

IMPORTANT NOTICE

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

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

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

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

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and Merrill Lynch International, Lloyds Bank PLC and Morgan Stanley & Co. International plc (the "**Joint Lead Managers**") or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

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

EXCEPT WITH THE PRIOR WRITTEN CONSENT OF PARAGON BANK PLC ("**PARAGON BANK**") AND WHERE SUCH SALE FALLS WITHIN THE EXEMPTION PROVIDED BY SECTION 20 OF THE U.S. RISK RETENTION RULES, THE NOTES OFFERED AND SOLD BY THE ISSUER MAY NOT BE PURCHASED BY, OR FOR THE ACCOUNT OR BENEFIT OF, ANY "U.S. PERSON" AS DEFINED IN THE U.S. RISK RETENTION RULES ("**RISK RETENTION U.S. PERSONS**"), PROSPECTIVE INVESTORS SHOULD NOTE THAT THE DEFINITION OF "U.S. PERSON" IN THE U.S. RISK RETENTION RULES IS SUBSTANTIALLY SIMILAR TO, BUT NOT IDENTICAL TO, THE DEFINITION OF "U.S. PERSON" IN REGULATION S, EACH PURCHASER OF NOTES, INCLUDING BENEFICIAL INTERESTS THEREIN, WILL BE DEEMED, AND IN CERTAIN CIRCUMSTANCES WILL BE REQUIRED, TO HAVE MADE CERTAIN REPRESENTATIONS AND AGREEMENTS, INCLUDING THAT IT (1) IS NOT A RISK RETENTION U.S. PERSON (UNLESS IT

HAS OBTAINED THE PRIOR WRITTEN CONSENT OF PARAGON BANK, (2) IS ACQUIRING SUCH NOTE OR A BENEFICIAL INTEREST THEREIN FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTE SUCH NOTE AND (3) IS NOT ACQUIRING SUCH NOTE OR A BENEFICIAL INTEREST THEREIN AS PART OF A SCHEME TO EVADE THE REQUIREMENTS OF THE U.S. RISK RETENTION RULES.

THE SELLERS AS SPONSORS UNDER THE U.S. RISK RETENTION RULES, DO NOT INTEND TO RETAIN AT LEAST 5 PER CENT. OF THE CREDIT RISK OF THE NOTES FOR THE PURPOSES OF THE U.S. RISK RETENTION RULES, BUT RATHER INTEND TO RELY ON AN EXEMPTION PROVIDED FOR IN SECTION 20 OF THE U.S. RISK RETENTION RULES REGARDING NON-U.S. TRANSACTIONS. SEE "U.S. RISK RETENTION".

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

Paragon Mortgages (No. 25) PLC

(Incorporated with limited liability in England and Wales with registered number: 9777963)

Issue of Mortgage Backed Floating Rate Notes

Initial Principal Amount	Class	Issue price	Interest Rate/Reference Rate	Margin	Step-Up Date	Expected rating	
						Moody's	Fitch
£600,000,000	Class A Notes Due 2050	100 per cent.	Three-Month GBP LIBOR	0.65 per cent./ 0.975 per cent. from and including the Step-Up Date	May 2023	Aaa(sf)	AAAsf
£33,500,000	Class B Notes Due 2050	100 per cent.	Three-Month GBP LIBOR	0.95 per cent./ 1.425 per cent. from and including the Step-Up Date	May 2023	Aa1(sf)	AAsf
£30,000,000	Class C Notes Due 2050	100 per cent.	Three-Month GBP LIBOR	1.30 per cent./ 1.95 per cent. from and including the Step-Up Date	May 2023	A1(sf)	A-sf
£24,700,000	Class D Notes Due 2050	100 per cent.	Three-Month GBP LIBOR	1.60 per cent./ 2.40 per cent. from and including the Step-Up Date	May 2023	Baa1(sf)	BBB-sf
£17,648,000	Class Z Notes Due 2050	100 per cent.	Three-Month GBP LIBOR	2.60 per cent	N/A	Unrated	Unrated
£10,923,000	Class S Notes Due 2050	100 per cent.	Three-Month GBP LIBOR	4.0 per cent	N/A	Unrated	Unrated
£7,952,955	Class S VFN Due 2050	100 per cent.	Three-Month GBP LIBOR	4.0 per cent	N/A	Unrated	Unrated
N/A	RC1a Residual Certificates	N/A	N/A	N/A	N/A	Unrated	Unrated
N/A	RC1b Residual Certificates	N/A	N/A	N/A	N/A	Unrated	Unrated
N/A	RC2a Residual Certificates	N/A	N/A	N/A	N/A	Unrated	Unrated
N/A	RC2b Residual Certificates	N/A	N/A	N/A	N/A	Unrated	Unrated

Issue Date	The Issuer expects to issue the Notes in the classes set out above on 26 April 2018 (the " Closing Date ").
Underlying Assets	<p>The Issuer will make payments on the Notes from, <i>inter alia</i>, payments of principal and revenue received from a portfolio comprising buy-to-let mortgages originated by Paragon Mortgages (2010) Limited ("PML") which will be purchased by the Issuer on the Closing Date, which are secured over residential properties located in England and Wales (the "Closing Date Mortgage Portfolio").</p> <p>In addition, on any Business Day during the period (the "Further Sale Period") from but excluding the Closing Date up to and excluding the earlier of (a) the Step-Up Date and (b) the occurrence of a Further Sale Period Termination Event (the "Further Sale Period End Date"), the Issuer may purchase Additional Mortgages originated by PML or Paragon Bank plc ("Paragon Bank", and together with PML, the "Sellers"), subject to the satisfaction of the Additional Mortgage Conditions.</p> <p>Please refer to the section entitled "<i>The Mortgage Portfolio</i>" for further information.</p>
Stand-alone/programme issuance	Stand-alone issuance.
Credit Enhancement	<p>Credit Enhancement Features</p> <ul style="list-style-type: none"> • Class A and Class B Liquidity Reserve Fund Excess Amount • General Reserve Fund Excess Amount • Excess Available Revenue • Subordination of more junior ranking Notes <p>See the section entitled "<i>Key Structural Features</i>" for more information.</p>
Liquidity Support	<p>Liquidity Support Features</p> <ul style="list-style-type: none"> • Mortgage Margin Reserve Fund • Conversion Margin Reserve Fund

	<ul style="list-style-type: none"> • Class A and Class B Liquidity Reserve Fund applied to fund a Class A and Class B Liquidity Deficit • General Reserve Fund applied to fund a Revenue Deficit (subject to certain conditions in the case of the Class C Notes and the Class D Notes) • Principal Addition Amounts applied to fund a Senior Expense Deficit (subject to certain conditions in the case of the Class B Notes) <p>See the section entitled "<i>Key Structural Features</i>" for more information.</p>
Redemption Provisions	Information on any optional and mandatory redemption of the Notes is summarised on page 54 (<i>Transaction Overview – Summary of the Terms and Conditions of the Notes and Residual Certificates</i>) and set out in full in Condition 5 (<i>Redemption and Purchase</i>).
Benchmarks Regulation	<p>Amounts payable on the Notes are calculated by reference to LIBOR. As at the date of this Prospectus, the administrator of LIBOR is not included in ESMA's register of administrators under Article 36 of the Regulation (EU) No. 2016/1011 (the "Benchmarks Regulation").</p> <p>As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that ICE Benchmark Administration Ltd (as the administrator of LIBOR) is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).</p>
Credit Rating Agencies	Fitch Ratings Limited (" Fitch ") and Moody's Investors Service Limited (" Moody's ") (together the " Rating Agencies "). Each of the Rating Agencies is established in the European Union and is registered under Regulation (EC) No. 1060/2009, as amended, of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the " CRA Regulation ").

	Arrangers	
Lloyds Bank		Morgan Stanley & Co. International plc
	Joint Lead Managers	
Lloyds Bank	Merrill Lynch International	Morgan Stanley & Co. International plc

The date of this Prospectus is 23 April
2018

Credit Ratings	<p>Ratings are expected to be assigned to the Class A Notes, Class B Notes, Class C Notes and Class D Notes (the "Rated Notes") as set out above on or before the Closing Date. The Class Z Notes, the Class S Notes, the Class S VFN and the Residual Certificates will not be rated.</p> <p>The ratings assigned to the Notes by Fitch and Moody's address, <i>inter alia</i> (a) the likelihood of full and timely payment to the holders of (i) the Class A Notes and the Class B Notes of all payments of interest on each Interest Payment Date and (ii) if no Class A Notes or Class B Notes remain outstanding, the Most Senior Class of Notes, of all payments of Normal Interest on each Interest Payment Date and (b) the likelihood of ultimate payment to the Noteholders of principal in relation to the Notes on or prior to the Final Maturity Date.</p> <p>In addition, the ratings assigned by Moody's address the expected loss to a Noteholder in proportion to the initial principal amount of the class of Notes held by such Noteholder on the Final Maturity Date.</p> <p>The assignment of ratings to the Notes is not a recommendation to invest in the Notes. Any credit rating assigned to the Notes may be revised or withdrawn at any time.</p>
Listing	<p>This document constitutes a prospectus (the "Prospectus"), for the purpose of Directive 2003/71/EC (the "Prospectus Directive"). This Prospectus has been approved by the Financial Conduct Authority (the "FCA").</p> <p>Applications have been made for the Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class Z Notes and Class S Notes to be admitted to listing on the official list of the UK Listing Authority (the "Official List") and to trading on the regulated market of the London Stock Exchange (the "Regulated Market"). The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the "Markets in Financial Instruments Directive").</p>
Eurosystem Eligibility	<p>The Class A Notes are intended to be held in a manner which would allow Eurosystem eligibility. This means that the Class A Notes are intended upon issue to be deposited with one of the International Central Securities Depositories (the "ICSDs"), as common safekeeper and does not necessarily mean that the Class A Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. The Class B Notes, Class C Notes, the Class D Notes, the Class Z Notes, the Class S Notes and the Class S VFN are not intended to be held in a manner which would allow Eurosystem eligibility or be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem.</p>
Obligations	<p>The Notes will be obligations of the Issuer alone and will not be guaranteed by, or be the responsibility of, any other entity. The Notes will not be obligations of The Paragon Banking Group PLC ("PBG"), its affiliates or any other party named in the Prospectus, other than the Issuer.</p>
Definitions	<p>Please refer to the section entitled "<i>Glossary</i>".</p>
Retention Undertaking	<p>Paragon Finance PLC ("PFPLC") as an originator within the meaning of the CRR, the AIFM Regulation and the Solvency II Regulation (each as defined below), will retain a material net economic interest of at least 5 per cent. in the securitisation (i) in accordance with the text of Article 405(1)(a) of Regulation (EU) No. 575/2013 (the Capital Requirements Regulation (the "CRR")), (ii) in accordance with Article 51(1)(a) of Regulation (EU) No 231/2013 (the "AIFM Regulations"); and (iii) in accordance with Article 254(2)(a) of Regulation (EU) 2015/35 (the "Solvency II Regulation") which, in each case does not take into account any corresponding national measures. PFPLC is a related entity of PML and Paragon Bank. As at the Closing Date, such interest will consist of an interest in each class of Notes. Any change to the manner in which such interest is held will be notified to investors. Please refer to the section entitled "<i>Certain Regulatory Disclosures</i>" for further information.</p> <p>The transaction is not intended to involve the retention by a sponsor for purposes of compliance with the final rules promulgated under Section 15G of the Securities Exchange Act of 1934, as amended (the "U.S. Risk Retention Rules"), but rather it is intended to rely on an exemption provided for in Section 20 of the U.S. Risk Retention Rules regarding non-U.S. transactions. Except with the prior written consent of Paragon Bank and where such sale falls within the exemption provided by Section 20 of the U.S. Risk Retention Rules, the Notes offered and sold by the Issuer may not be purchased by, or for the account or benefit of, any Risk Retention U.S. Person. See the section entitled "U.S. Risk Retention" for further details.</p>
Residual Certificates	<p>In addition to the Notes, the Issuer will issue RC1a Residual Certificates, RC1b Residual Certificates, RC2a Residual Certificates and RC2b Residual Certificates (together, the "Residual Certificates") to the Sellers on the Closing Date.</p> <p>The Residual Certificates constitute part of the consideration provided by the Issuer for the purchase of the Mortgage Portfolio (representing the right to receive Residual Payments in respect of the Mortgage Portfolio).</p>

	<p>The RC1a Residual Certificates and the RC2a Residual Certificates will be issued to PML and the RC1b Residual Certificates and the RC2b Residual Certificates will be issued to Paragon Bank.</p> <p>The Residual Certificates are not intended to be admitted to listing on the Official List nor to trading on the Regulated Market.</p> <p>Only the Notes are being offered hereby. The Residual Certificates are not being offered hereby.</p> <p>See the section entitled "<i>Terms and Conditions of the Residual Certificates</i>" for further details.</p>
Significant Investor	<p>On the Closing Date, PFPLC will purchase 37.5 per cent. of the aggregate Principal Amount Outstanding of the Class A Notes, approximately 5 per cent. of the Class B Notes, approximately 5 per cent. of the Class C Notes and all of the Class D Notes, the Class Z Notes, the Class S Notes and the Class S VFN. PFPLC may retain or at a later date sell some or all of those Notes in the secondary market at variable prices (which may, in turn, affect the liquidity and price of the Notes and/or Residual Certificates in the secondary market). PFPLC may sell those Notes in individually negotiated transactions at variable prices in the secondary market. In holding some or all of such classes of Notes, PFPLC may therefore be able to pass, or hold a sufficient minority to block, certain Noteholder resolutions.</p> <p>Also, on the Closing Date, the Sellers will receive the Residual Certificates as partial consideration for the sale of the Mortgage Portfolio.</p> <p>Therefore, significant concentrations of holdings of the Notes and the Residual Certificates are likely to occur.</p> <p>Please see the risk factor entitled "<i>Paragon Banking Group plc as Noteholder</i>".</p>
Volcker Rule	<p>The Issuer is of the view that it is not now, and immediately following the issuance of the Notes and the application of the proceeds thereof it will not be, a "covered fund" as defined in the regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended, commonly known as the "Volcker Rule". Although other exclusions may be available to the Issuer, this view is based on the exemption provided in Section 3 (e)(5)(C) of the Investment Company Act.</p>

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

IMPORTANT NOTICE

THE NOTES WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN THE ISSUER. IN PARTICULAR, THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, THE ARRANGERS (AS SET OUT BELOW IN THE SECTION ENTITLED "*TRANSACTION OVERVIEW – TRANSACTION PARTIES*"), THE JOINT LEAD MANAGERS, THE SELLERS, THE LEGAL TITLE HOLDERS, THE ADMINISTRATORS, THE SUBSTITUTE ADMINISTRATOR, THE SUBSTITUTE ADMINISTRATOR FACILITATOR, THE INTERTRUST CORPORATE SERVICES PROVIDER, THE PARAGON CORPORATE SERVICES PROVIDER, THE ISSUE SERVICES PROVIDER, THE INITIAL BASIS HEDGE PROVIDER, THE ACCOUNT BANKS, THE TRUSTEE, THE PRINCIPAL PAYING AGENT, THE REGISTRAR OR THE CLASS S VFN REGISTRAR (EACH AS DEFINED HEREIN) OR ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ANY SUCH PERSONS OR PARTY TO THE RELEVANT DOCUMENTS (OTHER THAN THE ISSUER). NO LIABILITY WHATSOEVER IN RESPECT OF ANY FAILURE BY THE ISSUER TO PAY ANY AMOUNT DUE UNDER THE NOTES SHALL BE ACCEPTED BY ANY OF THE ARRANGERS, THE JOINT LEAD MANAGERS, THE SELLERS, THE LEGAL TITLE HOLDERS, THE ADMINISTRATORS, THE SUBSTITUTE ADMINISTRATOR, THE SUBSTITUTE ADMINISTRATOR FACILITATOR, THE INTERTRUST CORPORATE SERVICES PROVIDER, THE PARAGON CORPORATE SERVICES PROVIDER, THE ISSUE SERVICES PROVIDER, THE INITIAL BASIS HEDGE PROVIDER, THE ACCOUNT BANKS, THE TRUSTEE, THE PRINCIPAL PAYING AGENT, THE REGISTRAR OR THE CLASS S VFN REGISTRAR, OR ANY PERSON OTHER THAN THE ISSUER.

YOU SHOULD REVIEW AND CONSIDER THE DISCUSSION UNDER "*RISK FACTORS*" BEGINNING ON PAGE 8 IN THIS PROSPECTUS BEFORE YOU PURCHASE ANY NOTES.

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

The Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class Z Notes and the Class S Notes will be represented on issue by a global note certificate in registered form (a "**Global Note**"). The Class S VFN will be issued in dematerialised registered form and no certificate evidencing entitlement to the Class S VFN will be issued. The Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class Z Notes and the Class S Notes may be issued in definitive registered form in certain circumstances.

The Issuer will also maintain a register, to be kept on the Issuer's behalf by the Class S VFN Registrar, in which the Class S VFN will be registered in the name of the Class S VFN Holder. Transfers of all or any portion of the interest in the Class S VFN may be made only through the register maintained by the Issuer.

THE DISTRIBUTION OF THIS PROSPECTUS AND THE OFFERING OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. NO REPRESENTATION IS MADE BY ANY OF

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

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

EXCEPT WITH THE PRIOR WRITTEN CONSENT OF PARAGON BANK PLC ("**PARAGON BANK**") AND WHERE SUCH SALE FALLS WITHIN THE EXEMPTION PROVIDED BY SECTION 20 OF THE U.S. RISK RETENTION RULES, THE NOTES OFFERED AND SOLD BY THE ISSUER MAY NOT BE PURCHASED BY, OR FOR THE ACCOUNT OR BENEFIT OF, ANY "U.S. PERSON" AS DEFINED IN THE U.S. RISK RETENTION RULES ("**RISK RETENTION U.S. PERSONS**"). PROSPECTIVE INVESTORS SHOULD NOTE THAT THE DEFINITION OF "U.S. PERSON" IN THE U.S. RISK RETENTION RULES IS SUBSTANTIALLY SIMILAR TO, BUT NOT IDENTICAL TO, THE DEFINITION OF "U.S. PERSON" IN REGULATION S. EACH PURCHASER OF NOTES, INCLUDING BENEFICIAL INTERESTS THEREIN, WILL BE DEEMED, AND IN CERTAIN CIRCUMSTANCES WILL BE REQUIRED, TO HAVE MADE CERTAIN REPRESENTATIONS AND AGREEMENTS, INCLUDING THAT IT (1) IS NOT A RISK RETENTION U.S. PERSON (UNLESS IT HAS OBTAINED THE PRIOR WRITTEN CONSENT OF PARAGON BANK), (2) IS ACQUIRING SUCH NOTE OR A BENEFICIAL INTEREST THEREIN FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTE SUCH NOTE, AND (3) IS NOT ACQUIRING SUCH NOTE OR A BENEFICIAL INTEREST THEREIN AS PART OF A SCHEME TO EVADE THE REQUIREMENTS OF THE U.S. RISK RETENTION RULES.

THE SELLERS AS SPONSORS UNDER THE U.S. RISK RETENTION RULES, DO NOT INTEND TO RETAIN AT LEAST 5 PER CENT. OF THE CREDIT RISK OF THE NOTES FOR THE PURPOSES OF THE U.S. RISK RETENTION RULES, BUT RATHER INTEND TO RELY ON AN EXEMPTION PROVIDED FOR IN SECTION 20 OF THE U.S. RISK RETENTION RULES REGARDING NON-U.S. TRANSACTIONS. SEE "U.S. RISK RETENTION".

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

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

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

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

NO PERSON IS AUTHORISED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFERING OR SALE OF THE NOTES OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY ANY OF THE TRANSACTION PARTIES OR ANY OF THEIR RESPECTIVE AFFILIATES OR ADVISERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE OR ALLOTMENT MADE IN CONNECTION WITH THE OFFERING OF THE NOTES SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION OR CONSTITUTE A REPRESENTATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE SELLER OR IN THE OTHER INFORMATION CONTAINED HEREIN SINCE THE DATE HEREOF. THE INFORMATION CONTAINED IN THIS PROSPECTUS WAS OBTAINED FROM THE ISSUER AND THE OTHER SOURCES IDENTIFIED HEREIN, BUT NO ASSURANCE CAN BE GIVEN BY THE ARRANGERS, THE JOINT LEAD MANAGERS OR THE TRUSTEE AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. NONE OF THE ARRANGERS, THE JOINT LEAD MANAGERS OR THE TRUSTEE HAS SEPARATELY VERIFIED THE INFORMATION CONTAINED HEREIN. ACCORDINGLY, NONE OF THE ARRANGERS, THE JOINT LEAD MANAGERS OR THE TRUSTEE MAKES ANY REPRESENTATION, EXPRESS OR IMPLIED, OR ACCEPTS ANY RESPONSIBILITY, WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION IN THIS PROSPECTUS OR ANY DOCUMENT OR AGREEMENT RELATING TO THE NOTES OR ANY TRANSACTION DOCUMENT. NONE OF THE ARRANGERS OR THE JOINT LEAD MANAGERS SHALL BE RESPONSIBLE FOR, ANY MATTER WHICH IS THE SUBJECT OF, ANY STATEMENT, REPRESENTATION, WARRANTY OR COVENANT OF THE ISSUER CONTAINED IN THE NOTES OR ANY TRANSACTION DOCUMENTS, OR ANY OTHER AGREEMENT OR DOCUMENT RELATING TO THE NOTES OR ANY TRANSACTION DOCUMENT, OR FOR THE EXECUTION, LEGALITY, EFFECTIVENESS, ADEQUACY, GENUINENESS, VALIDITY, ENFORCEABILITY OR ADMISSIBILITY IN EVIDENCE THEREOF. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE CONTENTS OF THIS PROSPECTUS SHOULD NOT BE CONSTRUED AS PROVIDING LEGAL, BUSINESS, ACCOUNTING OR TAX ADVICE. EACH

PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN LEGAL, BUSINESS, ACCOUNTING AND TAX ADVISERS PRIOR TO MAKING A DECISION TO INVEST IN THE NOTES.

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

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

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

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

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

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

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

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

Forward-looking Statements and Statistical Information

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

factors are discussed in this Prospectus under the section entitled "*Risk Factors*", and you are encouraged to carefully consider those factors prior to making an investment decision in relation to the Notes.

This Prospectus also contains certain tables and other statistical analyses (the "Statistical Information") which have been prepared in reliance on information provided by the Issuer and/or the Sellers. Numerous assumptions have been used in preparing the Statistical Information, which may or may not be reflected in the material. As such, no assurance can be given as to the Statistical Information's accuracy, appropriateness or completeness in any particular context, or as to whether the Statistical Information and/or the assumptions upon which they are based reflect present market conditions or future market performance. The Statistical Information should not be construed as either projections or predictions or as legal, tax, financial or accounting advice. The average life of or the potential yields on any security cannot be predicted, because the actual rate of repayment on the underlying assets, as well as a number of other relevant factors, cannot be determined. No assurance can be given that the assumptions on which the possible average lives of or yields on the securities are made will prove to be realistic

Disclosure of Interests

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

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

Prospective investors should be aware that:

- (i) each Relevant Entity in the course of its business (including in respect of interests described above) may act independently of any other Relevant Entity or any party to a Relevant Document;
- (ii) to the maximum extent permitted by applicable law, the duties of each Relevant Entity in respect of the Notes are limited to the relevant contractual obligations set out in the Relevant Documents and, in particular, no advisory or fiduciary duty is owed to any person;
- (iii) a Relevant Entity may have or come into possession of information not contained in this Prospectus that may be relevant to any decision by a potential investor to acquire the Notes and which may or may not be publicly available to potential investors ("**Relevant Information**");
- (iv) to the maximum extent permitted by applicable law, no Relevant Entity is under any obligation to disclose any Relevant Information to any other Relevant Entity, to any party to a Relevant Document or to any potential investor and this Prospectus and any subsequent conduct by a Relevant Entity should not be construed as implying that the Relevant Entity is not in possession of such Relevant Information; and
- (v) each Relevant Entity may have various potential and actual conflicts of interest arising in the ordinary course of its business, including in respect of the interests described above. For example, a Relevant Entity's dealings with respect to a Note, the Issuer or a party to a Relevant Document may affect the value of a Note. These interests may conflict with the interests of a Noteholder, and the Noteholder may suffer loss as a result. To the maximum extent permitted by applicable law, a Relevant Entity is not restricted from entering into, performing or enforcing its rights in respect of the Relevant Documents or the interests described above and may otherwise continue or take steps to further or protect any of those interests and its business even where to do so may be in conflict with the interests of Noteholders, and the Relevant Entities may in so doing act without notice to, and without regard to, the interests of any such person.

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

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

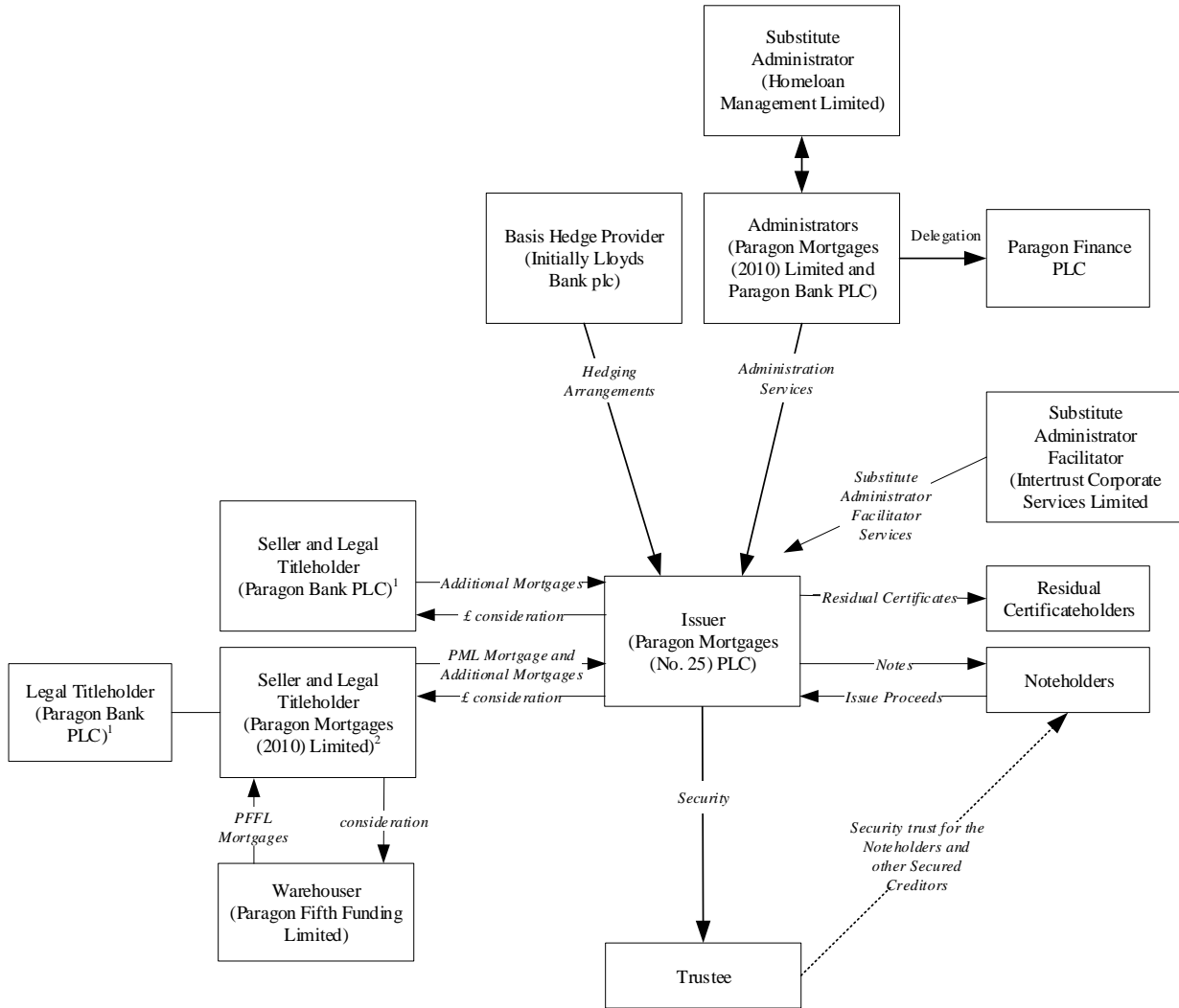
PRIIPs Regulation

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") (a "**KID**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

CONTENTS

	Page
Transaction Overview – Transaction Parties	4
Risk Factors	8
Transaction Overview – Summary of the Terms and Conditions of the Notes and Residual Certificates .	49
Overview of the Terms and Conditions of the Notes and Residual Certificates	56
Transaction Overview — Overview of Credit Structure and Cashflow	65
Transaction Overview — Overview of the Mortgage Portfolio and Administration	74
Transaction Overview – Triggers Tables	91
Transaction Overview — Fees	99
Certain Regulatory Disclosures	100
Key Structural Features	102
Cashflows and Cash Management.....	118
Description of the Notes, the Variable Funding Note and Residual Certificates in Global Form	129
Security for the Notes	134
Terms and Conditions of the Notes	135
Terms and Conditions of the Residual Certificates	182
Use of Proceeds	200
Ratings.....	201
Estimated Average Lives of the Notes	202
Early Redemption of the Notes	204
The Issuer	207
Holdings	209
The Sellers and Legal Title Holders	210
The Warehouse	211
Hedging Arrangements.....	212
The Initial Basis Hedge Provider.....	215
The Mortgages.....	216
Lending Guidelines	229
Insurance Coverage	232
Historical Data Relating to Paragon's Mortgage Businesses	233
The Provisional Mortgage Pool.....	236
Mortgage Administration	241
United Kingdom Taxation	255
ERISA Considerations for Investors	256
The Foreign Account Tax Compliance Act.....	257
Subscription and Sale	258
Transfer Restrictions and Investor Representations	261
General Information	264
Glossary.....	266

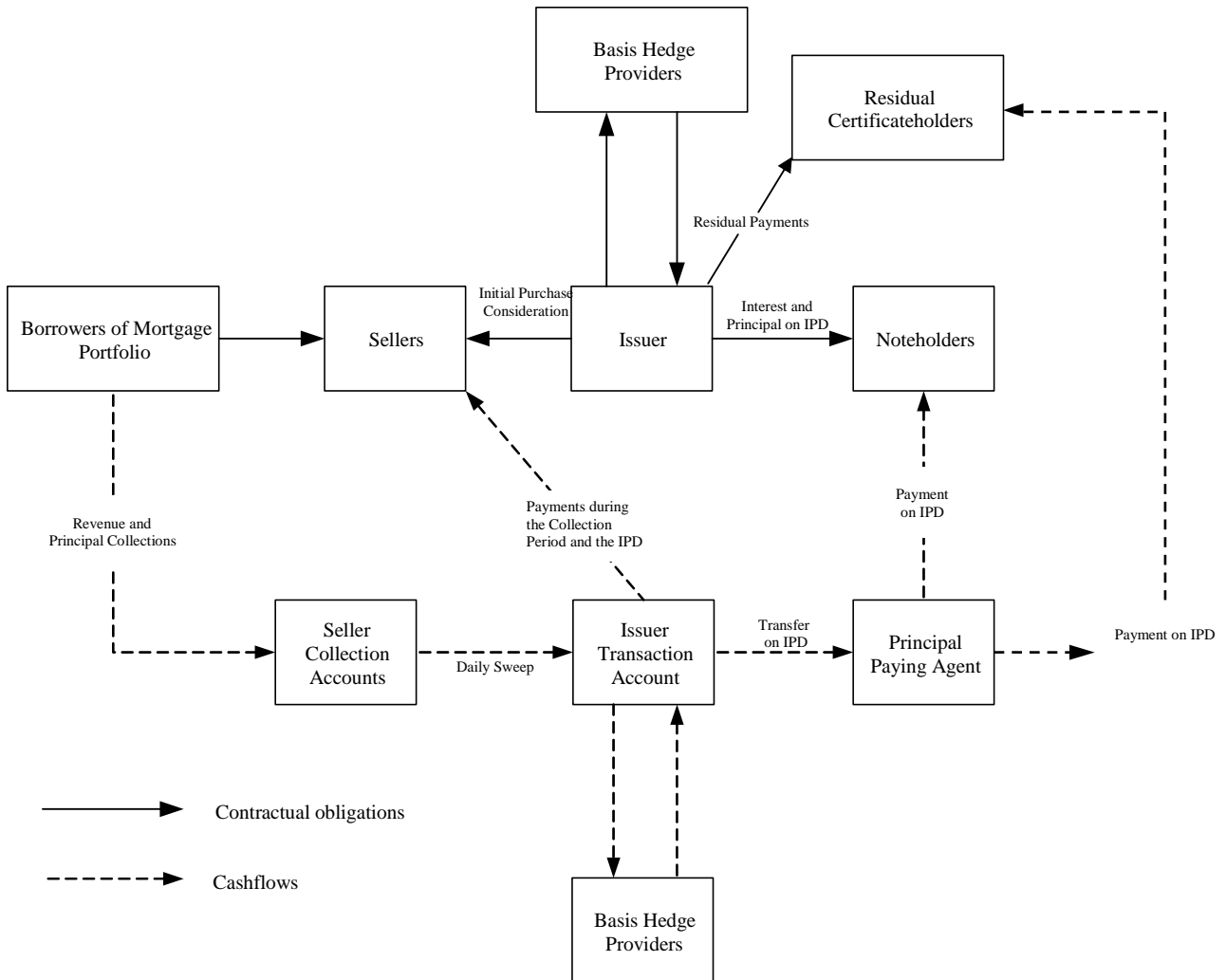
DIAGRAMMATIC OVERVIEW OF THE TRANSACTION



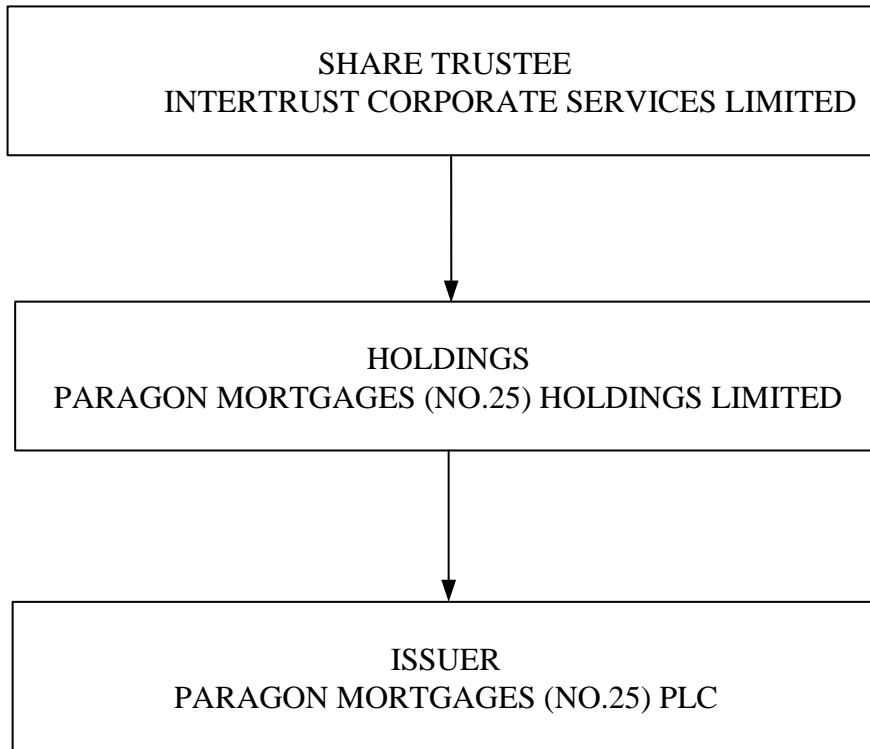
Notes:

- 1 Legal Title Holder in respect of (a) certain of the PML Mortgages in the Closing Date Mortgage Portfolio and (b) Additional Mortgages in respect of which Paragon Bank is the Seller.
- 2 Legal Title Holder in respect of (a) the PFFL Mortgages and certain of the PML Mortgages in the Closing Date Mortgage Portfolio and (b) Additional Mortgages in respect of which PML is the Seller.

