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## OFFERING CIRCULAR

# Paragon Mortgages (No. 4) PLC

(Incorporated with limited liability in England and Wales with registered number: 3696156)

£457,500,000

*Class A Mortgage Backed Floating Rate Notes Due 2032*

Issue price: 100%

£42,500,000

*Class B Mortgage Backed Floating Rate Notes Due 2044*

Issue price: 100%

The £457,500,000 Class A Mortgage Backed Floating Rate Notes Due 2032 of Paragon Mortgages (No. 4) PLC (the "Issuer") (the "Class A Notes") will be issued by the Issuer together with the £42,500,000 Class B Mortgage Backed Floating Rate Notes Due 2044 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 July 2002 and thereafter on each subsequent 7th October, 7th January, 7th April and 7th July subject to adjustment in the manner described in this Offering Circular (each date as so adjusted, being an "Interest Payment Date"). Interest on the Class B Notes will be paid on an Interest Payment Date only if and to the extent that there are sufficient funds available to the Issuer on the Principal Determination Date (as defined herein) applicable to such Interest Payment Date to pay interest on such Notes, as more particularly described herein. To the extent that such funds are not sufficient to pay the full amount of interest on the Class B Notes 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 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: 0.26% per annum up to and including the Interest Period ending in April 2008 and thereafter 0.52% per annum; and
- (ii) Class B Notes: 0.85% per annum up to and including the Interest Period ending in April 2008 and thereafter 1.70% per annum.

The first Interest Period is expected to commence on (and include) 27th March 2002 and end on (but exclude) the Interest Payment Date falling in July 2002. Interest payments on the Notes will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor.

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

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

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

The Notes of each class will initially be represented by a Temporary Global Note (as defined in "Summary – Global Notes" below), without coupons or talons, which will be deposited with a common depository (the "Common Depository") for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme, Luxembourg ("Clearstream, Luxembourg") at the closing of the issues of the Notes (which is expected to be on 27th March 2002). The Temporary Global Note relating to each class of Notes will be exchangeable 40 days after the closing of the issues of the Notes (provided that certification of non-U.S. beneficial ownership has been received) for interests in a Permanent Global Note relating to the same class which will also be deposited with the Common Depository. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

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

### Managers



Barclays  
Capital

Deutsche Bank

HSBC

JPMorgan

Société  
Générale

The Royal Bank of  
Scotland

The date of this Offering Circular is 26th March 2002.

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

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

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

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

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

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

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

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

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## SUMMARY

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

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

<b>Issuer</b>	Paragon Mortgages (No. 4) PLC, a public company incorporated under the laws of England, registered number 3696156 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>PSFL</b>	Paragon Second Funding Limited (“PSFL”), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC.
<b>Mortgage Originator Administrator</b>	All of the Mortgages were, or will have been, originated by PML. PFPLC will be appointed to act as administrator of the Mortgages and to perform certain corporate, administrative and cash management services on behalf of the Issuer.
<b>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, among others, the Noteholders.
<b>The Notes</b>	£457,500,000 Class A Mortgage Backed Floating Rate Notes Due 2032 and £42,500,000 Class B Mortgage Backed Floating Rate Notes Due 2044.  <b>The Notes will be obligations of the Issuer. The Notes will not be obligations or the responsibility of any person other than the Issuer. The Notes will not be guaranteed by any person. In particular, the Notes will not be obligations or the responsibility of PFPLC, PML, PGC, POPLC, PSFL, any company in the same group of companies as PGC (other than the Issuer), the Trustee, any of the Managers or any other person other than the Issuer.</b>  <b>No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by PFPLC, PML, PGC, POPLC, PSFL, any company in the same group of companies as PGC (other than the Issuer), the Trustee, any of the Managers or by any other person other than the Issuer.</b>  <b>Payments in respect of the Class B Notes will only be made if and to the extent that there are sufficient funds after paying or providing for certain liabilities, including certain liabilities in respect of the Class A Notes. The Class B Notes rank after the Class A Notes in point of security.</b>
<b>Interest</b>	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: 0.26% per annum up to and including the Interest Period ending in April 2008 and thereafter 0.52% per annum; and

Class B Notes: 0.85% per annum up to and including the Interest Period ending in April 2008 and thereafter 1.70% per annum.

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

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

Interest is payable in respect of the Notes (provided certification of non-U.S. beneficial ownership by the Noteholders has been received) in pounds sterling quarterly in arrear on 7th July 2002 and thereafter on each subsequent 7th October, 7th January, 7th April and 7th July or, if any such day is either a Saturday or Sunday and/or is not a day on which banks are generally open for business in London (a “**Business Day**”), on the immediately succeeding Business Day.

The first Interest Period will commence on (and include) the date of the closing of the issue of the Notes, which is expected to be 27th March 2002 or such later date as may be agreed between the Issuer and the Managers for each class of Notes (the “**Closing Date**”), and end on (but exclude) the Interest Payment Date falling in July 2002. Each subsequent Interest Period applicable to the Notes will commence on (and include) an Interest Payment Date and end on (but exclude) the next succeeding Interest Payment Date.

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

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

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

- (i) the Mortgages (as defined in “The Mortgages” below) to be purchased by the Issuer (including any Non-Verified Mortgages) and mortgage indemnity insurance (if applicable) relating thereto;
- (ii) various other insurance policies relating to the Mortgages in which the Issuer has an interest;
- (iii) the Issuer’s rights under the Mortgage Sale Agreement, the Administration Agreement, the Subordinated Loan Agreement, the Fee Letter, the Swap Agreement, the 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;
- (iv) any investments in which the Issuer may place any cash which it owns; and
- (v) the Issuer’s rights to all moneys standing to the credit of the bank account of the Issuer with National Westminster Bank Plc at its branch at 4 High Street, Solihull, West Midlands, B91 3WL (or such other bank account as the Issuer, subject to certain restrictions and with the consent of the Trustee, may from time to time select for such

purpose) into and out of which all payments to and by the Issuer will be made (the “**Transaction Account**”) and any other bank accounts in which the Issuer has an interest.

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

The Class A Notes 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 Mortgage Sale Agreement, the Fee Letter and the Services Letter (each as defined in “The Issuer” below) and amounts owing to PFPLC under the 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 a “**Principal Ledger**” and a “**Revenue Ledger**”.

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

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

making any Mandatory Further Advances or Discretionary Further Advances, which will be credited to the Principal Ledger; and (iv) drawings under the Subordinated Loan Agreement to fund unamortised cashbacks and/or discounts in relation to Non-Verified Mortgages, which will be credited to the 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 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 Mortgages.

**Priority of Payments – prior to enforcement**

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

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

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

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

(iii) *pro rata* according to the respective amounts thereof, (a) payment of all amounts (save for any Withholding Compensation Amounts or Swap Termination Amounts) due and 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 and payable and all arrears of interest remaining unpaid on the Class A Notes together with (if applicable) interest thereon;

(iv) payment of interest due and payable and all arrears of interest remaining unpaid (including Additional Interest (as defined in the Terms and Conditions of the Class B Notes below)) on the Class B Notes together with (if applicable) interest thereon;

(v) *pro rata* according to the respective amounts thereof, payment of sums due and payable to third parties under obligations incurred in the course of the Issuer’s business and provision for and payment of the Issuer’s liability (if any) to value added tax and to corporation tax and/or the balance, if any, of the VAT liability of the Paragon VAT Group following a demand being made by H.M. Customs & Excise on



the Issuer where the VAT liability is not satisfied in full in accordance with the Deed of Charge, the Administration Agreement and the VAT Declaration of Trust (see “The Paragon VAT Group” below);

(vi) 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;

(vii) provision for an amount necessary to replenish the First Loss Fund to the Required Amount specified in “First Loss Fund” below;

(viii) *pro rata* according to the respective amounts thereof, payment of any Withholding Compensation Amounts and any Swap Termination Amounts due and 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 Subordinated Loan Agreement;

(xii) provision for the repayment of the outstanding amount of any advances made under the Subordinated Loan Agreement, subject to a maximum provision of the lesser of (a) the aggregate of (i) the amount of any such advances 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, (iii) the amount of any such advances utilised to reduce to zero any debit balance on the Principal Deficiency Ledger and (iv) the amount of any such advances utilised to replenish the First Loss Fund to the Required Amount (provided that the amount referred to in this subparagraph (iv) shall not include the amount of any advance made on the Closing Date to establish the First Loss Fund); and (b) the amount available for application having made in full all provisions and payments referred to in paragraphs (i) to (xi) inclusive 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 by the Administrator or PFPLC, as the case may be, other than fees provided for above;

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

all as set out in a deed of sub-charge and assignment to be entered into between, among other persons, the Issuer, the Trustee, PFPLC, PML, the Administrator, 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 (with the prior consent of PFPLC) after the first Business Day after such Interest Payment Date to the extent that the amounts credited to the Transaction Account representing a credit balance on the Revenue Ledger are sufficient for such purpose.

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

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

**Priority of Payments-  
post-enforcement**

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

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

(ii) certain fees and out-of-pocket expenses and commissions of the Administrator, certain commissions previously received by the Issuer which have not previously been paid to 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 unpaid in respect of the Class B Notes (together with any unpaid interest thereon), (b) all principal moneys due in respect of the Class B Notes and (c) any other amounts due in respect of the Class B Notes;

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

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

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

## Mandatory Redemption in Part

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

Up to and including the later of the Interest Payment Date falling in April 2007 and the Interest Payment Date on which the ratio of the aggregate Principal Amount Outstanding of the Class B Notes to the aggregate Principal Amount Outstanding of the Notes is 85:500 or more (such circumstance constituting the “**Determination Event**”), all Available Redemption Funds will be applied in mandatory redemption of the Class A Notes.

After the occurrence of the Determination Event, on each Interest Payment Date, provided that (a) on the immediately preceding Interest Payment Date, after the application of the moneys in the Transaction Account representing the credit balance on the Revenue Ledger in accordance with the priority of payments set out in “Priority of Payments – prior to enforcement” (including any amounts debited from the First Loss Ledger and applied in accordance with the priority of payments as specified in “First Loss Fund” below) on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger, and (b) on the immediately preceding Principal Determination Date the then outstanding balance, including arrears of interest and all other sums due and payable but unpaid (the “**Current Balance**”) of Mortgages which are more than three months in arrears represents less than 7.5% 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 in full, 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 £23,500,000.

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

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

(a) the aggregate of:

- (i) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Arrears and

Accruals relating thereto received by or on behalf of the Issuer but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the “**relevant Collection Period**”));

(ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid by the Issuer to PML by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement, (b) the amount applied to establish the First Loss Fund on the Closing Date and (c) 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) and (iii) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances or in paying interest on the Class A Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer in each case on or prior to the preceding Interest Payment Date;

less

(b) the aggregate of:

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

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

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

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

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

**Optional Redemption of  
Class A Notes**

In the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class A Notes, or in the event that the Issuer or 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 in or after April 2005 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 £85,000,000 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 in or after April 2005 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 July 2032 and (ii) the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in July 2044.

**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 Mortgages**

The mortgages, the beneficial interest in which will be acquired by the Issuer and which will form part of the security for the Notes (the “**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 Mortgages are either individuals (Mortgages where the borrowers are individuals being “**Individual Mortgages**”) or limited liability companies incorporated in England and Wales or Scotland (Mortgages where the borrowers are such limited liability companies being “**Corporate Mortgages**”).

The Mortgages will be acquired by the Issuer pursuant to a mortgage sale agreement to be dated on or before the Closing Date, between the Issuer, PML, the Trustee and PSFL (the “**Mortgage Sale Agreement**”). Under the 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 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 Mortgage Sale Agreement and the Administration Agreement have been met.

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

The Mortgages are, or will be, secured by charges (the “**English Mortgages**”) over freehold or leasehold residential properties located in England or Wales (the “**English Properties**”) or by standard securities (the “**Scottish Mortgages**”) over feudal or long leasehold residential properties located in Scotland (the “**Scottish Properties**”) and, together with the English Properties, the “**Properties**”).

Mortgages purchased by the Issuer 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 arrearages 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), there will be Mortgages which are to be sold to the Issuer which will have outstanding arrearages in excess of one current monthly payment under such Mortgages (“**Arrearages Mortgages**”). As at the Provisional Pool Date, Arrearages Mortgages comprised £2,507,695.49 by aggregate principal balance of the Provisional Mortgage Pool (as defined under “Selection of Mortgages” below). Any arrearages of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) in respect of any Mortgage other than an Arrearages Mortgage (“**Retained Pre-Closing Accruals and Arrearages**”) will not be purchased by the Issuer, and any payments received in respect of such Mortgage after the date of its purchase will be applied first to those arrearages, other amounts and accrued interest and will be accounted for to PML.

The maximum aggregate principal amount of Arrearages Mortgages which may be purchased by the Issuer (whether at or after the Closing Date) (when aggregated with any other Arrearages Mortgages previously purchased) is £6,000,000 at the time of purchase.

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

## **Selection of Mortgages**

The Mortgages to be purchased by the Issuer on the Closing Date and at any time up to and including the first Principal Determination Date will be selected from the pool of mortgages to which the statistical and other information contained in this Offering Circular relates (see “The Provisional Mortgage Pool” below) and from other mortgages not included in the Provisional Mortgage Pool. Mortgages purchased by the Issuer 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 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. Principal payments may be made in whole or in part at any time during the term of a Mortgage at the option of the relevant borrower. Any such payments received by the Issuer in respect of a Mortgage (whether or not scheduled) will form part of the moneys included in the calculation of Available Redemption Funds. The calculation of Available Redemption Funds also includes deductions from the foregoing amounts to the extent of Mandatory Further Advances or Discretionary Further Advances.

