months</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of Mortgages</i>	<i>% of Total</i>	<i>Accrued Arrears</i>
0 < =1 .....	233,833,481.91	99.46%	3,799	99.14%	17,722.30
> 1 < = 2.....	413,312.73	0.18%	13	0.34%	3,758.85
> 2 < = 3.....	257,345.76	0.11%	6	0.16%	5,044.00
> 3 < = 4.....	180,705.21	0.08%	6	0.16%	5,063.72
> 4 < = 5.....	266,193.29	0.11%	4	0.10%	8,922.13
> 5 < = 6.....	30,111.58	0.01%	1	0.03%	1,130.70
> 6 < = 7.....	46,763.42	0.02%	1	0.03%	1,507.28
> 7 < = 8.....	0.00	0.00%	0	0.00%	0.00
> 8 .....	76,963.44	0.03%	2	0.05%	8,132.66
<b>Total</b> .....	<b>235,104,877.34</b>	<b>100.00%</b>	<b>3,832</b>	<b>100.00%</b>	<b>51,281.64</b>

Average number of months in arrears weighted by Provisional Balance of loans more than 0 months in arrears: 1.27 months

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

<i>Percentage of Subscription</i>	<i>Paid during last month</i>	<i>% of Total</i>	<i>Paid during last three months</i>	<i>% of Total</i>	<i>Paid during last six months</i>	<i>% of Total</i>
= 0% .....	761,006.21	59.86%	368,636.53	28.99%	235,223.47	18.50%
> 0% < = 50% .....	107,625.74	8.47%	242,378.95	19.06%	291,993.09	22.97%
> 50% < 100% .....	154,609.67	12.16%	437,290.89	34.39%	611,801.48	48.12%
= 100% .....	204,806.02	16.11%	106,655.39	8.39%	0.00	0.00%
> 100% < = 150% .....	0.00	0.00%	75,024.81	5.90%	84,756.65	6.67%
> 150% .....	43,347.79	3.41%	41,408.86	3.26%	47,620.74	3.75%
<b>Total</b> .....	<b>1,271,395.43</b>	<b>100.00%</b>	<b>1,271,395.43</b>	<b>100.00%</b>	<b>1,271,395.43</b>	<b>100.00%</b>

*Note:*

- (1) The Subscription is the monthly amount due. This table shows the Provisional Balance of accounts which have paid in aggregate the percentage of the subscription due over the relevant period e.g. the accounts with a Provisional Balance of £154,609.67 have paid in aggregate between 50% and 100% of their subscriptions for the last month, and the accounts with a Provisional Balance of £611,801.48 have paid in aggregate between 50% and 100% of their subscriptions for the last six months, in each case prior to the Provisional Pool Date.

## MORTGAGE ADMINISTRATION

### Introduction

PFPLC will be appointed by each of the Issuer and the Trustee in respect of the Issuer Mortgages, and by each of PSA4 and the Security Trustee if PSA4 has been the purchaser under the Luxembourg Loan Agreement (and, from the Option Completion Date, the Issuer) in respect of the PSA4 Mortgages, under the Administration Agreement to be its agent to administer the Mortgages. PFPLC will administer the Mortgages with the diligence and skill that a reasonably prudent mortgage lender would apply in administering its own mortgages subject to the provisions of the Administration Agreement. PFPLC will undertake that in its role as administrator it will comply with any proper directions, orders and instructions which the Issuer, PSA4 (if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and for so long as the Option Completion Date has not occurred), the Trustee or the Security Trustee (if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and for so long as the Option Completion Date has not occurred) may from time to time give to PFPLC in accordance with the provisions of the Administration Agreement. Save as provided therein, the Administration Agreement will be conditional upon completion of the UK Mortgage Sale Agreement and the Luxembourg Mortgage Sale Agreement taking place. PFPLC's appointment as administrator can be terminated by the Trustee and the Security Trustee, acting together, in the event of a breach by PFPLC of the terms of the Administration Agreement which, in the opinion of the Trustee is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or in the event of PFPLC's insolvency.

### Mortgage Interest Rate

After completion of the UK Mortgage Sale Agreement and the Luxembourg Mortgage Sale Agreement and pursuant to the Administration Agreement, PFPLC (on behalf of the Issuer and the Trustee in respect of the Issuer Mortgages, and prior to the Option Completion Date on behalf of PSA4 and the Security Trustee in respect of the PSA4 Mortgages if PSA4 has been the purchaser under the Luxembourg Mortgage Sale Agreement) will set or calculate the rates of interest applicable to the Mortgages purchased by the Issuer and PSA4, in accordance with the Mortgage Conditions except in the case of Fixed Rate Mortgages and Capped Rate Mortgages and except in certain limited circumstances when the Trustee or the Issuer in respect of the Issuer Mortgages, or prior to the Option Completion Date, the Security Trustee or PSA4 if PSA4 has been the purchaser under the Luxembourg Mortgage Sale Agreement and on and with effect from the Option Completion Date on behalf of the Issuer and the Trustee in respect of the PSA4 Mortgages, or a substitute administrator or the Substitute Administrator acting in its capacity as administrator of last resort will be entitled to do so.