DIAGRAMMATIC OVERVIEW OF CASHFLOWS



DIAGRAMMATIC OVERVIEW OF THE OWNERSHIP STRUCTURE



The above diagram illustrates the ownership structure of the special purpose companies that are parties to the Relevant Documents, as follows:

- The entire issued share capital of the Issuer is beneficially owned by Holdings.
- The entire issued share capital of Holdings is held on trust by the Share Trustee under the terms of a discretionary trust.

TRANSACTION OVERVIEW – TRANSACTION PARTIES

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

<u>Transaction Party</u>	<u>Name</u>	<u>Address</u>	<u>Document under which appointed/Further information</u>
Issuer	Paragon Mortgages (No. 25) PLC	51 Homer Road Solihull West Midlands B91 3QJ	See the section entitled " <i>The Issuer</i> " for further information
Sellers	Paragon Mortgages (2010) Limited ¹	51 Homer Road Solihull West Midlands B91 3QJ	Mortgage Sale Agreement See the sections entitled " <i>The Mortgages</i> " and " <i>The Seller</i> " for further information
	Paragon Bank plc ²	51 Homer Road Solihull West Midlands B91 3QJ	
Legal Title Holders	Paragon Mortgages (2010) Limited ³	51 Homer Road Solihull West Midlands B91 3QJ	Mortgage Sale Agreement See the sections entitled " <i>The Mortgages</i> " and " <i>The Warehouse</i> " for further information
	Paragon Bank plc ⁴	51 Homer Road Solihull West Midlands B91 3QJ	
Warehouse	Paragon Fifth Funding Limited	51 Homer Road Solihull West Midlands B91 3QJ	Mortgage Sale Agreement See the sections entitled " <i>The Mortgages</i> " and " <i>The Warehouse</i> " for further information
Administrators	Paragon Mortgages (2010) Limited	51 Homer Road Solihull West Midlands B91 3QJ	Administration Agreement See the section entitled " <i>Mortgage Administration</i> " for further information
	Paragon Bank plc	51 Homer Road Solihull West Midlands B91 3QJ	

¹ On the Closing Date and on any Further Sale Date during the Further Sale Period

² On any Further Sale Date during the Further Sale Period.

³ In respect of (a) the PFFL Mortgages and certain of the PML Mortgages in the Closing Date Mortgage Portfolio and (b) Additional Mortgages in respect of which PML is the Seller.

⁴ In respect of (a) certain of the PML Mortgages in the Closing Date Mortgage Portfolio and (b) Additional Mortgages in respect of which Paragon Bank is the Seller.

Transaction Party	Name	Address	Document under which appointed/Further information
Substitute Administrator	Homeloan Management Limited	The Pavilions, Bridgwater Road, Bristol BS13 8AE	Substitute Administrator Agreement See the section entitled " <i>Mortgage Administration</i> " for further information
Substitute Administrator Facilitator	Intertrust Management Limited	35 Great St. Helen's London EC3A 6AP	Substitute Administrator Facilitator Agreement See the section entitled " <i>Mortgage Administration</i> " for further information
Intertrust Corporate Services Provider	Intertrust Management Limited	35 Great St. Helen's, London EC3A 6AP	Intertrust Corporate Services Agreement See the section entitled " <i>The Issuer</i> " for further information
Paragon Corporate Services Provider	Paragon Mortgages (2010) Limited	51 Homer Road Solihull West Midlands B91 3QJ	Paragon Corporate Services Letter See the section entitled " <i>The Issuer</i> " for further information
Issue Services Provider	Paragon Finance PLC	51 Homer Road Solihull West Midlands B91 3QJ	Issue Services Fee Letter See the section entitled " <i>Key Structural Features</i> " for further information
Initial Basis Hedge Provider	Lloyds Bank plc	10 Gresham Street, London EC2V 7AE	Initial Basis Hedge Agreement See the sections entitled " <i>Key Structural Features</i> ", " <i>Hedging Arrangements – Interest rate basis hedging arrangements</i> " and " <i>The Basis Hedge Provider</i> " for further information
Account Bank	Citibank, N.A., London Branch	Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB	N/A
PML Collection Account Bank	Barclays Bank PLC	London Corporate Banking Centre, PO Box No 554, London, EC3P 3AH	N/A
PB Collection Account Bank	NatWest Bank plc	4 High Street, Solihull West Midlands B91 3TF	N/A

Transaction Party	Name	Address	Document under which appointed/Further information
Trustee	Citicorp Trustee Company Limited	Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB	Trust Deed and Deed of Charge See the section entitled " <i>Terms and Conditions of the Notes</i> " for further information
Principal Paying Agent	Citibank, N.A., London Branch	Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB	Agency Agreement See the section entitled " <i>Terms and Conditions of the Notes</i> " for further information
Registrar	Citibank, N.A., London Branch	Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB	Agency Agreement See the section entitled " <i>Terms and Conditions of the Notes</i> " for further information
Class S VFN Registrar	Paragon Mortgages (2010) Limited	51 Homer Road Solihull West Midlands B91 3QJ	Agency Agreement See the section entitled " <i>Terms and Conditions of the Notes</i> " for further information
Arrangers	Lloyds Bank plc	25 Gresham Street, London EC2V 7HN	N/A
	Morgan Stanley & Co. International plc	25 Cabot Square, Canary Wharf, London E14 4QA	N/A
Joint Lead Managers	Lloyds Bank plc	25 Gresham Street, London EC2V 7HN	Subscription Agreement See the section entitled " <i>Subscription and Sale</i> " for further information
	Merrill Lynch International	2 King Edward Street London EC1A 1HQ	Subscription Agreement See the section entitled " <i>Subscription and Sale</i> " for further information
	Morgan Stanley & Co. International plc	25 Cabot Square, Canary Wharf, London E14 4QA	Subscription Agreement See the section entitled " <i>Subscription and Sale</i> " for further information
Holdings	Paragon Mortgages (No.25) Holdings Limited	51 Homer Road Solihull West Midlands B91 3QJ	See the sections entitled " <i>Diagrammatic Overview of the Ownership Structure</i> " and " <i>Holdings</i> " for further information

Transaction Party	Name	Address	Document under which appointed/Further information
Share Trustee	Intertrust Corporate Services Limited	35 Great St. Helen's, London EC3A 6AP	See the section entitled " <i>Diagrammatic Overview of the Ownership Structure</i> " for further information

RISK FACTORS

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

Credit Structure

The Notes solely obligations of the Issuer

The Notes will be solely the obligations of the Issuer. The Notes will not be the obligations or the responsibility of PFPLC, the Sellers, the Legal Title Holders, the Administrators, the Warehouse, PBG, any other company in the same group of companies as PBG, the Trustee, any Joint Lead Manager or any other person other than the Issuer. Furthermore, none of PFPLC, the Sellers, the Legal Title Holders, the Warehouse, the Administrators, PBG, the Trustee and the Joint Lead Managers nor any person other than the Issuer will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes. The Notes will not be guaranteed by any person.

Funds available to the Issuer

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

Limited recourse

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

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

Deferral of interest payments on the Notes

If, on any Interest Payment Date, the Issuer has insufficient funds to make payment in full of: (a) all amounts of Normal Interest payable in respect of any class of Notes (other than the Class A Notes (or, should they be the Most Senior Class of Notes, the other classes of Notes)); or (b) all amounts of Deferred Interest or, as the case may be, Additional Interest payable in respect of any class of Notes (other than the Class A Notes) in each case after having paid or provided for items of higher priority in the Revenue Priority of Payments, then that amount shall not be due and payable and the Issuer will be entitled under Condition 4(b) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date and it shall not constitute an Event of Default. To the extent that there are insufficient funds on the following Interest Payment Date, the deferral of interest shall continue until the first date upon which the whole Principal Liability Outstanding in respect of the relevant class of Notes becomes due for redemption

or, in the case of payment of Normal Interest only, on the date, if earlier, when such class of Notes becomes the Most Senior Class of Notes.

Credit Risk

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

Liquidity Risk

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

Subordination of the Class B Notes, the Class C Notes, the Class D Notes, the Class Z Notes, the Class S Notes, the Class S VFN and the Residual Certificates

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

- (i) the Class S VFN is subordinated at all times in right of payment of interest and principal to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes (together, the "**Rated Notes**"), the Class Z Notes and the Class S Notes (save that principal may be repaid in respect of the Class S VFN at any time pursuant to item (xxiv) of the Revenue Priority of Payments) and, on and following the Step-Up Date, Available Revenue will be applied to payments of principal on the Rated Notes prior to payment of interest on the Class S VFN (and any repayment of principal in respect of the Class S VFN pursuant to item (xxiv) of the Revenue Priority of Payments);
- (ii) the Class S Notes are subordinated at all times in right of payment of interest and principal to the Class A Notes, the Class B Notes and the Class C Notes, the Class D Notes and the Class Z Notes (save that principal may be repaid in respect of the Class S Notes at any time pursuant to item (xxii) of the Revenue Priority of Payments, subject to such principal payment not reducing the Principal Liability Outstanding of the Class S Notes below the aggregate of the General Reserve Fund Required Amount and the Class A and Class B Liquidity Reserve Fund Required Amount on the relevant Interest Payment Date) and, on and following the Step-Up Date, Available Revenue will be applied to payments of principal on the Rated Notes prior to payment of interest on the Class S Notes and any repayment of principal in respect of the Class S Notes pursuant to item (xxii) of the Revenue Priority of Payments;
- (iii) the Class Z Notes are subordinated at all times in right of payment of interest and principal to the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes and on and following the Step-Up Date, Available Revenue will be applied to payments of principal on the Rated Notes prior to payment of interest on the Class Z Notes;
- (iv) the Class D Notes are subordinated in right of payment of interest and principal to the Class A Notes, the Class B Notes and the Class C Notes;
- (v) the Class C Notes are subordinated in right of payment of interest and principal to the Class A Notes and the Class B Notes; and
- (vi) the Class B Notes are subordinated in right of payment of interest and principal to the Class A Notes.

Further, investors in (a) the Class B Notes should be aware that in certain circumstances Available Revenue will be applied to credit the Principal Deficiency Ledger prior to the payment of interest on the Class B Notes, (b) the Class C Notes and the Class D Notes should be aware that in certain circumstances Available Revenue will be applied to credit the Principal Deficiency Ledger and top up the Class A and Class B

Liquidity Reserve Fund prior to the payment of interest on the Class C Notes and the Class D Notes and (c) the Class Z Notes, the Class S Notes and the Class S VFN should be aware that Available Revenue will be applied to credit the Principal Deficiency Ledger, top up the Class A and Class B Liquidity Reserve Fund, top up the General Reserve Fund, top up the Mortgage MRF Discretionary Fund and the Conversion MRF Discretionary Fund and pay the Hedge Provider Subordinated Amounts and Withholding Compensation Amounts and certain other fees, expenses and provisions of the Issuer, prior to the payment of interest on the Class Z Notes, the Class S Notes and the Class S VFN (see further the sections entitled "*Key Structural Features*" and "*Cashflows and Cash Management*").

The RC1 Residual Certificates rank *pro rata* and *pari passu* without preference or priority among themselves in relation to RC1 Payments at all times and the RC2 Residual Certificates rank *pro rata* and *pari passu* without preference or priority among themselves in relation to RC2 Payments at all times, and are subordinate to all payments due in respect of the Notes, as provided in the terms and conditions of the Residual Certificates and the Relevant Documents.

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

Interest rate risk

The Issuer is subject to:

- the risk of the contractual interest rates on the Mortgages (including Mortgages with a fixed rate of interest and rates of interest linked to the relevant Legal Title Holder's standard variable rate or, as the case may be, LIBOR deposits (or any replacement rate as determined by an Administrator in the event that the rate for the three-month London Inter-Bank Offered Rate for GBP deposits is discontinued or becomes unavailable)) being lower than that required by the Issuer in order to meet its commitments under the Notes and its other obligations, which risk is mitigated (but not obviated) by (a) the fixed-floating swaps under each Basis Hedge Agreement in respect of Fixed Rate Mortgages and (b) the requirement that the interest rate in respect of any Additional Mortgages to be acquired by the Issuer from either Seller on any Further Sale Date, after taking into account any funds made available under the Mortgage Margin Reserve Fund and the Interest Rate Converted Mortgage Release Amounts expected on the immediately following Interest Payment Date, must be set by the relevant Administrator at a rate so that the weighted average rate of interest on all Mortgages (including any Additional Mortgages acquired by the Issuer from either Seller on any Further Sale Date) is a prescribed margin above Mortgage MRF LIBOR (see further "*Setting of rates of interest in respect of the Mortgages*" below and the sections entitled "*Mortgage Administration – Mortgage Interest Rate*" and "*Mortgage Administration – Mortgage Margin Reserve Fund and Mortgage Margin Reserve Fund Ledger Conversion Required Amounts and Conversion Margin Reserve Fund*");
- the risk that any cash held by or on behalf of the Issuer may earn a rate of return below the rate of interest payable on the Notes, which risk is mitigated by (for so long as the Mortgages are fully performing) the availability of excess Available Revenue, which is available to meet payments of interest due under the Notes and the other expenses of the Issuer and the Transaction Account which pays a rate of interest on funds standing to the credit thereof and from which the Issuer (or PML as Administrator on its behalf) may invest sums in Authorised Investments; and
- the notional balance on which the rates payable by the Issuer under the Basis Hedge Agreements are determined by reference to a series of individual hedging transactions which may not match the actual payments received under the Fixed Rate Mortgages. As such, there may be circumstances in which the total scheduled amounts payable by the Issuer under the Basis Hedge Agreements exceed the amount that the Issuer receives in respect of the Fixed Rate Mortgages.

Hedge termination payments

If a Basis Hedge Agreement terminates, the Issuer may be obliged to pay a termination payment to the relevant Basis Hedge Provider. The amount of any such termination payment will be based on the market value of each swap transaction under the relevant Basis Hedge Agreement, computed in accordance with the relevant Basis Hedge Agreement, generally on the basis of market quotations of the cost of entering into a replacement swap transaction with the same terms and conditions that would have the effect of

preserving the respective full payment obligations of the parties, in accordance with the procedures set out in the relevant Basis Hedge Agreement. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment under a Basis Hedge Agreement or that the Issuer, following termination of the relevant Basis Hedge Agreement, will have sufficient funds to make subsequent payments to the Noteholders in respect of the relevant class of Notes.

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

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

Insolvency of Basis Hedge Providers

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

Accordingly, if any of the Notes remain outstanding in circumstances where a Basis Hedge Provider is insolvent and fails to make any payment to the Issuer required under the relevant Basis Hedge Agreement, the Issuer will be subject to the potential variation between the fixed rates of interest payable in respect of the Fixed Rate Mortgages in the Mortgage Portfolio and LIBOR interest payable in respect of the Notes. Unless one or more comparable replacement swaps are entered into, the Issuer may have insufficient funds to make payments due on the Notes after that date.

Yield and prepayment considerations

The yield to maturity of the Notes of each class will depend on, among other things, the amount and timing of payment of principal and interest (including prepayments, sale proceeds arising on enforcement of a Mortgage and any repurchases of Mortgages required to be made under the Mortgage Sale Agreement) on the Mortgages, the amount of Additional Mortgages (if any) purchased by the Issuer during the Further Sale Period and the price paid by the holders of the Notes of each class. Such yield may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the Mortgages. Furthermore (i) if the conditions for the purchase of Additional Mortgages by the Issuer are not met, or, as the case may be, there are no additional Mortgages available for the Sellers to sell to the Issuer, then the Issuer will not be able to purchase such Additional Mortgages, which may result in Available Principal instead being used to repay the Notes early in sequential order and (ii) (in the case where amounts remain standing to the credit of the MFA Pre-Funding Reserve Ledger) if the conditions for the purchase of Mandatory Further Advances by the Issuer are not met, then the Issuer will not be able to purchase such

Mandatory Further Advances, which may result in Available Principal in the form of amounts standing to the credit of the MFA Pre-Funding Reserve Ledger instead being used to repay the Notes early in sequential order on the Step-Up Date or on such earlier Interest Payment Date which PML as Administrator may decide at its discretion (taking into account the level of redemptions in respect of the Mortgages in the Mortgage Portfolio); and (iii) if the conditions for the purchase of Mandatory Further Advances (in the case where no amounts remain standing to the credit of the MFA Pre-Funding Reserve Ledger) by the Issuer are not met, then the Issuer will not be able to purchase such Mandatory Further Advances, which may result in Available Principal instead being used to repay the Notes in sequential order on each Interest Payment Date at a higher than anticipated rate. See also "*Risk Factors – Further Advances*" and "*Mortgage Administration – Further Advances*".

No assurance can be given as to the level of prepayments that the Mortgage Portfolio will experience. See also the section entitled "*The Mortgages – Acquisition of Mortgages*".

In addition, investors in the Class A Notes should note that repayment of the Class A Notes to the Class A Target Notional on each Interest Payment Date during the Further Sale Period will depend on, amongst other things, the availability of Principal Receipts and ultimately the amount of Available Redemption Funds during the Further Sale Period as well as the ability of the Sellers to originate Additional Mortgages which may be acquired by the Issuer. Failure by the Issuer to repay the Class A Notes to the Class A Target Notional (whether due to underpayment or, as the case may be, an overpayment of principal through the application of the Retained Principal Release Amount) shall not constitute an Event of Default under the Class A Notes.

Ratings of the Notes

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

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

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

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

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

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

Whilst central bank schemes such as the Bank of England's Discount Window Facility, the Extended Collateral Term Repo Facility, the Funding for Lending Scheme. The Term Funding Scheme and the Eurosystem monetary policy framework of the European Central Bank provide an important source of liquidity in respect of eligible securities, the relevant eligibility criteria for eligible collateral which apply and will apply in the future under such facilities have become and are expected to continue to become more restrictive, which is likely to adversely impact secondary market liquidity for mortgage-backed securities in general, regardless of whether the Notes are eligible securities for the purpose of such facilities. No assurance is given that any class of Notes will be eligible for any specific central bank liquidity schemes.

Market Disruption

The Rate of Interest in respect of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class Z Notes, the Class S Notes and the Class S VFN for each Interest Period will be the arithmetic mean of the Reference Quotations for three-month Quotation Deposits (other than in respect of the first Interest Period, in which case the Rate of Interest will be determined by reference to the linear interpolation of the arithmetic mean of the Reference Quotations for three month Quotation Deposits and six month Quotation Deposits) plus 0.65% up to and excluding the Step-Up Date and thereafter 0.975% (in the case of the Class A Notes), 0.95% up to and excluding the Step-Up Date and thereafter 1.425% (in the case of the Class B Notes), 1.30% up to and excluding the Step-Up Date and thereafter 1.95% (in the case of the Class C Notes), 1.60% up to and excluding the Step-Up Date and thereafter 2.40% (in the case of the Class D Notes), 2.60% (in the case of the Class Z Notes), 4.0% (in the case of the Class S Notes) and 4.0% (in the case of the Class S VFN) determined in accordance with Condition 4(c) (*Rate of Interest*). Condition 4(c) (*Rate of Interest*) contains provisions for the calculation of such underlying rates, in respect of the Notes, based on rates given by various market information sources and Condition 4(c) (*Rate of Interest*) contains an alternative method of calculating the underlying rate should any of those market information sources, including the Reference Screen, be unavailable. The market information sources might become unavailable for various reasons, including suspensions or limitations on trading, events which affect or impair the ability of market participants in general, or early closure of market institutions. These could be caused by physical threats to the publishers of the market information sources, market institutions or market participants in general, or unusual trading, or matters such as currency changes. Prospective investors should be aware that these events could have a material adverse effect on the value of and return on the Notes

Risks relating to the discontinuation of LIBOR

The interest rate to be borne by the Notes will be determined by reference to the LIBOR. LIBOR rates are the subject of ongoing national and international regulatory reform by, amongst others, the British Bankers' Association, the ICE Benchmark Administration Limited and the UK Financial Conduct Authority (the "FCA"). Following the implementation of any reforms, the manner of administration and determination of LIBOR may change, with the result that LIBOR may perform differently from how it performed in the past, it could be eliminated entirely, and/or there could be other consequences which cannot be predicted.

Additionally, the sustainability of LIBOR has been questioned by the FCA as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017 the chief executive of the FCA announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. These reforms and other pressures may cause one or more interest rate benchmarks to disappear entirely, to perform differently than in the past (as a result of a change in methodology or otherwise), create disincentives for market participants to continue to administer or participate in certain benchmarks or have other consequences which cannot be predicted.

In particular, potential investors should be aware that:

- (i) any of these reforms or pressures described above or any other changes to a relevant interest rate benchmark (including LIBOR) could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be;
- (ii) if LIBOR is discontinued or otherwise unavailable and an amendment as described in paragraph (iv) below has not been made, then the rate of interest on the Notes will be determined for a period

by the fall-back provisions provided for under Condition 4(c)) (*Rate of Interest*), although (as described in "*Market Disruption*" above) such provisions, being dependent in part upon the provision by Reference Banks of offered quotations for the LIBOR rate, may not operate as intended (depending on market circumstances and the availability of rates information at the relevant time) and may result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available;

- (iii) the rate of interest on the Mortgage Loans may be determined for a period by any applicable fall-back provisions under the relevant Mortgage Conditions, although such provisions may not operate as intended (depending on market circumstances and the availability of rates information at the time); and
- (iv) while an amendment may be made under Condition 15 (*Base Rate Modification*) to change the LIBOR rate on the Notes to an alternative base rate under certain circumstances broadly related to LIBOR disruption or discontinuation and subject to certain conditions including no objection to the proposal being received by at least 10 per cent. of Noteholders of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding (in this regard please also refer to the risk factor above entitled "*Meetings of Noteholders, Modifications and Waiver*"), there can be no assurance that any such amendment will be made or, if made, that it will (i) fully or effectively mitigate interest rate risks or result in an equivalent methodology for determining the interest rates on the Notes or (ii) be made prior to any date on which any of the risks described in this risk factor may become relevant.

Investors should note the various circumstances under which a Base Rate Modification may be made which are specified in sub-paragraphs (1) to (8) of Condition 15(a)(iv) (*Base Rate Modification*). As noted above these events broadly relate to LIBOR's disruption or discontinuation, but also include, *inter alia*, any public statements by the LIBOR administrator or its supervisor to that effect, and a Base Rate Modification may also be made if PML as Administrator reasonably expects any of these events to occur within six months of the proposed effective date of such Base Rate Modification. Investors should also note the various options permitted as an Alternative Base Rate as set out in sub-paragraphs (1) to (5) of Condition 15(a)(v) (*Base Rate Modification*), which include, *inter alia*, a base rate utilised in a publicly-listed new issue of Sterling-denominated asset backed floating rate notes where the originator of the relevant assets is one of the Sellers or an affiliate of the Sellers or such other base rate as the PML as Administrator reasonably determines.

The potential elimination of LIBOR or any other benchmark, changes in the manner of administration of any benchmark, establishment of alternative reference rates and any other LIBOR reforms could require adjustments to be made to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark. Prospective investors should be aware that these consequences could have a material adverse effect on the marketability of the Notes or on the value of and return on the Notes.

If LIBOR or any other relevant interest rate benchmark is discontinued, and whether or not an amendment is made under Condition 15 (*Base Rate Modification*) to change the base rate with respect to the Notes as described in the section entitled "*Meetings of Noteholders, Modification and Waiver*", there can be no assurance that either (i) any modifications the Issuer agrees to make to the Basis Hedge Agreement to change the base rate pursuant to Clause 22.3(d) of the Trust Deed; or (ii) if the Issuer fails to make such modifications under (i), the applicable fall-back provisions under the Basis Hedge Agreement, would operate to allow the transactions under the Basis Hedge Agreement to effectively mitigate interest rate risk in respect of the Notes.

In addition, it should be noted that broadly divergent interest rate calculation methodologies may develop and apply as between the Mortgage Loans, the Notes and/or the Basis Hedge Agreement due to applicable fall-back provisions or other matters and the effects of this are uncertain but could include a reduction in the amounts available to the Issuer to meet its payment obligations in respect of the Notes.

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

Although interest rates are currently at a historical low, this may change in the future and an increase in interest rates may adversely affect borrowers' ability to pay interest or repay principal on their Mortgages. Borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the

related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, will be exposed to increased monthly payments if the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). This increase in borrowers' monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, may result in higher delinquency rates and losses in the future.

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

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

Matters relating to the Mortgages

Default by borrowers in paying amounts due on their Mortgages

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

On 8 July 2015, the UK Government announced plans to restrict the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax. Such restrictions will be introduced progressively over a period of four years from 6 April 2017, such that the full impact will not be felt until 2020. Prior to December 2016, the Sellers did not grant mortgage loans based on the borrowers' net tax position but rather on the basis of expected rental income in respect of the property (and in some cases additional income). From 1 January 2017, the Prudential Regulation Authority (the "**PRA**") under the Bank of England required all lenders to apply minimum affordability requirements to new buy-to-let mortgage applications. This takes into account the impact of the changes to the taxation of rental income, the costs the landlord might incur in letting the property and the impact of future changes in interest rates. As part of the underwriting process, Paragon assesses the applicants' tax status, which determines the appropriate interest coverage ratio for the relevant property type. For further details, please refer to the Lending Guidelines. In addition, borrowers have a range of strategies available to mitigate the impact of such income tax relief changes. These may include increasing rents at the end of a tenancy agreement (subject to the market rates applicable to rental properties in the specific location of the property), transferring borrowings to a limited company, applying for a lower cost product, reducing the value of their loan, or ultimately selling the property. However, there can be no assurance that the restrictions on income tax relief outlined above may not adversely affect the ability of individual borrowers of buy-to-let mortgage loans to meet their obligations under those mortgage loans.

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

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

Limited liquidity – Mortgages

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

Setting of rates of interest in respect of the Mortgages

Each Administrator will, on behalf of the Issuer set, where relevant, the rates of interest applicable to the Mortgages, other than: (a) Fixed Rate Mortgages and LIBOR-Linked Mortgages during the applicable initial fixed rate period or the LIBOR based initial margin period (each such initial fixed rate period or, as the case may be, LIBOR based initial margin period and including in the case of any Discretionary Further Advance (the "**Reversionary Period**"). In order for the Issuer to acquire Additional Mortgages from either Seller on any Further Sale Date, each Administrator must ensure that either: (x) the weighted average interest rate applicable to the Current Balance of all Mortgages in the Mortgage Portfolio (including any Additional Mortgages acquired on such Further Sale Date) after taking into account any Basis Hedge Agreements and the Interest Rate Converted Mortgage Release Amounts expected on the immediately following Interest Payment Date is not less than Mortgage MRF LIBOR plus 3 per cent. or (y) if such weighted average interest rate is less than Mortgage MRF LIBOR plus 3 per cent, the amount standing to the credit of the Mortgage Margin Reserve Fund on such Further Sale Date is equal to or greater than the Adjusted Mortgage MRF Required Amount.

In respect of Fixed Rate Mortgages, each Administrator is unable to vary the rate of interest during the initial fixed rate period set out in the relevant Mortgage Conditions. In respect of LIBOR-Linked Mortgages, the interest rate during the LIBOR based initial margin period is set at a fixed margin over the London Interbank Offered Rate for three-month GBP deposits (determined quarterly in accordance with the Mortgage Conditions). Therefore, each Administrator is unable to vary the rate of interest in the case of the LIBOR-Linked Mortgages during the LIBOR based initial margin period. As a result, the Issuer may be exposed to the risk of an adverse interest differential between the rate of interest receivable in respect of the Fixed Rate Mortgages and the LIBOR-Linked Mortgages, on the one hand, and the rate of interest payable on the Notes on the other.

In relation to any Fixed Rate Mortgages that are acquired by the Issuer, the Issuer will on the Closing Date and on any date during the Further Sale Period on which the Issuer acquires Fixed Rate Mortgages have entered into hedging arrangements relating thereto. In addition, certain conditions apply in respect of the length of any Reversionary Period applicable to a Mortgage. In particular, any purchase of Additional Mortgages on a Business Day during the Further Sale Period by the Issuer will be subject to (amongst other things) the remaining fixed rate period applicable to each Additional Mortgage that is a Fixed Rate Mortgage being not be longer than 5 years and 6 months as at the relevant Further Sale Date and the reversionary interest rate of the relevant Additional Mortgage being either (i) three month LIBOR plus a variable margin which is equal to or greater than 4.5 per cent. or (ii) the relevant Legal Title Holder's standard variable rate.

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

In view of the arrangements for setting Mortgage rates and in view of the Class A and Class B Liquidity Reserve Fund, the General Reserve Fund, the Mortgage Margin Reserve Fund and Conversion Margin Reserve Fund, the terms and conditions of the Notes provide that it will be an Event of Default if one or more interest payments on any class of Notes (other than in respect of Normal Interest payable to the Most

Senior Class of Notes then outstanding) is or are missed or not paid in full only where the Trustee has issued a certificate based on information provided to it by the Administrators or Substitute Administrator to the effect that the Issuer had sufficient funds available for the purpose but did not pay. The terms and conditions of the Notes provide that it will be an Event of Default if one or more payments of Normal Interest on the Most Senior Class of Notes is or are missed or not paid in full in any circumstances.

Representations and Warranties

Each Seller will warrant in the Mortgage Sale Agreement, among other things, that, prior to making the initial advance to a borrower under a Mortgage sold by that Seller to the Issuer, the relevant originator received from solicitors or licensed conveyancers acting for it a report on title or certificate of title to the relevant Property which either initially or after further investigation disclosed nothing which would cause a reasonably prudent lender to decline to proceed with the initial advance on the proposed terms or, where the mortgage loan made in relation to a Property is secured by a Mortgage which was made without there being a contemporaneous purchase of such Property by the borrower, carried out all such investigations and searches as would a reasonably prudent mortgage lender and nothing which would cause such a mortgage lender to decline to proceed with the advance on the proposed terms was disclosed. Except as described under the section entitled "*The Mortgages Searches and Warranties in respect of the Mortgages*", neither the Issuer nor the Trustee has undertaken or will undertake any such investigations, searches or other actions in relation to the Mortgages and each will rely instead on the warranties given in the Mortgage Sale Agreement by the Sellers. In addition, no other transaction parties, including the Joint Lead Managers and the Arrangers, have independently verified the warranties. For further information on the representations and warranties to be given by each Seller in respect of the Mortgages sold by it to the Issuer, see "*The Mortgages – Searches and Warranties in respect of the Mortgages*" below.

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

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

Perfection of title

On the Closing Date, PML will purchase the beneficial interest in certain of the Mortgages in the Closing Date Mortgage Portfolio from the Warehouse and then (also on the Closing Date) PML will sell such Mortgages as well as the other Mortgages that comprise the Closing Date Mortgage Portfolio (in respect of which PML already has the beneficial interest) to the Issuer. The Mortgages in the Closing Date Mortgage Portfolio have been originated by PML.

During the Further Sale Period, either PML and/or Paragon Bank may sell the beneficial interest in Additional Mortgages to the Issuer. The originator of an Additional Mortgage will be the relevant Seller of such Mortgage to the Issuer (see the section "*The Mortgages - Acquisition of Mortgages*" below).

Legal title to the Mortgages in the Closing Date Mortgage Portfolio to be sold by PML to the Issuer will be held by either PML (in respect of (a) the Mortgages being acquired by PML from the Warehouse prior to the sale to the Issuer and (b) certain of the Mortgages to which PML already has beneficial title) or Paragon Bank (in respect of the remaining Mortgages in the Closing Date Mortgage Portfolio to which PML already has beneficial title). Legal title to any Additional Mortgages sold to the Issuer by either Seller during the Further Sale Period will be held by either PML or Paragon Bank.

Each Issuer's title to the Mortgages it acquires from the relevant Legal Title Holder will only be perfected in certain circumstances by the execution of transfers and assignments of Mortgages by such Legal Title Holder to the Issuer, the carrying out of requisite registrations and recordings and the giving of notice to any borrower or guarantor. In the meantime, neither the Issuer nor the Trustee will acquire legal title to

any of the Mortgages and they will not be able to apply to the Land Registry or the Central Land Charges Registry to register transfers or assignments of the Mortgages to perfect and/or protect their interests. Neither the Issuer nor the Trustee will be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages.

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

Risks of losses associated with declining property values

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

Investors should be aware that, other than the valuation of properties undertaken as at origination or revaluation of the relevant properties for the purposes of making Further Advances (as more fully described in the section entitled "*Mortgage Administration*"), no revaluation of any property has been undertaken by the Sellers, the Issuer, the Administrators, the Trustee or any other person for the purposes of the transactions described in this document.

Risks associated with non-owner occupied Properties

None of the Properties relating to the Mortgages in the Provisional Mortgage Pool are owner occupied (see "*The Provisional Mortgage Pool – Occupancy*" below). None of the Properties relating to Additional Mortgages to be sold to the Issuer, if applicable, may be owner occupied. It is intended that the Properties will be let by the relevant borrower to tenants but there can be no guarantee that each such Property will be the subject of an existing tenancy when the relevant Mortgage is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Mortgage and/or that the rental income achievable from tenancies of the relevant Property will be sufficient to provide the borrower with sufficient income to meet the borrower's interest obligations in respect of the Mortgage.