All of the Mortgages 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 Mortgages. PML will be required to purchase any 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 any drawing under the Subordinated Loan Agreement which is not applied on the Closing Date in purchasing Mortgages or in establishing the First Loss Fund (the “**Pre-Funding Reserve**”).

It is expected that the Pre-Funding Reserve, as at the Closing Date, will be approximately £85,000,000.

The Issuer will only be entitled to apply such amount in purchasing Non-Verified Mortgages at any time up to and including the first Principal Determination Date if and to the extent that the Issuer is permitted to do so by, and in accordance with, the Mortgage Sale Agreement and the Administration Agreement. In particular, any such purchase of Non-Verified Mortgages by the Issuer 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 and PSFL, of solvency certificates, each dated the date of such purchase, signed by an authorised officer of the relevant company; and

(vi) there being no existing termination event in relation to the Administrator under the Administration Agreement.

PML and PFPLC (in its capacity as administrator) must provide a certificate to the 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 (vi) 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 Mortgage Sale Agreement, 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 debits made on that ledger on such date) will be credited on that Principal Determination Date to the 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 representing any part of the original advance retained pending completion of construction or refurbishment is referred to as a “**Mandatory Further Advance**”. Any further advance in respect of a Mortgage other than a Mandatory Further Advance is referred to as a “**Discretionary Further Advance**”.

Subject to the satisfaction of certain conditions, the Issuer may make or fund Discretionary Further Advances provided that (a) there is a balance of zero on the Principal Deficiency Ledger on the immediately



preceding Interest Payment Date (or, to the extent that there is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the Principal Deficiency Ledger, is sufficient to reduce to zero any such debit balance on the Principal Deficiency Ledger), (b) the First Loss Fund is at least equal to the Required Amount on the immediately preceding Interest Payment Date (or, to the extent that it is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the First Loss Ledger, is sufficient to replenish the First Loss Fund to the Required Amount) and (c) the sum of (i) all Discretionary Further Advances (other than by way of capitalisation of arrears) which have been made since the Closing Date or which are proposed to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made, (ii) all Mandatory Further Advances which have been made since the Closing Date or which are to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made which, in the case of each of sub-paragraphs (i) and (ii) above, have been or are to be funded by the Issuer out of principal received or recovered or deemed to have been received or recovered in respect of the Mortgages and not out of the proceeds of any advance under the Subordinated Loan Agreement made or to be made for such purpose and (iii) all Mandatory Further Advances which may be required to be made after the making of the relevant Discretionary Further Advance, would not, on the date of the relevant Discretionary Further Advance, exceed a combined aggregate cumulative limit of £70,000,000.

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 collection account in the name of PML and specified as the "Collection Account" in the Trust Deed (the "**Collection Account**"). All moneys received in respect of the Mortgages will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

Under the Collection Account Declaration 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 which are credited to the Collection Account are held on trust for the Issuer until they are applied in the manner described above.

## **Mortgage Administration**

Pursuant to an agreement to be entered into between PFPLC, PML, the Issuer and the Trustee (the “**Administration Agreement**”), PFPLC will administer the Mortgages on behalf of the Issuer. The Administrator will set the rates of interest applicable to the Mortgages (where relevant). The Administrator will receive, in priority to payments of interest on the Notes, an annual fee of not more than 0.30% (inclusive of VAT) on the aggregate interest charging balance of the outstanding Mortgages, payable quarterly in arrear 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 by the Issuer.

Under the Administration Agreement, the Administrator is given the duty, on behalf of the Issuer and the Trustee, of taking all reasonable steps to recover sums due to the Issuer, including under the Mortgages, and in respect of the Issuer’s and the Trustee’s rights in the insurance policies referred to below.

## **Insurances**

Where a Repayment Mortgage or an Interest-only Mortgage (as defined in “The Mortgages” below) has been originated by PML, PML recommends that, in the case of Individual Mortgages, borrowers or, in the case of Corporate Mortgages, guarantors arrange term life assurance but, in the majority of cases, no security will be or has been taken over such assurance. Even if such policies were taken out, in the case of Individual Mortgages, borrowers or, in the case of Corporate Mortgages, guarantors may not have been making payment in full or on time of the premia 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 Mortgage Conditions in respect of such Mortgages do not require such borrowers to put in place such alternative funding arrangements (see “Special Considerations” below). 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 certain of the Individual Mortgages (not being Shared Ownership Mortgages, Lettings Mortgages or Mortgages under which the initial advance was made after 31st January 2000) and will charge the benefit of this mortgage indemnity insurance policy, insofar as it relates to the relevant Individual Mortgages, to the Trustee (see “Insurance Coverage” below).

## **First Loss Fund**

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount (the “**1.75% amount**”) which equals 1.75% of the aggregate Principal Amount Outstanding of the Class A Notes and the Class B Notes as at the Closing Date and

will credit such amount to the First Loss Ledger for the purpose of establishing a fund (the “**First Loss Fund**”). The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of or provision for the amounts referred to in items (i) to (iii) inclusive and, subject to the next paragraph, items (iv) and (v), and, in any event (and not subject to the next paragraph), item (vi) in the priority of payments set out in “Priority of Payments – prior to enforcement” above where the income of the Issuer and the amount available to the Issuer (if any) on such Interest Payment Date in any Shortfall Fund as described below, is insufficient to pay such amounts.

The First Loss Fund will not be applied towards payment of items (iv) 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 (vi) 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 and item (vi)) 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 April 2007, (a) after the application of the moneys in the Transaction Account representing the credit balance on the Revenue Ledger in accordance with the priority of payments set out in “Priority of Payments – prior to enforcement” (including any amounts debited from the First Loss Ledger and applied in accordance with the priority of payments as specified above) on that Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger, (b) the then Current Balances of Mortgages which are then more than three months in arrears in aggregate comprise less than 6% of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if, at such time, amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised within the 12 months immediately preceding such time) and (c) the amount which is 3.5% of the then Current Balances of the Mortgages (the “**3.5% amount**”) is less than the amount of the First Loss Fund on the first Principal Determination Date or, as the case may be, any lower figure to which the Required Amount has been reduced on any previous Interest Payment Date as described in this paragraph, the Required Amount will be reduced on such Interest Payment Date to the 3.5% amount, provided that while any of the Notes remain outstanding the Required Amount may not be less than the greater of £500,000 and the amount which is two times the outstanding principal balance of the largest Mortgage owned by the Issuer. 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, Fitch, 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 Fitch, Moody's and/or Standard & Poor's so notifies the Issuer and such Increased Required Amount (or any subsequent Increased Required Amount specified by Fitch, Moody's and/or Standard & Poor's) shall continue to apply as the Required Amount until such time as Fitch, Moody's and 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 Subordinated Loan Agreement.

#### **Shortfall Fund**

The Issuer may at any time, with the prior consent of PFPLC, draw down under the Subordinated Loan Agreement for the purpose of establishing a shortfall fund (the "**Shortfall Fund**"). If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account (as to which see "Reinvestment of Income" below) 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 April 2008 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 JPMorgan Chase Bank 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 Fitch's, Moody's and Standard & Poor's requirements to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages that are acquired by it on the Closing Date.

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

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

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

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

#### **Global Notes**

Each class of the Notes will be represented initially by a temporary global note in bearer form (each a “**Temporary Global Note**”), without coupons or talons, which will be deposited on the Closing Date with a common depository (the “**Common Depository**”) 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 Depository. The Temporary Global Notes and the Permanent Global Notes are referred to together as the “**Global Notes**”. Notes in definitive form will be issuable only in certain limited circumstances as more particularly described in the descriptions of the Notes in this Offering Circular. Unless Notes in definitive form are so issued and for so long as the Global Notes remain in effect, Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear and 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 Depository 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, PFPLC and the Issuer agree to be a fair commercial rate at the time) payable quarterly in arrear.

#### **Services Letter**

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

#### **Subordinated Loan Agreement**

PFPLC will make available to the Issuer under a subordinated loan agreement to be entered into on or before the Closing Date (the “**Subordinated Loan Agreement**”) a subordinated loan facility under which an amount or amounts will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund and to achieve the initial ratings on the Notes.

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

In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Ledger, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, and/or (iii) to enable the Issuer to make any Discretionary Further Advances when the cumulative limit of £70,000,000 referred to under “Further Advances in respect of the Mortgages” above is exceeded.

PFPLC will also agree to make further advances to the Issuer under the Subordinated Loan Agreement, as follows: (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it, after making the payments and provisions 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, (ii) at any time where the Issuer, or the Administrator on the Issuer's behalf, waives any prepayment charges applicable to any Mortgage, by paying to the Issuer an amount equal to such waived prepayment charge and (iii) to enable the Issuer to pay that part of the purchase price for Non-Verified Mortgages represented by unamortised cashbacks and discounts.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of PFPLC, for the purpose of establishing or increasing the Shortfall Fund. The Issuer may from time to time borrow further sums from PFPLC or other lenders ("**Subordinated Lenders**") on the terms of the Subordinated Loan Agreement.

In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement in order to fund (if necessary) purchases by the Issuer of 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 Subordinated Loan Agreement will be repaid (a) to the extent of any amount in excess of the Required Amount released from the First Loss Fund (as described in "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 to zero any debit balance on the Principal Deficiency Ledger or to replenish the First Loss Fund to the Required Amount (provided that the advances referred to in this paragraph (b) shall not include the amount of any advance made on the Closing Date to establish the First Loss Fund), sums borrowed for such purposes may be repaid to the extent of the funds available to the Issuer to do so (see "Priority of Payments – prior to enforcement" above). For further details of the Subordinated Loan Agreement see "The Issuer – Subordinated Loan Facility from PFPLC" below.

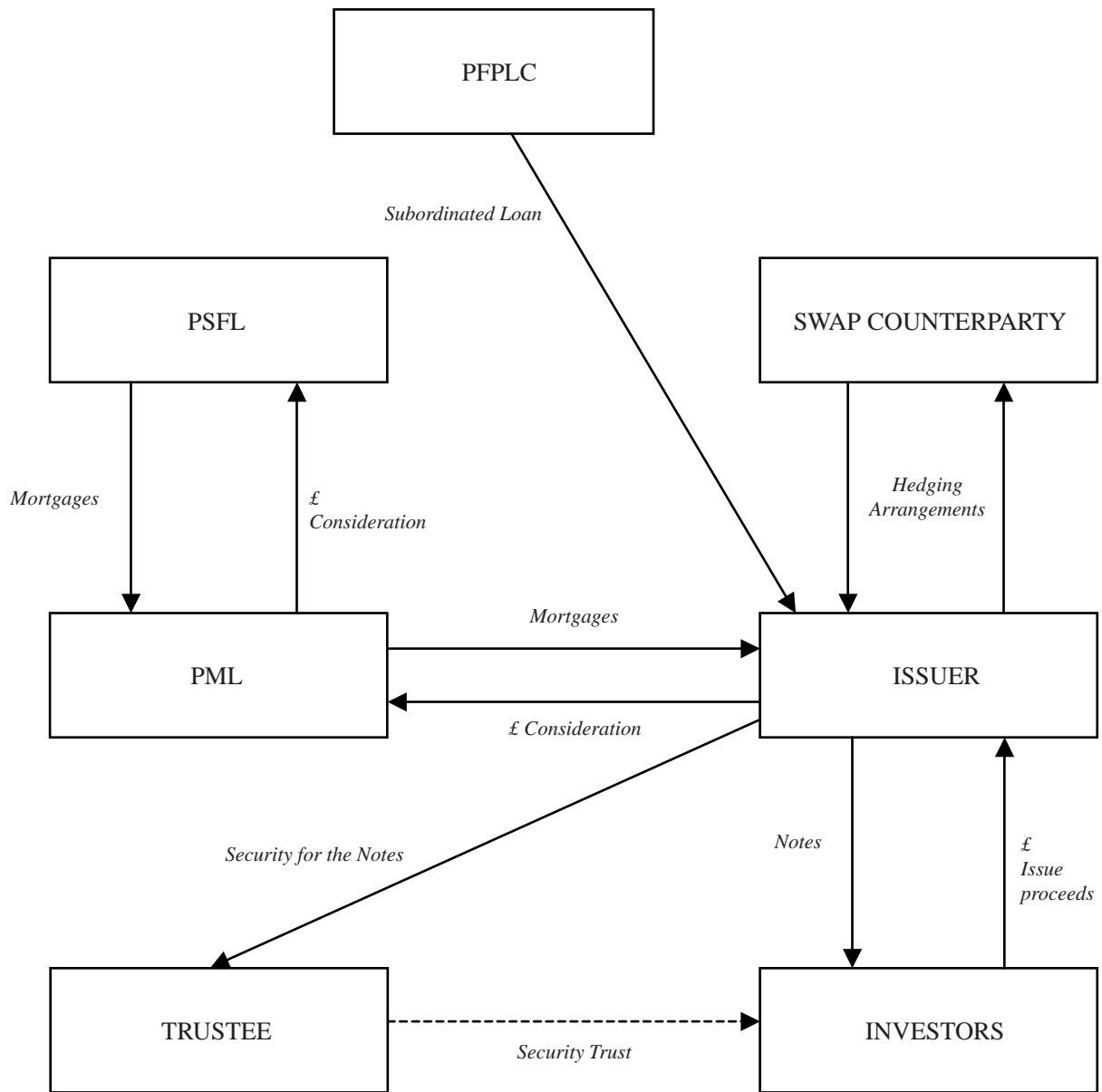
#### **Post Enforcement Call Option**

The Trustee will, on the Closing Date, grant to Paragon Options PLC (an indirect subsidiary of PGC) ("**POPLC**") (pursuant to a post enforcement call option deed to be entered into on the Closing Date between POPLC and the Trustee (the "**Post Enforcement Call Option Deed**")) an option to require the transfer to it for a consideration of £0.01 per Class B Note 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



## SPECIAL CONSIDERATIONS

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

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

The Notes will be solely the obligations of the Issuer. The Notes will not be obligations or the responsibility of PFPLC, PML, POPLC, PSFL, PGC, any other company in the same group of companies as PGC (other than the Issuer), the Trustee, the Managers or any other person other than the Issuer. Furthermore, none of PFPLC, PML, POPLC, PSFL, PGC, 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 Mortgages, 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 Subordinated Loan Agreement and the insurances in which the Issuer has an interest.