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

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

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

The Issuer may at any time with the prior consent of CMS5 draw down under the CMS5 Subordinated Loan Agreement for the purpose of establishing a Shortfall Fund for purposes including that of providing funds, in the manner described in more detail below, to meet any shortfall arising from the interest rates set by the Administrator for the Mortgages averaging less than a specified rate above LIBOR then applicable to the Notes.

If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and income received by the Issuer or, if the Luxembourg Tax Trigger Event has not occurred before 23rd April 2001 and prior to the Option Completion Date, PSA4, from the investment of funds standing to the credit of the Transaction Account and the PSA4 Transaction Account, respectively, is less than 1.6% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until (and including) the Interest Payment Date falling in May 2007 and 2% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter, in each case, above the LIBOR applicable to the Notes at that time, it may do so



only if and to the extent that there is a credit balance in the Shortfall Fund (if any) (net of all provisions previously made during the then current Interest Period) at least equal to the shortfall which would arise at that time and it makes a provision in such Shortfall Fund equal to such shortfall.

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

### **Payments from Borrowers**

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages purchased by the Issuer and PSA4 if PSA4 has been the purchaser under the Luxembourg Mortgage Sale Agreement (including cheque payments and redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) will generally be paid first into the PML collection account and then will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account in respect of such moneys which relate to the Issuer Mortgages, and if PSA4 has been the purchaser under the Luxembourg Mortgage Sale Agreement prior to the Option Completion Date, to the PSA4 Transaction Account or, on and with effect from such date, to the Transaction Account in respect of such moneys which relate to the PSA4 Mortgages. PML executed a declaration of trust over its collection account at National Westminster Bank Plc on 13th May 1994 which declaration of trust has been amended and supplemented from time to time and which shall be further amended by a supplemental declaration of trust to be dated the Closing Date (the “No. 1 Collection Account Declaration of Trust”) under which PML shall declare that all direct debit payments, cheque payments, redemption moneys and certain other sums of money in respect of the Issuer Mortgages purchased by the Issuer including any PSA4 Mortgages which are purchased by the Issuer pursuant to the Luxembourg Call Option which are credited to its collection account are held on trust for the Issuer until they are applied in the manner described above. Similarly, if PSA4 is to be the purchaser under the Luxembourg Mortgage Sale Agreement, the declaration of trust dated 13th May 1994 shall be further amended by a supplemental declaration of trust to be dated the Closing Date (the “No. 2 Collection Account Declaration of Trust”) under which PML shall declare that all direct debit payments, cheque payments, redemption moneys and certain other sums of money in respect of the PSA4 Mortgages purchased by PSA4 which are credited to PML’s collection account are held on trust for PSA4 (or if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and, on and following the Option Completion Date, the Issuer) until they are applied in the manner described above.

### **Arrears and Default Procedures**

The Administrator will regularly give details to the Issuer, PSA4 (if PSA4 is the purchaser under the Luxembourg Mortgage Sale Agreement), the Trustee and/or the Security Trustee, in accordance with the terms of the Administration Agreement, in writing of the status of the enforcement procedures in relation to Mortgages in respect of which there are arrears and enforcement procedures are being followed by the Administrator in connection therewith.

The Administrator will endeavour to collect all payments due under or in connection with the Mortgages in accordance with procedures agreed from time to time with the Trustee, the Security Trustee (if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and for so long as the Option Completion Date has not occurred), the Issuer and PSA4 (if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and for so long as the Option Completion Date has not occurred) but having regard to the circumstances of the borrower in each case. In the case of a Mortgage other than a Lettings Mortgage, the procedures may include making arrangements whereby a borrower’s payments may be varied and/or taking legal action for possession of the relevant Property and the subsequent sale of that Property. The Court has discretion as to whether, on application by the lender, it orders the borrower to vacate the Property after a default. A lender will usually apply for such an order so that it can sell the Property with vacant possession.

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

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

Any action for possession of a Property 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 (or, if in Scotland, as a short assured tenant), have a limited right to security of tenure in that although an order for possession must be made against the tenant (provided, in certain cases, prescribed notices have been served) it cannot take effect earlier than six months after the beginning of the tenancy in the case of a periodic tenancy, or, in the case of a fixed term tenancy, before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement. Where the tenant is other than an individual, an order for possession cannot take effect before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement.