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

Risk of losses associated with Interest-only Mortgages

Approximately NIL per cent. by value of the Mortgages in the Provisional Mortgage Pool constitute Interest-only Mortgages and a further 91.85 per cent. by value of Mortgages in the Provisional Mortgage Pool constitute Optional Repayment Mortgages (each as defined in the section entitled "*The Mortgages*"). Interest-only Mortgages are originated with a requirement that the borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest-only Mortgage, the borrower will be required to make a "*bullet*" payment that will represent the entirety of the principal amount outstanding. The ability of such a borrower to repay an Interest-only Mortgage at maturity frequently may depend on such borrower's ability to sell the Property, refinance the

Property or obtain funds from another source such as individual savings accounts, a pension policy, personal equity plans or an endowment policy. Neither the Issuer, the Trustee, the Sellers, the Administrators, the Warehouse nor the Legal Title Holders have verified that the borrower has any such other source of funds and none of them has obtained security over the borrower's right in respect of any such other source of funds. The ability of a borrower to sell or refinance the Property will be affected by a number of factors, including the value of the Property, the borrower's equity in the Property, the financial condition of the borrower, tax laws and general economic conditions at the time. Moreover, the Mortgage Conditions in respect of Interest-only Mortgages do not require a borrower to put in place alternative funding arrangements.

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

Geographic Concentration Risks

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

Additional Mortgages

Any Additional Mortgage, if applicable, is required as at the date of its acquisition by the Issuer to comply with the representations and warranties specified in the Mortgage Sale Agreement and the acquisition of any Additional Mortgage is subject to compliance with the Mortgage Sale Agreement, the Administration Agreement and the Additional Mortgage Conditions. However, there can be no certainty that all Additional Mortgages acquired by the Issuer will have similar proportions or similar concentration characteristics as set out in the tables in the section entitled "*The Provisional Mortgage Pool*" below in relation to the Mortgages constituting the Provisional Mortgage Pool. If during the Further Sale Period the amount standing to the credit of the Retained Principal Ledger exceeds the Maximum Principal Retained Amount on any Principal Determination Date immediately preceding an Interest Payment Date, PML, as Administrator shall be required to apply amounts standing to the credit of the Retained Principal Ledger in excess of the Maximum Principal Retained Amount to repay principal amounts in respect of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes in sequential order. On the occurrence of the Further Sale Period End Date, PML as Administrator will transfer all amounts standing to the credit of the Retained Principal Ledger for application as Available Principal on the next following Interest Payment Date. See "*The Mortgages – Acquisition of Mortgages*" and "*The Mortgages – Searches and Warranties in respect of the Mortgages*" for conditions applicable to the acquisition of Additional Mortgages by the Issuer.

Buildings insurance

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

Other matters

Third party rights

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

Set-off risk in relation to Mandatory Further Advances and Borrower deposits

The Issuer expects to fund Mandatory Further Advances to be made by either PML or Paragon Bank (as Legal Title Holders) for any given period from firstly amounts standing to the credit of the MFA Pre-Funding Reserve from the moneys referred to in paragraph 5(a)(i) of the definition of "Available Redemption Funds" in Condition 5(a) – *Mandatory Redemption in part from Available Redemption Funds*. In respect of certain of the Mortgages, Mandatory Further Advances are required to be made to borrowers (see "*Mortgage Administration – Further Advances*" below). The Issuer may not, however, receive sufficient funds to meet the amounts of Mandatory Further Advances it is required to make.

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

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

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

In addition, a right of independent set-off could arise where the relevant borrower has, on the Closing Date or the relevant Further Sale Date (in respect of any Additional Mortgage), a deposit account with Paragon Bank or a borrower opens a deposit account with Paragon Bank following the Closing Date or the relevant Further Sale Date. In such circumstances, the borrower in the event of the insolvency of Paragon Bank, may be able to set-off any amounts held in the relevant deposit account against amounts owed by the borrower pursuant to a Mortgage entered into with Paragon Bank (so long as Paragon Bank is the Legal Title Holder). The giving of notice to the borrower would crystallise the borrower's entitlement to set-off amounts as of the date of receipt of the relevant notice.

Banks, insurance companies and other financial institutions in the UK are subject to the Financial Services Compensation Scheme (the "FSCS") which gives customers protection where an authorised firm is unable or is likely to be unable to meet claims against it because of its financial circumstances. It is expected that most deposits made by borrowers with Paragon Bank will be covered by the FSCS which gives the Borrower protection up to the FSCS limit (as at the date of this Prospectus being £85,000). In addition, it is a condition for any sale of Additional Mortgages by either Seller to the Issuer that on each Further Sale

Date, Additional Mortgages which are Paragon Bank Depositor Mortgages may only be purchased by the Issuer where the sum of all Paragon Bank Mortgage Excess Amounts in respect of all Paragon Bank Depositor Mortgages in the Mortgage Portfolio together with the Additional Mortgages to be purchased on such Further Sale Date does not exceed 0.50 per cent. of the Current Balance of all Mortgage Loans in the Mortgage Portfolio together with the Additional Mortgages to be purchased on such Further Sale Date.

Notwithstanding, the potential availability of recourse to the FSCS by borrowers in conjunction with limb (w) of the Additional Mortgage Conditions, the exercise of set-off rights by borrowers may adversely affect the realisable value of the Mortgage Portfolio and/or the ability of the Issuer to make payments under the Notes.

Relationship between classes of Noteholders and Residual Certificateholders

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Noteholders and the Residual Certificateholders equally as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the holders of the Most Senior Class of Notes and if there are no Notes outstanding, the Most Senior Class of Residual Certificates if, in the Trustee's opinion, there is a conflict between the interests of holders of different classes of Notes and/or Residual Certificates.

Meetings of Noteholders, modification and waiver

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

The Trust Deed provides that, without the consent of the Noteholders and/or Residual Certificateholders, the Trustee may:

- (a) concur with the Issuer in making any modification to the Conditions, the Residual Certificates Conditions or the Relevant Documents (i) which, in the opinion of the Trustee, is of a formal, minor or technical nature, or is to correct a manifest error or (ii) (other than a Basic Terms Modification) which, in the opinion of the Trustee, will not be materially prejudicial to the interests of the Noteholders and/or Residual Certificateholders;
- (b) authorise or waive, on such terms and conditions (if any) as it may decide, any proposed breach or breach of any Relevant Document, if in the Trustee's opinion, the interests of the Noteholders and Residual Certificateholders will not be materially prejudiced thereby; and
- (c) determine that any Event of Default or any condition, event or act which with the giving of notice and/or lapse of time and/or the issue of a certificate would constitute an Event of Default shall not be treated as such,

provided always that the Trustee shall not exercise any powers under paragraphs (b) or (c) above in contravention of any express direction given by an Extraordinary Resolution or by a request under Condition 9 (*Events of Default*) or Residual Certificates Condition 8 (*Prescription*) (being, in the case of a direction or request of the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class Z Noteholders, the Class S Noteholders, the Class S VFN Holder, the RC1 Residual Certificateholders or the RC2 Residual Certificateholders) a request or direction which is binding on the Trustee in accordance with the terms of the Trust Deed) (but no such direction or request shall affect any authorisation, waiver or determination previously given or made).

The Trustee shall be obliged, without any consent or sanction of the Noteholders or Residual Certificateholders, or (subject to the receipt of consent from any of the Secured Creditors party to the Relevant Document being modified) any of the other Secured Creditors, to concur with the Issuer in making any modification (other than in respect of a Basic Terms Modification) to the Conditions and/or the Residual Certificates Conditions and/or any other Relevant Document that the Issuer considers necessary for the purpose of (i) complying with, or implementing or reflecting, any change in the criteria of one or

more of the Rating Agencies which may be applicable from time to time, (ii) enabling the Issuer and/or the Basis Hedge Providers to comply with (x) any obligation which applies to it under Articles 9, 10 and 11 of Regulation (EU) 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012 (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from relevant supervisory regulators) ("**EMIR**") or (y) any other obligation which applies to it under EMIR, (iii) complying with certain risk retention legislation, regulations or official guidance in relation thereto, (iv) enabling the Notes (other than the Class S VFN) to be (or to remain) listed on the London Stock Exchange, (v) enabling the Issuer or any other Transaction Party to comply with Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code ("**FATCA**") (or any voluntary agreement entered into with a taxing authority in relation thereto), (v) complying with any changes in the requirements of the CRA Regulation or regulations or official guidance in relation thereto after the Closing Date and (vii) enabling the Issuer (or PML as Administrator on its behalf) to transfer (x) the Transaction Account from the Account Bank to HSBC Bank plc, Barclays Bank PLC or Wells Fargo Bank, N.A. (y) the PML Collection Account from the Collection Account Bank to HSBC Bank plc; or (z) the PB Collection Account from NatWest Bank PLC to Barclays Bank PLC or HSBC Bank plc provided that, in each case, the Issuer (or PML as Administrator on its behalf) certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect and that the conditions for such transfer stipulated in the Administration Agreement have been satisfied, (each of (i) to (vii) above, a "**Proposed Amendment**"), without the consent of Noteholders or Residual Certificateholders.

In the case of a Proposed Amendment, the Issuer (or PML as Administrator on its behalf) shall certify to the Trustee in writing that such modification is required solely for such purpose provided that (a) at least 30 calendar days' prior written notice of any such proposed modification has been given to the Trustee; (b) such certificate in relation to such modification shall be provided to the Trustee both at the time the Trustee is notified of the proposed modification and on the date that such modification takes effect; and (c) the consent of each Secured Creditor (other than any Noteholder or Residual Certificateholder) which is party to the Relevant Document has been obtained.

In relation to any such Proposed Amendment (other than (ii)(x), (ii)(y) or (vii) as specified above), the Issuer is required to give at least 30 calendar days' notice to the Noteholders of each Class of the proposed modification in accordance with Condition 12 (*Notices*) and Residual Certificates Condition 12 (*Notices*) and by publication on Bloomberg on the "Company News" screen relating to the Notes and Residual Certificates. However, Noteholders and Residual Certificateholders should be aware that, in relation to each such Proposed Amendment, if Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes, or if there are no Notes outstanding, Residual Certificateholders representing at least 10 per cent. of the number of the Most Senior Class of Residual Certificates, have not contacted the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within such notification period notifying the Issuer that such Noteholders do not consent to the modification, the modification will be passed without Noteholder consent.

If in respect of a Proposed Amendment (other than (ii)(x), (ii)(y) or (vii) as specified above) Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes, or if there are no Notes outstanding, Residual Certificateholders representing at least 10 per cent. of the number of the Most Senior Class of Residual Certificates, have notified the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes and Residual Certificates may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes or Residual Certificates (as applicable) then outstanding is passed in favour of such modification in accordance with Condition 13 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*) or Residual Certificates Condition 12 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*).

The Trustee shall also be obliged, without any consent or sanction of the Noteholders or Residual Certificateholders, or (subject to the receipt of consent from any of the Secured Creditors party to the Relevant Document being modified) any of the other Secured Creditors, to concur with the Issuer in making

any modification to the Conditions and/or Residual Certificates Conditions and/or any other Relevant Document that the Issuer considers necessary for the purpose of changing the LIBOR base rate in respect of the Notes to an alternative base rate (an "**Alternate Base Rate**") and making such other amendments to these Conditions or Residual Certificates Conditions or any other Relevant Document as are necessary or advisable in the reasonable judgment of the Issuer to facilitate the changes envisaged (including changing the base rate referred to in any interest rate hedging agreement, for the purpose of aligning any such hedging agreement with the proposed rate modification), provided that, in each case, a number of conditions have been satisfied as specified in Condition 15 (*Base Rate Modification*).

In the case of such amendment, the Issuer (or PML as Administrator on its behalf) shall certify to the Trustee in writing that such modification is required solely for such purpose provided that (a) at least 30 calendar days' prior written notice of any such proposed modification has been given to the Trustee; (b) such certificate in relation to such modification shall be provided to the Trustee both at the time the Trustee is notified of the proposed modification and on the date that such modification takes effect; and (c) the consent of each Secured Creditor (other than any Noteholder and Residual Certificateholder) which is party to the Relevant Document has been obtained.

In relation to any such amendment, the Issuer is required to give at least 30 calendar days' notice to the Noteholders and Residual Certificateholders of each Class of the proposed modification in accordance with Condition 12 (*Notices*) and by publication on Bloomberg on the "Company News" screen relating to the Notes. However, Noteholders and Residual Certificateholders should be aware that, in relation to each such amendment, if Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes, or if there are no Notes outstanding, Residual Certificateholders representing at least 10 per cent. of the number of the Most Senior Class of Residual Certificates, have not contacted the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes and Residual Certificates may be held) within such notification period notifying the Issuer that such Noteholders and Residual Certificateholders do not consent to the modification, the modification will be passed without Noteholder and Residual Certificateholder consent.

If in respect of such amendment Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes, or if there are no Notes outstanding, Residual Certificateholders representing at least 10 per cent. of the number of the Most Senior Class of Residual Certificates, have notified the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes and Residual Certificates may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes or Residual Certificates (as applicable) then outstanding is passed in favour of such modification in accordance with Condition 13 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*) or Residual Certificates Condition 12 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*).

Other than where specifically provided in Condition 14 (*Additional Right of Modification*) or Residual Certificates Condition 13 (*Additional Right of Modification*) or any Relevant Document:

- (a) when implementing any modification pursuant to Condition 14 (*Additional Right of Modification*) or Residual Certificates Condition 13 (*Additional Right of Modification*) (save to the extent the Trustee considers that the proposed modification would constitute a Basic Terms Modification), the Trustee shall not consider the interests of the Noteholders or Residual Certificateholders, any other Secured Creditor or any other person and shall act and rely solely and without further investigation on any certificate or evidence provided to it by the Issuer or the relevant Transaction Party, as the case may be, pursuant to Condition 14 (*Additional Right of Modification*) or Residual Certificates Condition 13 (*Additional Right of Modification*) and shall not be liable to the Noteholders, the Residual Certificateholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and
- (b) the Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Trustee would have the effect of (i) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the

obligations or duties, or decreasing the rights or protection, of the Trustee in the Relevant Documents and/or the Conditions.

The full requirements in relation to the modifications discussed above are set out in Condition 14 (*Additional Right of Modification*), Condition 15 (*Base Rate Modification*), Residual Certificates Condition 13 (*Additional Right of Modification*), and Residual Certificates Condition 13 (*Additional Right of Modification*).

There can be no assurance that the effect of such modifications to the Relevant Documents will not adversely affect the interests of the holders of one or more or all Classes of Notes and Residual Certificates.

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

In addition, the Trustee shall have regard:

- (1) only to the interests of the Class A Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class Z Noteholders, the Class S Noteholders, the Class S VFN Holder, the RC1 Residual Certificateholders and the RC2 Residual Certificateholders;
- (2) only to the interests of the Class B Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class B Noteholders and the interests of the Class C Noteholders, the Class D Noteholders, the Class Z Noteholders, the Class S Noteholders, the Class S VFN Holder, the RC1 Residual Certificateholders and the RC2 Residual Certificateholders;
- (3) only to the interests of the Class C Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class C Noteholders and the interests of the Class D Noteholders, the Class Z Noteholders, the Class S Noteholders, the Class S VFN Holder, the RC1 Residual Certificateholders and the RC2 Residual Certificateholders;
- (4) only to the interests of the Class D Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class D Noteholders and the interests of the Class Z Noteholders, the Class S Noteholders, the Class S VFN Holder, the RC1 Residual Certificateholders and the RC2 Residual Certificateholders;
- (5) only to the interests of the Class Z Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class Z Noteholders and the interests of the Class S Noteholders, the Class S VFN Holder, the RC1 Residual Certificateholders and the RC2 Residual Certificateholders; and
- (6) only to the interests of the Class S Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class S Noteholders and the interests of the Class S VFN Holder, the RC1 Residual Certificateholders and the RC2 Residual Certificateholders;
- (7) only to the interests of the Class S VFN Holder if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class S VFN Holder and the interests of the RC1 Residual Certificateholders and the RC2 Residual Certificateholders;
- (8) prior to the Step-Up Date, only to the interests of the RC1 Residual Certificateholders if, in the Trustee's opinion, there is or may be a conflict between the interests of RC1 Residual Certificateholders and the interests of the RC2 Residual Certificateholders; and
- (9) on or after the Step-Up Date, only to the interests of the RC2 Residual Certificateholders if, in the Trustee's opinion, there is or may be a conflict between the interests of RC2 Residual Certificateholders and the interests of the RC1 Residual Certificateholders.

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

The Trustee shall for all purposes treat the holders of the RC1a Residual Certificates and the RC1b Residual Certificates together as one Class and treat the holders of the RC2a Residual Certificates and the holders of the RC2b Residual Certificates together as one Class (including for the purposes of meetings).

The exercise of the Trustee's powers at its own discretion or at the direction of the Noteholders may affect the interests of a Noteholder of a particular class of Notes or the interests of a holder of Residual Certificates.

Paragon Banking Group plc as Noteholder

If the Issue Services Provider, PML, PFPLC or Paragon Bank (or any of their subsidiaries or holding companies or other subsidiaries of such holding companies) are the beneficial owners of the Class A Notes, the Class B Notes or the Class C Notes they will not be entitled to vote in respect of them, except (i) where they hold all the Notes of any such Class and there is no other Class of Notes ranking *pari passu* with, or more junior to, such Notes, which is not wholly beneficially owned by them or (ii), in respect of any Class of Notes, in relation to a matter (a) relating to a Basic Terms Modification or (b) relating to a meeting of Noteholders which has been convened by any Noteholder other than the entities specified above, in which case the Issue Services Provider, PML, PFPLC or Paragon Bank (or any of their subsidiaries or holding companies or other subsidiaries of such holding companies) will be entitled to vote in respect of the Notes in such Classes. No voting restriction apply in respect of the beneficial ownership by the entities specified above of the Class D Notes, the Class Z Notes, the Class S Notes, the Class S VFN or the Residual Certificates. Pursuant to its rights as a holder of any Class of Notes, the Issue Services Provider, PML, PFPLC or Paragon Bank (or any of their subsidiaries or holding companies or other subsidiaries of such holding companies) may exercise voting rights in respect of such Classes of Notes in a way that may be prejudicial to the interests of other Noteholders.

Servicing and Third Party Risk

Administration by the Administrators

The Administrators will be appointed by the Issuer to administer the Mortgages. Each Administrator will have the right to determine the interest rates to be charged under the Mortgages administered by them (other than in respect of Fixed Rate Mortgages for the period of time that they are subject to a fixed rate of interest and, LIBOR-Linked Mortgages for their LIBOR-based initial margin period). In order for the Issuer to acquire any Additional Mortgages on any Further Sale Date, the Administration Agreement will require the Administrators to determine the interest rates of the Mortgages in the Mortgage Portfolio (including any Additional Mortgages acquired by the Issuer from the Sellers on any Further Sale Date) so that the weighted average interest rate of such Mortgages is a prescribed rate minimum above Mortgage MRF LIBOR after taking into account any payments due to be made or received under the hedging arrangements, Mortgage Margin Reserve Fund and Interest Rate Converted Mortgage Release Amounts expected on the immediately following Interest Payment Date. The Issuer will be dependent upon the performance by each Administrator of its obligations under the Administration Agreement in order to receive amounts due from borrowers under the Mortgages.

Any failure or delay in collection of payments on the relevant Mortgages and/or calculation of the payments to be made by the Issuer on an Interest Payment Date resulting from the Administrators failing to perform the administration services in accordance with the terms of the Administration Agreement may cause a disruption in the administration of the Mortgages and/or the payments required to be made by the Issuer on an Interest Payment Date that could ultimately adversely affect payments of interest and principal on the Notes. Such risk is mitigated by the provisions of the Substitute Administrator Agreement pursuant to which the Substitute Administrator has agreed to act as Administrator upon the occurrence of an Administrator Termination Event under the Administration Agreement, provided that if the relevant event has occurred in relation to only one of the Administrators, (x) the event shall (in the case of the relevant event being an Administrator Termination Event as specified in limb (c) of the definition thereof) be deemed to be remedied, (y) (in the case of any Administrator Termination Event) for all purposes under the Relevant Documents no Administrator Termination Event shall have occurred and, for the avoidance of doubt, any termination of the Administrators that occurs with immediate effect on the occurrence of an Administrator Termination Event shall be deemed not to have occurred and (z) the event shall (in the case of any Administrator Termination Event) entitle the appointment of the defaulting Administrator only to be terminated, in the case of (x), (y) and (z) if the non-defaulting Administrator (in its absolute discretion), gives notice to the Trustee, the Substitute Administrator and the Issuer no later than the date falling 5 days after the occurrence of the relevant event and the non-defaulting Administrator takes over all the rights and

obligations under the Relevant Documents of the relevant Administrator in relation to which the relevant event occurred (provided that in the case of the relevant event being an Administrator Termination Event under limbs (a), (b), (d) or (e) of the definition thereof, the non-defaulting Administrator has remedied the relevant event prior to giving such notice and the non-defaulting Administrator certifies to that effect, which certification the Trustee can rely on without further investigation or liability).

If the appointment of the Administrators is terminated and the Substitute Administrator is required to perform the duties of the Administrator under the Administration Agreement (subject to and in accordance with the terms of the Substitute Administrator Agreement), the collection of payments on the Mortgages and/or calculation of the payments to be made by the Issuer on an Interest Payment Date could be disrupted during the transitional period in which the performance of the administration services in respect of the Mortgages is transferred to the Substitute Administrator.

The failure of the Substitute Administrator to perform its obligations under the Substitute Administrator Agreement and/or assume performance of the administration services following the occurrence of an Administrator Termination Event could result in the failure or delay in collection of payments on the relevant Mortgages and/or calculation of the payments to be made by the Issuer on the relevant Interest Payment Date that could ultimately adversely affect payments of interest and principal on the Notes. Such risks are mitigated by the provisions of the Substitute Administrator Facilitator Agreement pursuant to which the Substitute Administrator Facilitator will, upon the occurrence of certain events (see the section entitled "*Transaction Overview Triggers Tables — Non-Rating Triggers Table*" for further information), assist the Issuer in appointing a replacement Substitute Administrator. Neither the Substitute Administrator nor the Substitute Administrator Facilitator has any obligation itself to advance payments that Borrowers fail to make in a timely fashion.

Other Third Party Risks

The Issuer is party to contracts with third parties that have agreed to perform certain services for the Issuer under the transaction. In particular, but without limitation, PML as Administrator and the Intertrust Corporate Services Provider have agreed to provide corporate services to the Issuer, and the Principal Paying Agent has agreed to provide payment and calculation services to the Issuer in connection with the Notes.

If any relevant third party were to fail to perform its obligations under the respective agreements to which it is a party, payments on the Notes may be adversely affected.

Change of counterparties

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

These criteria include requirements imposed by the FCA under the FSMA and requirements in relation to the short-term and long-term unguaranteed and unsecured ratings ascribed to such party by Fitch and Moody's. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive money on behalf of the Issuer) may be required to be transferred to another entity which does satisfy the applicable criteria. No assurance can be given that a replacement entity satisfying the applicable criteria would be appointed in such circumstances. Further, in these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the Relevant Document and the cost to the Issuer may therefore increase. This may reduce amounts available to the Issuer to make payments of interest on the Notes.

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

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

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

The Rating Agencies may be requested by (and certain Relevant Documents require) the Issuer to confirm that certain actions proposed to be taken by the Issuer and the Trustee will not have an adverse effect on the then current rating of the Notes (a "**Ratings Confirmation**").

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

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

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

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

The Trustee is under no obligation to monitor or supervise the functions of the Administrators from time to time under the terms of the Administration Agreement or any other person under any other Relevant Document, including but not limited to the Collection Account Declaration of Trust and will not do so, and is entitled to assume that the Administrators are properly performing their obligations in accordance with the provisions of the Administration Agreement and that such other person is properly performing its obligations in accordance with each other Relevant Document, and will so assume.

The Trustee is not responsible for the genuineness, validity, effectiveness, suitability or enforceability of any of the Relevant Documents or any of the Security constituted thereby and has no responsibility for or duty to investigate any such matter.

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

The Trustee will not be required to comply with any request or direction from the holders of the Residual Certificates or any Class of them (whether pursuant to Residual Certificates Condition 8 or 9 or otherwise) if the Issuer shall have certified in writing to the Trustee (upon which certificate the Trustee may rely without any duty or obligation to investigate or verify if the same is correct) that no further amounts are payable to the holders of the Residual Certificates in accordance with Residual Certificates Condition 4(e).

The Trustee may, at any time, at its discretion and without notice, take such proceedings, actions or steps against the Issuer or any other party to any of the Relevant Documents as it may think fit to enforce the provisions of the Notes, the Residual Certificates or the Relevant Documents (including the Conditions and the Residual Certificates Conditions) to which it is a party, and at any time after the service of an Enforcement Notice the Trustee may, at its discretion and without notice, take such proceedings, actions or steps as it may think fit to enforce the Security. However, the Trustee shall not be bound to take any such proceedings, actions or steps (including, but not limited to, the giving of an Enforcement Notice in accordance with Condition 9 (*Events of Default*) and Residual Certificates Condition 8 (*Events of Default*)) unless it shall have been directed to do so by an Extraordinary Resolution of the Most Senior Class of Noteholders or the Most Senior Class of Residual Certificates (as applicable) or in writing by the holders of not less than 25 per cent. in Principal Amount Outstanding of the Most Senior Class of Notes then outstanding, or if there are no Notes outstanding, the holders of not less than 25 per cent. of the number of the Most Senior Class of Residual Certificates, and it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

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

Regulatory Considerations

Regulation of buy-to-let mortgage loans

Buy-to-let mortgage loans can fall under several different regulatory regimes. They can be:

1. unregulated;
2. regulated by the Consumer Credit Act 1974 (the "**CCA**") as a regulated credit agreement – as defined by article 60B of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (as amended) (the "**RAO**") (a "**Regulated Credit Agreement**");
3. regulated by the Financial Services and Markets Act 2000 (the "**FSMA**") as a regulated mortgage contract - as defined by article 61 RAO) (a "**Regulated Mortgage Contract**");
4. regulated as a consumer buy-to-let mortgage contract under the consumer buy-to-let regime - as defined by the Mortgage Credit Directive Order 2015 (a "**Consumer Buy-to-Let Loan**").

The Mortgage Portfolio comprises mortgage loans that the Sellers believe are either unregulated or Consumer Buy-to-Let Loans (as described below). The Provisional Mortgage Pool does not contain and the Additional Mortgages will not constitute Regulated Mortgage Contracts.

If any of the Mortgages are in fact regulated credit agreements or regulated mortgage contracts, then breach of the relevant regulations could give rise to a number of consequences (as applicable), including but not limited to: unenforceability of the Mortgages, interest payable under the Mortgages being irrecoverable for certain periods of time, or borrowers being entitled to claim damages for losses suffered and being entitled to set off the amount of their claims against the amount owing by the borrower under the mortgages, all of which may adversely affect the ability of the Issuer to make payments in full on the Notes when due.

Unregulated buy-to-let mortgage loans

Many buy-to-let mortgage loans will be unregulated because they do not meet the criteria for a regulated credit agreement, regulated mortgage contract or Consumer Buy-to-Let Loan. There are, however, still some regulated activities that apply to unregulated buy-to-let mortgage loans. The relevant activities in

respect of the mortgage loans being debt administration and debt collection. PFPLC has debt collection and debt administration permissions.

Consumer buy-to-let loans

The Mortgage Credit Directive requires EU member states to develop a 'national framework' for buy to let lending if they choose to exercise discretion afforded by the Mortgage Credit Directive to not apply the Mortgage Credit Directive to their buy-to-let mortgage markets. The UK government announced that it would use the option to have a national framework for buy-to-let lending to consumers called 'Consumer buy-to-let' ("**CBTL**") in order to put in place the minimum requirements to meet the UK's legal obligations, as it has stated it is not persuaded of the case for full conduct regulation of buy-to-let mortgage lending. The CBTL framework was implemented on 21 March 2016 and is only applicable to consumer borrowers, the majority of buy-to-let lending in the UK being to non-consumers.

The legislative framework is set out in the Mortgage Credit Directive Order 2015. The Mortgage Credit Directive Order 2015 defines a CBTL mortgage contract as: "a buy-to-let mortgage contract which is not entered into by the borrower wholly or predominantly for the purposes of business carried on, or intended to be carried on, by the borrower". It provides that a firm that advises on, arranges, lends or administers CBTL mortgages must be registered to do so. The Administrators are registered as consumer buy-to-let lenders and as consumer buy-to-let administrators.

Unfair Relationships

Under the CCA, the "extortionate credit" regime was replaced by an "unfair relationship" test. The "unfair relationship" test applies to all existing and new credit agreements, except regulated mortgage contracts under the FSMA. If the court makes a determination that the relationship between a lender and a borrower is unfair, then it may make an order, among other things, requiring the Sellers, or any assignee such as the Issuer, to repay amounts received from such a borrower. In applying the "unfair relationship" test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct (or anyone acting on behalf of the creditor) before and after making the agreement or in relation to any related agreement. There is no statutory definition of the word "unfair" in the CCA as the intention is for the test to be flexible and subject to judicial discretion and it is therefore difficult to predict whether a court would find a relationship "unfair". However, the word "unfair" is not an unfamiliar term in the UK legislation due to the UTCCR. The courts may, but are not obliged to, look solely to the Consumer Credit Act 2006 for guidance. The principle of "treating customers fairly" under the FSMA, and guidance published by the FSA and, as of 1 April 2013, the FCA on that principle and by the OFT on the unfair relationship test, may also be relevant. Under the CCA, once the debtor alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary.

Compliance with the relevant regulatory rules by the creditor (or a person acting on behalf of the creditor) does not preclude a finding of unfairness, as a wider range of considerations may be relevant to the fairness of the relationship than those which would be relevant to the application of the rules.

If the court determined that there was an unfair relationship between the Sellers and the borrowers in respect of the mortgage loans and ordered that financial redress was made in respect of such mortgage loans, such redress may adversely affect the ultimate amount received by the Issuer in respect of the relevant mortgage loans, and the realisable value of the Mortgage Portfolio and/or the Issuer's ability to make payment in full on the Notes when due.

Unauthorised capitalisations

A case in the Northern Ireland High Court in 2014 (*Bank of Scotland PLC v Rea*) brought to the attention of mortgage lenders generally, and the FCA, concerns over how mortgage lenders were capitalising arrears.

The issue relates to lenders who add arrears to an account balance and then use that balance to calculate the monthly payment without the borrower's consent. This practice is referred to as "automatic capitalisation" by the FCA. The principal concern with the practice highlighted by the Northern Ireland High Court is that it is often coupled with a practice under which at the same time as capitalising the arrears, a separate record of the borrower's arrears is kept by the lender and then the lender seeks separate (and additional) payment of those arrears even though their payment has already been provided for in the calculation of the monthly payment. This may result in borrowers being incorrectly charged arrears charges and fees (on "arrears" that

because they have been capitalised, no longer subsist) and (where the borrower makes payment towards its separate "arrears balance" in addition to the monthly payment) overpayment (thereby reducing the balance of the loan more quickly than otherwise is required). This practice is in breach of the FCA rules applicable to Regulated Mortgage Contracts but may also be a breach of the contractual terms of a mortgage loan, whether or not it is a Regulated Mortgage Contract.

The Provisional Mortgage Pool does not contain and the Additional Mortgages will not constitute Regulated Mortgage Contracts. In addition, each of the Administrators, pursuant to the Administration Agreement, undertakes to calculate (and notify to the relevant Borrowers) the monthly payments in respect of the Repayment Mortgages, in accordance with the practices of a reasonably prudent mortgage administrator.

As such, as at the date of this Prospectus, no remediation exercise has been undertaken or is contemplated to be undertaken in respect of any automatic capitalisation relating to any Mortgage in the Provisional Mortgage Pool and, to the Issuer's knowledge, no Borrowers have brought any material claims in connection with their Mortgages in respect of an automatic capitalisation. However, notwithstanding this, should any such claims arise in respect of any of the Mortgages in the Mortgage Portfolio, such claims, and any set-off by Borrowers in respect of such claims against the amount due by the Borrowers under the relevant Mortgages, may adversely affect the ultimate amount received by the Issuer in respect of the relevant Mortgages, and the realisable value of the Mortgage Portfolio and/or the ability of the Issuer to make payment under the Notes and/or the Residual Certificates.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

The Unfair Terms in Consumer Contracts Regulations 1999 (as amended) (the "UTCCR") will apply to any term of an agreement entered into between 1 October 1999 and 30 September 2015 by a "consumer" within the meaning of the UTCCR where the term has not been individually negotiated. Regulation 2 of the UTCCR revoked the Unfair Terms in Consumer Contracts Regulations 1994, which applied to agreements entered into between 1 July 1995 and 30 September 1999 and are replaced by the UTCCR. Any term found to be "unfair" within the meaning of the UTCCR will not be binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term).

Under the UTCCR as long as a term is expressed in plain and intelligible English, the assessment of the fairness of the terms shall not relate to the definition of the main subject matter of the contract or the adequacy of the price or remuneration for the services under the contract. A term could, however, be assessed for fairness on other relevant grounds. Key provisions (such as the interest rate variation provision and loan transfer mechanism) of the Loans may be subject to scrutiny under the UTCCR. For example, if a term permitting the lender to vary the interest rate (as the Seller is permitted to do) were to be found by a court to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the Issuer, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the credit agreement or any other credit agreement that the borrower has taken with the lender. Any such claim or set-off may adversely affect the Issuer's ability to make payments in full when due on the Notes.

The broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any loans which have been made or may be made to borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of such loans. In addition, the guidance issued by the Financial Services Authority ("FSA") has been removed by the FCA and it is not yet clear how such former guidance differs from present regulation. Whilst the FCA has powers to enforce the UTCCR, it would be for a court to determine their proper interpretation. No assurance can therefore be given that related guidance or the publication of new or additional guidance in the future would not have a material adverse effect on either or both of the Sellers, the Issuer and the Trustee and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Notes when due.

Consumer Rights Act 2015

The Consumer Rights Bill received royal assent on 26 March 2015 and is now the Consumer Rights Act 2015 ("CRA"). The CRA significantly reforms and consolidates consumer law in the UK. The CRA

involves the creation of a single regime out of the Unfair Contract Terms Act 1977 (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR. When the unfair contract terms regime of the CRA came into force, it revoked the UTCCR and introduced a new regime for dealing with unfair contractual terms. The CRA applies to any consumer contract entered into on or after 1 October 2015.

Under Part 2 of the CRA an unfair term of a consumer contract (a contract between a trader and a consumer) is not binding on a consumer (an individual acting for purposes that are wholly or mainly outside that individual's trade, business, craft or profession). The CRA's definition of a consumer is wider than the UTCCR's and therefore could potentially apply to a larger group. Additionally, an unfair notice is not binding on a consumer, although a consumer may rely on the term or notice if the consumer chooses to do so. A term will be unfair where, contrary to the requirement of good faith, it causes significant imbalance in the parties' rights and obligations under the contract to the detriment of the consumer. In determining whether a term is fair it is necessary to: (i) take into account the nature of the subject matter of the contract; (ii) refer to all the circumstances existing when the term was agreed; and (iii) refer to all of the other terms of the contract or any other contract on which it depends.