### **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, 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 and other than LIBOR-Linked Mortgages). The Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages, taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account, 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 April 2008 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 weighted average mortgage interest rate if and to the extent that the resultant shortfall can be provided for out of an available credit balance in any Shortfall Fund.

In respect of Fixed Rate Mortgages, the Administrator is unable to vary the rate of interest during the 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 Mortgages, at any time after the Closing Date 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 and, other than in relation to the LIBOR-Linked Mortgages, the Trustee or the Issuer or any substitute administrator appointed by the Trustee or the Substitute Administrator (when acting in its capacity as administrator of last resort) will be entitled to

set the rates of interest applicable to the Mortgages. These circumstances include a breach by the Administrator of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders. In such circumstances, the Trustee may terminate the Administrator's authority to set the rates of interest applicable to the Mortgages and/or terminate the appointment of the Administrator.

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

The sole remedy against PML in respect of breach of warranty shall be to require PML to repurchase any relevant Mortgage provided that this shall not limit any other remedies available if PML fails to repurchase, or procure the repurchase of, a Mortgage when obliged to do so. PML will also agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage is at any time on or after the Closing Date found by a competent court, whether on application of a borrower, the Director General of Fair Trading or otherwise, to be an unfair term for the purposes of the Unfair Terms in Consumer Contracts Regulations 1994 or 1999, it shall repurchase or procure the repurchase of the Individual Mortgage concerned. 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 whether such obligation arises because of a breach of warranty or otherwise.

#### *Perfection of title*

The sales by PML to the Issuer of the Mortgages will only be perfected in certain circumstances by the execution of transfers and assignments of Mortgages to the Issuer, the carrying out of requisite registrations and the giving of notice to any borrower or guarantor. In the meantime, neither the Issuer nor the Trustee will acquire legal title to any of the English Mortgages or 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 or assignments of the Mortgages to perfect their interests. They will not be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages. For further information, see "The Mortgages – Perfection of title" below.

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

## **Other matters**

### *Third party rights*

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

### *Mandatory Further Advances*

In respect of certain of the Mortgages, 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 PFPLC under the Subordinated Loan Agreement and PFPLC will be under an obligation to make any such amounts available to the Issuer.

### *Directors' certificates*

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

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

As at the Provisional Pool Date, 4,486 of the Properties relating to the Mortgages in the Provisional Mortgage Pool, representing approximately 84.30% by value of such Mortgages, were not owner occupied. Other Properties relating to Non-Verified Mortgages to be sold to the Issuer will 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 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 63.36% by value of the Mortgages in the Provisional Mortgage Pool constitute Interest-only Mortgages (as defined under “The Mortgages” below). Interest-only Mortgages are originated with a requirement that the borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest-only Mortgage, the borrower will be required to make a “bullet” payment that will represent the entirety of the principal amount outstanding. The ability of such a borrower to repay an Interest-only Mortgage at maturity

frequently may depend on such borrower's ability to refinance the Property or obtain funds from another source such as a pension policy or a unit trust or an endowment policy. The ability of a borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the borrower's equity in the Property, the financial condition of the borrower, tax laws and general economic conditions at the time. Moreover, the Mortgage Conditions in respect of Interest-only Mortgages do not require a borrower to put in place alternative funding arrangements.

#### *Changes to regulatory framework*

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

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

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

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

It is also possible that under regulation 61 the provision of any further advance under a mortgage could, depending on the circumstances in which it is made, constitute entering into a regulated mortgage contract as lender. As a result, as and when regulation 61 comes into effect, unless certain authorisation

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

A contract is a “regulated mortgage contract” for the purposes of the Regulated Activities Order if, at the time it is entered into, (i) the contract is one under which the lender provides credit to an individual or to trustees, (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage (or, in Scotland, a first ranking heritable security) on land (other than timeshare accommodation) in the United Kingdom and (iii) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person. Based on this definition, Corporate Mortgages, where credit is provided to limited liability companies incorporated in England and Wales or Scotland and not to an individual or to trustees, and Lettings Mortgages, where the relevant Property is not to be used, and is not intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is the beneficiary of the trust or by a related person, should not be regulated mortgage contracts for these purposes.

#### *Insolvency Act 2000*

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

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

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

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

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

The White Paper also states that the Government will allow the right to appoint an administrative receiver to remain in relation to certain transactions in the capital markets where administrative receivership plays an important role. However, at this stage, it is unclear precisely what is intended by this reference. It is possible, though, that these exceptions may apply to transactions such as those contemplated by this Offering Circular. In a press notice issued by the Department of Trade and Industry on 9th November 2001, Patricia Hewitt, Secretary of State for Trade and Industry, confirmed the Government's intention that the abolition of administrative receivership would not apply to corporate lending agreements entered into prior to the commencement of the relevant provisions and that the current insolvency law provisions will continue to apply, in such cases, to lending agreements supported by a floating charge.

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

### *European Monetary Union*

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

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

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

### *Provision of information*

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

## CREDIT STRUCTURE

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

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

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

### 2. First Loss Fund

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount equal to 1.75% of the aggregate of the Principal Amount Outstanding of the Class A Notes and the Class B Notes as at the Closing Date for the purpose of establishing the First Loss Fund. The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of the amounts referred to in items (i) to (iii) inclusive in the priority of payments specified under “Summary – Priority of Payments – prior to enforcement” above and, save where payment of 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 or provision for items (iv) and (v), and in any event (and regardless of any such postponement) towards provision for item (vi) in the priority of payments, 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.

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

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

### 3. Shortfall Fund

The Issuer may at any time, with the prior consent of PFPLC, draw down under the Subordinated Loan Agreement for the purpose of establishing the Shortfall Fund. If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages, taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account, 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 April 2008, 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 Administrator may do so provided that (1) there is a sufficient credit balance in the Shortfall Fund (net of all provisions previously made during the then current Interest Period) in order to provide for the shortfall which would arise at the end of the then current Interest Period and (2) the Issuer makes a provision in the Shortfall Fund equal to such shortfall. On each Interest Payment Date, the full amount of the Shortfall Fund will be available to the Issuer to be applied, together with the Issuer's other net income, to the items referred to in "Summary – Priority of Payments – prior to enforcement" above.

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

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

Under the Collection Account Declaration 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 which are credited to the Collection Account are held on trust for the Issuer until they are applied in the manner described above.

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

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

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

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

Moneys in the Transaction Account representing the credit balance on the Revenue Ledger shall, after making the payments or provisions required to be met in priority to item (vi) or, in certain circumstances, item (iv) of the priority of payments set out in "Summary – Priority of Payments – prior to enforcement" above, be applied in an amount necessary to reduce to zero any debit balance on the Principal Deficiency Ledger.

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

#### **6. The 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 amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) following such application exceeding the aggregate Principal Amount Outstanding of the Class 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 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. Subordinated Loan Agreement**

PFPLC 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.

PFPLC will also agree to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Ledger, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, and/or (iii) to enable the Issuer to make any Discretionary Further Advances when the cumulative limit of £70,000,000, referred to under "Further Advances in respect of the Mortgages" above, is exceeded.

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

- (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it, after making the payments and provisions 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 the Administrator on the Issuer'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.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of PFPLC (1) for the purpose of establishing or increasing the Shortfall Fund, (2) 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 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 PFPLC or other lenders on the terms of the Subordinated Loan Agreement.

On any Interest Payment Date, sums borrowed under the Subordinated Loan Agreement will be repaid (a) to the extent of any amount in excess of the Required Amount released from the First Loss Fund, and (b) to the extent there is outstanding any advance made to establish or increase the Shortfall Fund or to reduce to zero any debit balance on the Principal Deficiency Ledger or to replenish the First Loss Fund to the Required Amount (provided that the advances referred to in this paragraph (b) shall not include the amount of any advance made on the Closing Date to establish the First Loss Fund), sums borrowed for such purposes may be repaid to the extent of the funds available to the Issuer to do so.

## **8. Hedging Arrangements**

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

On the Closing Date, the Issuer will have entered into hedging arrangements under the Swap Agreement, in accordance with the requirements of the Rating Agencies, to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages which were acquired by it 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 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 if and to the extent that the Issuer is permitted to do so by, and in accordance with, the Mortgage Sale Agreement and the Administration Agreement. In particular, any such purchase of 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 debits made on that ledger on such date) will be credited on that Principal Determination Date to the Principal Ledger and will be taken into account when determining the Available Redemption Funds in respect of the first Interest Payment Date.

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

The issue of the Class A Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on 26th March 2002 and 27th March 2002. The Class A Notes will be constituted by a trust deed (the “**Trust Deed**”) expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class A Notes (the “**Class A Noteholders**”) 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 “**Mortgage Sale Agreement**”).

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PFPLC, PML, the Administrator, 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 Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof, Third Floor, Cottons Centre, Hays Lane, London SE1 2QT, and at the specified offices for the time being of the Paying Agents.

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

### Global Class A Notes

The Class A Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class A Note in bearer form, without coupons or talons, in the principal amount of £457,500,000. 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 26th March 2002, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class A Notes which would not be required were the Class A Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class A Notes represented by the Permanent Global Class A Note in exchange for the whole outstanding interest in the Permanent Global Class A Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

## **Security**

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

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

- (3) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the Services Letter, under the Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the Collection Account Declaration of Trust, under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (4) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at National Westminster Bank Plc (the "**Transaction Account**") and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (5) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and
- (6) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class A Notes, are referred to as the "**Security**". The Security will also stand as security for any amounts payable by the Issuer to the Class B Noteholders and to any Receiver, the Trustee, the Substitute Administrator, the Administrator, PML, PFPLC, any Subordinated Lender and the Swap Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the Services Letter, the 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 £457,500,000 Class A Mortgage Backed Floating Rate Notes Due 2032 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 March 2002 or such later date agreed between the Issuer and the Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (the "**Class A Noteholders**") 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 the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, 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 £42,500,000 Class B Mortgage Backed Floating Rate Notes Due 2044 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 the 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 26th March 2002 relating to the issues of the Class A Notes and the Class B Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
    - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;
    - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class A Notes, the Coupons and Talons and the Class B Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes and the Class B Notes and the other agreements relating to the issues of the Class A Notes and the Class B Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declaration of Trust, the Swap Agreement, any Caps, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declaration of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes and the Class B Notes (all as defined in the Trust Deed, the Deed of Charge or the Mortgage Sale Agreement) (together the “**Relevant Documents**”);
    - (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, 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 Trust Deed, the Notes, 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 Subordinated Loan Agreement;
  - (3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
  - (4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:

- (a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes and the Class B Notes and the performance and observance of every covenant in the Trust Deed and in these Class A Conditions on the part of the Issuer to be performed or observed;
  - (b) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;
  - (c) the Trustee is satisfied that the interests of the Class A Noteholders and the Class B Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
  - (d) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and
  - (e) the then current ratings of the Class A Notes and the Class B Notes are not adversely affected;
- (5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
- (6) in a manner which adversely affects the then current ratings of the Class A Notes or the Class B Notes, have any employees or premises or have any subsidiary; or
- (7) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust) and the Collection Account (as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it.
- (B) So long as any of the Class A Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the “**Administrator**”). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales and Scotland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, among other things, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the Mortgage Sale Agreement.

#### 4. Interest

##### (a) Interest Payment Dates

Each Class A Note bears interest on its Principal Amount Outstanding (as defined in Class A Condition 5(b)) from and including the Closing Date. Provided certification of non-U.S. beneficial ownership has been received with respect to the Class A Notes, interest in respect of such Class A Notes is payable quarterly in arrear on 7th July 2002 and thereafter on each subsequent 7th October, 7th January, 7th April and 7th July (or, if such date is not a Business Day (as defined below), the next succeeding Business Day) (each an “**Interest Payment Date**”). As used in these Class A Conditions except Class A Condition 6, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an “**Interest Period**”. Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period



ending in a leap year) day year. The first interest payment will be made on the Interest Payment Date falling in July 2002 in respect of the period from (and including) the Closing Date to (but excluding) that Interest Payment Date.

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

*(b) Coupons and Talons*

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

*(c) Rate of Interest*

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

- (i) On the Closing Date (an “**Interest Determination Date**”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on a linear interpolation between sterling deposits for a period of three months and sterling deposits for a period of four months, in each case quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “**Interest Determination Date**”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable to the Class A Notes for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.26% per annum up to and including the Interest Period ending in April 2008 and thereafter the margin of 0.52% per annum.
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “**Reference Banks**”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for three month and four month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i) above, on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee

and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the Class A Notes 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 Reference Agent approved by the Trustee has been appointed.