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

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

#### **Further Advances**

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

In all cases where a Mandatory Further Advance in respect of an Issuer Mortgage is to be made, the Issuer expects to fund such Mandatory Further Advance from the principal moneys then held by it referred to in paragraph (a) of the definition of Available Redemption Funds (see "Summary – Mandatory Redemption in Part"). In all cases where a Mandatory Further Advance in respect of a PSA4 Mortgage is to be made if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date, PSA4 expects to fund such Mandatory Further Advance from the principal moneys then held by it referred to in paragraph (a) of the definition of Available Loan Redemption Funds (see "The Luxembourg Loan" above). If the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date where such principal moneys are insufficient to fund a Mandatory Further Advance in respect of a PSA4 Mortgage, PSA4 is entitled to request a further drawdown under the Luxembourg Loan Agreement (if entered into) and the Issuer will agree, subject to certain conditions, to make an Additional PSA4 Advance for such purposes. The Issuer will fund such Additional PSA4 Advance from the principal moneys then held by itself and referred to in the first sentence of this paragraph. The Issuer may not receive sufficient amounts of principal to meet the amounts of Mandatory Further Advances and/or Additional PSA4 Advances it is required to make. If, and to the extent that, the Issuer or PSA4 fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set-off the amounts of any Mandatory Further Advances which the Issuer or PSA4 has failed to make against amounts owing by those borrowers and/or to sue the Issuer or PSA4 for damages for breach of contract. Accordingly if, and to the extent that, the Issuer does not have sufficient funds to make any such Mandatory Further Advances

and/or Additional PSA4 Advances, the Issuer will be entitled to borrow further amounts from CMS5 under the CMS5 Subordinated Loan Agreement and CMS5 will be under an obligation to make any such amounts available to the Issuer.

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

The Issuer or PSA4 may, at its discretion but subject to certain conditions in the Administration Agreement and provided that there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date, decide to make a Discretionary Further Advance, in respect of an Issuer Mortgage or PSA4 Mortgage, respectively, on the security of the Property subject to the Mortgage on the request of a borrower. In addition, CMS5 may, at its discretion, make available to the Issuer further amounts under the CMS5 Subordinated Loan Agreement if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order to restore to zero the Principal Deficiency Ledger and thus enable the Issuer to make any Discretionary Further Advances in respect of Issuer Mortgages or if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date to fund any Additional PSA4 Advances under the Luxembourg Loan Agreement, to enable PSA4 to make any Discretionary Further Advances in respect of PSA4 Mortgages. Such Discretionary Further Advance may only be made if it is secured on the relevant Property owned by the borrower but subject to the Mortgage. In addition, the Issuer may make a Discretionary Further Advance in respect of an Issuer Mortgage, and if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date PSA4 may make a Discretionary Further Advance in respect of a PSA4 Mortgage, to a borrower as part of its arrears and default procedures by capitalising certain outstanding arrears of interest payable by a borrower. The capitalisation of outstanding arrears constitutes a capitalisation for these purposes if the capitalised amount is added to the principal balance of the Mortgage and the relevant borrower's arrears are discharged.

The Issuer will fund any Discretionary Further Advance in respect of an Issuer Mortgage, out of its Available Redemption Funds, and where such Available Redemption Funds are insufficient, it will be entitled to request a further drawdown under the CMS5 Subordinated Loan Agreement, although CMS5 shall be under no obligation to make available any such advance so requested. The Issuer is not entitled to agree to make any Discretionary Further Advance in respect of an Issuer Mortgage unless it can fund it out of Available Redemption Funds, or unless CMS5 has agreed, at its discretion to make available an advance under the CMS5 Subordinated Loan Agreement for such purpose.

In addition, if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date PSA4 will fund any Discretionary Further Advance in respect of a PSA4 Mortgage out of its Available Loan Redemption Funds, and where such funds are insufficient, it will be entitled to request a further drawdown under the Luxembourg Loan Agreement (if entered into). The Issuer will be entitled to make an Additional PSA4 Advance provided that it itself has sufficient Available Redemption Funds, or where these funds are insufficient, CMS5 will agree to make available an advance under the CMS5 Subordinated Loan Agreement.

In all cases where a Discretionary Further Advance is to be made, the Issuer may use principal moneys referred to in paragraph (a) of the definition of Available Redemption Funds (see "Summary-Mandatory Redemption in Part" above), and prior to the Option Completion Date PSA4 may use principal moneys referred to in paragraph (a) of the definition of Available Loan Redemption Funds (see "The Luxembourg Loan" above), but only after the Issuer or PSA4, as the case may be, has met Mandatory Further Advances required to be made by it at that time.