Schedule 2 of the CRA contains an indicative and non-exhaustive "grey list" of terms of consumer contracts that may be regarded as unfair. Notably, paragraph 11 lists "a term which has the object or effect of enabling the trader to alter the terms of the contract unilaterally without a valid reason which is specified in the contract". Paragraph 22 provides that this does not include terms by which a supplier of financial services reserves the right to alter the rate of interest payable by or due to the consumer, or the amount of other charges for financial services without notice where there is a valid reason if the supplier is required to inform the consumer of the alteration at the earliest opportunity and the consumer is free to dissolve the contract immediately.

A term in a consumer contract may not be assessed for fairness to the extent that (i) it specifies the main subject matter of the contract; or (ii) the assessment is of the appropriateness of the price payable under the contract by comparison with the goods, digital content or services supplied under it; unless it appears on the "grey list" referenced above. This exclusion from the assessment of fairness only applies if the term is transparent and prominent.

A trader must ensure that a written term of a consumer contract, or a consumer notice in writing, is transparent i.e. that it is expressed in plain and intelligible language and is legible.

Where a term of a consumer contract is "unfair", it will not bind the consumer. However, the remainder of the contract, will, so far as practicable, continue to have effect in every other respect. Where a term in a consumer contract is susceptible to multiple different meanings, the meaning most favourable to the consumer will prevail. It is the duty of the court to consider the fairness of any given term. This can be done even where neither of the parties to proceedings have explicitly raised the issue of fairness.

The Office of Fair Trading (the "**OFT**") and the FSA were previously responsible for issuing guidance on the application of the UTCCR and identifying unfair terms. The FCA and Competition Markets Authority (the "**CMA**") are both jointly responsible for protecting the interests of consumers through enforcing the CRA. The CMA holds a leadership role in relation to enforcing both the UTCCRs and the CRA, while the FCA took over the responsibilities of the FSA in relation to the enforcement of the UTCCRs for most financial service products on 1 April 2013, and the responsibilities of the OFT in relation to consumer credit regulation on 1 April 2014.

The unfair contract terms regime in Part 2 and Schedules 2 and 3 of the CRA came into force on 1 October 2015. This new regime does not seem to be significantly different from the regime under the UTCCR. However, this area of law is rapidly developing and new regulator guidance and case law are expected as a result of this new legislation. The FCA has noted (on 24 March 2015) that, as part of the FCA Business Plan 2015/16, it will specifically monitor the impact on consumer credit and complex terms and conditions of the CRA. The CMA has also published updated guidance on unfair contract terms under the CRA, including examples and further explanation of scope and exemptions from the CRA.

The CMA published its finalised guidance on the unfair terms provisions in the Consumer Rights Act on 31 July 2015 which sits alongside two complementary CMA publications aimed particularly at smaller businesses and others who require a short introduction to unfair terms law and to the CMA's approach to unfair terms enforcement.

Additionally, the FCA updated the Guide ("**UNFCOG**"), before the CRA came into force, which sets out the FCA's approach to assessing the fairness of a contract term. In deciding whether to ask a firm to undertake to stop including a term in new contracts or to stop relying on it in concluded contracts, the FCA considers the full circumstances of each case, including:

- (a) whether the FCA is satisfied that the term may properly be regarded as unfair within the meaning of the CRA;
- (b) the extent and nature of the detriment to consumers resulting from the term or the potential harm which could result from the term; and
- (c) whether the firm has fully cooperated with the FCA in resolving their concerns about the fairness of the particular contractual term.

Guidance withdrawn by the FCA should not be relied on as it may no longer reflect the FCA's view on unfair terms. The FCA has no current intention to publish updated guidance to replace its previously issued guidance on unfair contract terms.

However, no assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the Sellers, the Issuer and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the loans.

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

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

Financial Ombudsman Service

Under the FSMA, the Financial Ombudsman Service (the "**Ombudsman**") is required to make decisions on (among other things) complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account (among other things) law and guidance. Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman. The Ombudsman may make a money award to a borrower, which may adversely affect the value at which loans could be realised and accordingly the ability of the Issuer to make payments in full when due on the Notes.

Consumer Protection from Unfair Trading Regulations 2008

The Unfair Commercial Practices Directive ("**UCP**"), which took effect on 12 May 2005, seeks to regulate unfair commercial practices across the EU by establishing rules for the protection of consumers. Generally, the UCP applies full harmonisation, which means that member states of the European Union may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, this Directive permits member states of the European Union to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans. The UCP provided for a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies.

The UCP applies to all consumer contracts and contains a wide prohibition on "unfair commercial practices" with examples of practices which would violate this principle by virtue of being "misleading" or "aggressive". Examples of such conduct include the dissemination of false information at any stage of the relationship or conduct involving harassment, coercion or undue influence.

In the UK the UCP was implemented through the Consumer Protection from Unfair Trading Regulations 2008 (the "**CPUTR**"), which came into force on 26 May 2008. Whilst engaging in an unfair commercial

practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. Consequently, there is a risk that breach of the CPUTRs would initiate intervention by a regulator and may lead to criminal sanctions.

The Law Commission and the Scottish Law Commission reviewed the current private law in this area and found it to be fragmented and unclear. On 28 March 2012 the two Commissions published a report entitled "*Consumer Redress for Misleading and Aggressive Practices*", which sets out recommendations for reform.

On 14 March 2013 the European Commission published the results of its review on the application of the UCP. The Commission did not propose amending the UCP but has indicated that intensified national enforcement and reinforced cooperation in cross-border enforcement are needed. Going forward the Commission will consider how it can play a more active role in enforcement and will continue to perform in-depth reviews of how the directive works in practice.

There remains a risk that the CPUTR could adversely affect the ability of the Issuer to make payments on the Notes.

Mortgage repossession

The Mortgage Repossession (Protection of Tenants etc) Act 2010 came into force in October 2010. The act introduced powers for courts hearing a mortgage repossession case where the property is occupied by unauthorised tenants, including powers to delay a repossession order and suspend a warrant of eviction on application by an unauthorised tenant. The act may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the mortgage loans may result in lower recoveries and a lower repayment rate on the Notes.

The Renting Homes (Wales) Act 2016

The Renting Home (Wales) Act (the "**Renting Homes Act**") received royal assent on 18 January 2016 but has not yet been brought into force. This Act will convert the majority of residential tenancies in Wales into a 'standard contract' with retrospective effect when it has been brought into force, however some tenancies will not be converted with retrospective effect (including those which have Rent Act protection and tenancies for more than 21 years).

The Renting Homes Act (which only has effect in Wales) does not contain an equivalent mandatory ground for possession that a lender had under the Housing Act 1988 where a property was subject to a mortgage granted before the beginning of the tenancy and the lender required possession in order to dispose of the property with vacant possession.

The Renting Homes Act may result in lower recoveries in relation to buy-to-let mortgage loans over Properties in Wales and may affect the ability of the Issuer to make payments under the Notes.

Financial Services (Distance Marketing) Regulations 2004

The Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A regulated mortgage contract under the FSMA, if made by a UK originator from an establishment in the UK, will not be cancellable under these regulations. Any other credit agreement will be cancellable under these regulations, if the Borrower does not receive prescribed information at the prescribed time, or in any event for certain unsecured lending. The Borrower may send notice of cancellation under these regulations at any time before the end of the fourteenth day after the day on which the cancellable agreement is made or, if later, the Borrower receives the last of the prescribed information.

If the Borrower cancels the credit agreement under these regulations, then:

- (a) the Borrower is liable to repay the principal and any other sums paid by the originator to the Borrower under or in relation to the cancelled agreement, within 30 calendar days beginning with the day of the Borrower's sending notice of cancellation or, if later, the originator receiving notice of cancellation;

- (b) the Borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the Borrower received certain prescribed information at the prescribed time and if other conditions are met; and
- (c) any security is to be treated as never having had effect for the cancelled agreement.

If a significant portion of the mortgage loans are characterised as being cancellable under these regulations, then there could be an adverse effect on the Issuer's receipts in respect of those amounts, affecting the Issuer's ability to make payments in full on the Notes when due. In this regard, it is noted that the Sellers will warrant that the first payment due from the Borrower in respect of the relevant Mortgage has been received in full.

Other changes to mortgage regulation

There can be no assurance that this section comprehensively describes all proposed changes to relevant regulation or that there will be no further changes to regulation that may have an effect on the mortgage market in the United Kingdom generally or specifically in relation to the Sellers. Further, there can neither be assurance that regulators' interpretation of existing rules and regulations will remain unchanged nor whether any such regulator may apply such interpretations in respect of actions or conduct already undertaken. Any such action or developments, in particular, but not limited to, the cost of compliance, may have a material adverse effect on the Sellers, the Issuer and/or the Administrators and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments on the Notes.

Given the high level of scrutiny regarding financial institutions' treatment of customers and business conduct from regulatory bodies, the media and politicians, there is a risk that certain aspects of the current or historic business of the Sellers, including, amongst other things, mortgages, may be determined by the FCA and other regulatory bodies or the courts as, in their opinion, not being conducted in accordance with applicable laws or regulations, or fair and reasonable treatment.

Policy considerations in respect of the UK private rented sector

The buy to let market has been disrupted as a result of a series of government fiscal policy and regulatory interventions, which are in the process of reshaping the sector. Significant changes have been seen to date, and the effects are yet to work themselves out fully. Data from the Council of Mortgage Lenders for the year ended December 2016 showed £40.6 billion of buy to let lending. Data recently released by UK Finance indicates that the 2017 buy to let lending was £35.8 billion, reflecting the disruption to the sector over the last two and a half years, from the following principal changes:

- (a) the introduction of a stamp duty land tax surcharge on buy to let properties;
- (b) the restriction of income tax relief on finance costs for buy to let landlords; and
- (c) regulatory changes affecting buy to let lending.

The introduction of these measures may adversely affect the private residential rental market in England and Wales in general, or (in the case of the restriction of income tax relief) the ability of individual borrowers of buy-to-let Mortgages to meet their obligations under those Mortgage Loans.

Stamp Duty Land Tax Surcharge on buy to let properties:

The UK Government's Autumn Statement 2015 included measures resulting in a 3-percentage point increase on top of the existing Stamp Duty Land Tax rates for additional residential properties including residential investment property (e.g. second homes and buy-to-let properties) which applied from 1 April 2016. The policy was designed to "level the playing field" for the benefit of home buyers. However, the changes have not fundamentally altered the economics for residential property investors as the additional costs of acquisition can be defrayed over the term over which the property is held. As a result the increase in stamp duty appears to have had the least effect of the changes, with landlords considering their investment in the long term, mitigating the impact.

Restriction of income tax relief on finance costs for buy to let landlords:

On 8 July 2015, the UK Government announced changes to the tax regime for rented property that will result in individual landlords only being able to claim income tax relief on finance costs at the basic rate of tax, currently 20%, from April 2017 and the cessation of the automatic 10% 'wear and tear' allowance. An extended lead-in period has, however, been allowed, giving landlords time to adjust their strategies. It is expected that changes to income tax relief on finance costs for landlords with encumbered properties will fully take effect from 2020.

Tax relief changes have had a significant impact on customer behaviour, with amateur non-portfolio landlords (those with fewer than four properties) moving away from the market, leading to a fall in the volume of buy-to-let purchase transactions undertaken by landlords which seems to be settling at a new 'normal' level. The reaction of the more professional portfolio landlords, who constitute the Paragon Banking Group's main target customer base, has been different. Their focus has generally been to adopt defensive measures, including putting properties into corporate structures and focussing on higher yielding properties such as homes in multiple occupation ("**HMOs**"). This has led to a sharper distinction between professional landlord investors and other buy to let borrowers.

Regulatory changes affecting buy to let lending:

The regulatory changes in 2017 year were implemented in two phases:

Phase One:

From 1 January 2017, the PRA imposed common standards for affordability testing in the buy to let sector, similar, in principle, to the approach adopted by the FCA for owner occupied mortgages. Most lenders, including the Group, were able to adopt these changes without serious disruption.

Phase Two:

From 1 October 2017, lenders were required to underwrite portfolio buy to let applications on a much more specialised basis, differentiating between professional and amateur landlords, based on the number of properties owned with buy to let finance. This caused little disruption to the Paragon Banking Group's business model as the PRA approach was well aligned with Paragon's lending policy and the required specific changes to fully align Paragon's practice were put in place in July 2017. The market in general was slow to reflect the required regulatory changes and communicate these to landlords and intermediaries leading to some disruption around the implementation date, due to lack of clarity on lenders' requirements. This disruption however has eased in recent months as lenders have made their position clearer with lenders broadly falling in to one of three groups: those that only offer BTL mortgages to non-portfolio landlords; those that offer only limited services to portfolio landlords; specialist lenders (such as the Paragon Banking Group) that provide a full range of products for professional portfolio landlords.

Energy Efficiency Regulations 2015

From 1 April 2018, landlords of relevant domestic properties in England and Wales may not grant a tenancy to new or existing tenants if their property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate for the property) and from 1 April 2020, landlords must not continue letting a relevant domestic property which is already let if that property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate for the property). In both cases described above this is referred to in the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (the "**Energy Efficiency Regulations 2015**") as the prohibition on letting substandard property. Where a landlord wishes to continue letting property which is currently substandard, they will need to ensure that energy efficiency improvements are made which raise the EPC rating to a minimum of E. In certain circumstances landlords may be able to claim an exemption from this prohibition on letting sub-standard property; this includes situations where the landlord is unable to obtain funding to cover the cost of making improvements, or where all improvements which can be made have been made, and the property remains below an EPC rating of Band E. Local authorities will enforce compliance with the domestic minimum level of energy efficiency. They may check whether a property meets the minimum level of energy efficiency, and may issue a compliance notice requesting information where it appears to them that a property has been let in breach of the Energy Efficiency Regulations 2015 (or an invalid exemption has been registered in respect of it).

Where a local authority is satisfied that a property has been let in breach of the Energy Efficiency Regulations 2015 it may serve a notice on the landlord imposing financial penalties.

Implementation of and/or changes to the Basel III framework may affect the capital requirements and/or the liquidity associated with a holding of the Notes for certain investors

The Basel Committee on Banking Supervision (the "**Basel Committee**") approved significant changes to the Basel II regulatory capital and liquidity framework in 2011 (such changes being commonly referred to as "**Basel III**"). In particular, Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**").

The Basel III reform package has been implemented in the European Economic Area (the "**EEA**") through the CRR (which entered into force on 28 June 2013) and an associated directive (the recast Capital Requirements Directive (the "**CRD**")) (which was required to be transposed by Member States by 31 December 2013) (together, "**CRD IV**"). The regulation establishes a single set of harmonised prudential rules which apply directly to all credit institutions and investment firms in the EEA, with the directive containing less prescriptive provisions which are required to be transposed into national law. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time, with full implementation by 2019 (e.g. the Liquidity Coverage Ratio requirements refer to implementation from the start of 2015, with full implementation by January 2019, and the Net Stable Funding Ratio requirements refer to implementation from January 2018).

Implementation of Basel III requires national legislation and therefore, the final rules and the timetable for their implementation in each jurisdiction may be subject to national variation. The Basel Committee has also published certain proposed revisions to the securitisation framework, including changes to the approaches to calculating risk weights and a new risk weight floor of 10%.

Implementation of the Basel framework and any changes as described above may have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the Notes for investors that are subject to requirements that follow the relevant framework and, as a result, may affect the liquidity and/or value of the Notes.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences to and effect on them of any changes to the Basel framework (including the changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

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

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

In particular, investors should be aware of the EU risk retention and due diligence requirements which currently apply, or are expected to apply in the future, in respect of various types of EU regulated investors including credit institutions, authorised alternative investment fund managers, investment firms, insurance and reinsurance undertakings, UCITS funds and institutions for occupational retirement provisions. Amongst other things, such requirements restrict a relevant investor from investing in asset-backed securities unless (i) that investor is able to demonstrate that it has undertaken certain due diligence in respect of various matters including its note position, the underlying assets and (in the case of certain types of

investors) the relevant sponsor or originator and (ii) the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the investor that it will retain, on an on-going basis, a material net economic interest of not less than 5 per cent. in respect of certain specified credit risk tranches or asset exposures. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a penal capital charge on the notes acquired by the relevant investor. Aspects of the requirements and what is or will be required to demonstrate compliance to national regulators remain unclear.

The risk retention and due diligence requirements described above apply, or are expected to apply, in respect of the Notes. With respect to the commitment of PFPLC to retain a material net economic interest in the securitisation and with respect to the information to be made available by the Issuer or another relevant party (or, after the Closing Date, by PML in its capacity as Administrator on the Issuer's behalf), please see further the statements set out in "Certain Regulatory Disclosures" and "Subscription and Sale". Relevant investors are required to independently assess and determine the sufficiency of the information described above for the purposes of complying with any relevant requirements and none of the Issuer, the Sellers, the Administrators, PFPLC, PBG, the Arrangers, the Joint Lead Managers, the Trustee or any other party to the Relevant Documents makes any representation that the information described above is sufficient in all circumstances for such purposes.

It should be noted that the European authorities have adopted and finalised two new regulations related to securitisation (being Regulation (EU) 2017/2402 and Regulation (EU) 2017/2401) which will apply in general from 1 January 2019. Amongst other things, the regulations include provisions intended to implement the revised securitisation framework developed by the Basel Committee (with adjustments) and provisions intended to harmonise and replace the risk retention and due diligence requirements (including the corresponding guidance provided through technical standards) applicable to certain EU regulated investors. There are material differences between the coming new requirements and the current requirements including with respect to the matters to be verified under the due diligence requirements, as well as with respect to the application approach under the retention requirements and the originator entities eligible to retain the required interest. Further differences may arise under the corresponding guidance which will apply under the new risk retention requirements, which guidance is to be made through new technical standards. However, securitisations established prior to the application date of 1 January 2019 that do not involve the issuance of securities (or otherwise involve the creation of a new securitisation position) from that date will remain subject to the current requirements and should not be subject to the new risk retention and due diligence requirements in general.

Prospective investors should therefore make themselves aware of the changes and requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the Notes. The matters described above and any other changes to the regulation or regulatory treatment of the Notes for some or all investors may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the Notes in the secondary market.

CRA Regulation

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances while the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU registered credit rating agency or the relevant non EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

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

Banking Act 2009

The UK Banking Act 2009 (the "**Banking Act**") includes provision for a special resolution regime pursuant to which specified UK authorities have extended tools) to deal with the failure (or likely failure) of certain

UK incorporated entities including authorised deposit-taking institutions and investment firms, and powers to take certain resolution actions in respect of third country institutions. In addition, powers may be used in certain circumstances in respect of UK established banking group companies, where such companies are in the same group as a relevant UK or third country institution or in the same group as an EEA credit institution or investment firm. The relevant transaction entities for these purposes include Paragon Bank as an Administrator, Seller and Legal Title Holder, Lloyds Bank plc as a Basis Hedge Provider, Barclays Bank PLC as the PML Collection Account Bank, NatWest Bank plc as the PB Collection Account Bank and PBG (as holding company of Paragon Bank) and may include PML as a Seller, Administrator, the Paragon Corporate Services Provider and Legal Title Holder), provided that certain conditions are met.

The tools currently available under the Banking Act include share and property transfer powers (including powers for partial property transfers), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances) and special insolvency procedures which may be commenced by the UK authorities. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made and, in certain circumstances, the UK authorities may exercise broad pre-resolution powers in respect of relevant entities with a view to removing impediments to the exercise of the stabilisation tools. In general, the Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the United Kingdom. The Banking Act includes provisions related to compensation in respect of instruments and orders made under it. In general, there is considerable uncertainty about the scope of the powers afforded to UK authorities under the Banking Act and how the UK authorities may choose to exercise them. Further, UK authorities have a wide discretion in exercising their powers under the special resolution regime, including disapplying or modifying the effect of a provision of an enactment or the effect of a rule of law (in each case other than with respect to the Banking Act) by way of regulation of HM Treasury to facilitate its Banking Act objectives.

If an instrument or order were to be made under the provisions of the Banking Act currently in force in respect of a relevant entity as described above, such instrument or order may (amongst other things) affect the ability of such entity to satisfy its obligations under the Relevant Documents and/or result in the cancellation, modification or conversion of certain unsecured liabilities of such entity under the Relevant Documents or other modifications to such documents. In particular, modifications may be made pursuant to powers permitting (i) certain trust arrangements to be removed or modified, (ii) contractual arrangements between relevant entities and other parties to be removed, modified or created where considered necessary to enable a transferee in the context of a property or share transfer to operate the transferred business effectively and (iii) in connection with the modification of an unsecured liability through use of the bail-in tool, the discharge of a relevant entity from further performance of its obligations under a contract. In addition, powers may apply to require a relevant instrument or order (and related events) to be disregarded in determining whether certain widely defined "default events" have occurred. As a result, the making of an instrument or order in respect of a relevant entity as described above may affect the ability of the Issuer to meet its obligations in respect of the Notes.

As noted above, the stabilisation tools may be used in respect of certain banking group companies provided certain conditions are met. If the Issuer was regarded to be a banking group company and no exclusion applied, then it would be possible in certain scenarios for the relevant authority to exercise one or more relevant stabilisation tools (including the property transfer powers and/or the bail-in powers) in respect of it, which could result in reduced amounts being available to make payments in respect of the Notes and/or in the modification, cancellation or conversion of any unsecured portion of the liability of the Issuer under the Notes at the relevant time. More generally in respect of stabilisation tools, whilst the UK authorities provided an exclusion for certain securitisation companies from being banking group companies, which exclusion is expected to extend to the Issuer, aspects of the relief are unclear meaning that no assurance can be provided that the Noteholders will not be adversely affected by an action taken under the relevant amended provisions.

Although no instrument or order has been made under the provisions of the Banking Act in respect of a relevant transaction entity, as described above, and there has been no indication that it will make any such instrument or order, there can be no assurance that this will not change and any such action or step may if taken (amongst other things) affect the ability of such entities to satisfy their obligations under the Relevant Documents and/or result in modifications to such documents, and may, in particular, affect the ability of the Issuer to meet its obligations in respect of the Notes. While there is provision for compensation in

certain circumstances under the Banking Act, there can be no assurance that Noteholders would recover compensation promptly and equal to any loss actually incurred.

Potential effects of any additional regulatory changes

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

Payments Priorities

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

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

In parallel proceedings in New York, Judge Peck of the U.S. Bankruptcy Court for the Southern District of New York granted Lehman Brothers Special Finance Inc.'s ("**LBSF**") motion for summary judgement on the basis that the effect was that the provisions infringed the anti-deprivation principle in a U.S. insolvency. Judge Peck acknowledged that this resulted in the U.S. courts coming to a decision "directly at odds with the judgement of the English Courts". In New York, whilst leave to appeal was granted, the case was settled before an appeal was heard.

It should be noted that on 8 February 2012, Belmont Park Investments PTY Limited and others commenced proceedings in the U.S. Bankruptcy Court in relation to Lehman Brothers Special Financing Inc. seeking an order recognising and enforcing the English judgment on noteholder priority. Declaratory relief that the noteholder priority is valid and that the collateral can be distributed accordingly and without liability to the trustee, is also being sought. Those proceedings remain pending and are subject to a request to be transferred to the District Court. This is an aspect of cross border insolvency law which remains untested. Therefore, whilst the priority issue is considered largely resolved in England and Wales, concerns still remain that the English and U.S. courts will diverge in their approach which, in the case of an unfavourable decision in the U.S., may adversely affect the Issuer's ability to make payments on the Notes in accordance with the Relevant Documents.

There remains the issue whether in respect of the foreign insolvency proceedings relating to a creditor located in a foreign jurisdiction, an English court will exercise its discretion to recognise the effects of the foreign insolvency proceedings, whether under the Cross Border Insolvency Regulations 2006 or any similar common law principles. Given the current state of U.S. law, this is likely to be an area of continued judicial focus particularly in respect of multi-jurisdictional insolvencies.

English law security and insolvency considerations

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

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

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

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

Fixed charges may take effect under English law as floating charges

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

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

Liquidation expenses

Prior to the House of Lords' decision in the case of *Re Leyland Daf* in 2004, the general position was that in a liquidation of a company, the liquidation expenses ranked ahead of unsecured debts and floating chargees claims. *Re Leyland Daf* reversed this position so that liquidation expenses could no longer be recouped out of assets subject to a floating charge. However, Section 176ZA of the Insolvency Act, which came into force on 6 April 2008, effectively reversed by statute the House of Lords' decision in *Re Leyland Daf*. As a result, it is now the case that the costs and expenses of a liquidation will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to the approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to rules 6.42 to 6.48 and 7.111 to 7.116 of the

Insolvency Rules 2016. In general, the reversal of *Re Leyland Daf* applies in respect of all liquidations commenced on or after 6 April 2008. Therefore, floating charge realisations upon the enforcement of the floating charge security to be granted by the Issuer would be reduced by the amount of all, or a significant proportion, of any liquidation expenses.

EU Referendum

On 23 June 2016 the United Kingdom voted to leave the European Union in a referendum (the "**Brexit Vote**") and on 29 March 2017 the United Kingdom gave formal notice (the "**Article 50 Notice**") under Article 50 of the Treaty on European Union ("**Article 50**") of its intention to leave the European Union.

The timing of the UK's exit from the EU remains subject to some uncertainty, but it is unlikely to be before March 2019. Article 50 provides that the EU treaties will cease to apply to the UK two years after the Article 50 Notice unless a withdrawal agreement enters into force earlier or the two year period is extended by unanimous agreement of the UK and the European Council.

The terms of the UK's exit from the EU are also unclear and will be determined by the negotiations taking place following the Article 50 Notice. It is possible that the UK will leave the EU with no withdrawal agreement in place if no agreement can be reached and approved by all relevant parties within the allotted time. If the UK leaves the EU with no withdrawal agreement, it is likely that a high degree of political, legal, economic and other uncertainty will result.

In addition to the economic and market uncertainty this brings (see "*Market Uncertainty*" below) there are a number of potential risks for the Transaction that Noteholders should consider:

Political uncertainty

The UK is experiencing a period of acute political uncertainty connected to the negotiations with the EU. Such uncertainty could lead to a high degree of economic and market disruption and legal uncertainty. It is not possible to ascertain how long this period will last and the impact it will have on the UK in general and the market, including market value and liquidity, for asset-backed securities similar to the Notes in particular. The Issuer cannot predict when or if political stability will return, or the market conditions relating to asset-backed securities similar to the Notes at that time.

Legal uncertainty

A significant proportion of English law currently derives from or is designed to operate in concert with European Union law. This is especially true of English law relating to financial markets, financial services, prudential and conduct regulation of financial institutions, bank recovery and resolution, payment services and systems, settlement finality, market infrastructure, and mortgage credit regulation. The European Union (Withdrawal) Bill introduced into the UK Parliament on 13 July 2017 (the "**Withdrawal Bill**") aims to incorporate the EU law *acquis* into UK law the moment before the UK ceases to be a member of the EU, with the intention of limiting immediate legal change. The Withdrawal Bill, if enacted in the form in which it was introduced, would grant the UK Government wide powers to make secondary legislation in order to, among other things, implement any withdrawal agreement and to adapt those laws that would otherwise not function sensibly once the UK has left the EU, the whole with minimal parliamentary scrutiny. The secondary legislation made under those powers would be able to do anything that could be done by an act of Parliament. Over time, however – and depending on the timing and terms of the UK's exit from the EU – significant changes to English law (or, as applicable, Scots law or Northern Irish law) in areas relevant to the Transaction and the parties to the Transaction are likely. The Issuer cannot predict what any such changes will be and how they may affect payments of principal and interest to the Noteholders.

Regulatory uncertainty

There is significant uncertainty about how financial institutions from the remaining EU (the "**EU27**") with assets (including branches) in the UK will be regulated and vice versa. At present, EU single market regulation allows regulated financial institutions (including credit institutions, investment firms, alternative investment fund managers, insurance and reinsurance undertakings) to benefit from a passporting system for regulatory authorisations required to conduct their businesses, as well as facilitating mutual rights of access to important elements of market infrastructure such as payment and settlement systems. EU law is also the framework for mutual recognition of bank recovery and resolution regimes.

Once the UK ceases to be a Member State of the EU, the current passporting arrangements will cease to be effective, as will the current mutual rights of access to market infrastructure and current arrangements for mutual recognition of bank recovery and resolution regimes. In addition, the potential change in the regulatory framework may in the future impact on the eligibility of the Notes as Eurosystem eligible collateral under the Eurosystem monetary policy framework of the European Central Bank. The ability of regulated financial institutions to continue to do business between the UK and the EU27 after the UK ceases to be a Member State of the EU would therefore be subject to separate arrangements between the UK and the EU27. Although the UK Government has said that it "will be aiming for the freest possible trade in financial services between the UK and EU Member States" in a white paper setting out its Brexit negotiation objectives, there can be no assurance that there will be any such arrangements concluded and, if they are concluded, when and on what terms. Such uncertainty could adversely impact the ability of third parties who are regulated financial institutions to provide services to the Issuer and the Transaction.

Market uncertainty

Since the Brexit Vote, there has been volatility and disruption of the capital, currency and credit markets, including the market for asset-backed securities. There may be further volatility and disruption depending on the conduct and progress of the formal withdrawal negotiations initiated by the Article 50 Notice.

Potential investors should be aware that these prevailing market conditions affecting asset-backed securities could lead to reductions in the market value and/or a severe lack of liquidity in the secondary market for instruments similar to the Notes. Such falls in market value and/or lack of liquidity may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the securitised portfolio.

The Issuer cannot predict when these circumstances will change and whether, if and when such circumstances do change, there would be an increase in the market value and/or there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

Counterparty risk

Counterparties on the Transaction may be unable to perform their obligations due to changes in regulation, including the loss of existing regulatory rights to do cross-border business. Additionally, they may be adversely affected by rating actions or volatile and illiquid markets (including currency markets and bank funding markets) arising from the Brexit Vote, the Article 50 Notice and the conduct and progress of the formal withdrawal negotiations. As a result, there is an increased risk of such counterparties becoming unable to fulfil their obligations which could have an adverse impact on Noteholders. See "Servicing and Third Party Risk" above.

Adverse economic conditions affecting obligors

The uncertainty and market disruption following the Brexit Vote and the delivery of the Article 50 Notice may cause investment decisions to be delayed, reduce job security and damage consumer confidence. The resulting adverse economic conditions may affect obligors' willingness or ability to meet their obligations, resulting in increased defaults in the securitised portfolio and may ultimately affect the ability of the Issuer to pay interest and repay principal to Noteholders.

Rating actions

The Brexit Vote has resulted in downgrades of the UK sovereign rating and the Bank of England by Standard & Poor's and by Fitch. Standard & Poor's and Fitch have placed a negative outlook on the UK sovereign rating and that of the Bank of England, suggesting a strong possibility of further negative rating action.

The rating of the sovereign affects the ratings of entities operating in its territory, and in particular the ratings of financial institutions. Further downgrades may cause downgrades to counterparties on the Transaction meaning that they cease to have the relevant required ratings to fulfil their roles and need to be replaced. If rating action is widespread, it may become difficult or impossible to replace counterparties on the Transaction with others who have the required ratings on similar terms or at all.

Moreover, a more pessimistic economic outlook for the UK in general could lead to increased concerns around the future performance of the securitised portfolio and accordingly the ability of the Issuer to pay

interest and repay principal to Noteholders and the ratings assigned to the Notes on the Closing Date could be adversely affected.

Volcker Rule

The Issuer is of the view that it is not now and, following the issue of the Notes and the application of the proceeds thereof, will not be a "covered fund" as defined in the regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended, commonly known as the "Volcker Rule". Although other exclusions may be available to the Issuer, this conclusion is based on the exemption from the definition of "investment company" in the Investment Company Act of 1940 provided by Section 3(c)(5) thereunder.

European Market Infrastructure Regulation

EMIR came into force on 16 August 2012. EMIR and the requirements under it impose certain obligations on parties to "over the counter" ("**OTC**") derivative contracts including (i) a mandatory clearing obligation for certain classes of OTC derivatives contracts (the "**Clearing Obligation**"), (ii) a margin posting obligation for OTC derivatives contracts not subject to clearing (the "**Collateral Obligation**"), (iii) daily valuation and other risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty, and (iv) certain reporting and record-keeping requirements.

Under EMIR, counterparties can be classified as (i) financial counterparties ("**FCs**") and (ii) non-financial counterparties. The latter classification is further split into: (i) non-financial counterparties whose positions, together with the positions of all other non-financial counterparties in its "group" (as defined in EMIR), in OTC derivatives (excluding hedging positions) exceed a specified clearing threshold ("**NFC+**"), and (ii) non-financial counterparties whose positions in OTC derivatives do not exceed any of the specified clearing thresholds ("**NFC-**"). Whereas FCs and NFC+ entities may be subject to the Clearing Obligation or, to the extent that the relevant swaps are not subject to clearing, to the Collateral Obligation, such obligations do not apply in respect of NFC- entities.

On the basis that the Issuer currently has the counterparty status of NFC-, neither the Clearing Obligation nor the Collateral Obligation should apply to it. If the Issuer's counterparty status as an NFC- changes to NFC+ or FC then certain OTC derivatives contracts that are entered into by the Issuer may become subject to the Clearing Obligation or the Collateral Obligation. In this regard, it should be noted that it is not clear that the Initial Basis Hedge Agreement would be a relevant type of OTC derivative contract that would be subject to the Clearing Obligation under the relevant implementing measures made to date.

Notwithstanding the qualifications on application described above, the position of the Initial Basis Hedge Agreement under each of the Clearing Obligation and Collateral Obligation is not entirely clear and may be affected by further measures still to be made, regulatory guidance and/or by any inability to rely on an exemption for any reason. In this regard, we note that a regulation setting out a new regulatory framework for securitisation transactions (the "**Securitisation Regulation**") was published in the Official Journal in December 2017. It will apply from 1 January 2019 to securitisations issued after that date (as well as to securitisations that create new securitisation positions after that date, subject to some transitional provisions). The Securitisation Regulation includes, amongst other things, amendments to EMIR to exempt from the Clearing Obligation certain OTC derivative contracts entered into by a securitisation special purpose entity ("**SSPE**") in connection with certain securitisations. It also provides for the development of technical standards further specifying when this exemption will apply and technical standards to calibrate the levels of collateral required under the Collateral Obligation for non-centrally cleared OTC derivatives entered into by a SSPE, taking into account the structure of securitisation arrangements.