## 5. Redemption and Purchase

### (a) *Mandatory Redemption in Part from Available Redemption Funds: Apportionment of Available Redemption Funds Between the Class A Notes 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) all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Arrears and Accruals relating thereto received by or on behalf of the Issuer but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the “**relevant Collection Period**”));
- (ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Class A Notes and the Class B Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid by the Issuer to PML by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement, (b) the amount applied to establish the First Loss Fund on the Closing Date and (c) 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; and
- (iv) any part of the amount deducted pursuant to (B)(i), (ii) and (iii) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances or in paying interest on the Class A Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer, in each case on or prior to the preceding Interest Payment Date;

less

(B) the aggregate of:

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

- (iii) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on that Interest Payment Date; and
- (iv) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages,

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

The Available Redemption Funds on a Principal Determination Date shall be apportioned between the Class A Notes 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 April 2007 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 85:500 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 the Principal Determination Date on which the Class B Available Redemption Funds are to be determined falls prior to the occurrence of the Determination Event or (thereafter) if (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Class B Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is any debit balance on the Principal Deficiency Ledger or (b) on the Principal Determination Date on which the Class B Available Redemption Funds are to be determined the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 7.5% or more of the then Current Balances of all of the Mortgages, nil; and
- (ii) on any other Principal Determination Date, provided (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Class B Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger, and (b) on the Principal Determination Date on which the Class B Available Redemption Funds are to be determined the then Current Balances of Mortgages which are more than three months in arrears represent less than 7.5% 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 85:500; 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 £23,500,000.

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

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

- (i) On (or as soon as practicable after) each Principal Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment in respect of each Class A Note due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class A Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class A Note on the next Interest Payment Date) and (z) the fraction in respect of each Class A Note expressed as a decimal to the sixth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Class A Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class A Note and the Pool Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The “**Principal Amount Outstanding**” of a Class A Note on any date shall be the principal amount of that Class A Note upon issue less the aggregate amount of all Principal Payments in respect of that Class A Note that have become due and payable (whether or not paid) prior to such date.
- (ii) The Issuer, by not later than the 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.
- (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding or the Pool Factor applicable to Class A Notes in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

*(c) Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class A Notes, or the Issuer or the Swap Provider or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under the Swap Agreement or any Permitted Hedge Agreement, any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, 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 April 2005 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 £85,000,000 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 July 2032.

*(f) Purchases*

The Issuer may not purchase Class A Notes.

*(g) Cancellation*

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

*(h) Certification*

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

## 6. Payments

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

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

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

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

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

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

## 7. Taxation

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

## 8. Prescription

A Principal Coupon shall become void in its entirety unless surrendered for payment within ten years of the Relevant Date in respect of any payment thereon. A Class A Note shall become void in its entirety unless surrendered for payment within ten years of the Relevant Date in respect of any payment thereon the effect of which would be to reduce the Principal Amount Outstanding of such Class A Note to zero. An

Interest Coupon shall become void unless surrendered for payment within five years of the Relevant Date in respect thereof. After the date on which a Class A Note or a Coupon becomes void in its entirety, no claim may be made in respect thereof.

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

## **9. Events of Default**

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

- (i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Class A Notes or any of them or for a period of 15 days or more in the payment on the due date of any interest upon the Class A Notes or any of them; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class A Noteholders; or
- (iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the Court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or
- (iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Class A Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Class A Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the Subordinated Loan Agreement, the Fee Letter 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. The Contracts (Rights of Third Parties) Act 1999**

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

**17. Governing Law**

The Class A Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof relating to the Scottish Mortgages and their 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 26th March 2002 and 27th March 2002. The Class B Notes will be constituted by a trust deed (the “**Trust Deed**”) expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class B Notes (the “**Class B Noteholders**”) 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 “**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, 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 Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof, Third Floor, Cottons Centre, Hays Lane, London SE1 2QT, and at the specified offices for the time being of the Paying Agents.

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

### Global Class B Notes

The Class B Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class B Note in bearer form, without coupons or talons, in the principal amount of £42,500,000. The Temporary Global Class B Note will be deposited on behalf of the subscribers of the Class B Notes with a common depositary 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 26th March 2002, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class B Notes which would not be required were the Class B Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class B Notes represented by the Permanent Global Class B Note in exchange for the whole outstanding interest in the Permanent Global Class B Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

## **Security**

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

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

- (3) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the Services Letter, under the Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the Collection Account Declaration of Trust, under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (4) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at National Westminster Bank Plc (the "**Transaction Account**"), and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (5) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and
- (6) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class B Notes, are referred to as the "**Security**". The Security will also stand as security for any amounts payable by the Issuer to the Class A Noteholders and to any Receiver, the Trustee, the Substitute Administrator, the Administrator, PML, PFPLC, any Subordinated Lender and the Swap Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the Services Letter, the 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 £42,500,000 Class B Mortgage Backed Floating Rate Notes Due 2044 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 March 2002 or such later date agreed between the Issuer and the Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (as defined below) (the "**Class A Noteholders**") 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 the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, 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 £457,500,000 Class A Mortgage Backed Floating Rate Notes Due 2032 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 the 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 26th March 2002 relating to the issues of the Class A Notes and the Class B Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
    - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;
    - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class B Notes, the Coupons and Talons and the Class A Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes and the Class B Notes and the other agreements relating to the issues of the Class A Notes and the Class B Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declaration of Trust, the Swap Agreement, any Caps, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declaration of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes and the Class B Notes (all as defined in the Trust Deed, the Deed of Charge or in the Mortgage Sale Agreement) (together the “**Relevant Documents**”);
    - (c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, among other things, make claims, payments and surrenders in respect of certain tax reliefs;
    - (d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem the Class B Notes or the Class A Notes in accordance with their respective terms and conditions; and
    - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;
  - (2) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Deed of Charge, the Trust Deed, the Notes, the Fee Letter, the Services Letter, the

Swap Agreement, the Substitute Administrator Agreement and the VAT Declaration of Trust and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;

- (3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
  - (4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
    - (a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes 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 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 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 July 2002 and thereafter on each subsequent 7th October, 7th January, 7th April and 7th July (or, if such date is not a Business Day (as defined below), the next succeeding Business Day) (each an “**Interest Payment Date**”). To the extent that the funds available to the Issuer to pay interest on the Class B Notes on the Principal Determination Date immediately preceding an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall (“**Deferred Interest**”) which will be borne by each Class B Note, in a proportion equal to the proportion that the Principal Amount Outstanding of that Class B Note bears to the aggregate Principal Amount Outstanding of the Class B Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not then fall due but will instead, subject to Class B Condition 7, be deferred until the first Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available (after allowing for the Issuer’s liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. Such Deferred Interest will accrue interest (“**Additional Interest**”) at the Rate of Interest (as defined below) applicable from time to time to the Class B Notes and, subject to Class B Condition 7, payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest (and any interest and Deferred Interest) to the extent of such available funds. To the extent that any such Deferred Interest or Additional Interest is not subsequently paid, the Issuer’s obligation to the Class B Noteholders in respect of any such Deferred Interest and/or Additional Interest will be subject to Class B Condition 7. As used in these Class B Conditions except Class B Condition 6, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

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

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

##### (b) Coupons and Talons

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

##### (c) Rate of interest

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

- (i) On the Closing Date (an “**Interest Determination Date**”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on a linear interpolation between sterling deposits for a period of three months and sterling deposits for a period of four months, in each case quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling

market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “**Interest Determination Date**”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable 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 0.85%, per annum up to and including the Interest Period ending in April 2008 and thereafter the margin of 1.70% per annum.

- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “**Reference Banks**”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for three month and four month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i) above, on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the 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 the funds then available to the Issuer are insufficient to pay in full the Interest Payment, any outstanding Deferred Interest and any Additional Interest due on the Interest Payment Date next following such Principal Determination Date, such funds will be applied first to the payment of any Interest Payment, secondly to the payment of any outstanding Deferred Interest and thereafter to the payment of any Additional Interest.

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

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

*(f) Determination or Calculation by Trustee*

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

*(g) Reference Banks and Reference Agent*

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

## **5. Redemption and Purchase**

*(a) Mandatory Redemption in Part from Available Redemption Funds: Apportionment of Available Redemption Funds Between the Class A Notes 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 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) all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Arrears and Accruals relating thereto received by or on behalf of the Issuer but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the “**relevant Collection Period**”));
- (ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Class A Notes and the Class B Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid by the Issuer to PML by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement, (b) the amount applied to establish the First Loss Fund on the Closing Date and (c) 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; and
- (iv) any part of the amount deducted pursuant to (B)(i), (ii) and (iii) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances, or in paying interest on the Class A Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer, in each case on or prior to the preceding Interest Payment Date;

less

(B) the aggregate of:

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

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

The Available Redemption Funds on a Principal Determination Date shall be apportioned between the Class A Notes 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 April 2007 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 85:500 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 the Principal Determination Date on which the Class B Available Redemption Funds are to be determined falls prior to the occurrence of the Determination Event or (thereafter) if (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Class B Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is any debit balance on the Principal Deficiency Ledger or (b) on the Principal Determination Date on which the Class B Available Redemption Funds are to be determined the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 7.5% or more of the then Current Balances of all of the Mortgages, nil; and
- (ii) on any other Principal Determination Date, provided (a), on the Interest Payment Date immediately preceding the Principal Determination Date on which the Class B Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger and (b) on the Principal Determination Date on which the Class B Available Redemption Funds are to be determined the then Current Balances of Mortgages which are more than three months in arrears represent less than 7.5% 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 85:500; 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 £23,500,000.

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

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

- (i) On (or as soon as practicable after) each Principal Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment in respect of each Class B Note due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class B Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class B Note on the next Interest Payment Date) and (z) the fraction in respect of each Class B Note expressed as a decimal to the sixth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Class B Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class B Note and the Pool

Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The “**Principal Amount Outstanding**” of a Class B Note on any date shall be the principal amount of that Class B Note upon issue less the aggregate amount of all Principal Payments in respect of that Class B Note that have become due and payable (whether or not paid) prior to such date.

- (ii) The Issuer, by not later than the 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 cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class B Condition 13 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Class B Notes on any Interest Payment Date a notice to this effect will be given to the Class B Noteholders.
- (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding or the Pool Factor applicable to the Class B Notes in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

*(c) Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class B Notes, or the Issuer or 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 April 2005 or, if earlier, falling on or after the date on which all the Class A Notes are redeemed in full, redeem all (but not some only) of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption.

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in July 2044.

(f) *Purchases*

The Issuer may not purchase Class B Notes.

(g) *Cancellation*

All Class B Notes redeemed in full pursuant to the foregoing provisions will be cancelled forthwith, together with all 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 7, due on the Class B Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class B Condition 7 as the “**Residual Amount**”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Class B Condition 7, due on the Class B Notes on such Interest Payment Date, there shall be payable on such Interest Payment Date, by way of interest on each Class B Note, a *pro rata* share of the Residual Amount on such Interest Payment Date.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class B Notes on any Interest Payment Date in accordance with Class B Condition 4 and this Class B Condition 7 falls short of the aggregate amount of interest which would have been due and payable on the Class B Notes on that date pursuant to Class B Condition 4. Such shortfall shall accrue interest in accordance with the provisions of Class B Condition 4. Any such shortfall, together with any accrued interest thereon will, subject to this Class B Condition 7, be payable on the next following Interest Payment Date. Any accrued but unpaid interest (together with any interest thereon) outstanding on the Interest Payment Date falling in July 2044 or on any earlier date upon which the Class B Notes are redeemed in full shall be due and payable on such Interest Payment Date or other earlier date.

## **8. Taxation**

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

## **9. Prescription**

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

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

## **10. Events of Default**

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



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

- (i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Class B Notes or any of them or for a period of 15 days or more in the payment on the due date of any interest upon the Class B Notes or any of them; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class B Noteholders; or
- (iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the Court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or
- (iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Class B Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Class B Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the Subordinated Loan Agreement, the Fee Letter 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 the Closing Date between POPLC and the Trustee. POPLC will agree pursuant to a deed (the “**Deed**”) dated on or about the Closing Date to exercise the option granted in its favour pursuant to the Post Enforcement Call Option Deed. Immediately upon such transfer, no such former Class B Noteholder shall have any further interest in the Class B Notes. Each of the Class B Noteholders acknowledges that the Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post Enforcement Call Option Deed and each Class B Noteholder, by subscribing for or purchasing Class B Notes, agrees to be so bound.

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

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

## **13. Notices**

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

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, any Deferred Interest, any Additional Interest, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently page 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. The Contracts (Rights of Third Parties) Act 1999**

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

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

The Class B Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof relating to the Scottish Mortgages and their 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 £457,500,000 and those from the issue of the Class B Notes will be £42,500,000. Commissions of 0.175% of the principal amount of the Class A Notes and of 0.3% of the principal amount of the Class B Notes will be payable on the issues of the Notes. These commissions, together with certain other expenses of the issues, will be paid on behalf of or reimbursed to the Issuer by PML as described in “The Issuer – Fee Letter” below. The net proceeds from the issue of the Notes, which will be approximately £498,250,000, and the sums paid by PML to the Issuer in respect of such commissions and expenses on the Closing Date will be applied towards payment to PML of the purchase price for the Mortgages to be purchased pursuant to the Mortgage Sale Agreement. Such sums will also be applied (subject to certain conditions), in enabling the Issuer to purchase Non-Verified Mortgages.

## **RATINGS**

The Class A Notes are expected on issue to be assigned an AAA rating by Fitch, an Aaa rating by Moody’s and an AAA rating by Standard & Poor’s. The Class B Notes are expected on issue to be assigned an A rating by Fitch, an A2 rating by Moody’s and an A rating by Standard & Poor’s. 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 3696156) as a public limited company under the Companies Act 1985 on 15th January 1999 as Finance for People (No. 12) PLC. It changed its name to Paragon Mortgages (No. 4) PLC on 22nd January 2002. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The Issuer is a subsidiary of PGC, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The ordinary share capital of PGC is listed by the UK Listing Authority and is traded on the London Stock Exchange.