If the Issuer or PSA4 does not wish, or is unable, to make a Discretionary Further Advance, PML may (but is not obliged to) make that further advance on the security of a second mortgage or standard security over the Property in question (postponed to the relevant Mortgage). Discretionary Further Advances may only be made on a Mortgage by the Issuer or PSA4 if PML's lending criteria as far as applicable are satisfied at the relevant time subject to such waivers as might be within the discretion of a reasonably prudent lender, as will be provided in the Administration Agreement.

Discretionary Further Advance on the Mortgages in the Mortgage Pool (other than by way of capitalisation of arrears) will not be made or funded (except out of the proceeds of an advance under the CMS5 Subordinated Loan Agreement for such purpose) if the sum of (i) all Discretionary Further Advances in respect of both Issuer Mortgages and PSA4 Mortgages (other than by way of capitalisation of arrears) and (ii) all Mandatory Further Advances in respect of both Issuer Mortgages and PSA4 Mortgages which have been made or funded or which may be required to be made or funded on or after the making or funding of any such Discretionary Further Advance which in each such case has been funded by the Issuer

out of principal received or recovered in respect of the Issuer Mortgages and the PSA4 Mortgages would, on the date of the relevant Discretionary Further Advance, exceed a combined aggregate cumulative limit of £50,000,000.

### **Conversion of Mortgages**

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

- (a) (in the case of an Issuer Mortgage) no Enforcement Notice or Protection Notice (as defined in the Deed of Charge) or (in the case of a PSA4 Mortgage) no PSA4 Enforcement Notice (as defined in the Security Trust Deed) has been given by the Trustee or the Security Trustee which remains in effect at the date of the relevant conversion;
- (b) such conversion would not adversely affect the then current ratings of the Notes;
- (c) if, and to the extent that, Mortgages are converted into Mortgages which are Fixed Rate Mortgages or Capped Rate Mortgages, the Issuer having entered into Caps or other hedging arrangements on or before the date of the conversion (and (where appropriate) obtained related guarantees) in respect of the Converted Mortgages if not to do so would adversely affect the then current ratings of the Notes;
- (d) on the date of the relevant conversion, there having been no failure by PML to purchase any Mortgage which it is required to repurchase under the terms of either the UK Mortgage Sale Agreement or the Luxembourg Mortgage Sale Agreement, as the case may be, in the event of there being a breach of warranty in respect of that Mortgage;
- (e) no conversion must extend the final maturity date of the relevant Mortgage beyond August 2029, except for an aggregate principal amount of Mortgages up to a maximum of £10,000,000 which can have a final maturity of no later than August 2041; and
- (f) on the date of and immediately following the relevant conversion, PML's lending criteria are satisfied so far as applicable, subject to such waivers as might be within the discretion of a reasonably prudent lender.

Neither the Trustee nor the Security Trustee (if any) will make any investigation as to the manner in which any Converted Mortgages or Non-Verified Mortgages differ from the Standard and Non-Standard Mortgages purchased by the Issuer or, if PSA4 has been the purchaser under the Luxembourg Mortgage Sale Agreement, PSA4 respectively on the Closing Date, or on the date of such purchase of any Non-Verified Mortgages, or as to the compliance thereof with the criteria referred to herein.

### **Insurance**

PFPLC will, on behalf of the Issuer and, if PSA4 has been the purchaser under the Luxembourg Mortgage Sale Agreement, PSA4 administer and maintain the arrangements for insurance in respect of, or in connection with, the Mortgages to which the Issuer and PSA4 is a party or in which the Issuer and PSA4 has an interest and will make claims on behalf of the Issuer or PSA4 under any such insurance policies when necessary.

### **Reinvestment of Income**

The Transaction Account and (for so long as PSA4 owns any Mortgages) the PSA4 Transaction Account shall at all times be maintained with a bank either the long term unsecured and unguaranteed debt of which is rated Aaa by Moody's and AAA by Standard & Poor's or whose short term debt is rated at least P-1 by Moody's and at least A-1 by Standard & Poor's or such that the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes would not be adversely affected and shall not be changed without the prior consent of the Trustee. If such bank ceases to satisfy the criteria mentioned above, the Administration Agreement will contain provisions requiring the Administrator to arrange for the transfer of the Transaction Account and/or the PSA4 Transaction Account to another bank which does satisfy such criteria.