Separately, it should also be noted that further changes will be made to the EMIR framework in the context of the EMIR review process which is ongoing and expected to be finalised during the course of 2018. We note that the EU Commission has published legislative proposals providing for certain amendments to EMIR. If the proposals are adopted in the form originally proposed by the EU Commission, the classification of certain counterparties under EMIR would change including with respect to certain securitisation vehicles such as the Issuer. The compliance position under any adopted amended framework of swap transactions entered into prior to application is uncertain. No assurances can be given that any such changes made to EMIR would not cause the status of the Issuer to change to NFC+ and lead to some or all of the potentially adverse consequences outlined below.

If the classification of the Issuer changes and the Initial Basis Hedge Agreement is regarded to be in-scope, then the Initial Basis Hedge Agreement (or any Basis Hedge Agreement) may become subject to the Clearing Obligation or (more likely) to the Collateral Obligation. Prospective investors should note that there is some uncertainty with respect to the ability of the Issuer to comply with these obligations if applicable, which may (i) lead to regulatory sanctions, (ii) adversely affect the ability of the Issuer to continue to be party to the Initial Basis Hedge Agreement (or any Basis Hedge Agreement) (possibly resulting in a restructuring or termination of the swap) and/or (iii) significantly increase the cost of such arrangements, thereby negatively affecting the ability of the Issuer to hedge certain risks. As a result, the amounts available to the Issuer to meet its obligations may be reduced, which may in turn result in investors receiving less interest or principal than expected.

The Issuer will be required to continually comply with EMIR while it is party to any interest rate swaps, including any additional provisions or technical standards which may come into force after the Closing Date, and this may necessitate amendments to the Relevant Documents. Subject to receipt by the Trustee of a certificate from (i) the Issuer signed by two directors or (ii) PML as Administrator on behalf of the Issuer certifying to the Trustee that the amendments requested by the Issuer are to be made solely for the purpose of enabling the Issuer to satisfy its requirements under EMIR, the Trustee with the written consent of the Secured Creditors which are a party to the Relevant Documents shall, without the consent or sanction of the Noteholders, the Residual Certificateholders or any of the other Secured Creditors, agree to any modification to the Relevant Documents, the Conditions and/or the Residual Certificates Conditions that are requested in writing by the Issuer (acting in its own discretion or at the direction of any transaction party) in order to enable the Issuer to comply with any requirements which apply to it under EMIR. The Conditions of the Notes and the Residual Certificates Conditions require this to be done irrespective of whether such modifications are materially prejudicial to the interests of the Noteholders of any class of Notes or Residual Certificates (in each case save to the extent the Trustee considers that the proposed modification would constitute a Basic Terms Modification). The Trustee shall not be obliged to agree to any modification if it would have the effect of exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre funded to its satisfaction or increasing the obligations or duties, or decreasing the protections of the Trustee in the Relevant Documents and/or the Conditions of the Notes.

U.S. Risk Retention

The final rules implementing the credit risk retention requirements of Section 941 of the Dodd-Frank Act, codified by Section 15G of the Securities Exchange Act of 1934, as in effect at any time or as otherwise amended (the "**U.S. Risk Retention Rules**"), came into effect with respect to RMBS securitisations on 24 December 2015, and with respect to all other asset classes on 24 December 2016, and generally require the "sponsor" of a "securitisation transaction" to retain at least 5 per cent. of the "credit risk" of "securitised assets", as such terms are defined for purposes of that statute, and generally prohibit a sponsor from directly or indirectly eliminating or reducing its credit exposure by hedging or otherwise transferring the credit risk that the sponsor is required to retain. The U.S. Risk Retention Rules also provide for certain exemptions from the risk retention obligation that they generally impose.

The Sellers, as the sponsors under the U.S. Risk Retention Rules, do not intend to retain at least 5 per cent. of the credit risk of the Notes for the purposes of the U.S. Risk Retention Rules, but rather intend to rely on an exemption provided for in Section 20 of the U.S. Risk Retention Rules regarding non-U.S. transactions. Such non-U.S. transactions must meet certain requirements, including that (1) the transaction is not required to be and is not registered under the Securities Act; (2) no more than 10 per cent. of the dollar value (or equivalent amount in the currency in which the ABS interests (as defined in Section 2 of the U.S. Risk Retention Rules) are issued, as applicable) of all classes of ABS interests (as defined in Section 2 of the U.S. Risk Retention Rules) issued in the securitisation transaction are sold or transferred to U.S. persons (in each case, as defined in the U.S. Risk Retention Rules or for the account or benefit of U.S. persons (as defined in the U.S. Risk Retention Rules and referred to in this Prospectus as "**Risk Retention U.S. Persons**"); (3) neither the sponsor nor the issuer of the securitisation transaction is organised under U.S. law or is a branch located in the United States of a non-U.S. entity; and (4) no more than 25 per cent. of the underlying collateral was acquired from a majority-owned affiliate or branch of the sponsor or issuer organised or located in the United States.

Prospective investors should note that the definition of U.S. person in the U.S. Risk Retention Rules is substantially similar to, but not identical to, the definition of U.S. person under Regulation S, and that persons who are not "U.S. persons" under Regulation S may be U.S. persons under the U.S. Risk Retention Rules. The definition of U.S. person in the U.S. Risk Retention Rules is excerpted below. Particular

attention should be paid to clauses (b) and (h), which are different to comparable provisions from Regulation S.

Under the U.S. Risk Retention Rules, and subject to limited exceptions, "U.S. person" (and "**Risk Retention U.S. Person**") in this Prospectus means any of the following:

- (a) any natural person resident in the United States;
- (b) any partnership, corporation, limited liability company, or other organisation or entity organised or incorporated under the laws of any State or of the United States;
- (c) any estate of which any executor or administrator is a U.S. person (as defined under any other clause of this definition);
- (d) any trust of which any trustee is a U.S. person (as defined under any other clause of this definition);
- (e) any agency or branch of a foreign entity located in the United States;
- (f) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person (as defined under any other clause of this definition);
- (g) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in the United States; and
- (h) any partnership, corporation, limited liability company, or other organisation or entity if:
 - (i) organised or incorporated under the laws of any foreign jurisdiction; and
 - (ii) formed by a U.S. person (as defined under any other clause of this definition) principally for the purpose of investing in securities not registered under the Securities Act.

Each purchaser of Notes, including beneficial interests therein, will be deemed, and in certain circumstances will be required, to have made certain representations and agreements, including that it (1) is not a Risk Retention U.S. Person (unless it has obtained the prior written consent of Paragon Bank), (2) is acquiring such note or a beneficial interest therein for its own account and not with a view to distribute such note, and (3) is not acquiring such note or a beneficial interest therein as part of a scheme to evade the requirements of the U.S. Risk Retention Rules.

There can be no assurance that the exemption provided for in Section 20 of the U.S. Risk Retention Rules regarding non-U.S. transactions will be available. No assurance can be given as to whether failure by the sponsor to comply with the U.S. Risk Retention Rules (regardless of the reason for such failure to comply) may give rise to regulatory action which may adversely affect the Notes or their market value. Furthermore, the impact of the U.S. Risk Retention Rules on the securitisation market generally is uncertain, and a failure by the sponsor to comply with the U.S. Risk Retention Rules could therefore negatively affect the market value and secondary market liquidity of the Notes.

None of the Issuer, the Sellers, the Trustee, the Arrangers, the Joint Lead Managers or any of their respective affiliates makes any representation to any prospective investor or purchaser of the Notes as to whether the transaction described in this Prospectus complies with the U.S. Risk Retention Rules on the Closing Date or at any time in the future. Investors should consult their own advisers as to the U.S. Risk Retention Rules. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

Clearing and Settlement

Euroclear and Clearstream, Luxembourg - Book-Entry Interests

In respect of the Global Notes and Global Residual Certificates, unless and until Definitive Notes and Definitive Residual Certificates are issued in exchange for Book-Entry Interests, holders and beneficial owners of Book-Entry Interests will not be considered the legal owners or holders of the relevant classes of Notes and Residual Certificates under the Trust Deed. After payment to the Principal Paying Agent, the

Issuer will not have responsibility or liability for the payment of interest, principal or other amounts in respect of the Notes (other than the Class S VFN) and Residual Certificates to Euroclear or Clearstream, Luxembourg or to holders or beneficial owners of Book-Entry Interests.

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

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

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

Lack of physical form

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

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

Change of Law

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

Withholding Tax under the Notes

Provided that the Notes (other than the Class S VFN) are and continue to be "listed on a recognised stock exchange" (within the meaning of section 1005 of the Income Tax Act 2007), as at the date of this Prospectus no withholding or deduction for or on account of United Kingdom income tax will be required on payments of interest on the Notes (other than the Class S VFN). However, there can be no assurance that the law in this area will not change during the life of the Notes.

In the event that withholding taxes are imposed by or in any jurisdiction in respect of payments to Noteholders of amounts due pursuant to the Notes, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person is obliged to gross up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of the imposition of such withholding taxes. However, in such circumstances, the Issuer may, in accordance with Condition 5(c) (*Redemption for Taxation or Other Reasons*) of the Notes, redeem all (but not some only) of the Notes.

The applicability of any withholding or deduction for or on account of United Kingdom tax on payments of interest on the Notes is discussed further under "*United Kingdom Taxation*" below.

Securitisation Company Tax Regime

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

EU financial transaction tax

On 14 February 2013, the European Commission issued proposals, including a draft Directive (the "**Commission's Proposals**"), for a financial transaction tax ("**FTT**") to be adopted in certain participating EU member states (including Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia). However, Estonia has since stated that it will not participate. If these proposals were adopted in their current form, the FTT would be a tax primarily on "financial institutions" (which would include the Issuer) in relation to "financial transactions" (which would include the conclusion or modification of derivative contracts and the purchase and sale of financial instruments).

Under the Commission's Proposals, the FTT would apply to persons both within and outside of the participating member states. Generally, it would apply where at least one party is a financial institution, and at least one party is established in a participating member state. A financial institution may be, or be deemed to be, "established" in a participating member state in a broad range of circumstances, including (a) by transacting with a person established in a participating member state or (b) where the financial instrument which is subject to the financial transaction is issued in a participating member state.

If the FTT is adopted based on the Commission's Proposals, then it may operate in a manner giving rise to tax liabilities for the Issuer with respect to certain transactions (including concluding swap transactions and/or purchases or sales of securities (such as authorised investments)) if the conditions for a charge to arise are satisfied. Any such liabilities may reduce amounts available to the Issuer to meet its obligations under the Notes and may result in investors receiving less interest and/or principal than expected. To the extent that such liabilities may arise at a time when winding up proceedings have been commenced in respect of the Issuer, such liabilities may be regarded as an expense of the liquidation and, as such, be

payable out of the floating charge assets of the Issuer (and its general estate) in priority to the claims of Noteholders and other secured creditors. It should also be noted that the FTT could be payable in relation to relevant transactions by investors in respect of the Notes (including secondary market transactions) if the conditions for a charge to arise are satisfied. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are expected to be exempt.

The FTT proposal remains subject to negotiation between participating member states. Additional EU member states may decide to participate. It may therefore be altered prior to any implementation, the timing of which remains unclear. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

**TRANSACTION OVERVIEW – SUMMARY OF THE TERMS AND CONDITIONS OF THE
NOTES AND RESIDUAL CERTIFICATES**

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

FULL CAPITAL STRUCTURE OF THE NOTES

	Class A	Class B	Class C	Class D	Class Z	Class S	Class S VFN	RC1a Residual Certificates	RC1b Residual Certificates	RC2a Residual Certificates	RC2b Residual Certificates	
Initial Principal Amount	£600,000,000	£33,500,000	£30,000,000	£24,700,000	£17,648,000	£10,923,000	£7,952,955	N/A	N/A	N/A	N/A	
Note Credit Enhancement Features	Excess Available Revenue, availability of General Reserve Fund Excess Amounts and Class A and Class B Liquidity Reserve Fund Excess Amounts, subordination of Class B Notes, Class C Notes, the Class D Notes, the Class Z Notes, the Class S Notes and the Class S VFN	Excess Available Revenue, availability of General Reserve Fund Excess Amounts and Class A and Class B Liquidity Reserve Fund Excess Amounts, subordination of Class C Notes, the Class D Notes, the Class Z Notes, the Class S Notes and the Class S VFN	Excess Available Revenue, availability of General Reserve Fund Excess Amounts and Class A and Class B Liquidity Reserve Fund Excess Amounts, subordination of the Class D Notes, the Class Z Notes, the Class S Notes and the Class S VFN	Excess Available Revenue, availability of General Reserve Fund Excess Amounts and Class A and Class B Liquidity Reserve Fund Excess Amounts, subordination of the Class Z Notes, the Class S Notes and the Class S VFN	Excess Available Revenue, availability of General Reserve Fund Excess Amounts and Class A and Class B Liquidity Reserve Fund Excess Amounts, subordination of the Class S Notes and the Class S VFN	Excess Available Revenue, availability of General Reserve Fund Excess Amounts and Class A and Class B Liquidity Reserve Fund Excess Amounts, subordination of the Class S Notes and the Class S VFN	Excess Available Revenue, availability of General Reserve Fund Excess Amounts and Class A and Class B Liquidity Reserve Fund Excess Amounts, subordination of the Class S Notes and the Class S VFN	Excess Available Revenue, availability of General Reserve Fund Excess Amounts and Class A and Class B Liquidity Reserve Fund Excess Amounts, subordination of the Class S Notes and the Class S VFN	N/A	N/A	N/A	N/A

Liquidity Support Features	Mortgage Margin Reserve Fund, Conversion Margin	Mortgage Margin Reserve Fund, Conversion Margin	Mortgage Margin Reserve Fund, Conversion Margin	Mortgage Margin Reserve Fund, Conversion Margin	Mortgage Margin Reserve Fund, Conversion Margin	Mortgage Margin Reserve Fund, Conversion Margin	Mortgage Margin Reserve Fund, Conversion Margin	N/A	N/A	N/A	N/A
	Reserve Fund, Available Redemption Receipts applied as Principal Addition Amounts to provide for any Senior Expenses Deficit and the amounts credited to the Class A and Class B Liquidity Reserve Fund and the General Reserve Fund	Reserve Fund, Available Redemption Receipts applied as Principal Addition Amounts to provide for any Senior Expenses Deficit and the amounts credited to the Class A and Class B Liquidity Reserve Fund and the General Reserve Fund (subject to conditions as set out in "Overview of Credit Structure and Cashflow Potential Interest Shortfall")	Reserve Fund, amounts credited to the General Reserve Fund (subject to conditions as set out in "Overview of Credit Structure and Cashflow Potential Interest Shortfall")	Reserve Fund, Amounts credited to the General Reserve Fund (subject to conditions as set out in "Overview of Credit Structure and Cashflow Potential Interest Shortfall")	Reserve Fund	Reserve Fund	Conversion Margin Reserve Fund				
Issue Price	100%	100%	100%	100%	100%	100%	100%	N/A	N/A	N/A	N/A

	Class A	Class B	Class C	Class D	Class Z	Class S	Class S VFN	RC1a Residual Certificates	RC1b Residual Certificates	RC2a Residual Certificates	RC2b Residual Certificates
Reference Rate	Three-Month GBP LIBOR (interpolation of three month and six month GBP LIBOR in respect of the first Interest Payment Date)	Three-Month GBP LIBOR (interpolation of three month and six month GBP LIBOR in respect of the first Interest Payment Date)	Three-Month GBP LIBOR (interpolation of three month and six month GBP LIBOR in respect of the first Interest Payment Date)	Three-Month GBP LIBOR (interpolation of three month and six month GBP LIBOR in respect of the first Interest Payment Date)	Three-Month GBP LIBOR (interpolation of three month and six month GBP LIBOR in respect of the first Interest Payment Date)	Three-Month GBP LIBOR (interpolation of three month and six month GBP LIBOR in respect of the first Interest Payment Date)	Three-Month GBP LIBOR (interpolation of three month and six month GBP LIBOR in respect of the first Interest Payment Date)	N/A	N/A	N/A	N/A
	"LIBOR" means the London Interbank Offered Rate for GBP deposits.							N/A	N/A	N/A	N/A
	"GBP LIBOR" means in respect of any Interest Period, the Reference Rate in respect of the Notes in respect of that Interest Period as determined in accordance with Condition 4(d)(ii).							N/A	N/A	N/A	N/A
Initial Margin	Up to and excluding the Step-Up Date, 0.65% per annum	Up to and excluding the Step-Up Date, 0.95% per annum	Up to and excluding the Step-Up Date, 1.30% per annum	Up to and excluding the Step-Up Date, 1.60% per annum	2.60% per annum	4.0% per annum	4.0% per annum	N/A	N/A	N/A	N/A
Step-Up Margin	From and including the Step-Up Date, 0.975% per annum	From and including the Step-Up Date, 1.425% per annum	From and including the Step-Up Date, 1.95% per annum	From and including the Step-Up Date, 2.40% per annum	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interest Accrual	ACT/365 (fixed)	ACT/365 (fixed)	ACT/365 (fixed)	ACT/365 (fixed)	ACT/365 (fixed)	ACT/365 (fixed)	ACT/365 (fixed)	N/A	N/A	N/A	N/A

	Class A	Class B	Class C	Class D	Class Z	Class S	Class S VFN	RC1a Residual Certificates	RC1b Residual Certificates	RC2a Residual Certificates	RC2b Residual Certificates
Interest Determination Date	The 15 th day of May, August, November and February.							N/A	N/A	N/A	N/A
Interest Payment Dates	Interest will be payable quarterly in arrear on the Interest Payment Date falling on or around the 15 th day of May, August, November and February commencing on the First Interest Payment Date.							N/A	N/A	N/A	N/A
Business Day Convention	Following	Following	Following	Following	Following	Following	Following	N/A	N/A	N/A	N/A
First Interest Payment Date	15 August 2018							N/A	N/A	N/A	N/A
First Interest Period	The period from 26 April 2018 to, but excluding, 15 August 2018							N/A	N/A	N/A	N/A
Step-Up Date	15 May 2023	15 May 2023	15 May 2023	15 May 2023	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	If the call option is exercised on the Step-Up Date or any Interest Payment Date thereafter, the Notes will be redeemed in full on such date. Please refer to Condition 5 (<i>Redemption and Purchase</i>).										
Principal Determination Date	Last Business Day of April, July, October and January							N/A	N/A	N/A	N/A
Further Sale Period	The period from but excluding the Closing Date up to and excluding the earlier of (a) the Step-Up Date and (b) the occurrence of a Further Sale Period Termination Event							N/A	N/A	N/A	N/A

	Class A	Class B	Class C	Class D	Class Z	Class S	Class S VFN	RC1a Residual Certificates	RC1b Residual Certificates	RC2a Residual Certificates	RC2b Residual Certificates
Pre-Enforcement Redemption Profile	<p>On each Interest Payment Date prior to the occurrence of a Further Sale Period End Date, (a) mandatory redemption in part of the Class A Notes up to the Class A Target Notional to the extent of Available Redemption Funds (plus (if applicable) an additional repayment in respect of the Class A Notes to the extent there are any Retained Principal Release Amounts) and (b) (if applicable) sequential pass through redemption by seniority of the other classes of Notes to the extent of (x) Available Redemption Funds not used by the Issuer to acquire Additional Mortgages or credited to the Retained Principal Ledger plus (y) any Retained Principal Release Amounts not used to redeem the Class A Notes, in each case subject to and in accordance with the Principal Priority of Payments.</p> <p>On or following the occurrence of a Further Sale Period End Date, sequential pass through redemption by seniority of the Notes, in each case to the extent of Available Redemption Funds, subject to and in accordance with the Principal Priority of Payments.</p> <p>Following the Step-Up Date, Available Redemption Funds shall include the Additional Available Redemption Funds subject to and in accordance with the Revenue Priority of Payments.</p> <p>If the call option is exercised on the Step-Up Date or any Interest Payment Date thereafter, the Notes will be redeemed in full on such date. Please refer to Condition 5 (<i>Redemption and Purchase</i>).</p>							N/A	N/A	N/A	N/A
Post-Enforcement Redemption Profile	Sequential pass through redemption by seniority of the Notes in accordance with the Enforcement Priority of Payments. Please refer to " <i>Cashflows and Cash Management</i> ".							N/A	N/A	N/A	N/A
Other Early Redemption in Full Events	Tax Call/Clean-up Call. Please refer to Condition 5 (<i>Redemption and Purchase</i>). ⁵							N/A	N/A	N/A	N/A
Final Maturity Date	The Interest Payment Date falling in May 2050	The Interest Payment Date falling in May 2050	The Interest Payment Date falling in May 2050	The Interest Payment Date falling in May 2050	The Interest Payment Date falling in May 2050	The Interest Payment Date falling in May 2050	The Interest Payment Date falling in May 2050	N/A	N/A	N/A	N/A

⁵ From the Step-Up Date, the Portfolio Option Holder has the right to exercise a purchase option in relation to the Mortgage Portfolio, which would lead to an early redemption of the Notes

	Class A	Class B	Class C	Class D	Class Z	Class S	Class S VFN	RC1a Residual Certificates	RC1b Residual Certificates	RC2a Residual Certificates	RC2b Residual Certificates
Form of the Notes and Residual Certificates	Registered Notes	Registered Notes	Registered Notes	Registered Notes	Registered Notes	Registered Notes	Registered Notes	Registered Residual Certificates	Registered Residual Certificates	Registered Residual Certificates	Registered Residual Certificates
Application for Listing	London	London	London	London	London	London	N/A	N/A	N/A	N/A	N/A
ISIN	XS1785818649	XS1785821437	XS1785821940	XS1785822088	XS1785822245	XS1785822328	N/A	XS1786079878	XS1786082740	XS1786082823	XS1786083128
Common Code	178581864	178582143	178582194	178582208	178582224	178582232	N/A	178607987	178608274	178608282	178608312
Clearance/Settlement	Euroclear / Clearstream, Luxembourg	Euroclear / Clearstream, Luxembourg	Euroclear / Clearstream, Luxembourg	Euroclear / Clearstream, Luxembourg	Euroclear / Clearstream, Luxembourg	Euroclear / Clearstream, Luxembourg	N/A	Euroclear / Clearstream, Luxembourg	Euroclear / Clearstream, Luxembourg	Euroclear / Clearstream, Luxembourg	Euroclear / Clearstream, Luxembourg
Minimum Denomination	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000	N/A	N/A	N/A	N/A
Minimum Incremental Denominations	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1	N/A	N/A	N/A	N/A
Regulation	Reg S	Reg S	Reg S	Reg S	Reg S	Reg S	Reg S	N/A	N/A	N/A	N/A

OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES AND RESIDUAL CERTIFICATES

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

Ranking of Payments of Interest:

On the Closing Date, the Issuer will issue the following classes of Notes under the Trust Deed:

- (a) Class A Mortgage Backed Floating Rate Notes due 2050 (the "**Class A Notes**");
- (b) Class B Mortgage Backed Floating Rate Notes due 2050 (the "**Class B Notes**");
- (c) Class C Mortgage Backed Floating Rate Notes due 2050 (the "**Class C Notes**");
- (d) Class D Mortgage Backed Floating Rate Notes due 2050 (the "**Class D Notes**");
- (e) Class Z Mortgage Backed Floating Rate Notes due 2050 (the "**Class Z Notes**");
- (f) Class S Mortgage Backed Floating Rate Notes due 2050 (the "**Class S Notes**"); and
- (g) Class S Variable Funding Note due 2050 (the "**Class S VFN**");

and together, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes are the "**Rated Notes**". The Rated Notes together with the Class Z Notes, the Class S Notes and the Class S VFN, the "**Notes**" and the holders thereof, the "**Noteholders**".

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

The Notes within each class will rank *pro rata* and *pari passu* and rateably among themselves at all times in respect of payments of interest to be made to such individual class.

Residual Certificates in the same class rank *pari passu* and rateably without any preference or priority among themselves in their right to receive Residual Payments.

"**Sequential Order**" means:

- (a) in respect of payments of interest under the Notes:
 - (i) *first*, to the Class A Notes;
 - (ii) *second*, to the Class B Notes;
 - (iii) *third*, to the Class C Notes;
 - (iv) *fourth*, to the Class D Notes;
 - (v) *fifth*, to the Class Z Notes;
 - (vi) *sixth*, to the Class S Notes; and

- (vii) *seventh*, to the Class S VFN.
- (b) in respect of payments of principal under the Notes:
 - (i) *first*, to the Class A Notes;
 - (ii) *second*, to the Class B Notes;
 - (iii) *third*, to the Class C Notes;
 - (iv) *fourth*, to the Class D Notes;
 - (v) *fifth*, to the Class Z Notes;
 - (vi) *sixth*, to the Class S Notes; and
 - (vii) *seventh*, to the Class S VFN.

The RC1a Residual Certificates rank *pro rata* and *pari passu* without preference or priority among themselves in relation to RC1a Payments at all times, the RC1b Residual Certificates rank *pro rata* and *pari passu* without preference or priority among themselves in relation to RC1b Payments at all times and are subordinated to all payments due in respect of the Notes, the RC2a Residual Certificates rank *pro rata* and *pari passu* without preference or priority among themselves in relation to RC2a Payments at all times and the RC2b Residual Certificates rank *pro rata* and *pari passu* without preference or priority among themselves in relation to RC2b Payments at all times, and are subordinate to all payments due in respect of the Notes.

Ranking of Payments of Principal:

Payments of principal on the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class Z Notes, the Class S Notes and the Class S VFN will be made in Sequential Order provided that, at any time (prior to the Step-Up Date) the Class S Notes and the Class S VFN may be redeemed prior to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes, as principal on the Class S Notes and the Class S VFN may be repaid through the Revenue Priority of Payments.

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

In respect of each class of Notes the amount of principal, if any, so allocated to that class shall be allocated to each Note in that class *pro rata* to the Principal Liability Outstanding of each such Note in that class, provided always that the amount so allocated shall not exceed the Principal Liability Outstanding of the relevant Note.

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

Residual Certificates:

On the Closing Date, the Issuer will also issue to: (a) PML the RC1a Residual Certificates and RC2a Residual Certificates; and (b) Paragon Bank the RC1b Residual Certificates and RC2b Residual Certificates, in each case under the Trust Deed representing the right to receive the RC1a Payments, the RC2a Payments, the RC1b Payments and the RC2b Payments respectively, by way of deferred consideration for the Issuer's purchase of the Mortgage Portfolio.

Security:

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

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

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

On or about the Closing Date: (a) PML as Seller will enter into the PML Collection Account Declaration of Trust under which 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 PML Collection Account are held on trust for the Issuer until they are applied in the manner described above; and (b) Paragon Bank as Seller will enter into the PB Collection Account Declaration of Trust under which Paragon Bank 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 PB Collection Account are held on trust for the Issuer until they are applied in the manner described above.

Interest payable on the Notes:

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

Interest Deferral:

From and including the Step-Up Date, the margin due and payable on each class of Notes (other than the Class Z Notes, the Class S Notes, and the Class S VFN) shall increase, as described in Condition 4 (*Interest*). Interest due and payable on each class of Notes (other than payments of any Normal Interest on the Most Senior Class of Notes) may be deferred in accordance with Condition 4 (*Interest*).

Withholding Tax:

None of the Issuer, the Trustee or any Agent or any other person will be obliged to gross up payments to the Noteholders if there is any withholding or deduction required by law for or on account of taxes, duties, assessments or governmental charges of whatever nature from any payments made to the Noteholders.

Redemption:

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

- (a) on each Interest Payment Date falling within the Further Sale Period subject to availability of Available Redemption Funds, mandatory redemption in part of the Class A Notes to the Class A Target Notional, as fully set out in Condition 5(a) (*Mandatory Redemption in Part from Available Redemption Funds*);
- (b) on each Interest Payment Date falling within the Further Sale Period, subject to availability of Retained Principal Release Amount (if applicable), mandatory redemption in part of the Class A Notes to Class Z Notes (inclusive) in Sequential Order, as fully set out in Condition 5(a) (*Mandatory Redemption in Part from Available Redemption Funds*);
- (c) on each Interest Payment Date falling on or after the Further Sale Period End Date, mandatory redemption in part of the Notes on such Interest Payment Date subject to availability of Available Redemption Funds (including, following the Step-Up Date, Additional Available Redemption Funds), as fully set out in Condition 5(a) (*Mandatory Redemption in Part from Available Redemption Funds*);
- (d) optional redemption in whole exercisable by the Issuer for tax reasons, as fully set out in Condition 5(c) (*Redemption for Taxation or Other Reasons*);
- (e) optional redemption in whole exercisable on any Interest Payment Date on or after the Step-Up Date, as fully set out in Condition 5(d) (*Optional Redemption in Full*);
- (f) optional redemption in whole exercisable by the Issuer on any Interest Payment Date where the Principal Liability Outstanding of all the Notes on the related Interest Payment Date is less than 10 per cent. of the aggregate Initial Principal Amount of the Notes as at the Closing Date, as fully set out in Condition 5(d) (*Optional Redemption in Full*);
- (g) mandatory redemption in whole on the Final Maturity Date, as fully set out in Condition 5(e) (*Redemption on Maturity*); and
- (h) mandatory redemption in whole pursuant to a Portfolio Purchase, as fully set out in Condition 5(e) (*Mandatory Redemption in full pursuant to a Portfolio Purchase*).

In the case of optional or mandatory redemption pursuant to (d) to (h) above, each Note redeemed will be redeemed in an amount equal to the Principal Liability Outstanding of the relevant Note together with any accrued (and unpaid) interest. Redemption in the case of the Notes (other than the Class A Notes) will include amounts of "**Additional Interest**" which is interest on Deferred Interest but not capitalised up to (but excluding) the date of redemption.

Event of Default:

As fully set out in Condition 9 (*Events of Default*) and Residual Certificates Condition 8 (*Events of Default*), which broadly includes:

- non-payment by the Issuer of principal in respect of the Most Senior Class of Notes within 7 days following the due date;
- non-payment by the Issuer of any interest amount representing Normal Interest on the Most Senior Class of Notes within 15 days following the due date;
- breach of contractual obligations by the Issuer under the Relevant Documents which is materially prejudicial to the interests of the holders of the Most Senior Class of Notes; or
- an Issuer Insolvency Event.

On and following delivery of an Enforcement Notice, each Note shall become immediately due and repayable at their/its Principal Liability Outstanding together with all accrued interest.

Limited Recourse:

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

The Residual Certificateholders are only entitled to funds which are available to the Issuer in accordance with the applicable Payments Priorities and therefore the Residual Certificates are limited recourse obligations of the Issuer.

Governing Law:

English law.

OVERVIEW OF RIGHTS OF NOTEHOLDERS AND RESIDUAL CERTIFICATEHOLDERS

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

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

Following an Event of Default: If an Event of Default occurs and is continuing, the holders of not less than 25 per cent. of the aggregate of the Principal Amount Outstanding of the Most Senior Class of Notes (or, provided that the Notes have been redeemed in full, the holders of not less than 25 per cent. in number of the Residual Certificates) may by written notice or an Extraordinary Resolution direct the Trustee to give an Enforcement Notice to the Issuer pursuant to which (in the case of an Extraordinary Resolution of the Most Senior Class of Notes) all Notes of each Class shall become immediately due and repayable at their respective Principal Liability Outstanding or (in the case of an Extraordinary Resolution of the Residual Certificates) that all RC1 Payments or RC2 Payments pursuant to the Residual Certificates are immediately due and payable, as applicable, in each case subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction.

The Trustee will not be required to comply with any request or direction from the holders of the Residual Certificates or any Class of them (whether pursuant to Residual Certificates Condition 8 or 9 or otherwise) if the Issuer shall have certified in writing to the Trustee (upon which certificate the Trustee may rely without any duty or obligation to investigate or verify if the same is correct) that no further amounts are payable to the holders of the Residual Certificates in accordance with Residual Certificates Condition 4(e) (*Residual Payments*).

Noteholders and Residual Certificateholders meeting provisions:

	<i>Initial Meeting</i>	<i>Adjourned Meeting</i>
Notice period for Ordinary Resolution:	21 clear days for the initial meeting.	Adjourned meeting held on same day in the next week (or if such day is a public holiday, the next succeeding business day).
Notice period for Extraordinary Resolution:	21 clear days for initial meeting.	Not less than 14 days and not more than 42 days for the adjourned meeting.
Quorum for Ordinary Resolution:	Two or more persons holding or representing not less than 5 per cent. of the Principal	At an adjourned meeting, two or more persons being or representing Noteholders

	<p>Amount Outstanding of the relevant class or classes of Notes outstanding for the initial meeting or, in the case of Residual Certificates two or more persons present and representing in aggregate not less than 5 per cent. of the relevant Class or Classes of Residual Certificate.</p>	<p>of the relevant class or classes of Notes outstanding, whatever the Principal Amount Outstanding of the Notes then outstanding held or represented by such person(s) or, in the case of Residual Certificates two or more persons present and representing Residual Certificateholders of the relevant Class or Classes of Residual Certificate, whatever the percentage of the Residual Certificates then outstanding represented by such person.</p>
<p>Quorum for Extraordinary Resolution:</p>	<p>Two or more persons holding or representing greater than 50 per cent. of the Principal Amount Outstanding of the relevant class or classes of Notes outstanding for the initial meeting or, in the case of Residual Certificates two or more persons present and representing in aggregate greater than 50 per cent. of the relevant Class or Classes of Residual Certificate, (other than a Basic Terms Modification (which must be proposed separately to each Class of Noteholders and Residual Certificateholders), which requires two or more persons holding or representing in aggregate greater than 75 per cent. of the Principal Amount Outstanding of the relevant class or classes of Notes then outstanding) or, in the case of Residual Certificates two or more persons present and representing in</p>	<p>At an adjourned meeting two or more persons being or representing Noteholders of the relevant class or classes of Notes outstanding, whatever the Principal Amount Outstanding of the Notes then outstanding held or represented by such person(s) or, in the case of Residual Certificates two or more persons present and representing Residual Certificateholders of the relevant Class or Classes of Residual Certificate, whatever the percentage of the Residual Certificates then outstanding represented by such person (other than a Basic Terms Modification (which must be proposed separately to each Class of Noteholders and Residual Certificateholders), which requires two or more persons holding or representing greater than in aggregate 25 per cent. of the Principal Amount Outstanding of the relevant class or classes of Notes then</p>

aggregate greater than 75 per cent. of the relevant Class or Classes of Residual Certificate. outstanding or, in the case of Residual Certificates two or more persons present and representing in aggregate greater than 25 per cent. of the relevant Class or Classes of Residual Certificate).

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

Electronic Consents: Noteholders may also pass an Extraordinary Resolution by way of electronic consents communicated through the electronic communications systems of the clearing system(s) to the Principal Paying Agent or another specified agent and/or the Trustee in accordance with the operating rules and procedures of the relevant clearing system(s) ("**Electronic Consents**"). Such consents are required from Noteholders of not less than 75 per cent. in aggregate Principal Amount Outstanding of the relevant class or classes of Notes then outstanding for matters requiring Extraordinary Resolutions. A resolution passed by such means has the same effect as an Extraordinary Resolution.