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

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

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

### Directors and Secretary

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

<i>Name</i>	<i>Business Address</i>	<i>Principal activities</i>
John Gemmell	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Director of Financial Accounting and 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 and PSFL
Richard Shelton	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Solicitor and 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. The Issuer will agree to pay PFPLC, for the provision of the services provided pursuant to the Services Letter, a fee

payable quarterly in arrear and calculated on the basis of an apportionment, according to the average gross value of mortgages under management during the relevant period, of the direct costs incurred by PFPLC in respect of those services, together with the central service and utility costs borne by PFPLC and together with such further amount as may from time to time be agreed between PFPLC and the Issuer. Amounts owing to PFPLC under the Services Letter will be subordinated in the manner described in “Summary – Priority of Payments – prior to enforcement” above.

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

#### **Subordinated Loan Facility from PFPLC**

By the Subordinated Loan Agreement (which is to be made between PFPLC, the Issuer and the Trustee and to be dated the Closing Date) PFPLC will agree to make available to the Issuer a loan facility, 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 Subordinated Loan Agreement, PFPLC will also agree to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Fund, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, and/or (iii) to enable the Issuer to make any Discretionary Further Advances when the cumulative limit of £70,000,000, referred to under “Further Advances in respect of the Mortgages” above, is exceeded. Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of PFPLC, for the purpose of establishing or increasing the Shortfall Fund and, in addition, PFPLC may lend further sums to the Issuer under the Subordinated Loan Agreement to be used by the Issuer to purchase Caps or other hedging arrangements and related guarantees (where required) in respect of Converted Mortgages. The Issuer may from time to time borrow further sums from PFPLC or others on the terms of the Subordinated Loan Agreement. Amounts owing to PFPLC and any Subordinated Lenders under the Subordinated Loan Agreement will be subordinated in the manner described in “Summary – Priority of Payments – prior to enforcement” above.

PFPLC will also agree to make further advances to the Issuer under the Subordinated Loan Agreement, as follows: (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it to pay any Swap Termination Amounts due and payable to the Swap

Provider or any Permitted Hedge Provider on such Interest Payment Date; and (ii) at any time where the Issuer, or the Administrator on the Issuer's behalf, waives any prepayment charges applicable to any Mortgage, in an amount equal to such waived prepayment charge.

In addition, further drawings will be made by the Issuer under the Subordinated Loan Agreement in order to fund (if necessary) purchases by the Issuer of amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages.

Interest under the Subordinated Loan Agreement will be payable by the Issuer quarterly on or after the first Business Day after each Interest Payment Date commencing with the Interest Payment Date falling in July 2002 on the amount of the loan at the rate of 4% per annum above LIBOR (or such other rate which PFPLC and the Issuer agree is a fair commercial rate at the relevant time). Principal will be repayable on the earlier of (i) the day following the last Interest Payment Date falling in July 2044 and (ii) the first day on which there are no Notes outstanding except that on any Interest Payment Date (a) sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of any amount in excess of the Required 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 to zero any debit balance on the Principal Deficiency Ledger or to replenish the First Loss Fund to the Required Amount (provided that the advances referred to in this paragraph (b) shall not include the amount of any advance made on the Closing Date to establish the First Loss Fund), sums borrowed for such purposes may be repaid to the extent of the funds available to the Issuer to do so (see "Summary – Priority of Payments – prior to enforcement" above). Payments of interest under the Subordinated Loan Agreement may only be made by the Issuer if, after applying its net income (other than principal receipts in respect of the Mortgages) in making a number of other payments or provisions, the Issuer still has sufficient funds for the purpose as more particularly described in "Summary – Priority of Payments – prior to enforcement" above.

### **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 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 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 payable in full immediately but will be payable to the Issuer in the form of an annuity on each Interest Payment Date until the date on which the relevant swap or hedging agreement would have expired had it not been terminated early.



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:

<i>Share capital</i>	£
Authorised	
50,000 ordinary shares of £1 each .. .. .	50,000
Issued	
50,000 ordinary shares of £1 each (two fully paid and 49,998 paid up as to 25 pence each)	12,501.50
<i>Loan Capital</i>	
£457,500,000 Class A Mortgage Backed Floating Rate Notes due 2032 .. .. .	457,500,000
(now being issued)	
£42,500,000 Class B Mortgage Backed Floating Rate Notes due 2044 .. .. .	42,500,000
(now being issued)	

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Note:

(1) In addition, an advance under the Subordinated Loan Agreement will be made on the Closing Date in an amount sufficient, among other things, to enable the Issuer to achieve the initial ratings on the Notes. The amount of this advance is expected to be approximately £8,750,000. The Subordinated Loan Agreement will have the benefit of security.

The current financial period of the Issuer will end on 30th September 2002. The balance sheets of the Issuer as at 30th September 2000, 30th September 2001 and 26th March 2002 are set out below. As at the date of this Offering Circular, save as disclosed above, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities which are material.

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. 4) PLC  
St. Catherine’s Court  
Herbert Road  
Solihull  
West Midlands  
B91 3QE

The Directors  
ING Bank N.V.  
c/o ING Bank N.V., London branch  
60 London Wall  
London  
EC2N 5TQ

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

Our Ref: PJNH/DGM

26th March 2002

Dear Sirs

**Paragon Mortgages (No. 4) PLC (the “Issuer”)**

We report on the financial information set out below. This financial information has been prepared for inclusion in the Offering Circular dated 26th March 2002 (the “Offering Circular”) relating to the issue of £457,500,000 Class A Mortgage Backed Floating Rate Notes due 2032 and £42,500,000 Class B Mortgage Backed Floating Rate Notes due 2044 (the “Issue”).

**Basis of preparation**

The Issuer was incorporated on 15th January 1999 under the name of Finance for People (No. 12) PLC. It changed its name to Paragon Mortgages (No. 4) PLC on 22nd January 2002.

The Issuer has issued 50,000 shares for a consideration of £12,501.50. No material contracts or transactions have been entered into save for those in connection with the Issue.

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

The financial information set out in this report is based on the audited statutory accounts of the Issuer for the period ending 30th September 2000, 30th September 2001 and the audited non statutory accounts of the Issuer for the period ending 26th March 2002 to which no adjustments were considered necessary.

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

**Responsibility**

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

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

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

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the non-statutory financial statements for the period to 26th March 2002 underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

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

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

### Opinion

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

## BALANCE SHEETS

As at 30th September 2000, 30th September 2001 and 26th March 2002

	<i>Notes</i>	<i>2000</i> £	<i>2001</i> £	<i>2002</i> £
<b>ASSETS EMPLOYED</b>				
<b>Current Assets</b>				
Debtors.. .. .	2	2.00	2.00	—
Cash at bank and in hand .. .. .		—	—	12,501.50
		<u>2.00</u>	<u>2.00</u>	<u>12,501.50</u>
<b>FINANCED BY</b>				
Called up share capital .. .. .	3	2.00	2.00	12,501.50
		<u>2.00</u>	<u>2.00</u>	<u>12,501.50</u>

## NOTES TO THE FINANCIAL INFORMATION

As at 30th September 2000, 30th September 2001 and 26th March 2002

### 1. ACCOUNTING POLICIES

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

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

### 2. DEBTORS

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

### 3. CALLED UP SHARE CAPITAL

		<i>2000</i> £	<i>2001</i> £	<i>2002</i> £
Authorised:				
50,000 ordinary shares of £1 each .. .. .		50,000	50,000	50,000
Allotted:				
49,998 ordinary shares of £1 each (25p paid) .. .. .		—	—	12,499.50
2 ordinary shares of £1 each (fully paid) .. .. .		2.00	2.00	2.00
		<u>2.00</u>	<u>2.00</u>	<u>12,501.50</u>

The authorised share capital of the Issuer consists of 50,000 ordinary shares of £1 each. The issued share capital consists of two ordinary shares (fully paid-up and allotted on 15th January 1999), which formed the initial share capital of the Issuer, and 49,998 ordinary shares (£0.25 paid-up and allotted on 5th February 2002).

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

The Directors have represented that the Issuer has been dormant throughout the period since incorporation on 15th January 1999 until 26th March 2002, and consequently no profit and loss account and no statement of total recognised gains and losses have been prepared. The Directors have received no remuneration and the Issuer has no employees.

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

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

Yours faithfully

Deloitte & Touche  
Chartered Accountants"

## THE PARAGON VAT GROUP

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

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

## SWAP COUNTERPARTY

On the Closing Date, the Swap Counterparty will be JPMorgan Chase Bank, acting through its London branch, a Delaware corporation whose principal office is located at 270 Park Avenue, New York, New York 10017, USA and which 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.

JPMorgan Chase Bank resulted from the merger on 10th November 2001 of The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York. As of 30th September 2001, on a *pro forma* basis reflecting the merger of the two banks, JPMorgan Chase Bank had total assets of approximately \$600 billion and total stockholders' equity of approximately \$36 billion.

As at the business day immediately preceding the date of this Offering Circular, the ratings published on Bloomberg for JPMorgan Chase Bank's long-term unsecured and unguaranteed debt obligations were AA by Fitch, Aa2 by Moody's and AA by Standard & Poor's and for its short-term unsecured and unguaranteed debt obligations were F-1+ by Fitch, P-1 by Moody's and A-1+ by Standard & Poor's.

## THE MORTGAGES

### Origination of the Mortgages

All of the Mortgages forming part of the initial security for the Notes have been originated by PML and sold by it to PSFL (although certain of the Mortgages have in the past been sold by PML to other subsidiaries of PGC in connection with securitisation transactions which have now been unwound and subsequently sold back to PSFL). PML will repurchase such Mortgages from PSFL 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.

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 are required by the applicable Mortgage Conditions (as defined below) to 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 31st July 2042.

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

The properties which are the subject of the Mortgages (the "**Properties**") are residential properties located in England or Wales (the "**English Properties**") or 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 premia on buildings insurance policies effected in relation to the relevant Property. The Mortgage Conditions also contain provisions for the usual remedies of a mortgagee in the event of default by the borrower.

#### *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 or an endowment policy).

### Particular Mortgage Types

Standard Mortgages originated by PML may include the following:

- (i) Lettings Mortgages, which relate to property purchased by the borrower and occupied by tenants. Lettings Mortgages will include, in the case of Individual Mortgages, loans to non-UK nationals and ex-patriates, or, in the case of Corporate Mortgages, loans to 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"). In the period from March 2001 to the date of this Offering Circular, PML has originated only Lettings Mortgages.
- (ii) 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.
- (iii) 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.

- (iv) Premier Rate Mortgages under which the interest rate is set at a fixed margin below the interest rate which would be charged on the outstanding balance under the relevant mortgage loan if that mortgage loan was a Standard Mortgage which is not a Premier Rate Mortgage. In most cases, this rate is concessionary and may be withdrawn at PML's option if there is or has been a breach of any of the borrower's obligations under the mortgage.

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. For a specified period such a prepayment of principal gives rise to an obligation to pay an additional sum. The period within which such a prepayment gives rise to an obligation to pay such an additional sum, and the size of that additional sum, are specified in the relevant Mortgage Conditions.

The majority of Mortgages are subject to a minimum early repayment charge of the equivalent of between one and three months' interest should the mortgage be redeemed within three years of completion. However, where a mortgage has a fixed rate, or offers new borrowers an incentive (as with a 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 Variations", the terms of which are in turn imported into each standard security. PML has executed a Deed of Variations 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.

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



on the court a discretion, on the application of the borrower (or the borrower's spouse or partner) within certain time limits, to suspend the exercise of the lender's enforcement remedies for such period and to such extent as the court considers reasonable in the circumstances, having regard amongst other factors to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation.

### **Acquisition of Mortgages**

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

The purchase consideration 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.

Legal title to each of the 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 of the assignments of the Scottish Mortgages (and their registration or recording in the Registers of Scotland) and notification to any borrower or guarantor. Until these steps are taken, the sale of the English Mortgages will take effect in equity only and in relation to Scottish Mortgages, the transfer of the beneficial interest therein will be effected by a declaration of trust (a "**Scottish Declaration of Trust**") by PML in favour of the Issuer. 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 relevant Mortgages the situation described above as regards title thereto will continue to apply. (See "Perfection of title" below.)

### **Perfection of title**

The sales by PML to the Issuer of the Mortgages will only be perfected by the execution of transfers and assignments of the Mortgages, the carrying out of requisite registration and giving notice to any borrower or guarantor in the circumstances set out below. Neither the Issuer nor the Trustee will be giving notice to any borrower or guarantor in respect of any transfer or assignment 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 and the Trustee. For so long as PML retains legal title, it must be joined as a party to any legal proceedings against any borrower or in relation to the enforcement of any Mortgage. In this regard PML has undertaken for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required in connection with, any such proceedings. Further, the rights of the Issuer and the Trustee may be or become subject to interests of third parties: for example, a later encumbrance or transfer of the Mortgages, and/or equities created or arising before the transfer of the legal title is perfected: for example, rights of set-off as between the relevant borrowers and PML. These could result in the Issuer receiving less money than anticipated. However, the risk of third party claims defeating or obtaining priority to the interests of the Issuer or the Trustee would be likely to be limited to circumstances arising from a breach by PML of its contractual obligations or fraud, negligence or mistake on the part of PML, the Issuer or their respective personnel or agents.

Until the transfer of the legal title is perfected, the borrower may continue making payment to PML. Perfecting legal title would mean that the borrower would no longer be entitled to obtain a good receipt from PML as mortgagee. Under the Mortgage Sale Agreement, 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 it will hold the same on trust for the Issuer as the beneficial owner thereof. Furthermore under the Collection Account Declaration 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 the Collection Account are held on trust for the Issuer until they are transferred to the Transaction Account. Notice to borrowers in respect of the Mortgages would also prevent the Mortgages from being amended by PML or the borrowers without the involvement of the Issuer.