Sums held to the credit of the Transaction Account and (for so long as PSA4 owns any Mortgages) the PSA4 Transaction Account to which payments of interest and repayments of principal in respect of Mortgages are to be credited and into and out of which all other payments to and by the Issuer and PSA4, respectively, are to be made must be invested (a) in sterling denominated securities, bank accounts or other obligations of or rights against entities either the long term unsecured and unguaranteed debt of which is rated Aaa by Moody's and AAA by Standard & Poor's or whose short term unsecured and unguaranteed debt is rated at least P-1 by Moody's and at least A-1 by Standard & Poor's; or (b) in such other sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes provided that moneys invested in entities rated A-1 by Standard & Poor's may not be invested for a period of more than 30 days and such investments may not exceed 20% of the then aggregate Principal Amount Outstanding of the Notes. Such investments and deposits must always mature on or before the next Interest Payment Date and will be charged to the Trustee and form part of the security for the payment of principal and interest on the Notes to the extent that such investments and deposits are acquired or made by or on behalf of the Issuer, and, if the Luxembourg Loan Agreement is entered into, will be charged to the Security Trustee and form part of the security for the payment of principal and interest under the Luxembourg Loan Agreement, to the extent that such investments and deposits are acquired or made by or on behalf of PSA4. No investment shall be made unless such investment is an asset which a building society (as defined in The Building Societies Act 1986, as amended by The Building Societies Act 1997, if applicable) has power to acquire. In addition, funds of the Issuer and (if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 for so long as the Option Completion Date has not occurred) PSA4 must be invested in assets the acquisition of which would not prevent the Class A Notes, if they would otherwise do so, from carrying a Risk Asset Weighting of 50% (or such percentage as may for the time being be generally applicable to mortgage backed securities or, if there is more than one Risk Asset Weighting percentage stipulated for mortgage backed securities, the lower thereof) under the Capital Adequacy Rules for Authorised Institutions for the time being applied by the Financial Services Authority or under the Capital Adequacy Rules for building societies for the time being applied by the Building Societies Commission.

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

#### **Delegation by the Administrator**

The Administrator may, in certain circumstances, with the consent of the Issuer and the Trustee in respect of the Issuer Mortgages, and if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and prior to the Option Completion Date, with the consent of PSA4 and the Security Trustee in respect of the PSA4 Mortgages, sub-contract or delegate its obligations under the Administration Agreement. The Administrator may not sub-contract or delegate all or substantially all of its obligations under the Administration Agreement if the then current ratings of the Notes would be adversely affected.

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

The appointment of the Administrator can be terminated by the Trustee and the Security Trustee if any (acting together) in the event of:

- (a) certain payment defaults by the Administrator;
- (b) default by the Administrator in the performance or observance of its covenants and obligations under the Administration Agreement, which in the opinion of the Trustee is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders and (except where in the reasonable opinion of the Trustee, such default is incapable of remedy, when no such continuation and/or notice as is hereinafter mentioned will be required) such default continues unremedied for a period of 14 days after the earlier of the Administrator becoming aware of such default and receipt by the Administrator of written notice from the Trustee and/or the Security Trustee (if any) requiring the same to be remedied. If the relevant default occurs as a result of a default by any person to whom the Administrator has sub-contracted or delegated part of its obligations under the Administration Agreement such default shall not result in the termination of the appointment of the Administrator if within such 14 day period the Administrator terminates the relevant sub-

contracting or delegation arrangements and takes such steps as the Trustee and the Security Trustee (if any) (acting together) may reasonably specify to remedy such default or to indemnify the Issuer and/or, as the case may be, PSA4 against the consequences of such default;

- (c) an order being made or an effective resolution being passed for winding up the Administrator;
- (d) the Administrator ceasing or threatening to cease to carry on its business or a substantial part of its business or stopping payment or threatening to stop payment of its debts or the Administrator being deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act or becoming unable to pay its debts as they fall due or the value of its assets falling to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becoming insolvent; or
- (e) proceedings being initiated against the Administrator under any applicable liquidation, administration, insolvency, composition, reorganisation (other than a reorganisation the terms of which have been approved by the Trustee and the Security Trustee (if any) (acting together) and where the Administrator is solvent) or other similar laws, save where such proceedings are being contested in good faith by the Administrator, or an administrative or other receiver, administrator or other similar official is appointed in relation to the Administrator or in relation to the whole or any substantial part of the undertaking or assets of the Administrator or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Administrator, or a distress or 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 Administrator and in any of the foregoing cases it shall not be discharged within 15 days; or if the Administrator shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally.

In addition, the Administration Agreement may be terminated upon the expiry of not less than 12 months' notice of termination given by the Administrator to each of the Issuer, PSA4 (if applicable), the Trustee and the Security Trustee (if any), if:

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

If the Trustee and the Security Trustee (if any) (acting together) are unable to appoint a substitute administrator, the Substitute Administrator has agreed under the Substitute Administrator Agreement that it will act as such substitute administrator pursuant to, and in accordance with, the terms of the Substitute Administrator Agreement.