Basic Terms Modification: Broadly speaking, the following matters are Basic Terms Modifications: changes to payments (timing, method of calculation, reductions or cancellations of amounts due and currency), to effect the exchange, conversion or substitution of the Notes, changes to Payments Priorities, changes to quorum and majority requirements and amendments to the definition of Basic Terms Modification. For the avoidance of doubt, a Base Rate Modification is not a Basic Terms Modification.

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

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

Sellers as Noteholders: For the purposes of, *inter alia*, the right to attend and vote at any meeting of Noteholders, any Extraordinary Resolution in writing and any direction made by Noteholders, those Class A Notes, Class B Notes and Class C Notes (if any) which are held by or on behalf of or for the benefit of the Issuer, the Issue Services Provider, PML, PFPLC, Paragon Bank or any of their subsidiaries or holding companies or other subsidiaries of such holding companies (the "**Relevant Persons**"), shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except where one or more Relevant Person holds all the Notes of any class and there is no other class of Notes ranking *pari passu* with, or more junior to, such Notes, which is not wholly beneficially owned by one or more Relevant Persons and provided that,

in respect of any class of Notes, in relation to a matter (a) relating to a Basic Terms Modification or (b) relating to a meeting of Noteholders which has been convened by any Noteholder that is not a Relevant Person, any Notes which are for the time being held by or on behalf of or for the benefit of a Relevant Person, in each case as beneficial owner, shall be deemed to remain outstanding or in issue, as applicable.

**Relationship between
Noteholders and Residual
Certificateholders and
other Secured Creditors:**

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

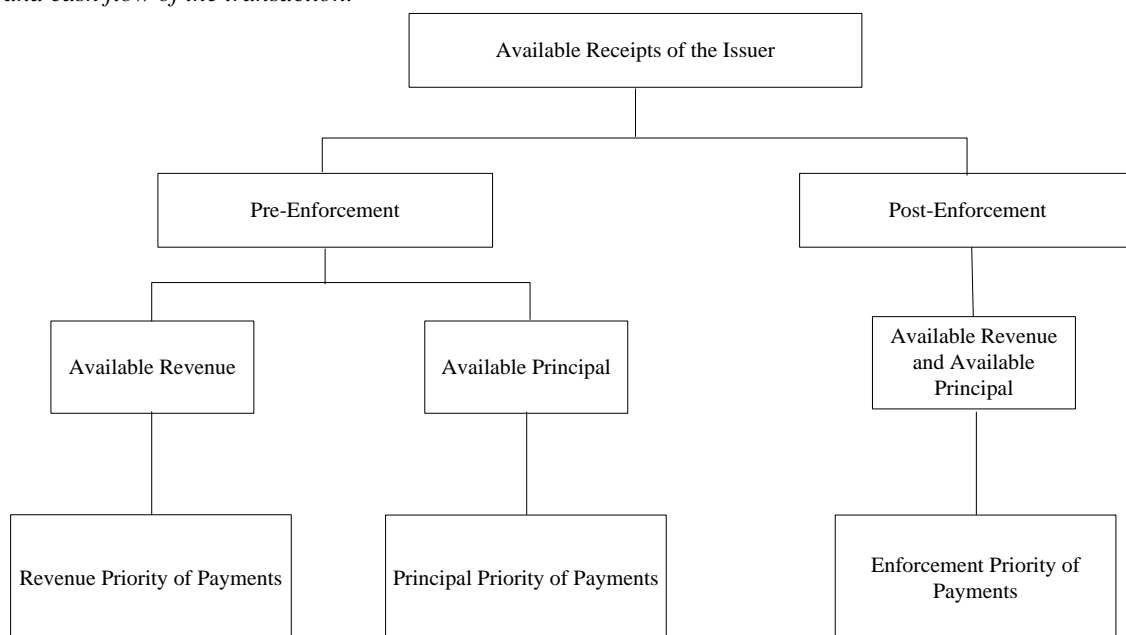
**Provision of Information
to the Noteholders:**

The Issuer shall provide the following information to investors:

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

TRANSACTION OVERVIEW — OVERVIEW OF CREDIT STRUCTURE AND CASHFLOW

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



Available Receipts of the Issuer:

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

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

- (a) all revenue received by the Issuer during the immediately preceding Collection Period less any fees and expenses comprised in such revenue amounts which properly belong to third parties;
- (b) interest received by the Issuer on the Transaction Account and income from any Authorised Investments;
- (c) amounts received by the Issuer under the Basis Hedge Agreements (subject to certain exceptions as set out in full in the section entitled "*Cashflows and Cash Management*" below and in particular except for any Hedge Collateral or proceeds thereof);
- (d) any other net income of the Issuer received during the immediately preceding Collection Period (other than, among other things, (x) principal receipts, (y) amounts payable to certain third parties (including but not limited to any Swap Tax Credits);
- (e) on each Interest Payment Date up to but excluding the Class B Redemption Date, the Class A and Class B Liquidity Reserve Fund Excess Amount;
- (f) on the Class B Redemption Date only, all amounts standing to the credit of the Class A and Class B Liquidity Reserve Fund Ledger (after first having applied any Class A and Class B Liquidity Reserve Fund Release Amount in meeting any Class A and Class B Liquidity Deficit against the relevant items in the Revenue

Priority of Payments in the order they appear in the Revenue Priority of Payments and debiting such amount from the Class A and Class B Liquidity Reserve Fund Ledger);

- (g) on each Interest Payment Date up to and including the Final Redemption Date, the General Reserve Fund Excess Amount;
- (h) if required, Principal Addition Amounts applied to fund a Senior Expenses Deficit (subject to, in the case of a Senior Expenses Deficit in respect of interest payable on the Class B Notes, the debit balance of the Principal Deficiency Ledger not exceeding certain limits);
- (i) amounts representing the revenue element (as reasonably determined by PML as Administrator) of the Portfolio Option Purchase Price received by the Issuer upon sale of the Mortgages comprising the Mortgage Portfolio further to exercise of the Portfolio Option;
- (j) the aggregate of Interest Rate Converted Mortgage Release Amounts calculated by PML as Administrator in respect of such Interest Payment Date;
- (k) the Quarterly MRF Release Amount, which PML as Administrator has determined should be released from the Mortgage Margin Reserve Fund Ledger on such Interest Payment Date; and
- (l) any Conversion MRF Excess Amount or Non-Proceeding Conversion Release Amount.

Available Principal will include, for each Interest Payment Date:

- (a) all principal amounts received by the Sellers in respect of the Mortgages in the Mortgage Portfolio during the immediately preceding Collection Period (including the consideration representing principal paid by each of the Sellers in respect of the repurchase of any Mortgages and their related security and recoveries (representing principal amounts) received in relation to the enforcement of any Mortgages);
- (b) any Revenue Receipts credited to the Principal Deficiency Ledger on the immediately preceding Principal Determination Date;
- (c) any funds retained by the Issuer to be applied in or towards the redemption of the Notes on the immediately preceding Interest Payment Date which were not applied in or towards the redemption of the Notes on such Interest Payment Date;
- (d) on and following the occurrence of a Further Sale Period End Date, all amounts standing to the credit of the Retained Principal Ledger on the immediately following Interest Payment Date;
- (e) any amounts deducted by the Issuer pursuant to items (ii)(A) to (E) of the definition of Available Redemption Funds on the immediately previous Interest Payment Date which were not so applied on the immediately preceding Interest Payment Date;
- (f) on the earlier of (x) the MFA Pre-Funding Reserve Ledger Release Date and (y) the Principal Determination Date immediately preceding the Step-Up Date, any amount which is debited from the MFA Pre-Funding Reserve Ledger and credited to the Principal Ledger on such date; and
- (g) to the extent that the MFA Pre-Funding Reserve Ledger Release Date has not occurred, any amounts debited from the MFA Pre-

Funding Reserve Ledger and credited to the Principal Ledger on or before the Principal Determination Date immediately preceding the Interest Payment Dates falling in each of 15 February 2020, 15 February 2021, 15 February 2022 and 15 February 2023 pursuant to clause 6.4.4 of the Administration Agreement;

- (h) on the Final Redemption Date only, all amounts standing to the credit of the General Reserve Fund (after first having applied any Class A and Class B Liquidity Reserve Fund Release Amounts in meeting any Class A and Class B Liquidity Deficit and then any General Reserve Fund Release Amount in meeting any Revenue Deficit against the relevant item in the Revenue Priority of Payments in the order they appear in the Revenue Priority of Payments and debiting such amounts from the Class A and Class B Liquidity Reserve Fund Ledger and/or the General Reserve Fund Ledger in accordance with the Revenue Priority of Payments, in each case on such Final Redemption Date);
- (i) on any Principal Determination Date following the Step-Up Date, the Additional Available Redemption Funds (if any); and
- (j) amounts representing the principal element (as reasonably determined by PML as Administrator) of the Portfolio Option Purchase Price received by the Issuer upon sale of the Mortgages comprising the Mortgage Portfolio further to exercise of the Portfolio Option,

less any amount to be applied to fund a Senior Expenses Deficit on each Interest Payment Date.

Application of Monies released from the Class A and Class B Liquidity Reserve Fund:

Prior to service of an Enforcement Notice on the Issuer, an amount equal to the Class A and Class B Liquidity Reserve Fund Release Amount will be applied on each Interest Payment Date up to and including the Class B Redemption Date to meet any Class A and Class B Liquidity Deficit existing on such Interest Payment Date against the relevant items in the Revenue Priority of Payments in the order that they appear in the Revenue Priority of Payments.

Application of Monies released from the General Reserve Fund

Prior to service of an Enforcement Notice on the Issuer, an amount equal to the General Reserve Fund Release Amount will be applied (after first having applied any Class A and Class B Liquidity Reserve Fund Release Amount to meet any Class A and Class B Liquidity Deficit) on each Interest Payment Date to meet any Revenue Deficit existing on such Interest Payment Date against the relevant items in the Revenue Priority of Payments in the order that they appear in the Revenue Priority of Payments.

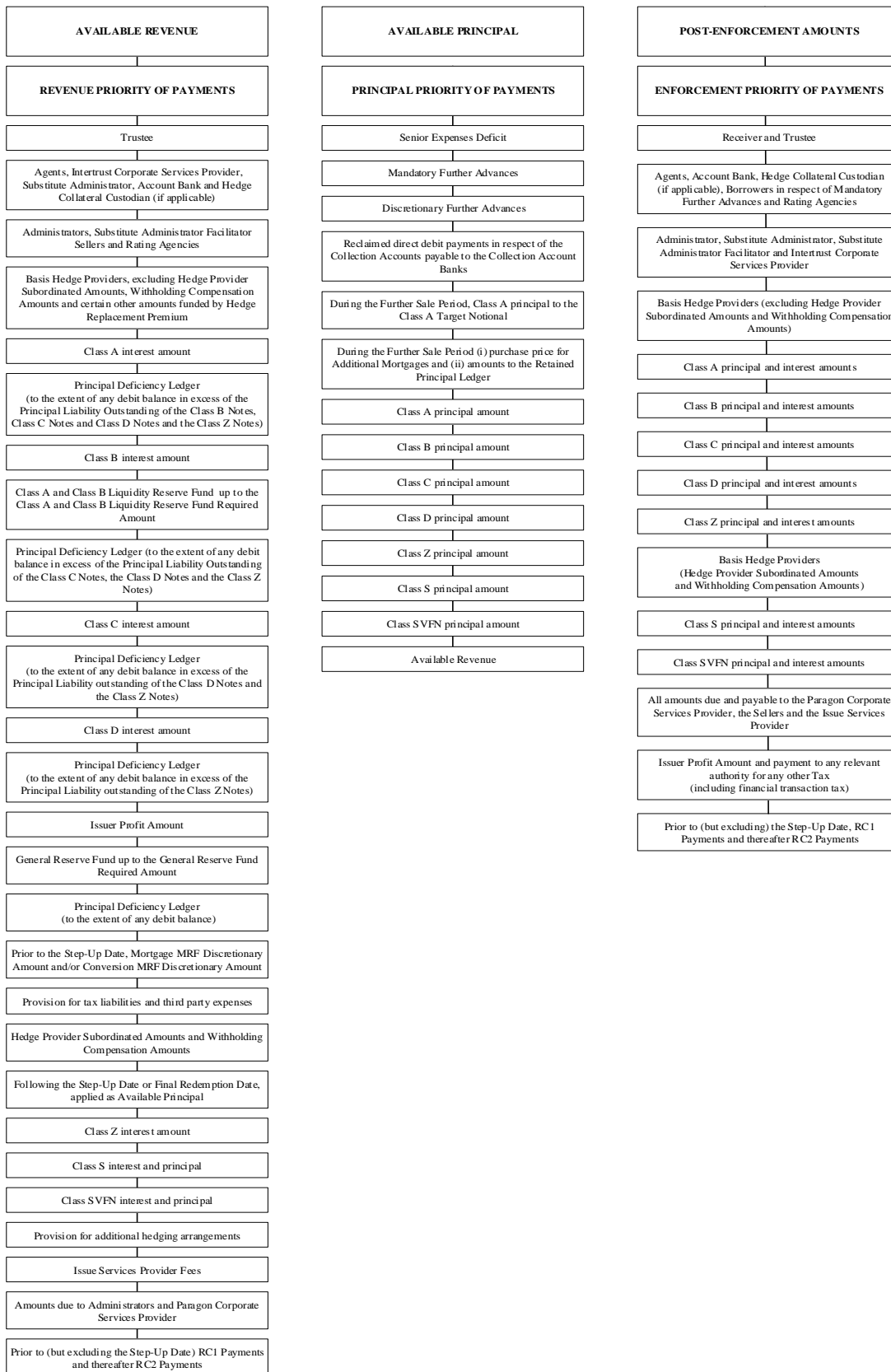
Retained Principal Release Amounts

If on any Principal Determination Date immediately preceding an Interest Payment Date during the Further Sale Period, the amount standing to the credit of the Retained Principal Ledger exceeds the Maximum Principal Retained Amount, the amount standing to the credit of the Retained Principal Ledger in excess of the Maximum Principal Retained Amount will be applied on the immediately following Interest Payment Date toward the redemption of first Class A Notes, secondly Class B Notes, thirdly Class C Notes, fourthly Class D Notes and lastly Class Z Notes.

For the avoidance of doubt, any excess is applied outside the Principal Priority of Payments but will be aggregated with the Available Redemption Funds to form total funds available to redeem such classes of Notes.

Overview of Payments Priorities:

Below is an overview of the priorities of payment:



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

Key Structural Features:

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

- during the life of the Notes, the Available Revenue is expected to be sufficient to pay the interest amounts payable in respect of all the classes of Notes and senior costs and expenses of the structure and retain the Issuer Profit Amount;
- the availability of the Class A and Class B Liquidity Reserve Fund, funded on the Closing Date by part of the proceeds of the Noteholders' subscription of the Class S Notes. On each Interest Payment Date, to the extent that there would be a Class A and Class B Liquidity Deficit on such Interest Payment Date, an amount equal to the Class A and Class B Liquidity Reserve Fund Release Amounts shall be debited from the Class A and Class B Liquidity Reserve Fund Ledger immediately prior to the application of Available Revenue pursuant to the Revenue Priority of Payments on such Interest Payment Date and applied to meet any Class A and Class B Liquidity Deficit against the relevant items in the Revenue Priority of Payments in such order of priority as such items appear in the Revenue Priority of Payments. After the Closing Date on each Interest Payment Date up to but excluding the Class B Redemption Date, the Class A and Class B Liquidity Reserve Fund Excess Amount will be applied as Available Revenue and the Class A and Class B Liquidity Reserve Fund will be replenished up to the Class A and Class B Liquidity Reserve Fund Required Amount from Available Revenue in accordance with the Revenue Priority of Payments;
- on the Class B Redemption Date only, all amounts standing to the credit of the Class A and Class B Liquidity Reserve Fund Ledger (after first having applied any Class A and Class B Liquidity Reserve Fund Release Amount in meeting any Class A and Class B Liquidity Deficit against the relevant items in the Revenue Priority of Payments in the order they appear in the Revenue Priority of Payments and debiting such amount from the Class A and Class B Liquidity Reserve Fund Ledger) will be applied as Available Revenue in accordance with the Revenue Priority of Payments;
- the availability of the General Reserve Fund, funded on the Closing Date by part of the proceeds of the Noteholders' subscription of the Class S Notes. An amount equal to the General Reserve Fund Excess Amount will be debited from the General Reserve Fund and will be applied as Available Revenue on each Interest Payment Date. On each Interest Payment Date, to the extent that there would be a Revenue Deficit on such Interest Payment Date (following application of any Class A and Class B Liquidity Reserve Fund Release Amounts), an amount equal to the General Reserve Fund Release Amounts shall be debited from the General Reserve Fund Ledger immediately prior to the application of Available Revenue pursuant to the Revenue Priority of Payments on such Interest Payment Date and applied to cure such Revenue Deficit. Any General Reserve Fund Release Amounts will be applied to meet any Revenue Deficit against the relevant items in the Revenue Priority of Payments in such order of priority as such items appear in the Revenue Priority of Payments. After the Closing Date, the General Reserve Fund will be replenished up to the General

Reserve Fund Required Amount on each Interest Payment Date up to and including the Final Redemption Date from Available Revenue in accordance with the Revenue Priority of Payments;

- on the Final Redemption Date only, all amounts standing to the credit of the General Reserve Fund Ledger (after first having applied any Class A and Class B Liquidity Reserve Fund Release Amounts in meeting any Class A and Class B Liquidity Deficit and then any General Reserve Fund Release Amount to meet any Revenue Deficit against the relevant items in the Revenue Priority of Payments in the order they appear in the Revenue Priority of Payments, and debiting such amounts from the Class A and Class B Liquidity Reserve Fund Ledger and/or the General Reserve Fund Ledger in accordance with the Revenue Priority of Payments, in each case on such Final Redemption Date) will be credited to the Principal Ledger and applied as Available Redemption Funds in accordance with the Principal Priority of Payments;
- on each Interest Payment Date up to and including the Final Redemption Date, PML as Administrator will apply as Available Revenue the General Reserve Fund Excess Amount (as determined on the immediately preceding Principal Determination Date);
- availability of Principal Addition Amounts to make up any shortfall in Available Revenue to fund a Senior Expenses Deficit (subject to, in the case of the Class B Notes, the debit balance of the Principal Deficiency Ledger not exceeding certain limits);
- availability of investment income provided by the returns in respect of Authorised Investments to be applied as Available Revenue;
- availability of a Mortgage Margin Reserve Fund to supplement:
(i) interest payments in respect of Mortgages purchased on the Closing Date which have a weighted average rate which is on average less than 3 per cent. above Mortgage MRF LIBOR in any future Collection Periods; and (ii) interest payments in respect of any Additional Mortgages which are set at a rate which is on average less than 3 per cent. above Mortgage MRF LIBOR (after taking into account all hedging arrangements entered into by the Issuer and the Interest Rate Converted Mortgage Release Amounts expected on the immediately following Interest Payment Date). On the Closing Date the Mortgage Margin Reserve Fund will be credited with the Initial Mortgage MRF Required Amount from part of the proceeds of the Noteholders' subscription for the Class S Notes on the Closing Date. The Initial Mortgage MRF Required Amount is £0 (being equal to 0 per cent. of the aggregate Initial Principal Amount of the Notes). On each Further Sale Date, before the Issuer may acquire Additional Mortgages, PML as Administrator will determine the Additional Mortgage MRF Required Amount (if any) in respect of the Additional Mortgages to be acquired by the Issuer from the Sellers on such Further Sale Date and shall transfer such Additional Mortgage MRF Required Amount from the Mortgage MRF Discretionary Fund (if a sufficient amount is standing to the credit thereof) to the Mortgage Margin Reserve Fund. On each Interest Payment Date, PML as Administrator will debit from the Mortgage Margin Reserve Fund Ledger and credit to the Revenue Ledger the Quarterly MRF Release Amount applicable to the Mortgages for the Collection Period ending on the immediately preceding Principal Determination Date. PML as Administrator will, on the Closing Date from part of the proceeds of the Class S Notes, and may (at its discretion) on each Interest Payment Date (up to but excluding the

Step-Up Date) in accordance with the Revenue Priority of Payments fund the Mortgage MRF Discretionary Fund up to the Mortgage MRF Discretionary Amount;

- On the Closing Date, PML as Administrator shall (from part of the proceeds of the Class S Notes) and, following the Closing Date, may (at its discretion) on each Interest Payment Date up to but excluding the Step-Up Date from Available Revenue (to the extent available) in accordance with the Revenue Priority of Payments, fund the Conversion MRF Discretionary Fund in an amount up to the Conversion MRF Discretionary Amount, in order that Conversion MRF Required Amounts can be transferred from the Conversion MRF Discretionary Fund to the Conversion Margin Reserve Fund on the relevant conversion date in respect of any Proposed Interest Rate Converted Mortgages in the relevant Collection Period. On each Interest Payment Date, the aggregate Interest Rate Converted Mortgage Release Amount will be released from the Conversion Margin Reserve Fund Ledger in respect of each Interest Rate Converted Mortgage and applied as Available Revenue;
- availability of an MFA Pre-Funding Reserve Ledger to fund the purchase of Mandatory Further Advances by the Issuer on any date following the Closing Date, subject to clause 6.4.4 of the Administration Agreement, up to and including the earlier to occur of (a) the Principal Determination Date immediately preceding the Step-Up Date and (b) the MFA Pre-Funding Reserve Ledger Release Date (determined by PML as Administrator); and
- availability of interest hedging arrangements provided by the Basis Hedge Providers to hedge against the possible variance between the interest rates payable in respect of the Fixed Rate Mortgages and the interest payable in respect of the Notes.

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

**Class A and Class B
Liquidity Deficit:**

On any Interest Payment Date, an amount equal to any shortfall in Available Revenue (where such Interest Payment Date falls on the Class B Redemption Date, excluding item (f), (g) and (h) of the definition of Available Revenue) to pay: (a) the amounts referred to in items (i) to (iv) in the Revenue Priority of Payments (in the same order of priority as set out in the Revenue Priority of Payments); and (b) the amounts referred to in item (vi) in the Revenue Priority of Payments.

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

Revenue Deficit:

On any Interest Payment Date an amount equal to any shortfall in Available Revenue after application of the Class A and Class B Liquidity Reserve Fund Release Amounts to pay: (a) the amounts referred to in items (i) to (iv) in the Revenue Priority of Payments (in the same order of priority as set out in the Revenue Priority of Payments); (b) the amounts referred to in item (vi) in the Revenue Priority of Payments; (c) the amounts referred to in item (ix) in the Revenue Priority of Payments only if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of the Principal Liability Outstanding of the Class D Notes and the Class Z Notes; and (d) the amounts referred to in item (xi) in the Revenue Priority of Payments only if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not

exceed the aggregate of the Principal Liability Outstanding of the Class Z Notes.

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

Senior Expenses Deficit:

On any Interest Payment Date an amount equal to the aggregate of any shortfall in Available Revenue following the application of any General Reserve Fund Release Amount and any Class A and Class B Liquidity Reserve Fund Release Amount is insufficient to pay or provide for (a) the amounts referred to in items (i) to (iv) in the Revenue Priority of Payments (in the same order of priority as set out in the Revenue Priority of Payments); and (b) the amounts referred to in item (vi) in the Revenue Priority of Payments only if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed: (i) 50 per cent. of the Principal Liability Outstanding of the Class B Notes, and (ii) the Principal Liability Outstanding of the Class C Notes, the Class D Notes and the Class Z Notes.

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

Principal Deficiency Ledger:

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

- (a) any principal losses incurred on the Mortgages;
- (b) the use of any Principal Receipts to fund a Senior Expenses Deficit;
- (c) certain expenses of the Issuer in respect of reclaimed direct debt payments; and
- (d) any losses realised by the Issuer on the Mortgages as a result of the failure of the Collection Account Bank to remit funds to the Issuer.

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

The principal losses incurred on the Mortgages and/or the amount of principal (which would otherwise have constituted Available Principal) used to fund a Senior Expenses Deficit will be allocated to the Notes and recorded as a debit to the Principal Deficiency Ledger.

Issuer Accounts and Cash Management:

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

Summary of key terms of Basis Hedge Agreements:

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

- Frequency of payment: Quarterly on each Interest Payment Date

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

TRANSACTION OVERVIEW — OVERVIEW OF THE MORTGAGE PORTFOLIO AND ADMINISTRATION

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

Mortgage Portfolio: The "**Mortgage Portfolio**" means the portfolio of loans, mortgages and all moneys derived therefrom sold to the Issuer by PML on the Closing Date and thereafter by the Sellers on any date up to (but excluding) the Further Sale Period End Date.

On the Closing Date, the Issuer will acquire the Closing Date Mortgage Portfolio from PML which will be comprised of Mortgages selected from the Provisional Mortgage Pool and Mortgages not included in the Provisional Mortgage Pool.

Additional Mortgages may be purchased by the Issuer from the Sellers on the relevant Further Sale Dates in accordance with the terms of the Mortgage Sale Agreement and subject to the satisfaction of the relevant Additional Mortgage Conditions. Purchases of Additional Mortgages are discretionary such that the Issuer is not obliged to purchase any Additional Mortgages.

There will be no substitution of the Mortgages as existing Mortgages repay or are repurchased in accordance with the terms of the Mortgage Sale Agreement (other than through the acquisition of Additional Mortgages by the Issuer from the Sellers). See the section entitled "*Mortgage Administration*" for more information.

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

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

Type of Borrower	Corporate and individual
Type of Mortgage	Buy-to-let repayment loans Buy-to-let Interest-only mortgages which in certain circumstances can be converted to a repayment basis
Total Mortgages in the Provisional Mortgage Portfolio	£760,813,566.95
Repayment Mortgages in the Provisional Mortgage Portfolio	£62,012,510.11
Interest-only Mortgages (Optional switch to a repayment basis) in the Provisional Mortgage Portfolio	£698,801,056.84

	Weighted average of the Provisional Mortgage Portfolio	Minimum in the Provisional Mortgage Portfolio	Maximum in the Provisional Mortgage Portfolio
Outstanding Current Balance (£)	169,144.86	4,032.64	2,188,437.50
LTV Ratio at origination (%)	71.71	7.51	81.63
Current LTV Ratio (%)	70.29	2.87	82.19
Current Interest Rate (% per annum)	3.809	2.350	5.600
Seasoning (months)	26.26	2.04	84.83
Remaining Term (years)	18.93	0.42	24.92

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

Consideration:

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

- (a) the Initial Purchase Consideration equal to the principal balance of each Mortgage sold to the Issuer by that Seller, the Amortised Cost Adjustment Amount (which will be wholly funded by subscription proceeds under the Class S VFN); and
- (b) Deferred Purchase Consideration payable in accordance with the Mortgage Sale Agreement, the Residual Certificates Conditions and the relevant priority of payments.

The right to such Deferred Purchase Consideration will be represented by Residual Certificates to be issued by the Issuer and delivered to, or at the direction of, the Sellers on the Closing Date. Payments on the Residual Certificates will be due and payable by the Issuer to the Residual Certificate Holders from the Closing Date and prior to the service of an Enforcement Notice by the Trustee to the Issuer on each Interest Payment Date, out of excess Available Revenue (after application of Available Revenue in accordance with the Revenue Priority of Payments).

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

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

Conditions for the acquisition of Additional Mortgages

The Issuer will be entitled to apply: (a) on any Interest Payment Date amounts received in accordance with the Principal Priority of Payments; and (b) on any Business Day (other than an Interest Payment Date) amounts standing to the credit of the Retained Principal Ledger or the Principal Ledger, in purchasing Additional Mortgages at any time up to (but excluding) the Further Sale Period End Date if and to the extent that the Issuer is permitted to do so by, and in accordance with, the Mortgage Sale Agreement and the Administration Agreement. In particular, any such purchase of Additional Mortgages, where applicable, by the Issuer will be subject to certain conditions including (the "**Additional Mortgage Conditions**") (amongst other things):

- (a) the relevant Further Sale Date falls on a date which is prior to the Step-Up Date;
- (b) no Seller Asset Warranty (as at such Further Sale Date) is breached in respect of any Additional Mortgages to be acquired by the Issuer from the Sellers on such Further Sale Date and neither Seller is in breach of its obligation to repurchase Mortgages and their related security which are in breach of any Seller Asset Warranty given by the Sellers (see "*Repurchases of the Mortgages*" below);
- (c) following the addition of the Additional Mortgages to the Mortgage Portfolio on the relevant Further Sale Date, the weighted average Current LTV Ratio of all Mortgages in the Mortgage Portfolio will not exceed 75 per cent.;
- (d) either: (x) the weighted average interest rate applicable to the Current Balance of all Mortgages in the Mortgage Portfolio (including any Additional Mortgages acquired on such Further Sale Date) after taking into account any Basis Hedge Agreements and the Interest Rate Converted Mortgage Release Amounts expected on the immediately following Interest Payment Date is not less than Mortgage MRF LIBOR plus 3 per cent. or (y) if such weighted average interest rate is less than Mortgage MRF LIBOR plus 3 per cent, the amount standing to the credit of the Mortgage Margin Reserve Fund on such Further Sale Date is equal to or greater than the Adjusted Mortgage MRF Required Amount;
- (e) the amount standing to the credit of the MFA Pre-Funding Reserve Ledger or the Principal Ledger is sufficient to cover Mandatory Further Advances;
- (f) PML as Administrator will within 30 days of the relevant Further Sale Date, arrange for the Issuer to enter into Basis Hedge Agreements to hedge the fixed-floating interest rate exposure in relation to such Additional Mortgage;
- (g) following the addition of the Additional Mortgages to the Mortgage Portfolio, the aggregate of the outstanding Current Balance of any Mortgage in the Mortgage Portfolio with a Current LTV Ratio of more than 77 per cent. will not exceed 15 per cent. of the aggregate Current Balance of all of the Mortgages in the Mortgage Portfolio on the relevant Further Sale Date;
- (h) following the addition of the Additional Mortgages to the Mortgage Portfolio, the aggregate outstanding Current Balance of Mortgages whose related Properties are in London is not greater than 40 per cent. of the aggregate Current Balance of the

Mortgages in the Mortgage Portfolio on the relevant Further Sale Date;

- (i) following the addition of the relevant Additional Mortgages to the Mortgage Portfolio, the aggregate outstanding Current Balance of Mortgages whose related Properties are in the South East of England is not greater than 40 per cent. of the aggregate Current Balance of the Mortgages in the Mortgage Portfolio on the relevant Further Sale Date;
- (j) following the addition of the relevant Additional Mortgages to the Mortgage Portfolio, the aggregate outstanding Current Balance of Mortgages whose related Properties are in a single geographic region other than London and South East of England is not greater than 20 per cent. of the aggregate Current Balance of the Mortgages in the Mortgage Portfolio on the relevant Further Sale Date;
- (k) following the addition of the relevant Additional Mortgages to the Mortgage Portfolio, the weighted average Rental Cover to all the Mortgage Loans in the Mortgage Portfolio is not less than 145 per cent.;
- (l) the remaining fixed rate period applicable to each Additional Mortgage that is a Fixed Rate Mortgage will not be longer than 5 years and 6 months as at the relevant Further Sale Date;
- (m) other than in respect of Non-Reversionary LIBOR-Linked Mortgages, the reversionary interest rate of the relevant Additional Mortgage is either (i) three month LIBOR (or any replacement rate as determined by an Administrator in the event that the rate for the three-month London Inter-Bank Offered Rate for GBP deposits is discontinued or becomes unavailable) plus a variable margin which is equal to or greater than 4.5 per cent. or (ii) the relevant Legal Title Holder's standard variable rate;
- (n) following the addition of the relevant Additional Mortgages to the Mortgage Portfolio, the aggregate outstanding Current Balance of Mortgage Loans that are paying or reverting at a later date to the relevant Seller's standard variable rate is not greater than 75 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio on such Further Sale Date;
- (o) the amount standing to the credit of the Principal Ledger on the relevant Further Sale Date is sufficient to enable the Issuer to redeem the Class A Notes down to the Class A Target Notional on the next following Interest Payment Date;
- (p) no Further Sale Period Termination Event has occurred or would occur as a result of the sale and purchase of the relevant Additional Mortgage(s);
- (q) no Additional Mortgage to be purchased is an Arrears Mortgage;
- (r) as at the relevant Further Sale Date, (where the Residual Certificates are represented by Definitive Residual Certificates) more than 50 per cent. of the Residual Certificates are held by a Paragon Banking Group Company or (where the Residual Certificates are represented by a Global Residual Certificate) the

beneficial interest in more than 50 per cent. of the Residual Certificates is held by a Paragon Banking Group Company;

- (s) there was no debit balance on the Principal Deficiency Ledger following amounts having been applied in accordance with the Payments Priorities on the preceding Interest Payment Date;
- (t) following the addition of the Additional Mortgages to the Mortgage Portfolio, the aggregate Current Balance of all Additional Mortgages purchased by the Issuer since the Closing Date shall not exceed 30 per cent. of the Current Balance of the Mortgages sold to the Issuer on the Closing Date unless an agreed upon procedures review (an "**AUP Review**") on a sample of the Additional Mortgages purchased since the Closing Date has been carried out following the Principal Determination Date when the aggregate Current Balance of all Additional Mortgages purchased since the Closing Date exceeded 20 per cent. of the Current Balance of all Mortgages sold to the Issuer on the Closing Date on substantially the same terms and with results to the same required standard as the AUP Review which was carried out prior to the Closing Date or on such other terms and with results to such other required standard as would be required if such AUP Review was being carried out for the same purpose as the AUP Review was undertaken prior to the Closing Date;
- (u) following the addition of the Additional Mortgages to the Mortgage Portfolio, such Additional Mortgages shall not cause the aggregate outstanding Current Balance of the Non-Reversionary LIBOR-Linked Mortgages to be greater than 20 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio on such Further Sale Date;
- (v) on such Further Sale Date Additional Mortgages which are Fixed Rate Mortgages may only be purchased by the Issuer where the weighted average swap rate calculated by PML as Administrator by reference to the interest swap rates and notional values disclosed in (a) the Basis Hedge Agreements as at the Principal Determination Date immediately preceding such Further Sale Date (or in the case of any Further Sale Date occurring in the first Collection Period, the Closing Date) and (b) the Basis Hedge Agreements (if any) entered into by the Issuer since the Principal Determination Date immediately preceding such Further Sale Date (or in the case of the first Collection Period, the Closing Date), does not exceed 4 per cent.;
- (w) on each Further Sale Date, Additional Mortgages which are Paragon Bank Depositor Mortgages may only be purchased by the Issuer where the sum of all Paragon Bank Mortgage Excess Amounts in respect of all Paragon Bank Depositor Mortgages in the Mortgage Portfolio together with the Additional Mortgages to be purchased on such Further Sale Date does not exceed 0.50 per cent. of the Current Balance of all Mortgage Loans in the Mortgage Portfolio together with the Additional Mortgages to be purchased on such Further Sale Date;
- (x) on each Further Sale Date Additional Mortgages which are Fixed Rate Mortgages may only be purchased by the Issuer where the product (calculated by the Administrator) of (a) the weighted average time in years to the end of the fixed rate period in respect of the Fixed Rate Mortgages in the Portfolio together with the Additional Mortgages which are Fixed Rate Mortgages to be purchased on such Further Sale Date and (b) the Current Balance

of the Fixed Rate Mortgages in the Portfolio together with the Fixed Rate Loans to be purchased on such Further Sale Date divided by the Current Balance of the Mortgages in the Portfolio together with the Additional Mortgages to be purchased on such Further Sale Date, does not exceed two;

- (y) on each Further Sale Date, the sum of (a) the notional value of the outstanding Basis Hedge Agreements entered into by the Issuer on or before the Principal Determination Date immediately preceding such Further Sale Date (or in the case of the first Collection Period, the Closing Date), and (b) the notional value of any Basis Hedge Agreements entered into by the Issuer since the Principal Determination Date immediately preceding such Further Sale Date (or in the case of any Further Sale Date occurring in the first Collection Period, the Closing Date) must not exceed or be less than (by greater than £10 million), the sum of the Current Balance of: (A) all Fixed Rate Mortgages as at the Principal Determination Date immediately preceding such Further Sale Date (or in the case of the first Collection Period, the Closing Date); and (B) any Additional Mortgages which are Fixed Rate Mortgages purchased since the Principal Determination Date immediately preceding such Further Sale Date (or in the case of any Further Sale Date occurring in the first Collection Period, the Closing Date); and
- (z) that PML and/or PBG and/or any holding company or subsidiary of PBG (a "**Paragon Banking Group Company**") are the Administrators and no Administrator Termination Event has occurred in respect of PML or Paragon Bank (or any Paragon Banking Group Company) in its capacity as an Administrator.