Upon the occurrence of certain events such as (i) the valid service of an Enforcement Notice or a Protection Notice (each as to be defined in the Deed of Charge) or (ii) the termination of PFPLC's role as administrator under the Administration Agreement or (iii) 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 to comply, to perfect the transfer of legal title to the Mortgages or (iv) any change occurring in the law after the Closing Date rendering it necessary by law to perfect the transfer of legal title to the Mortgages or (v) the security under the Deed of Charge or any material part of such security being in jeopardy and the Trustee deciding to take such action to reduce materially such jeopardy or (vi) the payment in full of all moneys and other liabilities due or owing under the Notes, the Trust Deed and the Deed of Charge or (vii) the Interest Payment Date falling in April, 2050, the Issuer or the Trustee will have the right to perfect legal title to the Mortgages by executing transfers and assignments of the Mortgages in the appropriate form (if necessary pursuant to irrevocable powers of attorney) effecting the necessary registrations and notifications and giving notice to the borrowers and any guarantors in respect of such Mortgages. The right of the Issuer and the Trustee to exercise the powers of the registered proprietor or heritable creditor of the Mortgages pending registration will be secured by irrevocable powers of attorney granted by PML in favour of the Issuer and the Trustee.

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

Neither PFPLC, PML, nor the Issuer nor the Trustee has made or caused to be made (or will make or cause to be made) on its behalf in relation to the Mortgages purchased by the Issuer any of the enquiries, searches or investigations which a prudent purchaser of the relevant security would normally make, other than a search, prior to completion of the purchase by the Issuer of the Mortgages, on the Closing Date and on any date following the Closing Date up to and including the first Principal Determination Date upon which Non-Verified Mortgages are purchased by the Issuer 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 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 Mortgage Sale Agreement, the Administration Agreement, the Deed of Charge, or with any applicable laws or in relation to the execution, legality, validity, perfection, adequacy or enforceability of any Mortgages purchased on the Closing Date or any 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 of the relevant Mortgages, the Issuer and/or the Trustee will rely entirely on the warranties to be given by PML to the Issuer and the Trustee contained in the Mortgage Sale Agreement. These include warranties in respect of Mortgages to be purchased on the Closing Date 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 other than any Mortgage which has also been sold to the Issuer; 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 Individual Mortgages (which are not Lettings Mortgages, Shared Ownership Mortgages or Mortgages where the initial advance was made on or after 1st February, 2000).

In addition, warranties will be given by PML to the Issuer and the Trustee in the Mortgage Sale Agreement that, (i) at the date of its advance, the principal amount advanced under any Mortgage (including the amount of any further advance requested by a Borrower and actually advanced) together with any further advances due to be made (including any mortgage indemnity insurance premium and fees or other amounts added to the advance) was not more than 100 per cent. of either (a) the lower of the valuation of the relevant Property for security purposes in the opinion of a valuer approved by PML and the purchase price of the relevant Property or (b) the valuation of the relevant Property for security purposes in the opinion of a valuer approved by PML; and (ii) in the case of the Individual Mortgages, no agreement for any Individual Mortgage is in whole or in part a regulated agreement or a consumer credit agreement (as defined in section 8 of the Consumer Credit Act 1974) or, to the extent that any such Individual Mortgage is in whole or in part a regulated agreement or consumer credit agreement, the procedures set out in the Consumer Credit Act 1974 have been complied with in all material respects.

The sole remedy against PML in respect of breach of warranty shall be to require PML to repurchase any relevant Mortgage provided that this shall not limit any other remedies available to the Issuer or the Trustee if PML fails to repurchase, or procure the repurchase of, a Mortgage when obliged to do so. PML will also agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage is at any time on or after the Closing Date found by a competent court, whether on application of a borrower, the Director General of Fair Trading or otherwise, to be an unfair term for the purposes of the Unfair Terms in Consumer Contracts Regulations 1994 or 1999, it shall repurchase or procure the repurchase of the Individual Mortgage concerned.

The Class A Subscription Agreements and the Class B Subscription Agreement referred to in “Subscription and Sale” below contain warranties by PFPLC and PML to the effect that the information in this Offering Circular with regard to the Mortgages to be purchased by the Issuer, the Properties, the insurance contracts relating to the Properties and the Mortgages, 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, etc. Rules 2001.

### 2. Mortgage Requirements

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

<i>Loan Size</i>	<i>Maximum LTV</i>
<i>£1,000 – £300,000</i>	<i>100% Excluding Fees</i>
	<i>105% Including Fees</i>
<i>£300,000 – £2,100,000</i>	<i>75% Excluding Fees</i>

- 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 £10,100,000 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 (except in Scotland)
  - Properties designated under the Housing Act 1985 or the Housing (Scotland) Act 1987
  - Properties 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 Scotland short assured tenancy) 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 PML's Freshstart product, must show no evidence of adverse credit history 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(ies) 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(ies) 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 applicant's 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 appliances –	Up to 4.25 x 1st income plus 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. Corporate 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 the activities of the Issuer and the Administrator.

### **Mortgage Indemnity Insurance**

Save in respect of the Shared Ownership Mortgages and Lettings Mortgages (which include all of the Corporate Mortgages), where the amount of an initial advance made prior to 1st February 2000 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, whose address is Norfolk House, 32-40 North Street, Horsham, West Sussex RH12 1RZ. 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 insofar as it relates to certain of the Individual Mortgages (which are not Lettings Mortgages or Shared Ownership Mortgages or Mortgages where the initial advance was made on or after 1st February, 2000) 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 will have the benefit from the date of completion of the acquisition of the Mortgages, which benefit will be charged to the Trustee pursuant to the Deed of Charge.

All freehold Properties (or the Scottish equivalent) except those mentioned in the next paragraph will be insured under the comprehensive master and comprehensive block policies in the name of PGC, with the Issuer as additional assured, and with the interest of the Trustee 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. The relevant block policies are with Legal & General Insurance Limited, an insurance company whose registered office is at Temple Court, 11 Queen Victoria Street, London EC4N 4TP, or Groupama Insurance Company Limited, an insurance company whose registered office is at 2 Minster Court, Mincing Lane, London EC3R 7FB. 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 will have taken all reasonable steps to ensure that it has become a named insured or that its interest has been noted on the policy taken out by the borrower. The Issuer will have the benefit of insurance to provide cover in the event that such Properties are not, or are not adequately, insured. PML has the benefit of a policy with AON Group Limited, an insurance company whose registered office is at 8 Devonshire Square, London EC2M 4PL, which covers losses arising from a failure by an insurer under a buildings policy arranged by a borrower to pay in full the amount of any otherwise valid claim under such policy by such borrower or by PML as a result of acts or omissions unknown to, or beyond the control of, PML.

Leasehold Properties will be insured in the same way as freehold Properties except where the lease requires insurance to be effected by the landlord. Where a landlord insures a Property under the terms of a lease, PML will have taken all reasonable steps to ensure that the relevant Property is insured under a

policy with an insurance company approved by PML against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the originator's valuer and that PML has become a named insured or its interest has been noted by the insurers.

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

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

#### **Other Miscellaneous Insurances**

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

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

PML has the benefit of receipts of claims payments from an insurance with the London General Insurance Company Limited, an insurance company whose registered office is at Combined House, 15 Wheatfield Way, Kingston upon Thames, Surrey KT1 2PQ, which provides for certain payments to be made to PML in the event of the total disability, unemployment or hospitalisation of a particular borrower in respect of an Individual Mortgage. 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 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 2001 .. ..	993,444	0	0	0
Quarter to June 2001 .. ..	920,596	115	0	115
Quarter to March 2001 .. ..	857,956	12	0	12
Quarter to December 2000 .. ..	803,000	19	0	19
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 .. ..	306,573	1	0	1
Quarter to March 1998 .. ..	260,559	4	0	4
Quarter to December 1997 .. ..	221,977	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 .. ..	125,279	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 .. ..	38,529	0	0	0
Quarter to September 1995 .. ..	19,007	0	0	0
Quarter to June 1995 .. ..	8,169	0	0	0
Quarter to March 1995 .. ..	3,455	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 a mortgaged property 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 outstanding current balance		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	%	£'000	%	£'000	%
	Quarter to September 2001	1,032,315	1,016,076	98.4%	9,935	1.0%	4,265	0.4%	932	0.1%	694	0.1%	192	0.02%	221	0.02%
Quarter to June 2001	954,573	937,796	98.2%	9,772	1.0%	4,998	0.5%	1,050	0.1%	742	0.1%	49	0.01%	166	0.02%	
Quarter to March 2001	886,619	869,721	98.1%	11,755	1.3%	3,538	0.4%	1,101	0.1%	233	0.0%	29	0.00%	242	0.03%	
Quarter to December 2000	829,293	812,899	98.0%	11,843	1.4%	3,239	0.4%	677	0.1%	310	0.0%	140	0.02%	185	0.02%	
Quarter to September 2000	776,706	763,254	98.3%	9,745	1.3%	2,301	0.3%	606	0.1%	144	0.0%	400	0.05%	256	0.03%	
Quarter to June 2000	724,998	712,782	98.3%	8,873	1.2%	2,060	0.3%	511	0.1%	498	0.1%	0	0.00%	274	0.04%	
Quarter to March 2000	687,289	676,572	98.4%	7,693	1.1%	1,706	0.2%	786	0.1%	220	0.0%	29	0.00%	283	0.04%	
Quarter to December 1999	651,872	639,688	98.1%	9,288	1.4%	1,977	0.3%	531	0.1%	110	0.0%	77	0.01%	201	0.03%	
Quarter to September 1999	614,593	605,106	98.5%	7,021	1.1%	1,387	0.2%	638	0.1%	182	0.0%	44	0.01%	215	0.03%	
Quarter to June 1999	558,499	549,870	98.5%	5,914	1.1%	1,924	0.3%	381	0.1%	172	0.0%	41	0.01%	197	0.04%	
Quarter to March 1999	511,961	503,743	98.4%	6,085	1.2%	1,537	0.3%	253	0.0%	153	0.0%	39	0.01%	151	0.03%	
Quarter to December 1998	464,783	454,771	97.8%	8,259	1.8%	1,033	0.2%	242	0.1%	213	0.0%	0	0.00%	265	0.06%	
Quarter to September 1998	410,663	405,528	98.7%	4,038	1.0%	746	0.2%	62	0.0%	28	0.0%	0	0.00%	259	0.06%	
Quarter to June 1998	334,620	329,978	98.6%	3,579	1.1%	651	0.2%	243	0.1%	0	0.0%	0	0.00%	167	0.05%	
Quarter to March 1998	278,526	275,306	98.8%	2,463	0.9%	592	0.2%	64	0.0%	0	0.0%	0	0.00%	99	0.04%	
Quarter to December 1997	242,592	239,736	98.8%	2,365	1.0%	410	0.2%	79	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to September 1997	201,362	198,439	98.5%	2,361	1.2%	396	0.2%	58	0.0%	0	0.0%	0	0.00%	106	0.05%	
Quarter to June 1997	164,175	162,778	99.1%	1,037	0.6%	117	0.1%	56	0.0%	0	0.0%	0	0.00%	185	0.11%	
Quarter to March 1997	136,358	135,264	99.2%	771	0.6%	242	0.2%	0	0.0%	0	0.0%	0	0.00%	79	0.06%	
Quarter to December 1996	114,200	113,264	99.2%	693	0.6%	165	0.1%	35	0.0%	41	0.0%	0	0.00%	0	0.00%	
Quarter to September 1996	94,783	93,987	99.2%	794	0.8%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to June 1996	81,034	80,492	99.3%	540	0.7%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to March 1996	67,601	67,456	99.8%	143	0.2%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to December 1995	50,162	50,078	99.8%	82	0.2%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to September 1995	26,896	26,894	100.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to June 1995	11,121	11,119	100.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to March 1995	5,217	5,215	100.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to December 1994	1,693	1,691	99.9%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to September 1994	52	51	98.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to June 1994	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to March 1994	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	
Quarter to December 1993	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%	

## THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool, evidenced by the mortgages described below (the “**Provisional Mortgage Pool**”) as at 31st December 2001 (the “**Provisional Pool Date**”) consisted of 5,750 Mortgages having a Provisional Balance (as defined below) of £339,573,207.09.

The Provisional Balance includes amounts which had accrued and become due and payable but which remained unpaid and excludes any accrued interest thereon (the “**Provisional Balance**”).

The Mortgages to be purchased by the Issuer on the Closing Date and at any time up to and including the first Principal Determination Date will be selected from the Provisional Mortgage Pool and from other mortgages not included in the Provisional Mortgage Pool. Therefore the information set out below in relation to the Provisional Mortgage Pool may not necessarily correspond to that for the Mortgages sold to the Issuer (see “Summary – Selection of Mortgages” above).

All of the Mortgages forming part of the Provisional Mortgage Pool were originated between 1st September 1994 and 31st December 2001.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 28 years save for certain Mortgages with a combined maximum aggregate principal amount of £10,000,000 which will have had original 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 31st July 2042.