#### **Administration Fee**

The Administration Agreement will make provision for payments to be made to the Administrator. The Issuer will pay, on behalf of itself and, if PSA4 has been the purchaser under the Luxembourg Mortgage Sale Agreement, PSA4 to PFPLC as Administrator an administration fee of not more than 0.3% (inclusive of VAT) per annum on the aggregate interest charging balances of the Mortgages at the beginning of each Collection Period which will be due quarterly in arrear on each Interest Payment Date. A higher fee at a rate agreed by the Trustee (but which does not exceed the rate then commonly charged by providers of mortgage administration services) may be payable to any substitute administrator appointed (other than as administrator of last resort) following termination of PFPLC's appointment. If no substitute administrator can be found, the Substitute Administrator will act as administrator of last resort receiving a fee at a rate of 0.3% (exclusive of VAT) per annum on the aggregate interest charging balances of the Mortgages at the beginning of each Collection Period which will be due quarterly in arrear on each Interest Payment Date. If the Substitute Administrator is required to act as administrator of last resort, it will exercise such discretion as would be exercised by it if it were the mortgagee and beneficial owner of the Mortgages.

PML will be entitled to receive from the Issuer and (if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and for so long as the Option Completion Date has not occurred) PSA4 for its own account any commissions due to it from insurers out of premiums paid by borrowers as a result of it having placed buildings insurance in relation to the Mortgages with such insurers.

The administration fee and all costs and expenses of the Administrator (including of any substitute administrator and of the Substitute Administrator under the Substitute Administrator Agreement) and the aforesaid commissions are to be paid in priority to payments due on the Notes. This order of priority has been agreed with a view to procuring the continuing performance by the Administrator of its duties in relation to the Issuer, PSA4, the Mortgages and the Notes.

### **Redemption**

Under the Administration Agreement, the Administrator will be responsible for handling the procedures connected with the redemption of Mortgages. In order to enable the Administrator to do this, the Trustee, the Issuer, (if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and for so long as the Option Completion Date has not occurred) the Security Trustee and PSA4 will be required to execute powers of attorney in favour of the Administrator which will enable it to discharge the Issuer Mortgages from the security created over them in favour of the Trustee under the Deed of Charge, without reference to the Trustee or the Issuer, and (if the Luxembourg Tax Trigger Event has not occurred prior to 23rd April 2001 and for so long as the Option Completion Date has not occurred) to discharge the PSA4 Mortgages from the security created over them in favour of the Security Trustee (if any) under the Security Trust Deed (if any), without reference to the Security Trustee or PSA4.

## UNITED KINGDOM TAXATION

### **Taxation of Interest Paid**

Under current legislation, for so long as the Notes carry a right to interest and continue to be listed on a recognised stock exchange within the meaning of Section 841 of the Income and Corporation Taxes Act 1988 (the London Stock Exchange is currently a recognised stock exchange for this purpose), the Notes will constitute quoted Eurobonds within the meaning of Section 349(4) of the Income and Corporation Taxes Act 1988 (as amended by Section 111 of the Finance Act 2000). Accordingly, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax. No additional requirements would apply.

In all other cases interest on the Notes will be paid under deduction of UK income tax at the lower rate (currently 20%), subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available under any applicable double taxation convention or in circumstances where the exemption for payments between companies proposed by the Chancellor of the Exchequer in the March 2001 budget applies.

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

### **Taxation of Corporate Debt**

The Inland Revenue has recently issued for consultation a Technical Note on Corporate Debt, Financial Instruments and Foreign Exchange Gains and Losses. The period for response to this consultation closed on 12 January 2001. It is possible that, following this consultation, changes will be made to the taxation of corporate debt which would alter the treatment of interest on the Notes outlined above. It is not known to what extent, if at all, any of the proposals in the Technical Note will become law.

### **Capital Gains and Income Profits**

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

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

### **Accrued Income**

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



### **Stamp Duty**

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

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

## SUBSCRIPTION AND SALE

Barclays Bank PLC, Banque Brussels Lambert, J.P. Morgan Securities Ltd, Societe Generale, and The Royal Bank of Scotland plc (the “Class A Managers”) have, pursuant to a subscription agreement dated 24th April 2001 (to which PFPLC, PML, CMS5 and PSA4 are also party) (the “Class A Subscription Agreement”), jointly and severally agreed, subject to certain conditions, to subscribe for the Class A Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class A Managers for certain of their expenses in connection with the issue of the Class A Notes. The Class A Subscription Agreement entitles the Class A Managers to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A Managers against certain liabilities in connection with the offer and sale of the Class A Notes. The Issuer has agreed to pay the Class A Managers a selling commission of 0.10% of the principal amount of the Class A Notes and a combined management and underwriting commission of 0.075% of the principal amount of the Class A Notes.