For the purposes of this Prospectus:

"Current LTV Ratio" means, on any date, in respect of a Mortgage, the amount (expressed as a percentage) which is obtained by dividing the aggregate of the Current Balance of such Mortgage by the most recently performed valuation in respect of the Property which is the subject of such Mortgage.

"Further Sale Period End Date" means the earlier of (a) the Step-Up Date; and (b) the occurrence of a Further Sale Period Termination Event.

"Further Sale Period Termination Event" means:

- (a) an Event of Default;
- (b) an Insolvency Event in respect of either Seller;
- (c) an unremedied breach by either Seller of any of their respective obligations under the Relevant Documents;
- (d) on any Interest Payment Date, the aggregate amount debited to the Principal Deficiency Ledger in respect of enforcement of Mortgages since the Closing Date exceeds 1 per cent. of the Initial Principal Amount of the Notes (excluding for such purposes the Class S Notes and the Class S VFN);
- (e) the amount standing to the credit of the General Reserve Fund is less than the General Reserve Fund Required Amount;

- (f) the amount standing to the credit of the Class A and Class B Liquidity Reserve Fund is less than the Class A and Class B Liquidity Reserve Fund Required Amount; and
- (g) on any Principal Determination Date, the then Current Balances of Mortgages which are then more than three months in arrears in aggregate constitute more than 3 per cent. of the then aggregate Current Balance of all Mortgages in the Mortgage Portfolio (and for these purposes a Mortgage will be more than 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).

"Arrears Mortgages" means Mortgages which will have outstanding arrears in excess of one current monthly payment.

"Rental Cover" means:

- (a) for the purpose of Mortgages originated prior to 12 December 2016:
 - (i) for single self-contained units, the annual rental income divided by the annual interest payment due on the mortgage calculated on an interest-only basis at 5 per cent.; or
 - (ii) for non-single self-contained units (HMO properties and multi-unit properties), the annual rental income divided by the annual interest payment due on the mortgage calculated on an interest-only basis at 7 per cent.; and
- (b) for the purpose of Mortgages originated on or after 12 December 2016:
 - (i) for Fixed Rate Mortgages with an initial fixed rate term of 5 years or more, the annual rental income divided by the annual interest payment due on the mortgage calculated on an interest-only basis at 4 per cent. or the product charging rate whichever is higher; or
 - (ii) for Fixed Rate Mortgages or LIBOR-Linked Mortgages with an initial fixed rate or LIBOR-Linked term of less than 5 years prior to moving to the reversionary rate, the annual rental income divided by the annual interest payment due on the mortgage calculated on an interest-only basis at 5.5 per cent. or the product charging rate plus 2 per cent. whichever is higher; or
 - (iii) for Non-Reversionary LIBOR-Linked Mortgages, the annual rental income divided by the annual interest payment due on the mortgage calculated on an interest-only basis at 5.5 per cent. or the product charging rate plus 2 per cent. whichever is higher.

"Mortgage Documentation" means, in the case of any Individual Mortgage and any Corporate Mortgage, the documents listed in schedule 2 to the Mortgage Sale Agreement or such other documents as may have been used in connection with such Mortgages, the use of which PML as Administrator

determines, in its reasonable opinion, would not adversely affect the then current ratings of the Notes.

"Paragon Bank Mortgage Excess Amount" means for each Paragon Bank Depositor Mortgage the lesser of (a) the Current Balance of such Paragon Bank Depositor Mortgage and (b) the excess above £85,000 of the aggregate deposit balances with Paragon Bank by such Paragon Bank Depositor Mortgage borrower.

"Paragon Bank Depositor Mortgage" means a mortgage where Paragon Bank is the Legal Title Holder and the borrower also holds a deposit with Paragon Bank in excess of £85,000.

MFA Pre-Funding Reserve Ledger

On the Closing Date, it is expected that the Issuer will credit an amount equal to 0.08% of the Initial Principal Amount of the Notes to the MFA Pre-Funding Reserve Ledger of the Transaction Account. The Issuer will apply amounts standing to the credit of the MFA Pre-Funding Reserve Ledger in purchasing Mandatory Further Advances (prior to the use of Available Principal) at any time up to and including the earlier to occur of (a) the Principal Determination Date immediately preceding the Step-Up Date and (b) the MFA Pre-Funding Reserve Ledger Release 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.

To the extent the MFA Pre-Funding Reserve Ledger Release Date has not occurred, clause 6.4.4 of the Administration Agreement may require PML as the Administrator, in certain circumstances, to debit, on or before the Principal Determination Dates relating to the Interest Payment Dates falling in each of 15 February 2020, 15 February 2021, 15 February 2022 and 15 February 2023, amounts from the MFA Pre-Funding Reserve Ledger and credit such amounts to the Principal Ledger. Such amounts must then be applied either to purchase Mandatory Further Advances on or before the immediately following Interest Payment Date or as Available Redemption Funds in repayment of the Notes on the immediately following Interest Payment Date. The outstanding credit balance of the MFA Pre-Funding Reserve Ledger (if any) shall be debited from the MFA Pre-Funding Reserve Ledger and credited to the Principal Ledger on the earlier of (x) the MFA Pre-Funding Reserve Ledger Release Date and (y) the Principal Determination Date immediately preceding the Step-Up Date. Following the crediting of such amounts to the Principal Ledger, such amounts shall be applied as Available Redemption Funds in repayment of the Notes on the immediately following Interest Payment Date or by the Issuer in purchasing Additional Mortgages.

Representations and Warranties:

Each Seller will grant the Seller Asset Warranties to the Issuer and the Trustee on the Closing Date and each Further Sale Date on which Mortgages are purchased by the Issuer, in respect of the Mortgages sold by that Seller to the Issuer on such date.

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

- first ranking security in respect of properties located in England or Wales;
- satisfaction of Sellers' lending guidelines as at the Closing Date and each Further Purchase Date subject to such waiver as might be within the discretion of a reasonably prudent mortgage lender;
- final maturity date of each Mortgage no later than 30 April 2048;

- PML is the beneficial owner of each Mortgage acquired by the Issuer on the Closing Date;
- the relevant Seller is the beneficial owner of each Mortgage on each Further Sale Date;
- no Mortgage is subject to any right of set-off; and
- no obligation to make a Further Advance if a borrower is in breach of the Mortgage Conditions.

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

Repurchases of the Mortgages:

The relevant Seller of a Mortgage to the Issuer shall repurchase such Mortgage and its related security in the following circumstances:

- upon material breach of any Seller Asset Warranty given by that Seller either which is not capable of remedy or, which, if capable of remedy, the Seller failed to remedy within 28 calendar days;
- if certain determinations are made in respect of the Mortgage by a court, other competent authority or any ombudsman;
- the first two payments due in respect of any Mortgage have fallen due and have not been received in full; and/or
- if an Administrator intends to agree to any request by a Borrower to convert his Mortgage (or, in the case of a default by a Borrower, itself elects to convert such Borrower's Mortgage) to an Interest Rate Converted Mortgage and the Interest Rate Converted Mortgage Conditions are not satisfied on the date of conversion.

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

Consideration for repurchase:

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

Perfection Events:

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

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

Further Advances in respect of the Mortgages:

The Seller may be required to make Mandatory Further Advances in respect of the Mortgages. The Issuer expects to fund Mandatory Further Advances firstly from the MFA Pre-Funding Reserve and secondly from Available Principal in accordance with the Principal Priority of Payments.

The relevant Administrator on behalf of the Issuer may make and fund Discretionary Further Advances in respect of any Mortgage from Available Principal in an aggregate amount up to 16 per cent. of the Initial Principal Amount of the Notes if the lending criteria, so far as applicable and subject to such waivers as might be within the discretion of a reasonably prudent mortgage lender, and certain other conditions are satisfied at the relevant time. The Issuer expects to fund any Discretionary Further Advances from Available Principal moneys in accordance with the Principal Priority of Payments.

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

Conversion of Mortgages:

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

The relevant Administrator may (but shall not be obliged to), if the Paragon Banking Group holds (where the Residual Certificates are represented by Definitive Residual Certificates) 50 per cent. or more in number of the Residual Certificates or (where the Residual Certificates are represented by a Global Residual Certificate) the beneficial interest in 50 per cent. or more in number of the Residual Certificates, agree to any request by a Borrower to convert his Mortgage (or, in the case of a default by a Borrower, may itself elect to convert such Borrower's Mortgage) to a Mortgage of a different interest type with a different interest rate (the relevant Mortgage after such conversion being referred to as an "**Interest Rate Converted Mortgage**") provided that the following conditions (the "**Interest Rate Converted Mortgage Conditions**") are satisfied:

- (a) that no Event of Default has occurred which is then continuing unwaived at the time of the proposed conversion;
- (b) that the Interest Rate Converted Mortgage will be on the terms of the relevant Mortgage Documentation which terms have not been varied in any material respect other than in respect of the interest rate applicable;
- (c) that the conversion of the applicable Mortgage is effected by such means as would be adopted by a reasonably prudent residential mortgage lender for the purpose of ensuring the validity and priority of the applicable Mortgage;
- (d) no conversion shall extend the final maturity date of the relevant Mortgage to a date falling later than 30 April 2048;
- (e) if the applicable Interest Rate Converted Mortgage is to be converted into a Fixed Rate Mortgage, the relevant Administrator will within 30 days following the conversion, enter into Basis Hedge Agreements to hedge the fixed-floating interest rate exposure in relation to such Interest Rate Converted Mortgage;
- (f) Mortgages may only be converted to Fixed Rate Mortgages by the Administrator where, as at the date of conversion, the weighted average swap rate calculated by PML as Administrator by reference to the interest swap rates and notional values

disclosed in (a) the Basis Hedge Agreements as at the immediately preceding Principal Determination Date (or in the case of conversions occurring in the first Collection Period, the Closing Date) and (b) the Basis Hedge Agreements (if any) entered into by the Issuer since the immediately preceding Principal Determination Date (or in the case of the first Collection Period, the Closing Date), does not exceed 4 per cent.;

- (g) Mortgages may only be converted to Fixed Rate Mortgages by the Administrator where, as at the date of conversion, the product (calculated by the Administrator) of (a) the weighted average time in years to the end of the fixed rate period in respect of the Fixed Rate Mortgages in the Portfolio together with the Mortgages to be converted to Fixed Rate Mortgages on such date and (b) the Current Balance of the Fixed Rate Mortgages in the Portfolio together with the Mortgages to be converted to Fixed Rate Mortgages on such date divided by the Current Balance of the Mortgages in the Portfolio together with the Mortgages to be converted to Fixed Rate Mortgages on such date, does not exceed two;
- (h) that the relevant Borrower in respect of such Interest Rate Converted Mortgage is not more than one month in arrears (other than in the case of a default by a Borrower where the relevant Administrator itself has elected to convert such Borrower's Mortgage to an Interest Rate Converted Mortgage);
- (i) Mortgages may only be converted to Fixed Rate Mortgages by the Administrator where, as at the date of conversion, the sum of the notional value of (a) the Basis Hedge Agreements as at the immediately preceding Principal Determination Date (or in the case of conversions occurring in the first Collection Period, the Closing Date) and (b) the Basis Hedge Agreements (if any) entered into by the Issuer since the immediately preceding Principal Determination Date (or in the case of conversions occurring in the first Collection Period, the Closing Date), must not exceed or be less than (by greater than £10 million), the sum of the Current Balance of all Fixed Rate Mortgages;
- (j) the conversion takes place on or prior to the Step-Up Date;
- (k) amounts standing to the credit of the Conversion Margin Reserve Fund Ledger are equal to or greater than the Conversion MRF Required Amount as at the conversion date taking into account such Interest Rate Converted Mortgage, funded from amounts standing to the credit of the Conversion MRF Discretionary Fund Ledger; and
- (l) that PML and/or PBG and/or any holding company or subsidiary of PBG (a "**Paragon Banking Group Company**") are the Administrators and no Administrator Termination Event has occurred in respect of PML or Paragon Bank (or any Paragon Banking Group Company) in its capacity as an Administrator.

The relevant Administrator shall, on the last Business Day of each month identify each Mortgage that shall become an Interest Rate Converted Mortgage in the Collection Period commencing in the calendar month immediately succeeding such Business Day subject to the Interest Rate Converted Mortgage Conditions being satisfied in respect of such Mortgage on the date of conversion (each such Mortgage, a "**Proposed Interest Rate Converted Mortgage**").

PML, as Administrator, may, on each Interest Payment Date, debit the Revenue Ledger and credit the Conversion MRF Discretionary Fund Ledger in accordance with the Revenue Priority of Payments in order to fund the Conversion MRF Discretionary Fund with the Conversion MRF Discretionary Amount. PML as Administrator shall transfer amounts (if available) from the Conversion MRF Discretionary Fund Ledger to the Conversion Margin Reserve Fund Ledger on the relevant conversion date in respect of any Proposed Interest Rate Converted Mortgage, in order that the Conversion Margin Reserve Fund Ledger is credited with the Conversion MRF Required Amount in respect of such Proposed Interest Rate Converted Mortgage.

The relevant Administrator may elect to convert a Mortgage administered by it from an Interest-only Mortgage or, as the case may be, Optional Repayment Mortgage into a Repayment Mortgage (but not any other type of mortgage), but not from a Repayment Mortgage into an Interest-only Mortgage or, as the case may be, Optional Repayment Mortgage (the relevant Mortgage after such conversion being referred to as a "**Repayment Converted Mortgage**") and take steps to effect such conversion provided that following such conversion either (i) the aggregate Current Balance of such Repayment Converted Mortgages in the Mortgage Portfolio (as at the date of the conversion and without regard to any prepayment, repayment or redemption following the date of conversion) does not exceed 10 per cent. of the sum of (x) the aggregate Current Balance, as of the Closing Date, of the Mortgages included in the Mortgage Portfolio and (y) the aggregate Current Balance, as of the relevant Purchase Date on which they were acquired by the Issuer, of Additional Mortgages in the Mortgage Portfolio or (ii) where the aggregate Current Balance of such Repayment Converted Mortgages in the Mortgage Portfolio (as at the date of the conversion and without regard to any prepayment, repayment or redemption following the date of conversion) does exceed 10 per cent. of the sum of (x) the aggregate Current Balance, as of the Closing Date, of the Mortgages included in the Mortgage Portfolio and (y) the aggregate Current Balance, as of the relevant Purchase Date on which they were acquired by the Issuer, of Additional Mortgages in the Mortgage Portfolio, the Rating Agencies have confirmed that the conversion of such Mortgages will not adversely affect the then current ratings of the Rated Notes.

See the sections entitled "*Key Structural Features — Credit Enhancement and Liquidity Support — Liquidity support provided by Margin Reserve Fund*" and "*Mortgage Administration — Conversion of Mortgages*" below.

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

Insurances:

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

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

Administration of the Mortgage Portfolio:

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

- material non-performance;
- payment default; and
- an Insolvency Event in relation to an Administrator.

provided that if the relevant event has occurred in relation to only one of the Administrators, (x) the event shall (in the case of the relevant event being an Administrator Termination Event as specified in limb (c) of the definition thereof) be deemed to be remedied, (y) (in the case of any Administrator Termination Event) for all purposes under the Relevant Documents no Administrator Termination Event shall have occurred and, for the avoidance of doubt, any termination of the Administrators that occurs with immediate effect on the occurrence of an Administrator Termination Event shall be deemed not to have occurred and (z) the event shall (in the case of any Administrator Termination Event) entitle the appointment of the defaulting Administrator only to be terminated, if the non-defaulting Administrator (in its absolute discretion), gives notice to the Trustee, the Issuer and the Substitute Administrator no later than the date falling 5 days after the occurrence of the relevant event and the non-defaulting Administrator takes over all the rights and obligations under the Relevant Documents of the relevant Administrator in relation to which the relevant event occurred (provided that in the case of the relevant event being an Administrator Termination Event under limbs (a), (b), (d) or (e) of the definition thereof, the non-defaulting Administrator has remedied the relevant event prior to giving such notice and the non-defaulting Administrator certifies to that effect, which certification the Trustee can rely on without further investigation or liability).

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

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

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

Delegation by Administrator:

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

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

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

Purchase of Mortgage Portfolio by Portfolio Option Holder:

The Portfolio Option Holder may, by giving written notice to the Issuer at any time after the Portfolio Option Commencement Date, (such notice to be given not more than 90 days nor less than 45 days prior to the immediately succeeding Interest Payment Date), purchase or procure that a Third Party Purchaser purchases all (but not part) of the Mortgages on the immediately succeeding Interest Payment Date.

For the avoidance of doubt, pursuant to the definition of Portfolio Option Holder, where the Paragon Banking Group holds (where the RC2 Residual Certificates are represented by Registered Residual Certificates) 50 per cent. or more in number of the RC2 Residual Certificates or (where the RC2 Residual Certificates are represented by a Global Residual Certificate) the beneficial interest in 50 per cent. or more in number of the RC2 Residual Certificates, the Portfolio Option is not exercisable by any party and the Notes may only be redeemed in accordance with Conditions 5(a) to (d).

The Portfolio Option Holder may exercise the Portfolio Option in accordance with the terms of the Deed Poll. Neither any Seller, any Legal Title Holder nor any other member of the Paragon Bank Group will provide any representations or warranties in relation to those Mortgages. The Issuer will provide limited representations in relation to its title to the Mortgages.

In connection with the exercise of the Portfolio Option, the Portfolio Option Holder or the Third Party Purchaser (as applicable) will agree with the Issuer to either (i) deposit an amount equal to the Portfolio Option Purchase Price in either an escrow account in the name of the purchaser or in any other account (including the Transaction Account) as may be agreed between the Issuer and the Portfolio Option Holder or (as applicable) the Third Party Purchaser or (ii) provide irrevocable payment instructions for an amount equal to the Portfolio Option Purchase Price, provided that such deposit shall be made or irrevocable payment instructions shall be given by no later than (x) four Business Days prior to the Target Portfolio Purchase Completion Date or (y) such other date as the Issuer, at its sole discretion and the Portfolio Option Holder or (as applicable) the Third Party Purchaser may agree, provided further that the Portfolio Option Purchase Price, or as applicable, irrevocable payment instructions must be received by the Issuer in sufficient time to enable the Issuer to fully repay the Notes and the accrued interest pursuant to Condition 5(e) (*Mandatory Redemption in full pursuant to a Portfolio Purchase*).

The exercise of the Portfolio Option will also be subject to the following conditions:

- (a) either (i) each of the purchasers of the legal and beneficial title in the Mortgages is resident for tax purposes in the United Kingdom, or (ii) each of the Issuer, the Legal Title Holders and the Sellers, having received tax advice (such advice to be obtained prior to the execution of any binding agreement in relation to the transfer of the Mortgages) from an appropriately qualified and experienced United Kingdom tax adviser in the form and substance satisfactory to it (acting reasonably), or such other comfort as may reasonably be required by it (including, without limitation, any clearance or other confirmation granted by HM Revenue and Customs), is satisfied that sale of legal and beneficial title in the relevant Mortgages should not expose the Issuer, the Legal Title Holders or

the Sellers to a risk of loss in consequence of United Kingdom income tax being required to be withheld from amounts paid in respect of the Mortgages;

- (b) either (i) the purchaser of the legal title to the Mortgages has all the appropriate licences, approvals, authorisations, consents, permissions and registrations (including any approvals, authorisations, consents, permissions and registrations required to be maintained under the FSMA and any rules and regulations of the FCA) required to administer mortgage loans such as the Mortgages (the "**Relevant Authorisations**") or (ii) the purchaser of the beneficial interest in the Mortgages has appointed a servicer who has the Relevant Authorisations; and
- (c) the purchaser of the beneficial interest in the Mortgages shall not be permitted to transfer the beneficial interest in the Mortgages to any further purchaser until the transfer of the legal title to the Mortgages in favour of the purchaser of legal title to the Mortgages is perfected unless such transfer of beneficial interest is made to an entity which is within charge to UK Corporation tax.

The tax advice referred to in (a) above shall be obtained at the cost of the Portfolio Option Holder.

In connection with the exercise of the Portfolio Option, the beneficial title to the Mortgages will be transferred on the Target Portfolio Purchase Completion Date. However, the perfection of the transfer of the legal title to the Mortgages and the giving of notices of such transfer to the Borrowers may take place promptly after the Target Portfolio Purchase Completion Date.

"Portfolio Option" means the option granted to the Portfolio Option Holder pursuant to the Deed Poll to require the Issuer to (x) sell beneficial interest in the Mortgages in the Mortgage Portfolio, and (y) sell legal title or, if, at the time the option is exercised, the Issuer does not hold legal title to the Mortgages in the Mortgage Portfolio, procure that the Legal Title Holders sell legal title in the Mortgages in the Mortgage Portfolio, to the Portfolio Option Holder or a Third Party Purchaser, or (in case of legal title) a nominee of either of them.

"Portfolio Option Commencement Date" means the Interest Payment Date falling in February 2023.

"Portfolio Option Holder" means, a person other than a Paragon Banking Group Company (a) (where the RC2 Residual Certificates are represented by Definitive Residual Certificates) the person who holds greater than 50 per cent. of the RC2 Residual Certificates or (where the RC2 Residual Certificates are represented by a Global Residual Certificate) the Residual Certificateholder who holds the beneficial interest in more than 50 per cent. of the RC2 Residual Certificates or (b) where (i) no person holds greater than 50 per cent. of the RC2 Residual Certificates or, as applicable, beneficial interest in more than 50 per cent. of the RC2 Residual Certificates and (ii) the Paragon Banking Group holds (where the RC2 Residual Certificates are represented by Definitive Residual Certificates) less than 50 per cent. in number of the RC2 Residual Certificates or (where the RC2 Residual Certificates are represented by a Global Residual Certificate) the beneficial interest in less than 50 per cent. in number of the RC2 Residual Certificates, the person who holds the greatest number of the RC2 Residual Certificates or, as applicable, the beneficial interest in the greatest number of the RC2 Residual Certificates. For the avoidance of doubt, where the Paragon Banking Group holds (where the RC2 Residual Certificates are represented by Definitive Residual Certificates) 50 per cent. or more in number of the

RC2 Residual Certificates or (where the RC2 Residual Certificates are represented by a Global Residual Certificate) the beneficial interest in 50 per cent. or more in number of the RC2 Residual Certificates, the Portfolio Option shall not be exercisable by any party.

"Portfolio Purchase" means a purchase of the Mortgages by either the Portfolio Option Holder or the Third Party Purchaser pursuant to the exercise of the Portfolio Option.

"Target Portfolio Purchase Completion Date" means the date identified as the date on which the Portfolio Purchase is expected to be completed pursuant to the terms of the Deed Poll, which, for the avoidance of doubt shall be an Interest Payment Date following the Portfolio Option Commencement Date.

"Third Party Purchaser" means a third party purchaser of the beneficial and/or legal title to the Mortgages as nominated by the Portfolio Option Holder.

Consideration for purchase by Portfolio Option Holder:

The purchase price payable by the Portfolio Option Holder or the Third Party Purchaser, as applicable, in respect of the Portfolio Purchase shall be an amount equal to the greater of:

- (a) the aggregate Current Balance of the Mortgages, plus any accrued interest to the purchase date, (less any provisions in respect thereof) comprising the Mortgage Portfolio determined as at the Principal Determination Date immediately preceding the Target Portfolio Purchase Completion Date; and
- (b) an amount equal to:
 - (i) the amount required by the Issuer to pay in full all amounts payable under items (i) to (iv), (vi), (ix), (xi), (xvii), (xviii) and (xx) of the *Revenue Priority of Payments* and items (i) to (iii) and (vii) (other than any principal repayment in respect of the Class S Notes and the Class S VFN) (inclusive) of the Principal Priority of Payments, in each case on the immediately following Interest Payment Date,
less
 - (ii) any Available Revenue and Available Principal otherwise available to the Issuer, (x) excluding any amounts standing to the credit of (A) the Class A and Class B Liquidity Reserve Fund and (B) the General Reserve Fund (other than, in each case, (to the extent there is a debit on the Principal Deficiency Ledger) the amount of the Class A and Class B Liquidity Reserve Fund and the General Reserve Fund that is required to be applied as Available Principal on the Target Portfolio Purchase Completion Date to cure any debit on the Principal Deficiency Ledger) and (y) determining Available Revenue and Available Principal without the crediting of any Available Revenue to (A) the Principal Deficiency Ledger (to reduce any balance in respect thereof) or (B) the Principal Ledger in respect of any Available Redemption Funds; and
- (c) zero,

in each case, plus (i) the Issuer's costs and expenses associated with transferring its interests in any Mortgage to the Portfolio Option Holder or its nominee (if any) and (ii) an amount agreed between the Issuer and the Portfolio Option Holder in respect of costs anticipated to be incurred by the

Issuer after the Target Portfolio Purchase Completion Date (the "**Portfolio Option Purchase Price**").

TRANSACTION OVERVIEW – TRIGGERS TABLES

Rating Triggers Table

Transaction Party	Required Ratings	Possible effects of Ratings Trigger being breached include the following:
Account Bank	<p>In respect of the Transaction Account:</p> <p>(a)(i) Short-term issuer default rating by Fitch must be at least F1; or (ii) long-term issuer default rating by Fitch must be at least A; and long-term unsecured and unsubordinated debt must be rated at least A3 by Moody's; or</p> <p>(b) such other ratings as are consistent with the then current criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Rated Notes.</p>	<p>PML as Administrator and the Issuer will use commercially reasonable efforts to, within 30 calendar days or such longer period as the Trustee may agree, procure the transfer of the Transaction Account to another bank.</p> <p>See sections entitled "<i>Mortgage Administration – Reinvestment of Income</i>" and "<i>Mortgage Administration – Payments from Borrowers</i>" for further information.</p>
PML Collection Account Bank PB Collection Account Bank	<p>In respect of the Collection Accounts:</p> <p>(a)(i) Short-term, issuer default rating by Fitch must be at least F2 or (ii) long-term issuer default rating by Fitch must be at least BBB+; and</p> <p>(b) long-term, unsecured and unsubordinated debt must be rated at least Baa3 by Moody's; or such ratings which are consistent with the then current criteria of Moody's as being the minimum ratings that are required to support the then rating of the Most Senior Class of Rated Notes.</p>	<p>PML as Administrator and the Issuer will use commercially reasonable efforts to, within 30 calendar days or such longer period as the Trustee may agree, procure the transfer of the PML Collection Account to another bank.</p> <p>See sections entitled "<i>Mortgage Administration – Reinvestment of Income</i>" and "<i>Mortgage Administration – Payments from Borrowers</i>" for further information.</p>
Basis Hedge Providers	<p>(1) (a) Short-term, issuer default rating by Fitch must be at least F1; or (b) either of the derivative counterparty rating (DCR) (if assigned and applicable) or long-term issuer default rating by Fitch must be at least A; and either (i) the counterparty risk assessment (CRA) assigned to the Basis Hedge Provider shall be A3(cr) or above by Moody's; or (ii) the rating assigned to the Basis Hedge Provider's senior unsecured debt shall be A3 or above by Moody's.</p> <p>(2) (a) Short-term, issuer default rating by Fitch must be at least F3; or (b) either of the DCR (if assigned and applicable) or long-term issuer default rating by Fitch must be at least BBB-; and either (i) the counterparty risk assessment (CRA) assigned to the</p>	<p>The consequences of breach under each Basis Hedge Agreement include a requirement for the relevant Basis Hedge Provider to post collateral, replace the relevant Basis Hedge Provider, obtain a guarantee of the relevant Basis Hedge Provider's obligations or take such other action as will result in the rating of the Notes being maintained or restored.</p> <p>The consequences of breach under each Basis Hedge Agreement include a requirement for the relevant Basis Hedge Provider to replace the relevant Basis Hedge Provider, obtain a guarantee of the relevant Basis Hedge Provider's obligations or take such</p>

Transaction Party	Required Ratings	Possible effects of Ratings Trigger being breached include the following:
	<p>Basis Hedge Provider shall be Baa1(cr) or above by Moody's; or (ii) the rating assigned to the Basis Hedge Provider's senior unsecured debt shall be Baa1 by Moody's.</p>	<p>other action as will result in the rating of the Notes being maintained or restored and, prior to taking such action, the relevant Basis Hedge Provider may also be required to post collateral.</p> <p>See section entitled "<i>Hedging Arrangements – Ratings of Basis Hedge Providers and transfer of Basis Hedge Agreements</i>" for further information.</p>

Non-Rating Triggers Table

Nature of Trigger	Description of Trigger	Consequence of Trigger
Perfection Events	<p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> (a) the valid service of an Enforcement Notice or a Protection Notice (as defined in the Deed of Charge); (b) the termination of the appointment of each of PML and Paragon Bank as Administrators under the Administration Agreement; (c) perfection is required by an order of a court or regulatory authority; (d) perfection is required as a result of any change in law; (e) the security created under or pursuant to the Deed of Charge or any material part of such security being in jeopardy in the opinion of the Trustee and the Trustee deciding to take action to reduce materially such jeopardy; and (f) the Final Maturity Date. 	<p>Borrowers under the Mortgages will be notified of the sale of Mortgages to the Issuer and legal title to the Mortgages will be transferred to the Issuer.</p>
<p>Administrator Termination Events</p> <p>See the section entitled "<i>Mortgage Administration – Termination of the appointment of the Administrators</i>" for further information.</p>	<p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> (a) default by an Administrator in payment or transfer of amount due and unremedied for 2 Business Days after the earlier of that Administrator becoming aware of such default and the receipt of written notice from the Issuer, a Seller and/or the Trustee requiring the default to be remedied; 	<p>Issuer (with the assistance of the Substitute Administrator Facilitator) or Trustee may (in the case of events (a), (b), (c), (d) and (e):</p> <ul style="list-style-type: none"> (a) appoint the Substitute Administrator as successor Administrator to replace both PML and Paragon Bank as Administrators; and (b) appoint a successor Substitute Administrator; and <p>the appointment of the Administrators shall automatically terminate (in the case of (1) events (f) and (g) and (2) events (a), (d) and (e) (while HML is appointed as Substitute Administrator and is able to assume the duties and obligations of the Administrators and the non-defaulting Administrator has not remedied the breach of the defaulting Administrator and has not taken over the duties of the</p>

Nature of Trigger	Description of Trigger	Consequence of Trigger
	<p>(b) material non-compliance by an Administrator with other covenants or obligations unremedied for 14 days after the earlier of that Administrator becoming aware of such default and the receipt of written notice from the Trustee requiring the default to be remedied;</p> <p>(c) an Insolvency Event in relation to any Administrator;</p> <p>(d) an Administrator fails to provide the Substitute Administrator and the Trustee with the Administrator Report within three Business Days from the Principal Determination Date;</p> <p>(e) the Issuer fails to pay the principal or interest on the Notes when it is due and payable as a result of an Administrator failing to comply with the covenants or perform its other obligations under the Administration Agreement;</p> <p>(f) an Administrator (or any sub-contractor or delegate of an Administrator which performs the relevant services) does not have the necessary authorisations required under the FSMA in order to enable it to perform the administration services under the Administration Agreement; or</p> <p>(g) the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of the FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.</p> <p>provided that:</p> <p>(x) in the case of (a) to (e) above, if the relevant event has occurred in relation to only one of the Administrators, (i) the</p>	<p>defaulting Administrator, pursuant to the proviso described below under "<i>Description of Trigger</i>").</p>

Nature of Trigger	Description of Trigger	Consequence of Trigger
	<p>event shall (in the case of the event specified in (c) above) be deemed to be remedied (ii) (in the case of all events specified in (a) to (e) above) for all purposes under the Relevant Documents no Administrator Termination Event shall have occurred and, for the avoidance of doubt, any termination of the Administrators that occurs with immediate effect on the occurrence of an Administrator Termination Event shall be deemed not to have occurred and (iii) the event shall (in the case of all events specified in (a) to (e) above) entitle the appointment of the defaulting Administrator only to be terminated, if the non defaulting Administrator (in its absolute discretion), gives notice to the Trustee, the Substitute Administrator and the Issuer no later than the date falling 5 days after the occurrence of the relevant event and the non-defaulting Administrator takes over all the rights and obligations under the Relevant Documents of the relevant Administrator in relation to which the relevant event occurred (provided that in the case of the relevant event being that specified in (a), (b), (d) or (e) above, the non defaulting Administrator has remedied the relevant event prior to giving such notice and the non defaulting Administrator certifies to that effect, which certification the Trustee can rely on without further investigation or liability); or</p> <p>(y) in the case of (f) or (g) above, if the relevant event described in (f) has occurred in relation to only one of the Administrators or in the case of (g), such event is applicable to Mortgages administered by only one Administrator, the event shall be deemed to be remedied and shall not entitle the appointment of the other Administrator to be terminated</p>	

Nature of Trigger	Description of Trigger	Consequence of Trigger
	<p>if that other Administrator (in its absolute discretion), by giving notice to the Trustee and the Issuer no later than the date falling 5 days after the occurrence of the relevant event, under and in accordance with the applicable terms of the Administration Agreement, takes over all the rights and obligations under the Relevant Documents of the relevant Administrator in relation to which either the relevant event described in (f) has relevant, such that the events set out in (f) and (g) above are no longer continuing and the other Administrator certifies to that effect, which certification the Trustee can rely on without further investigation or liability.</p>	
<p>Substitute Administrator mandatory termination events</p> <p>See the section entitled "<i>Mortgage Administration – Substitute Administrator</i>" for further information.</p>	<p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> (a) the default by the Substitute Administrator in the performance or observance of any of its covenants and obligations under the Substitute Administrator Agreement, which is materially prejudicial to the interests of the holders of the Most Senior Class of Notes, and such default is not remedied for a period of 30 days after the earlier of the Substitute Administrator becoming aware of such default and receipt by the Substitute Administrator of written notice from the Issuer or, after delivery of an Enforcement Notice, the Trustee requiring the same to be remedied; (b) the Substitute Administrator fails to assume the performance of the Cash Bond Management Services within 5 Business Days of being notified of the occurrence of an Administrator Termination Event; (c) it is or will become unlawful for the Substitute Administrator to perform or comply with any of its obligations under the 	<p>Issuer (with the assistance of the Substitute Administrator Facilitator) or the Trustee may:</p> <ul style="list-style-type: none"> (a) appoint a successor Substitute Administrator; and (b) terminate the appointment of the existing Substitute Administrator.