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.. .. .	2,269,664.61	0.67%	132	2.30%
> 25 <= 50.. .. .	22,411,659.55	6.60%	661	11.50%
> 50 <= 55.. .. .	10,293,973.99	3.03%	230	4.00%
> 55 <= 60.. .. .	11,938,526.00	3.52%	250	4.35%
> 60 <= 65.. .. .	14,894,228.60	4.39%	316	5.50%
> 65 <= 70.. .. .	25,380,718.69	7.47%	451	7.84%
> 70 <= 75.. .. .	27,223,263.03	8.02%	446	7.76%
> 75 <= 80.. .. .	37,474,326.82	11.04%	636	11.06%
> 80 <= 85.. .. .	72,838,967.02	21.45%	949	16.50%
> 85 <= 90.. .. .	106,646,906.63	31.41%	1,500	26.09%
> 90 <= 95.. .. .	4,392,855.09	1.29%	87	1.51%
> 95 <= 100 .. .. .	3,745,830.61	1.10%	90	1.57%
Over 100 .. .. .	62,286.45	0.02%	2	0.03%
<b>Total</b> .. .. .	<b>339,573,207.09</b>	<b>100.00%</b>	<b>5,750</b>	<b>100.00%</b>

Average LTV weighted by Provisional Balance: 75.51%

### 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.. .. .	106,501,018.28	31.36%	2,486	43.23%
Fixed Rate .. .. .	112,432,630.28	33.11%	1,619	28.16%
LIBOR-Linked .. .. .	120,498,738.41	35.49%	1,643	28.57%
Capped Rate .. .. .	140,820.12	0.04%	2	0.03%
<b>Total</b> .. .. .	<b>339,573,207.09</b>	<b>100.00%</b>	<b>5,750</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 .. .. .	124,413,899.57	36.64%	2,453	42.66%
Interest-only .. .. .	215,159,307.52	63.36%	3,297	57.34%
<b>Total .. .. .</b>	<b>339,573,207.09</b>	<b>100.00%</b>	<b>5,750</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 .. .. .	2,131,482.94	0.63%	198	3.44%
15,000.01 – 30,000 .. .. .	35,227,345.98	10.37%	1,479	25.72%
30,000.01 – 45,000 .. .. .	50,291,120.44	14.81%	1,364	23.72%
45,000.01 – 60,000 .. .. .	44,921,015.05	13.23%	867	15.08%
60,000.01 – 70,000 .. .. .	26,029,962.95	7.67%	400	6.96%
70,000.01 – 80,000 .. .. .	20,626,577.05	6.07%	277	4.82%
80,000.01 – 90,000 .. .. .	16,057,214.08	4.73%	190	3.30%
90,000.01 – 100,000 .. .. .	16,570,344.59	4.88%	175	3.04%
100,000.01 – 110,000 .. .. .	14,802,769.04	4.36%	142	2.47%
110,000.01 – 120,000 .. .. .	15,833,120.37	4.66%	138	2.40%
120,000.01 – 130,000 .. .. .	10,189,431.69	3.00%	81	1.41%
130,000.01 – 140,000 .. .. .	7,706,228.61	2.27%	57	0.99%
140,000.01 – 150,000 .. .. .	6,748,898.86	1.99%	47	0.82%
150,000.01 – 175,000 .. .. .	15,632,661.50	4.60%	97	1.69%
175,000.01 – 200,000 .. .. .	13,056,829.57	3.85%	70	1.22%
200,000.01 – 250,000 .. .. .	19,836,559.40	5.84%	91	1.58%
over 250,000 .. .. .	23,911,644.97	7.04%	77	1.34%
<b>Total .. .. .</b>	<b>339,573,207.09</b>	<b>100.00%</b>	<b>5,750</b>	<b>100.00%</b>

Average loan size: £59,056.21

### Property Tenure

	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
Freehold .. .. .	227,744,093.65	67.07%	3,753	65.27%
Leasehold .. .. .	108,031,085.34	31.81%	1,928	33.53%
Feudal .. .. .	3,798,028.10	1.12%	69	1.20%
<b>Total .. .. .</b>	<b>339,573,207.09</b>	<b>100.00%</b>	<b>5,750</b>	<b>100.00%</b>

### Seasoning of Mortgages

<i>Year of Completion</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
1994 .. .. .	355,361.64	0.10%	9	0.16%
1995 .. .. .	11,139,193.60	3.28%	311	5.41%
1996 .. .. .	23,847,300.96	7.02%	633	11.01%
1997 .. .. .	66,938,543.58	19.71%	1,551	26.97%
1998 .. .. .	136,779.11	0.04%	3	0.05%
1999 .. .. .	0.00	0.00%	0	0.00%
2000 .. .. .	45,677.07	0.01%	1	0.02%
2001 .. .. .	237,110,351.13	69.83%	3,242	56.38%
<b>Total .. .. .</b>	<b>339,573,207.09</b>	<b>100.00%</b>	<b>5,750</b>	<b>100.00%</b>

Weighted average seasoning: 19.595 months

## Maturity of Mortgages

<i>Years to Maturity</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
> 0 < 5 .. .. .	5,347,494.53	1.57%	162	2.82%
> = 5 < 10 .. .. .	25,496,746.44	7.51%	651	11.32%
> = 10 < 15.. .. .	57,460,993.18	16.92%	1,139	19.81%
> = 15 < 20.. .. .	83,284,990.25	24.53%	1,366	23.76%
> = 20 < 25.. .. .	144,260,507.48	42.48%	2,150	37.39%
> = 25 < 30.. .. .	20,673,544.04	6.09%	248	4.31%
> = 30 < 35.. .. .	929,119.36	0.27%	9	0.16%
Over 35 .. .. .	2,119,811.81	0.62%	25	0.43%
<b>Total</b> .. .. .	<b>339,573,207.09</b>	<b>100.00%</b>	<b>5,750</b>	<b>100.00%</b>

Weighted average remaining term in years: 19.386

## Loan Purpose

<i>Loan Purpose</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
House/Flat Purchase .. .. .	190,075,514.99	55.97%	3,164	55.03%
Remortgage .. .. .	149,497,692.10	44.03%	2,586	44.97%
<b>Total</b> .. .. .	<b>339,573,207.09</b>	<b>100.00%</b>	<b>5,750</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 .. .. .	53,306,009.32	15.70%	1,264	21.98%
Letting (Individual Mortgages) .. .. .	227,404,941.74	66.97%	3,711	64.54%
Letting (Corporate Mortgages) .. .. .	58,862,256.03	17.33%	775	13.48%
<b>Total</b> .. .. .	<b>339,573,207.09</b>	<b>100.00%</b>	<b>5,750</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 .. .. .	12,758,395.77	3.76%	341	5.93%
North West .. .. .	33,779,845.15	9.95%	684	11.90%
Yorkshire .. .. .	34,828,465.75	10.26%	700	12.17%
East Midlands .. .. .	14,947,597.54	4.40%	331	5.76%
West Midlands .. .. .	20,731,742.90	6.11%	398	6.92%
East Anglia .. .. .	15,742,409.76	4.64%	301	5.23%
South East (excluding Greater London) .. .. .	101,024,507.67	29.75%	1,555	27.04%
South West .. .. .	28,983,686.77	8.54%	481	8.37%
Greater London .. .. .	60,676,500.07	17.87%	612	10.64%
Wales .. .. .	12,302,027.61	3.62%	278	4.83%
Scotland .. .. .	3,798,028.10	1.12%	69	1.20%
<b>Total</b> .. .. .	<b>339,573,207.09</b>	<b>100.00%</b>	<b>5,750</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 .. ..	337,065,511.60	99.26%	5,684	98.85%	32,593.41
> 1 < = 2 .. ..	939,535.60	0.28%	22	0.38%	9,824.00
> 2 < = 3 .. ..	726,749.89	0.21%	20	0.35%	11,653.93
> 3 < = 4 .. ..	264,539.10	0.08%	6	0.10%	6,050.24
> 4 < = 5 .. ..	171,025.87	0.05%	5	0.09%	4,754.87
> 5 < = 6 .. ..	69,673.76	0.02%	3	0.05%	3,163.90
> 6 < = 7 .. ..	153,300.51	0.05%	5	0.09%	6,561.85
> 7 < = 8 .. ..	0.00	0.00%	0	0.00%	0.00
> 8 < = 9 .. ..	34,174.20	0.01%	1	0.02%	2,150.16
> 9 < = 10 .. ..	29,397.57	0.01%	1	0.02%	2,039.89
> 10 < = 11 .. ..	36,565.09	0.01%	1	0.02%	2,191.47
> 11 < = 12 .. ..	82,733.90	0.02%	2	0.03%	5,872.42
<b>Total .. ..</b>	<b>339,573,207.09</b>	<b>100.00%</b>	<b>5,750</b>	<b>100.00%</b>	<b>86,856.14</b>

Average number of months in arrears weighted by Provisional Balance: 1.696 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% .. ..	918,009.80	36.61%	62,648.41	2.50%	0.00	0.00%
> 0% < = 50% ..	78,143.49	3.12%	475,840.17	18.98%	119,760.76	4.78%
> 50% < = 100%	196,194.03	7.82%	824,759.87	32.89%	1,223,821.00	48.80%
= 100% .. ..	93,172.70	3.72%	0.00	0.00%	0.00	0.00%
> 100% < = 150%	1,016,419.36	40.53%	991,399.83	39.53%	1,164,113.73	46.42%
> 150% .. ..	205,756.11	8.20%	153,047.21	6.10%	0.00	0.00%
<b>Total .. ..</b>	<b>2,507,695.49</b>	<b>100.00%</b>	<b>2,507,695.49</b>	<b>100.00%</b>	<b>2,507,695.49</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 Mortgages with a Provisional Balance of £196,194.03 have paid in aggregate between 50% and 100% of their subscriptions for the last month, and the Mortgages with a Provisional Balance of £1,223,821.00 have paid in aggregate between 50% and 100% of their subscriptions for the last six months, in each case prior to the Provisional Pool Date.

## **MORTGAGE ADMINISTRATION**

### **Introduction**

PFPLC will be appointed by each of the Issuer and the Trustee in respect of the Mortgages under the Administration Agreement to be its agent to administer the Mortgages. PFPLC will administer the Mortgages with the diligence and skill that a reasonably prudent mortgage lender would apply in administering its own mortgages subject to the provisions of the Administration Agreement. PFPLC will undertake that in its role as administrator it will comply with any proper directions, orders and instructions which the Issuer or the Trustee may from time to time give to PFPLC in accordance with the provisions of the Administration Agreement. Save as provided therein, the Administration Agreement will be conditional upon completion of the Mortgage Sale Agreement taking place. PFPLC's appointment as administrator can be terminated by the Trustee in the event of a breach by PFPLC of the terms of the Administration Agreement which, in the opinion of the Trustee is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or in the event of PFPLC's insolvency. In addition, PFPLC's appointment will, unless PFPLC, the Trustee and the Issuer agree otherwise, be terminated with immediate effect if at any time PFPLC does not have any authorisation under FSMA and/or the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 which it is required to have in order to enable it to perform the services which it is to agree in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.

### **Mortgage Interest Rate**

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

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

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

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

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

If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and income received by the Issuer from the investment of funds standing to the credit of the Transaction Account 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 April 2008 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 (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 Collection Account and then will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account. PML executed a declaration of trust over the Collection Account at National Westminster Bank Plc on 13th May 1994 which declaration of trust has been amended and supplemented from time to time and which shall be further amended by a supplemental declaration of trust to be dated the Closing Date (the “**Collection Account Declaration of Trust**”) under which PML shall declare that all direct debit payments, cheque payments, redemption moneys and certain other sums of money in respect of the Mortgages purchased by the Issuer which are credited to the Collection Account are held on trust for the Issuer until they are applied in the manner described above.

## **Arrears and Default Procedures**

The Administrator will regularly give details to the Issuer and the Trustee, in accordance with the terms of the Administration Agreement, in writing of the status of the enforcement procedures in relation to Mortgages in respect of which there are arrears and enforcement procedures are being followed by the Administrator in connection therewith.

The Administrator will endeavour to collect all payments due under or in connection with the Mortgages in accordance with procedures agreed from time to time with the Trustee and the Issuer but having regard to the circumstances of the borrower in each case. 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 (which is not available 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 a Mortgage is to be made, the Issuer expects to fund such Mandatory Further Advance from the principal moneys then held by it referred to in paragraph (a) of the definition of Available Redemption Funds (see “Summary – Mandatory Redemption in Part”). The Issuer may not receive sufficient amounts of principal to meet the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set-off the amounts of any Mandatory Further Advances which the Issuer has failed to make against amounts owing by those borrowers and/or to sue the Issuer for damages for breach of contract. Accordingly if, and to the extent that, the Issuer does not have sufficient funds to make any such Mandatory Further Advances the Issuer will be entitled to borrow further amounts from PFPLC under the Subordinated Loan Agreement and PFPLC will be under an obligation to make any such amounts available to the Issuer.

No Mandatory Further Advance may be made to a borrower if PML or the Administrator has notice that the relevant borrower is in breach of the relevant Mortgage Conditions. In addition, no Mandatory Further Advance shall be made in respect of any Individual Mortgage by the Issuer, or by PML as agent for or otherwise on behalf of the Issuer, if the making of such Mandatory Further Advance will involve the Issuer in carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA.

The Issuer may, at its discretion but subject to certain conditions in the Administration Agreement and provided that (a) there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date (or, to the extent that there is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the Principal Deficiency Ledger, is sufficient to reduce to zero any such debit balance on the Principal Deficiency Ledger) and (b) the First Loss Fund is at least equal to the Required Amount on the immediately preceding Interest Payment Date (or, to the extent that it is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the First Loss Ledger, is sufficient to replenish the First Loss Fund to the Required Amount), decide to make a Discretionary Further Advance on the security of the Property subject to the Mortgage on the request of a borrower. Any such Discretionary Further Advance may only be made if it is secured on the relevant Property owned by the borrower but subject to the Mortgage. In addition, the Issuer may make a Discretionary Further Advance to a borrower as part of its arrears and default procedures by capitalising certain outstanding arrears of interest payable by a borrower. The capitalisation of outstanding arrears constitutes a capitalisation for these purposes if the capitalised amount is added to the principal balance of the Mortgage and the relevant borrower’s arrears are discharged.

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

In all cases where a Discretionary Further Advance is to be made, the Issuer may use principal moneys referred to in paragraph (a) of the definition of Available Redemption Funds (see “Summary – Mandatory Redemption in Part” above).

If the Issuer 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 if PML's lending criteria as far as applicable are satisfied at the relevant time subject to such waivers as might be within the discretion of a reasonably prudent lender, as will be provided in the Administration Agreement.