Barclays Bank PLC (the “Class B Manager”) has, pursuant to a subscription agreement dated 24th April 2001 (to which PFPLC, PML, CMS5 and PSA4 are also party) (the “Class B Subscription Agreement”) agreed, subject to certain conditions, to subscribe for the Class B Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class B Manager for certain of its expenses in connection with the issue of the Class B Notes. The Class B Subscription Agreement entitles the Class B Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class B Manager against certain liabilities in connection with the offer and sale of the Class B Notes. The Issuer has agreed to pay the Class B Manager a selling commission of 0.175% of the principal amount of the Class B Notes and a combined management and underwriting commission of 0.125% of the principal amount of the Class B Notes.

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

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

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

Other than the application to the UK Listing Authority for the admission of the Notes to the Official List and the application to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange no action is being taken to permit a public offering of the Notes, or possession or distribution of the Offering Circular or other material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

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

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

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

## GENERAL INFORMATION

It is expected that listing of the Notes to the Official List of the UK Listing Authority will be granted on 26 April 2001 and that the Notes will be admitted to trading on the London Stock Exchange on 30 April 2001, subject only to the issue of the Temporary Global Notes. The listing of the Notes will be cancelled if the Temporary Global Notes are not issued.

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

Class A Notes, Common Code Number 012835582; ISIN XS0128355822; and

Class B Notes, Common Code Number 012835744; ISIN XS0128357448.

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

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

Since 30th September 2000 there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or (save as disclosed under "The Issuer-Capitalisation" above) financial position of the Issuer.

The annual accounts of the Issuer for the last two years have been audited.

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

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

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

- (a) the Memorandum and Articles of Association of the Issuer and PSA4;
- (b) the consent letters of Deloitte & Touche referred to on pages 88 and 91 above;
- (c) copies of the Class A Subscription Agreement and the Class B Subscription Agreement;
- (d) drafts (subject to modification) of the Trust Deed to constitute the Class A Notes and the Class B Notes (including the forms of the Global Class A Notes, the Class A Notes, Coupons and Talons and the forms of Global Class B Notes, the Class B Notes, Coupons and Talons) the UK Mortgage Sale Agreement, the Luxembourg Mortgage Sale Agreement, the Luxembourg Loan Agreement, the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, the Security Trust Deed, the Scottish Declaration of Trust, the Agency Agreement, the No. 1 Collection Account Declaration of Trust, the No. 2 Collection Account Declaration of Trust, the Swap Agreement, the CMS5 Subordinated Loan Agreement, the Fee Letter, the Services Letter and the Post Enforcement Call Option Deed;
- (e) the accountants' report on the Issuer prepared by Deloitte & Touche set out on pages 84 to 88;
- (f) the accountants' report on PSA4 prepared by Deloitte & Touche S.A. set out on pages 90 to 91; and
- (g) the financial statements of the Issuer for the periods ended 30 September 1999, 30 September 2000 and 24 April 2001.

## GLOSSARY OF KEY TERMS AND DEFINITIONS

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

<b>Defined Term</b>	<b>Page No.</b>
0.125 per cent. Amount .....	42
0.125 per cent. Amount Loan .....	42
£ .....	2
Act .....	122
Additional Amounts .....	83
Additional Interest .....	67
Additional PSA4 Advances .....	16
Administration Agreement .....	21
Administrator .....	4, 50, 66
Agency Agreement .....	46, 62
Arrears Mortgages .....	18
Available Loan Redemption Funds .....	42
Available Redemption Funds .....	12, 34, 53, 70
Basic Terms Modification .....	60, 77
Business Day .....	5, 51, 57, 67, 74
Cap .....	25
Cap Provider .....	25
Class A Available Redemption Funds .....	54, 71
Class A Conditions .....	48
Class A Managers .....	122
Class A Noteholder .....	47
Class A Noteholders .....	46, 48, 62, 64
Class A Notes .....	1, 48, 65
Class A Subscription Agreement .....	122
Class B Available Redemption Funds .....	54, 71
Class B Conditions .....	64
Class B Manager .....	122
Class B Noteholder .....	64
Class B Noteholders .....	46, 48, 62, 64
Class B Notes .....	1, 49, 64
Class B Subscription Agreement .....	122
Clearstream, Luxembourg .....	1, 46, 62
Closing Date .....	5, 51, 67
CMS5 .....	4
CMS5 Subordinated Loan Agreement .....	26
Common Depositary .....	1, 25, 46, 62

<b>Defined Term</b>	<b>Page No.</b>
Converted Mortgage .....	21
Corporate Mortgages .....	17
Couponholder .....	48, 64
Coupons .....	48, 64
Current Balance .....	11
Deed .....	76
Deed of Charge .....	9, 10, 46, 49, 62, 65
Deferred Interest .....	67
Determination Event .....	11
Discretionary Further Advance .....	20
Enforcement Notice .....	58, 75
English Mortgages .....	17, 93
English Properties .....	17, 93
Euroclear .....	1, 46, 62
Event of Default .....	58, 75
Fee Letter .....	26
First Loss Fund .....	9, 22, 28
Global Class A Note .....	47
Global Class A Notes .....	47
Global Class B Note .....	62
Global Class B Notes .....	62
Increased Required Amount .....	23
Initial PSA4 Advance .....	16
Interest Coupons .....	48, 64
Interest Determination Date .....	51, 68
Interest Payment .....	52, 68
Interest Payment Date .....	1, 51, 67
Interest Period .....	51, 67
Interest-only Mortgages .....	94
Issuer .....	1, 84, 90
Issuer Mortgages .....	15
Issuer Principal Ledger .....	7
Issuer Revenue Ledger .....	7
LIBOR .....	1
Lloyd's .....	22
Loan Payment Date .....	41
London Stock Exchange .....	1, 52, 69
Luxembourg Call Option .....	15
Luxembourg Loan .....	41

<b>Defined Term</b>	<b>Page No.</b>
Luxembourg Loan Agreement.....	16, 46, 62
Luxembourg Mortgage Sale Agreement.....	15, 46, 62
Luxembourg Tax Trigger Event .....	17
Managers .....	122
Mandatory Further Advance.....	20
Moody's .....	1
mortgage.....	95
Mortgage Conditions .....	93
Mortgage Pool.....	18
mortgagee .....	95
Mortgages.....	17
No. 1 Collection Account Declaration of Trust .....	113
No. 2 Collection Account Declaration of Trust .....	113
Non-Standard Mortgages.....	93
Non-Verified Mortgage Advance .....	41
Non-Verified Mortgage Advances.....	16
Non-Verified Mortgages.....	18
Notes .....	1
Option Completion Date .....	17
Option Exercise Date .....	76
outstanding amount .....	114
Paying Agents .....	46, 62
Permanent Global Note .....	25
Permitted Hedge Provider .....	25
PFPLC .....	4
PGC.....	4
PML .....	4, 46, 62
Pool Factor .....	55, 72
POPLC .....	28, 76
POPLC Deed .....	29
Post Enforcement Call Option Deed .....	28, 77
pounds.....	2
pounds sterling.....	2
Pre-Funding Reserve.....	18, 19
Pre-Funding Reserve Ledger .....	8
Principal Amount Outstanding .....	55, 72
Principal Deficiency.....	7, 74
Principal Determination Date .....	11
Principal Paying Agent .....	46, 62

<b>Defined Term</b>	<b>Page No.</b>
Principal Payment .....	53, 70
Properties .....	17, 93
Provisional Balance .....	106
Provisional Mortgage Pool .....	106
Provisional Pool Date.....	106
PSA .....	4
PSA4 .....	4, 46, 62, 89, 90
PSA4 Mortgages .....	15
PSA4 Transaction Account .....	17
PSFL .....	4
Purchased Pre-Closing Accruals and Arrears .....	18
Rate of Interest .....	51, 68
Rating Agencies.....	1
Reference Agent .....	46, 51, 62, 68
Reference Banks .....	52, 68
relevant Collection Period .....	12, 42, 53, 70
Relevant Date .....	58, 75
Relevant Documents.....	49, 65
Relevant Screen .....	60, 77
Repayment Mortgages .....	93
Required Amount .....	23
Residual Amount .....	74
Restricted Period .....	122
Retained Pre-Closing Accruals and Arrears .....	18
Scottish Mortgages .....	17, 93
Scottish Properties.....	17, 93
Securities Act .....	122
Security .....	48, 64
Security Trust Deed .....	16
Security Trustee .....	2, 4
Services Letter .....	26, 81
Shortfall Fund .....	9, 24
Standard & Poor's.....	1
Standard Mortgages .....	93
sterling.....	2
Subordinated Lenders.....	28
Substitute Administrator .....	6, 46, 49, 62, 65
Substitute Administrator Agreement .....	22
Swap Agreement .....	24



<b>Defined Term</b>	<b>Page No.</b>
Swap Counterparty .....	24
Swap Provider .....	24
Swap Termination Amount .....	83
Talons .....	48, 64
Temporary Global Note.....	25
Transaction Account.....	6, 48, 64
Trust Deed .....	46, 48, 62, 64
Trustee .....	4, 46, 48, 62, 64
UK Listing Authority.....	1
UK Mortgage Sale Agreement .....	15, 46, 62
VAT Account.....	92
VAT Declaration of Trust .....	92
Withheld Amount .....	83
Withholding Compensation Amounts .....	83

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