Discretionary Further Advances (other than by way of capitalisation of arrears) will not be made if the sum of (i) all Discretionary Further Advances (other than by way of capitalisation of arrears) which have been made since the Closing Date or which are proposed to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made, (ii) all Mandatory Further Advances which have been made since the Closing Date or which are to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made which, in the case of each of subparagraphs (i) and (ii) above, have been or are to be funded by the Issuer out of principal received or recovered or deemed to have been received or recovered in respect of the Mortgages and not out of the proceeds of any advance under the Subordinated Loan Agreement made or to be made for such purpose and (iii) all Mandatory Further Advances which may be required to be made after the making of the relevant Discretionary Further Advance would, on the date of the relevant Discretionary Further Advance, exceed a combined aggregate cumulative limit of £70,000,000.

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

### **Conversion of Mortgages**

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

- (a) no Enforcement Notice or Protection Notice (as defined in the Deed of Charge) has been given by the Trustee which remains in effect at the date of the relevant conversion;
- (b) such conversion would not adversely affect 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 the Mortgage Sale Agreement in the event of there being a breach of warranty in respect of that Mortgage;
- (e) no conversion must extend the final maturity date of the relevant Mortgage beyond July 2030, 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 July 2042; and
- (f) on the date of and immediately following the relevant conversion, PML's lending criteria are satisfied so far as applicable, subject to such waivers as might be within the discretion of a reasonably prudent lender.

The Trustee will not make any investigation as to the manner in which any Converted Mortgages or Non-Verified Mortgages differ from the Standard and Non-Standard Mortgages purchased by the Issuer 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, administer and maintain the arrangements for insurance in respect of, or in connection with, the Mortgages to which the Issuer is a party or in which the Issuer has an interest and will make claims on behalf of the Issuer under any such insurance policies when necessary.

### **Reinvestment of Income**

The Transaction Account shall at all times be maintained with a bank either the long term unsecured and unguaranteed debt of which is rated AAA by Fitch, Aaa by Moody's and AAA by Standard & Poor's or whose short term debt is rated at least F-1 by Fitch, at least P-1 by Moody's and at least A-1 by Standard & Poor's or such that the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes would not be adversely affected and shall not be changed without the prior consent of the Trustee. If such bank ceases to satisfy the criteria mentioned above, the Administration Agreement will contain provisions requiring the Administrator to arrange for the transfer of the Transaction Account to another bank which does satisfy such criteria within 30 days of such occurrence (or such longer period as may be agreed to by the Trustee and the Rating Agencies).

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

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

### **Delegation by the Administrator**

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

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

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

- (a) certain payment defaults by the Administrator;
- (b) default by the Administrator in the performance or observance of its covenants and obligations under the Administration Agreement, which in the opinion of the Trustee is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders and (except where in the reasonable opinion of the Trustee, such default is incapable of remedy, when no such continuation and/or notice as is hereinafter mentioned will be required) such default continues unremedied for a period of 14 days after the earlier of the Administrator becoming aware of such default and receipt by the Administrator of written notice from the Trustee requiring the same to be remedied. If the relevant default occurs as a result of a default by any person to whom the Administrator has sub-contracted or delegated part of its obligations under the Administration Agreement such

default shall not result in the termination of the appointment of the Administrator if within such 14 day period the Administrator terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Trustee may reasonably specify to remedy such default or to indemnify the Issuer against the consequences of such default;

- (c) an order being made or an effective resolution being passed for winding up the Administrator;
- (d) the Administrator ceasing or threatening to cease to carry on its business or a substantial part of its business or stopping payment or threatening to stop payment of its debts or the Administrator being deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 or becoming unable to pay its debts as they fall due or the value of its assets falling to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becoming insolvent; or
- (e) proceedings being initiated against the Administrator under any applicable liquidation, administration, insolvency, composition, reorganisation (other than a reorganisation the terms of which have been approved by the Trustee and where the Administrator is solvent) or other similar laws, save where such proceedings are being contested in good faith by the Administrator, or an administrative or other receiver, administrator or other similar official is appointed in relation to the Administrator or in relation to the whole or any substantial part of the undertaking or assets of the Administrator or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Administrator, or a distress, execution, diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Administrator and in any of the foregoing cases it shall not be discharged within 15 days; or 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 PFPLC's appointment will, unless PFPLC, the Trustee and the Issuer agree otherwise, be terminated with immediate effect if at any time PFPLC does not have any authorisation under FSMA and/ or the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 which it is required to have in order to enable it to perform the services which it is to agree in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.

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

- (a) the Trustee and the Substitute Administrator consent in writing;
- (b) a substitute administrator (which can include the Substitute Administrator) is appointed;
- (c) such substitute administrator has experience of administering mortgages of residential property in England and Wales and Scotland and (if other than the Substitute Administrator) is approved by the Trustee; and
- (d) the then current ratings of the Class A Notes 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 is unable to appoint a substitute administrator, the Substitute Administrator has agreed under the Substitute Administrator Agreement that it will act as such substitute administrator pursuant to, and in accordance with, the terms of the Substitute Administrator Agreement.

#### **Administration Fee**

The Administration Agreement will make provision for payments to be made to the Administrator. The Issuer will pay to PFPLC as Administrator an administration fee of not more than 0.30% (inclusive of VAT) per annum on the aggregate interest charging balances of the Mortgages at the beginning of each Collection Period which will be due quarterly in arrear on each Interest Payment Date. A higher fee at a rate agreed by the Trustee (but which does not exceed the rate then commonly charged by providers of mortgage administration services) may be payable to any substitute administrator appointed (other than as administrator of last resort) following termination of PFPLC's appointment. If no substitute administrator can be found, the Substitute Administrator will act as administrator of last resort receiving a fee at a rate of 0.30% (exclusive of VAT) per annum on the aggregate interest charging balances of the Mortgages at the

beginning of each Collection Period which will be due quarterly in arrear on each Interest Payment Date. If the Substitute Administrator is required to act as administrator of last resort, it will exercise such discretion as would be exercised by it if it were the mortgagee and beneficial owner of the Mortgages.

PML will be entitled to receive from the Issuer for its own account any commissions due to it from insurers out of premiums paid by borrowers as a result of it having placed buildings insurance in relation to the Mortgages with such insurers.

The administration fee and all costs and expenses of the Administrator (including of any substitute administrator and of the Substitute Administrator under the Substitute Administrator Agreement) and the aforesaid commissions are to be paid in priority to payments due on the Notes. This order of priority has been agreed with a view to procuring the continuing performance by the Administrator of its duties in relation to the Issuer, the Mortgages and the Notes.

### **Redemption**

Under the Administration Agreement, the Administrator will be responsible for handling the procedures connected with the redemption of Mortgages. In order to enable the Administrator to do this, the Trustee and the Issuer, will be required to execute powers of attorney in favour of the Administrator which will enable it to discharge the Mortgages from the security created over them in favour of the Trustee under the Deed of Charge, without reference to the Trustee or the Issuer.

## UNITED KINGDOM TAXATION

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

1. There will be no United Kingdom withholding tax in relation to interest payments on the Notes while the Notes continue to be listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange.
2. Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.
3. On 13th December 2001 the Council of the European Union published a revised draft directive regarding the taxation of savings income. It is proposed that a Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, except that Austria, Belgium and Luxembourg will instead operate a withholding tax system for a transitional period in relation to such payments. The proposals are not yet final, and they may be subject to further amendment and/or clarification. Consequently, it is not possible to predict what effect, if any, the adoption of the proposed directive would have on the Notes or on the payments of principal or interest on the Notes.
4. The interest on the Notes will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom tax by direct assessment. However, interest received without deduction or withholding is not chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless the Noteholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom in connection with which the interest is received or to which the Notes are attributable. There are certain exceptions for income received by specified categories of agent (such as some brokers and investment managers).
5. If interest on the Notes were to be paid after deduction of United Kingdom income tax, the terms and conditions of the Notes do not provide for any additional payments to be made in this or any other circumstance. Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
6. A Noteholder within the charge to United Kingdom corporation tax in respect of a Note (including a Noteholder so chargeable in relation to a branch or agency in the United Kingdom) will, generally, be liable to corporation tax as income on any profits (and obtain relief for permitted losses) on the Notes. Any such profits (including interest) or permitted losses on the Notes will generally be chargeable by reference to accounting periods of the company in accordance with an authorised accounting method. For such Noteholders, the provisions described in paragraphs 8 and 9 below will not apply to such a Note.
7. The terms and conditions of the Notes will provide for an increase in the margins applicable to each class of Note taking effect in respect of interest periods ending after April 2008. On 19th December 2001, the Inland Revenue published a technical note on Loan Relationships, Derivative Contracts and Foreign Exchange Gains and Losses. The technical note includes proposals and draft legislation which, if enacted in its proposed form, could have the following consequence for Noteholders within the charge to United Kingdom corporation tax. If the issue value of a Note of any class exceeds by five per cent. or more the fair value of the same Note immediately after the margin applicable to such Note is increased, then depending on the difference between the old and new interest rates, a Noteholder within the charge to corporation tax may be required, on and after the date of such a change to both the margin and the value of such Note, to adopt an authorised mark to market method of accounting in respect of its holding of such Note and will not be entitled to bring any debit resulting from the application of such accounting method into account for United Kingdom corporation tax purposes.

8. A Noteholder (other than a Noteholder within the charge to corporation tax in respect of the relevant Note) but who is subject to United Kingdom income tax will generally be subject to income tax on interest arising in respect of the Notes on a receipts basis. Such Noteholder may be chargeable to United Kingdom tax on income on an amount treated (by rules known as the accrued income scheme contained in Chapter II of Part XVII of the Income and Corporation Taxes Act 1988) as representing interest accrued on the Note at the time of disposal (determined by the Inland Revenue on a just and reasonable basis). A purchaser of a Note will not be entitled to any allowance under the accrued income scheme to set against any deemed or actual interest it receives in respect of the Notes. If for any reason any interest due on an Interest Payment Date is not paid and a Note is subsequently disposed of with the right to receive accrued interest, special rules may apply for the purposes of the accrued income scheme.
9. 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.
10. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Notes or on the issue of a Note in definitive form.

## SUBSCRIPTION AND SALE

ING Bank N.V., Barclays Bank PLC, Deutsche Bank AG, London, HSBC Bank plc, J.P. Morgan Securities Ltd., Société Générale and The Royal Bank of Scotland plc (the “**Class A Managers**”) have, pursuant to a subscription agreement dated 26th March 2002 (to which PFPLC and PML are also party) (the “**Class A Subscription Agreement**”), jointly and severally agreed, subject to certain conditions, to subscribe for the Class A Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class A Managers for certain of their expenses in connection with the issue of the Class A Notes. The Class A Subscription Agreement entitles the Class A Managers to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A Managers against certain liabilities in connection with the offer and sale of the Class A Notes. The Issuer has agreed to pay the Class A Managers a selling commission of 0.10% of the principal amount of the Class A Notes and a combined management and underwriting commission of 0.075% of the principal amount of the Class A Notes. The Issuer gives certain representations and warranties and undertakings to the Class A Managers in the Class A Subscription Agreement.

ING Bank N.V. (the “**Class B Manager**”) has, pursuant to a subscription agreement dated 26th March 2002 (to which PFPLC and PML are also party) (the “**Class B Subscription Agreement**”) agreed, subject to certain conditions, to subscribe for the Class B Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class B Manager for certain of its expenses in connection with the issue of the Class B Notes. The Class B Subscription Agreement entitles the Class B Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class B Manager against certain liabilities in connection with the offer and sale of the Class B Notes. The Issuer has agreed to pay the Class B Manager a selling commission of 0.175% of the principal amount of the Class B Notes and a combined management and underwriting commission of 0.125% of the principal amount of the Class B Notes. The Issuer gives certain representations and warranties and undertakings to the Class B Manager in the Class B Subscription Agreement.

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 registration requirements of the Securities Act. Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. Person, except in certain transactions permitted by U.S. tax regulations (terms used in this sentence have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder). Each of the Class A Managers, in respect of the Class A Notes, 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 under 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 VI of FSMA except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their 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 FSMA; (ii) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any



invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of FSMA does not apply to the Issuer.

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

Each Class A Manager, in respect of the Class A Notes, 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 27th March 2002 and that the Notes will be admitted to trading on the London Stock Exchange on or around 27th March 2002, subject only to the issue of the Temporary Global Notes. Prior to the official listing, however, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules. The listing of the Notes will be cancelled if the Temporary Global Notes are not issued.

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

Class A Notes, Common Code Number 014529365; ISIN XS0145293659; and

Class B Notes, Common Code Number 014529489; ISIN XS0145294897.

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

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

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

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

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

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

The financial information included on pages 74 to 75 of this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Audited statutory accounts of the Issuer on which the Issuer's auditors have given an unqualified report which contains no statement under section 237(2) or (3) of the Companies Act 1985 have been delivered to the Registrar of Companies in respect of the financial years ended 30th September 2000 and 30th September 2001 respectively in accordance with the Companies Act 1985.

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

- (a) the Memorandum and Articles of Association of the Issuer;
- (b) copies of the Class A Subscription Agreement and the Class B Subscription Agreement;
- (c) 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 Mortgage Sale Agreement, the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, the Scottish Declaration of Trust, the Agency Agreement, the Collection Account Declaration of Trust, the Swap Agreement, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the VAT Declaration of Trust, the POPLC Deed and the Post Enforcement Call Option Deed;
- (d) the accountants' report on the Issuer prepared by Deloitte & Touche, the text of which is set out on pages 73 to 75;
- (e) the financial statements of the Issuer for the periods ended 30th September 2000 and 30th September 2001 respectively.

## GLOSSARY OF KEY TERMS AND DEFINITIONS

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