Nature of Trigger	Description of Trigger	Consequence of Trigger
	<p>Substitute Administrator Agreement; or</p> <p>(d) an Insolvency Event in relation to the Substitute Administrator.</p>	
<p>Substitute Administrator voluntary termination events</p> <p>See the section entitled "<i>Mortgage Administration – Substitute Administrator</i>" for further information.</p>	<p>The occurrence of any of the following:</p> <p>(a) the Issuer fails to make any payment due to HML on the due date for payment thereof or within 20 Business Days thereafter;</p> <p>(b) any amendment, addition or modification is made without HML's consent to the Relevant Documents which is materially prejudicial to HML without an appropriate increase in its fees being agreed by HML;</p> <p>(c) HML no longer holds the authorisations required for it lawfully to carry out all the obligations of the Administrator contemplated by the Administration Agreement and/or the Substitute Administrator Agreement; or</p> <p>(d) the Administrators fail to provide: (i) certain information to HML and such failure is not remedied within 15 business days of the date on which such information is required to be delivered or requested; (ii) any access to, amongst other things, the Administrators' office space, facilities, equipment, systems, software, and staff then in use by the Administrators; and (iii) any co-operation to HML,</p> <p>each as required under the Substitute Administrator Agreement.</p>	<p>HML may terminate its appointment as Substitute Administrator.</p> <p>Issuer (with the assistance of the Substitute Administrator Facilitator) shall appoint a successor Substitute Administrator.</p> <p>See the section entitled "<i>Mortgage Administration – Substitute Administrator</i>" for further information.</p>
<p>Required Amount Trigger</p>	<p>The occurrence of any of the following:</p> <p>(a) on any Principal Determination Date, the then Current Balances of Mortgages which are more than three months in arrears in aggregate represents more than 3 per cent. of the then Current</p>	<p>Neither the Class A and Class B Liquidity Reserve Fund nor the General Reserve Fund shall continue to amortise, as:</p> <p>(a) The Class A and Class B Liquidity Reserve Fund Required Amount shall become an amount equal to 1.5 per cent.</p>

Nature of Trigger	Description of Trigger	Consequence of Trigger
	<p>Balances of all of the Mortgages in the Mortgage Portfolio; or</p> <p>(b) on any Interest Payment Date, the aggregate amount debited to the Principal Deficiency Ledger in respect of enforcement of Mortgages since the Closing Date exceeds 1 per cent. of the Initial Principal Amount of the Notes (excluding for such purposes the Class S Notes and the Class S VFN).</p>	<p>of the aggregate current Principal Amount Outstanding of the Class A Notes and Class B Notes on the Interest Payment Date immediately preceding the date on which the Required Amount Trigger occurred (following the application of Available Redemption Funds on such Interest Payment Date); and</p> <p>(b) The General Reserve Fund Required Amount shall become an amount equal to 1.5 per cent. of the aggregate current Principal Amount Outstanding of the Class C Notes and Class D Notes on the Interest Payment Date immediately preceding the date on which the Required Amount Trigger occurred (following the application of Available Redemption Funds on such Interest Payment Date).</p>

TRANSACTION OVERVIEW — FEES

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

<u>Type of Fee</u>	<u>Amount of Fee</u>	<u>Priority in Cashflow</u>	<u>Frequency</u>
Administration Fee	0.20 per cent. per annum of Interest Charging Balance of Mortgages in the Mortgage Portfolio administered by the relevant Administrator (inclusive of any VAT where the Administrator is PML or PB and exclusive of any VAT upon the appointment of the Substitute Administrator)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Substitute Administrator Commitment Fee	The greater of (a) £8,000 per annum and (b) 0.004 per cent. per annum of the daily average Interest Charging Balance of Mortgages in the Mortgage Portfolio during the relevant annual period (exclusive of any VAT)	Ahead of all outstanding Notes	Annually in advance on the Closing Date and thereafter (following the anniversary of the Closing Date) on the Interest Payment Date falling in February of each year
Issue Services Provider Fees	Estimated at £1,800,000 (exclusive of any VAT) in respect of the repayment of the expenses paid by the Issue Services Provider in connection with the issue of the Notes	Subordinated to all outstanding Notes	Quarterly in arrear on each Interest Payment Date over a period of four years from the Closing Date
Other fees and expenses of the Issuer	Estimated at £42,000 each year (exclusive of VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date

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

CERTAIN REGULATORY DISCLOSURES

PFPLC as originator within the meaning of the CRR, the AIFM Regulation and the Solvency II Regulation (as defined below) will retain a material net economic interest of not less than 5 per cent. in the securitisation in accordance with the text of Article 405(1)(a) of Regulation (EU) No. 575/2013 (the "**CRR**"); Article 51(1)(a) of Regulation (EU) No 231/2013 (the "**AIFM Regulation**"); and Article 254(2)(a) of Regulation (EU) 2015/35 (the "**Solvency II Regulation**") (which, in each case, does not take into account any corresponding national measures). PFPLC is a related entity of PML and Paragon Bank and other entities which are subsidiaries of Paragon Banking Group PLC ("**PBG**") and each of which originally entered into the Mortgages.

As at the Closing Date, such interest will be comprised of an interest in each class of Notes as required by the text of each of Article 405 of the CRR, Article 51 of the AIFM Regulation and Article 254 of the Solvency II Regulation. Such retention requirement will be satisfied by the holding of 5 per cent of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class Z Notes, the Class S Notes and the Class S VFN, in each case by PFPLC. Any change to the manner in which such interest is retained will be notified to Noteholders in the immediately following investor report.

Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in this Prospectus generally for the purposes of complying with Part Five of the CRR (including Article 405), Article 51 of the AIFM Regulation, Article 254 of the Solvency II Regulation and any other risk retention requirements applicable to each category of investors and none of the Issuer, the Arrangers, any Joint Lead Managers or any party to a Relevant Document makes any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes. In addition, each prospective Noteholder should ensure that they comply with the implementing provisions in respect of Article 405 (including any regulatory technical standards, implementing technical standards and any other implementing provisions in their jurisdiction). Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

For further information please refer to the Risk Factor entitled "*Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes*" and the section entitled "*The Mortgages*".

The Issuer (or, after the Closing Date, by PML in its capacity as Administrator on the Issuer's behalf) will make available (i) post issuance information in relation to each Mortgage and (ii) post issuance transaction information in the form of monthly and quarterly investor reports via the following website: www.paragonbank.co.uk. The website and the contents thereof do not form part of this Prospectus.

PFPLC has provided corresponding undertakings with respect to the provision of such investor information and the interest to be retained by PFPLC as specified to (i) the Trustee on behalf of the Noteholders pursuant to the CRR Deed of Covenant and (ii) the Joint Lead Managers in the Subscription Agreement. The Trustee shall have the benefit of certain protections contained in the Trust Deed in relation to the compliance of PFPLC with its undertakings. For further information on the requirements referred to above and the corresponding risks (including the risks arising from the current absence of any corresponding final technical standards to assist with the interpretation of the requirements) please refer to the Risk Factor entitled "*The Trustee may assume performance and is not obliged to act in certain circumstances*".

Information Regarding the Policies and Procedures of the Sellers

The Sellers have internal policies and procedures in relation to the granting of mortgage loans, administration of credit-risk bearing portfolios and risk mitigation, which include: (a) criteria for the granting of mortgage loans and the process for approving, amending, renewing and re-financing mortgage loans (see "*The Mortgages – Information on the Mortgages – General*" and "*Lending Guidelines*"); (b) systems in place to administer and monitor the mortgage loans and exposures (the Mortgages will be serviced in line with the usual servicing procedures of the Sellers – see "*Mortgage Administration*"); (c) adequate diversification of the Sellers' mortgage loan books, given the Sellers' target market and overall credit strategy (see "*The Provisional Mortgage Pool*"); and (d) written policies and procedures in relation to risk mitigation techniques (see "*Mortgage Administration*" and "*Lending Guidelines*").

Volcker Rule

The Issuer is of the view that it is not now, and immediately following the issuance of the Notes and the application of the proceeds thereof it will not be, a "covered fund" as defined in the regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended, commonly known as the "Volcker Rule". Although other exclusions may be available to the Issuer, this view is based on the exemption provided in Section 3(c)(5)(C) of the Investment Company Act.

KEY STRUCTURAL FEATURES

CREDIT ENHANCEMENT AND LIQUIDITY SUPPORT

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

- Available Revenue is expected to exceed interest due and payable on the Notes and senior costs and expenses of the Issuer and the retention of the Issuer Profit Amount.
- A Class A and Class B Liquidity Deficit may be funded by the Class A and Class B Liquidity Reserve Fund.
- A Revenue Deficit may be funded by the General Reserve Fund (subject to, in the case of the Class C Notes and the Class D Notes, the debit balance of the Principal Deficiency Ledger not exceeding certain limits).
- A Senior Expenses Deficit may be funded by (subject to, in the case of the Class B Notes, the debit balance of the Principal Deficiency Ledger not exceeding certain limits) Principal Receipts.
- The subordination of payments of interest and principal on the junior classes of Notes and the deferral of interest payments on the junior classes of Notes where the Issuer has insufficient funds to pay such amounts.
- On or after the Step-Up Date, all Available Revenue after provision for or payment of items (i) to (xviii) of the Revenue Priority of Payments will be applied in or towards the redemption of the Rated Notes (in accordance with item (xix) of the Revenue Priority of Payments).
- Principal losses on the Mortgage Portfolio and/or the application of Principal Receipts to fund any Senior Expenses Deficit on an Interest Payment Date will be allocated to the Notes by an entry in the Principal Deficiency Ledger.
- Principal losses recorded in the Principal Deficiency Ledger may be reduced to the extent of excess Available Revenue.
- Amounts may be drawn under the Class S VFN to, at the discretion of the Class S VFN Holder, fund the General Reserve Fund or, as the case may be, the Class A and Class B Liquidity Reserve Fund and to credit an amount to the Principal Deficiency Ledger to remove any debit thereon, from time to time. The repayment of the amounts drawn under the Class S VFN is subordinated to payments on the Notes.
- The Quarterly MRF Release Amount (if any) will be debited from the Mortgage Margin Reserve Fund and applied as Available Revenue.
- The Interest Rate Converted Mortgage Release Amount (if any) will be debited from the Conversion Margin Reserve Fund and applied as Available Revenue.
- The Issuer will enter into the Basis Hedge Agreements to hedge against the possible variance between the fixed interest rates due and payable by borrowers on the Fixed Rate Mortgages and the interest payable in respect of the Notes.

Each of these factors is considered in more detail below.

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

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

To the extent that on any Interest Payment Date prior to the service of an Enforcement Notice by the Trustee to the Issuer, in respect of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions required to be met in priority to item (v) of the Revenue Priority of Payments,

such excess (after making payments or provisions of a higher priority) is available to be applied towards reducing any debit balance on the Principal Deficiency Ledger to the extent that such debit balance exceeds the aggregate Principal Liability Outstanding of the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes.

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

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

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

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

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

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 (xiv) in the Revenue Priority of Payments, such excess (after making payments or provisions of a higher priority), to the extent that it is sufficient, is available to replenish the General Reserve Fund to the General Reserve Fund Required Amount.

Subordination of the junior classes of Notes

Payments of interest and principal on the Class S VFN are subordinated at all times in right of payment to the Rated Notes, the Class Z Notes and the Class S Notes save that principal may be repaid in respect of the Class S VFN at any time from Available Revenue (to the extent available) in accordance with item (xxiv) of the Revenue Priority of Payments. On and following the Step-Up Date, Available Revenue will be applied to payments of principal on the Rated Notes prior to payment of interest on the Class S VFN and any repayment of principal in respect of the Class S VFN pursuant to item (xxiv) of the Revenue Priority of Payments.

Payments of interest and principal on the Class S Notes are subordinated at all times in right of payment to the Rated Notes and the Class Z Notes save that principal may be repaid in respect of the Class S Notes at any time from Available Revenue (to the extent available) in accordance with item (xxii) of the Revenue Priority of Payments, subject to such principal payment not reducing the Principal Liability Outstanding of the Class S Notes below the aggregate of the General Reserve Fund Required Amount and the Class A and Class B Liquidity Reserve Fund Required Amount on the relevant Interest Payment Date. On and following

the Step-Up Date, Available Revenue will be applied to payments of principal on the Rated Notes prior to payment of interest on the Class S Notes and any repayment of principal in respect of the Class S Notes pursuant to item (xxii) of the Revenue Priority of Payments.

Therefore, prior to the Step-Up Date or the service of an Enforcement Notice, the Class S Notes and the Class S VFN may be redeemed prior to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes, as principal on the Class S Notes and the Class S VFN is repaid through the Revenue Priority Payments

Payments of interest and principal on the Class Z Notes are subordinated at all times in right of payment to the Rated Notes. On and following the Step-Up Date, Available Revenue will be applied to payments of principal on the Rated Notes prior to payment of interest on the Class Z Notes.

Payments of interest and principal on the Rated Notes will be paid in Sequential Order so that payments on the Class D Notes, the Class C Notes and the Class B Notes will be subordinated to payments on the Class A Notes, payments on the Class D Notes and the Class C Notes will be subordinated to payments on the Class B Notes and payments on the Class D Notes will be subordinated to payments on the Class C Notes, in accordance with the relevant payments priorities.

Prior to the expiration of the Further Sale Period, on each Interest Payment Date, Available Principal shall be used to pay any principal due on the Class A Notes to redeem the Class A Notes down to the Class A Target Notional and shall only be used to redeem the Class B Notes, the Class C Notes or the Class D Notes sequentially to the extent of any excess Available Principal following the crediting to the Retained Principal Ledger of an amount up to the Maximum Principal Retained Amount pursuant to item (vi) of the Principal Priority of Payments.

Deferral of interest payments on the Notes

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

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

The deferral of Normal Interest on any class of Notes (other than the Most Senior Class of Notes) and the Deferred Interest and Additional Interest thereon in respect of any class of Notes will continue until the first date upon which the whole Principal Liability Outstanding in respect of the relevant class of Notes becomes due for redemption, and if there is insufficient money available to pay interest on any class of Notes (other than Normal Interest in respect of the Most Senior Class of Notes), the respective holders of such Notes may not receive all interest amounts payable on such class of Notes. Until such date, the deferral of Normal Interest (other than Normal Interest on the Most Senior Class of Notes) and the Deferred Interest and Additional Interest thereon in respect of any class of Notes will not constitute an Event of Default.

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

Principal losses are allocated in the Principal Deficiency Ledger

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

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

Principal losses on the Mortgages in the Mortgage Portfolio and the amount of any Principal Addition Amounts applied to fund a Senior Expenses Deficit will be recorded as a debit to the Principal Deficiency Ledger.

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

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

Application of Available Revenue to redeem the Notes following the Step-Up Date

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

Class A and Class B Liquidity Reserve Fund and Class A and Class B Liquidity Reserve Fund Ledger

On the Closing Date, the Issuer will establish a fund which will be credited with the Class A and Class B Liquidity Reserve Fund Required Amount from part of the proceeds of the Class S Noteholders' subscription for the Class S Notes on the Closing Date (the "**Class A and Class B Liquidity Reserve Fund**") to provide liquidity support (and ultimately, credit enhancement) for the Class A Notes and the Class B Notes. The Class A and Class B Liquidity Reserve Fund will be deposited in the Transaction Account (with a corresponding credit being made to the Class A and Class B Liquidity Reserve Fund Ledger).

At any time during an Interest Period, PML as Administrator may use amounts standing to the credit of the Class A and Class B Liquidity Reserve Fund (debiting the Class A and Class B Liquidity Reserve Fund Ledger) to pay: (a) any amount payable by the Issuer to a Borrower (other than Mandatory Further Advances or Discretionary Further Advances) under the terms of the Mortgage to which that Borrower is a party or by operation of law; and (b) any amounts due and payable by the Issuer in the course of its business to third parties other than the Sellers, the Issue Services Provider, the Intertrust Corporate Services Provider, the Paragon Corporate Services Provider, any Basis Hedge Provider, the Account Bank, any Hedge Collateral Custodian, the Class S VFN Registrar and the Administrators (or the Substitute Administrator or the Substitute Administrator Facilitator) (the "**Intra-period Amounts**") (to the extent that there are no amounts standing to the credit of the Revenue Ledger).

On each Mortgage Payment Date (other than an Interest Payment Date) PML as Administrator on behalf of the Issuer shall credit the Class A and Class B Liquidity Reserve Fund Ledger from amounts standing to the credit of the Revenue Ledger on that date (debiting the Revenue Ledger) an amount equal to the lesser of (i) the Intra-period Amounts described in the paragraph immediately above which have been debited to the Class A and Class B Liquidity Reserve Fund Ledger since the immediately preceding Mortgage Payment Date and (ii) the amount which would result in the Class A and Class B Liquidity Reserve Fund Ledger being equal to the Class A and Class B Liquidity Reserve Fund Required Amount applicable on the immediately preceding Interest Payment Date.

On each Interest Payment Date:

- (a) there shall be transferred to the Class A and Class B Liquidity Reserve Fund (crediting the Class A and Class B Liquidity Reserve Fund Ledger) from amounts standing to the credit of the Revenue Ledger on that date (debiting the Revenue Ledger) an amount equal to any Intra-period Amounts which have been debited to the Class A and Class B Liquidity Reserve Fund Ledger during the Interest Period in question and (if relevant) in respect of which the Class A and Class B Liquidity Reserve Fund has not been replenished on an earlier Mortgage Payment Date during the Interest Period in question provided that the amount of the Class A and Class B Liquidity Reserve Fund shall not, on any Interest Payment Date, exceed the Class A and Class B Liquidity Reserve Fund Required Amount applicable on that Interest Payment Date; and

- (b) up to but excluding the Class B Redemption Date, the Class A and Class B Liquidity Reserve Fund will be replenished up to the Class A and Class B Liquidity Reserve Fund Required Amount from Available Revenue (to the extent available and following application of amounts standing to the credit of the Revenue Ledger pursuant to paragraph (a) above) in accordance with the provisions of the Revenue Priority of Payments.

Following the determination by PML as Administrator on each Principal Determination Date up to but excluding the Principal Determination Date immediately preceding the Class B Redemption Date of the Class A and Class B Liquidity Reserve Fund Required Amount in respect of the immediately following Interest Payment Date, PML as Administrator shall determine (where no amounts are required to be credited to the Class A and Class B Liquidity Reserve Fund Ledger pursuant to the paragraphs above) the Class A and Class B Liquidity Reserve Fund Excess Amount to be applied as Available Revenue on the immediately following Interest Payment Date (if any).

On each Interest Payment Date up to but excluding the Class B Redemption Date, PML as Administrator will apply as Available Revenue the Class A and Class B Liquidity Reserve Fund Excess Amount (as determined on the immediately preceding Principal Determination Date).

On any Principal Determination Date up to and including the Principal Determination Date immediately preceding the Class B Redemption Date (prior to the service of an Enforcement Notice), if the Administrator determines that on the immediately following Interest Payment Date, there would be a Class A and Class B Liquidity Deficit, the Administrator will apply on such Interest Payment Date an amount from the Class A and Class B Liquidity Reserve Fund equal to the lesser of:

- (a) the amount standing to the credit of the Class A and Class B Liquidity Reserve Fund Ledger on such Interest Payment Date (for the avoidance of doubt, prior to any amounts being debited from the Class A and Class B Liquidity Reserve Fund Ledger on such Interest Payment Date) but following the crediting to the Class A and Class B Liquidity Reserve Fund Ledger of any amounts in respect of the reimbursement of Intra-period Amounts debited from the Class A and Class B Liquidity Reserve Fund Ledger as described above; and
- (b) the amount of such Class A and Class B Liquidity Deficit,

(such amount being the "**Class A and Class B Liquidity Reserve Fund Release Amount**"), in meeting such Class A and Class B Liquidity Deficit against the relevant items in the Revenue Priority of Payments in the order that they appear in the Revenue Priority of Payments (any such amount to be debited from the Class A and Class B Liquidity Reserve Fund Ledger immediately prior to the application of any General Reserve Fund Release Amount, any Principal Addition Amounts and Available Revenue pursuant to the Revenue Priority of Payments on such Interest Payment Date).

On the Class B Redemption Date only, all amounts standing to the credit of the Class A and Class B Liquidity Reserve Fund (after first having applied any Class A and Class B Liquidity Reserve Fund Release Amount in meeting any Class A and Class B Liquidity Deficit against the relevant items in the Revenue Priority of Payments in the order they appear in the Revenue Priority of Payments and debiting such amount from the Class A and Class B Liquidity Reserve Fund Ledger) will be applied as Available Revenue in accordance with the Revenue Priority of Payments.

In this Prospectus:

The "**Class A and Class B Liquidity Deficit**" shall be, on any Interest Payment Date, an amount equal to any shortfall in Available Revenue (where such Interest Payment Date falls on the Class B Redemption Date, excluding items (f), (g) and (h) of the definition of Available Revenue) to pay:

- (a) the amounts referred to in items (i) to (iv) in the Revenue Priority of Payments (in the same order of priority as set out in the Revenue Priority of Payments); and
- (b) the amounts referred to in item (vi) in the Revenue Priority of Payments.

The "**Class A and Class B Liquidity Reserve Fund Excess Amount**" shall be, on each Interest Payment Date up to but excluding the Class B Redemption Date, all amounts standing to the credit of the Class A and Class B Liquidity Reserve Fund in excess of the Class A and Class B Liquidity Reserve Fund Required

Amount on such Interest Payment Date (prior to any amounts being debited from or credited to the Class A and Class B Liquidity Reserve Fund Ledger on such date) and, on each other Interest Payment Date, zero.

The "**Class A and Class B Liquidity Reserve Fund Required Amount**" means:

- (a) on any Interest Payment Date falling prior to the Class B Redemption Date:
 - (i) if a Required Amount Trigger has not occurred prior to the Principal Determination Date immediately preceding such Interest Payment Date, an amount equal to 1.5 per cent. of the aggregate current Principal Amount Outstanding of the Class A Notes and Class B Notes prior to the application of Available Redemption Funds on such Interest Payment Date; and
 - (ii) if a Required Amount Trigger has occurred prior to the Principal Determination Date immediately preceding such Interest Payment Date, an amount equal to 1.5 per cent. of the aggregate current Principal Amount Outstanding of the Class A Notes and Class B Notes on the Interest Payment Date immediately preceding the date on which the Required Amount Trigger occurred (following the application of Available Redemption Funds on such Interest Payment Date); and
- (b) on any Interest Payment Date falling on or after the Class B Redemption Date, zero.

The "**Class B Redemption Date**" means the Interest Payment Date in respect of which PML as Administrator determines on the immediately preceding Principal Determination Date that, following the application on such Interest Payment Date of (i) Available Revenue in accordance with the Revenue Priority of Payments, (ii) any Class A and Class B Liquidity Reserve Fund Release Amounts in meeting any Class A and Class B Liquidity Deficit against the relevant items in the Revenue Priority of Payments in the order that they appear in the Revenue Priority of Payments, the sum of the Class B Available Redemption Funds would be sufficient to redeem in full the Class B Notes on such Interest Payment Date.

A "**Required Amount Trigger**" occurs if:

- (a) on any Principal Determination Date, the then Current Balances of Mortgages which are then more than three months in arrears in aggregate constitute more than 3 per cent. of the then aggregate Current Balance of all Mortgages in the Mortgage Portfolio (and for these purposes a Mortgage will be more than 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); or
- (b) on any Interest Payment Date, the aggregate amount debited to the Principal Deficiency Ledger in respect of enforcement of Mortgages since the Closing Date exceeds 1 per cent. of the Initial Principal Amount of the Notes (excluding for such purposes the Class S Notes and the Class S VFN).

As limb (a)(ii) of the definition of Class A and Class B Liquidity Reserve Fund Required Amount calculates such Class A and Class B Liquidity Reserve Fund Required Amount on the basis of the Principal Amount Outstanding of the Class A Notes and Class B Notes on the Interest Payment Date immediately preceding the date on which the Required Amount Trigger occurred, this fixes such Class A and Class B Liquidity Reserve Fund Required Amount with the consequence that the Class A and Class B Liquidity Reserve Fund Excess Amount (that is released to Available Revenue until the Class B Redemption Date will be zero). Consequently, the occurrence of a Required Amount Trigger will prevent amortisation of the Class A and Class B Liquidity Reserve Fund until the Class B Redemption Date.

The "**Mortgage Payment Date**" means the last Business Day of each calendar month or such other date as may be agreed with the relevant Borrower from time to time.

General Reserve Fund and General Reserve Fund Ledger

On the Closing Date, the Issuer will establish a fund which will be credited with the General Reserve Fund Required Amount from part of the proceeds of the Class S Noteholders' subscription for the Class S Notes on the Closing Date (the "**General Reserve Fund**") to provide liquidity support (and ultimately, credit

enhancement) for the Rated Notes. The General Reserve Fund will be deposited in the Transaction Account (with a corresponding credit being made to the General Reserve Fund Ledger).

At any time during an Interest Period, PML as Administrator may use amounts standing to the credit of the General Reserve Fund (debiting the General Reserve Fund Ledger) to pay Intra-period Amounts (to the extent that there are no amounts standing to the credit of the Revenue Ledger or the Class A and Class B Liquidity Reserve Fund Ledger).

On each Mortgage Payment Date (other than an Interest Payment Date) PML as Administrator on behalf of the Issuer shall credit the General Reserve Fund Ledger from amounts standing to the credit of the Revenue Ledger on that date (debiting the Revenue Ledger) an amount equal to the lesser of (i) the Intra-period Amounts described in the paragraph immediately above which have been debited to the General Reserve Fund Ledger since the immediately preceding Mortgage Payment Date and (ii) the amount which would result in the General Reserve Fund Ledger being equal to the General Reserve Fund Required Amount applicable on the immediately preceding Interest Payment Date.

On each Interest Payment Date:

- (a) there shall be transferred to the General Reserve Fund (crediting the General Reserve Fund Ledger) from amounts standing to the credit of the Revenue Ledger on that date (debiting the Revenue Ledger) an amount equal to any Intra-period Amounts which have been debited to the General Reserve Fund Ledger during the Interest Period in question and (if relevant) in respect of which the General Reserve Fund has not been replenished on an earlier Mortgage Payment Date during the Interest Period in question provided that the amount of the General Reserve Fund shall not, on any Interest Payment Date, exceed the General Reserve Fund Required Amount applicable on that Interest Payment Date; and
- (b) up to but excluding the Final Redemption Date, the General Reserve Fund will be replenished up to the General Reserve Fund Required Amount from Available Revenue (to the extent available and following application of amounts standing to the credit of the Revenue Ledger pursuant to paragraph (a) above) in accordance with the provisions of the Revenue Priority of Payments.

Following the determination by PML as Administrator on each Principal Determination Date up to and including the Principal Determination Date immediately preceding the Final Redemption Date of the General Reserve Fund Required Amount in respect of the immediately following Interest Payment Date, PML as Administrator shall determine (where no amounts are required to be credited to the General Reserve Fund Ledger pursuant to the paragraphs above) the General Reserve Fund Excess Amount for application as Available Revenue on the immediately following Interest Payment Date (if any).

On each Interest Payment Date up to and including the Final Redemption Date, PML as Administrator will apply as Available Revenue the General Reserve Fund Excess Amount (as determined on the immediately preceding Principal Determination Date).

On any Principal Determination Date up to and including the Principal Determination Date immediately preceding the Final Redemption Date (prior to the service of an Enforcement Notice), if PML as Administrator determines that on the immediately following Interest Payment Date, there would be a Revenue Deficit (following application of the Class A and Class B Liquidity Reserve Fund Release Amount and the crediting to the General Reserve Fund Ledger of any amounts in respect of the reimbursement of Intra-period Amounts debited from the General Reserve Fund Ledger as described above), PML as Administrator will apply on such Interest Payment Date an amount from the General Reserve Fund equal to the lesser of:

- (a) the amount standing to the credit of the General Reserve Fund Ledger on such Interest Payment Date; and
- (b) the amount of such Revenue Deficit,

(such amount being the "**General Reserve Fund Release Amount**"), in meeting such Revenue Deficit against the relevant items in the Revenue Priority of Payments in the order that they appear in the Revenue Priority of Payments (any such amount to be debited from the General Reserve Fund Ledger immediately prior to the application of Available Revenue pursuant to the Revenue Priority of Payments on such Interest Payment Date).

In this Prospectus:

The "**Final Redemption Date**" means the Interest Payment Date in respect of which PML as Administrator determines on the immediately preceding Principal Determination Date that, following the application on such Interest Payment Date of (i) Available Revenue in accordance with the Revenue Priority of Payments, (ii) any Class A and Class B Liquidity Reserve Fund Release Amounts in meeting any Class A and Class B Liquidity Deficit against the relevant items in the Revenue Priority of Payments in the order that they appear in the Revenue Priority of Payments and (iii) any General Reserve Fund Release Amounts in meeting any Revenue Deficit against the relevant items in the Revenue Priority of Payments in the order that they appear in the Revenue Priority of Payments, the sum of the Available Redemption Funds (other than item (i)(G) (and, where such Interest Payment Date falls prior to the Step-Up Date, item (i)(H)) of the definition thereof), all amounts standing to the credit of the General Reserve Fund Ledger and all amounts which (but for the occurrence of the Final Redemption Date) would have been available for application pursuant to items (xx) to (xxviii) (inclusive) of the Revenue Priority of Payments would be sufficient to redeem in full the Rated Notes on such Interest Payment Date, including, as the case may be, as a result of the mandatory redemption of the Notes pursuant to Condition 5(c) (*Mandatory Redemption for Taxation or Other Reasons*).

The "**Revenue Deficit**" shall be, on any Interest Payment Date an amount equal to shortfall in Available Revenue following application of the Class A and Class B Liquidity Reserve Fund Release Amounts to pay:

- (a) the amounts referred to in items (i) to (iv) in the Revenue Priority of Payments (in the same order of priority as set out in the Revenue Priority of Payments);
- (b) the amounts referred to in item (vi) in the Revenue Priority of Payments;
- (c) the amounts referred to in item (ix) in the Revenue Priority of Payments only if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of the Principal Liability Outstanding of the Class D Notes and the Class Z Notes; and
- (d) the amounts referred to in item (xi) in the Revenue Priority of Payments only if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of the Principal Liability Outstanding of the Class Z Notes.

On the Final Redemption Date only, all amounts standing to the credit of the General Reserve Fund Ledger (after first having applied any Class A and Class B Liquidity Reserve Fund Release Amounts in meeting any Class A and Class B Liquidity Deficit and then any General Reserve Fund Release Amount to meet any Revenue Deficit against the relevant items in the Revenue Priority of Payments in the order they appear in the Revenue Priority of Payments, and debiting such amounts from the Class A and Class B Liquidity Reserve Fund Ledger and/or the General Reserve Fund Ledger in accordance with the Revenue Priority of Payments, in each case on such Final Redemption Date) will be applied as Available Redemption Funds in accordance with the Principal Priority of Payments.

The "**General Reserve Fund Excess Amount**" on any Interest Payment Date will be an amount equal to the greater of:

- (a) zero; and
- (b) the amount standing to the credit of the General Reserve Fund Ledger on such Interest Payment Date, less the General Reserve Fund Required Amount on such Interest Payment Date.

The "**General Reserve Fund Required Amount**" means:

- (a) on any Interest Payment Date up to and including the Final Redemption Date:
 - (i) if a Required Amount Trigger has not occurred prior to the Principal Determination Date immediately preceding such Interest Payment Date, an amount equal to 1.5 per cent. of the aggregate current Principal Amount Outstanding of the Class C Notes and Class D Notes prior to the application of Available Redemption Funds on such Interest Payment Date; and

- (ii) if a Required Amount Trigger has occurred prior to the Principal Determination Date immediately preceding such Interest Payment Date, an amount equal to 1.5 per cent. of the aggregate current Principal Amount Outstanding of the Class C Notes and Class D Notes on the Interest Payment Date immediately preceding the date on which the Required Amount Trigger occurred (following the application of Available Redemption Funds on such Interest Payment Date); and
- (b) on each Interest Payment Date following the Final Redemption Date, zero.

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

As limb (a)(ii) of the definition of General Reserve Fund Required Amount calculates such General Reserve Fund Required Amount on the basis of the Principal Amount Outstanding of the Class B Notes, Class C Notes and Class D Notes on the Interest Payment Date immediately preceding the date on which the Required Amount Trigger occurred, this fixes such General Reserve Fund Required Amount with the consequence that the General Reserve Fund Excess Amount (that is released to Available Revenue until the Final Redemption Date will be zero). Consequently, the occurrence of a Required Amount Trigger will prevent amortisation of the General Reserve Fund until the Final Redemption Date.

Liquidity support provided by use of Principal Receipts to fund a Senior Expenses Deficit

On each Principal Determination Date, PML as Administrator will calculate whether Available Revenue following the application of any Class A and Class B Liquidity Reserve Fund Release Amount and any General Reserve Fund Release Amount is insufficient to pay or provide for all amounts in items (i) to (iv) and (vi) of the Revenue Priority of Payments (such insufficient amount being a "**Senior Expenses Deficit**"). If there will be a Senior Expenses Deficit, then PML as Administrator shall pay or provide for that Senior Expenses Deficit by the application of Principal Receipts (such reapplied amounts, "**Principal Addition Amounts**") on the following Interest Payment Date towards the payment in order of priority of:

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

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

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

Liquidity support provided by Mortgage Margin Reserve Fund

On the Closing Date, PML as Administrator will establish a margin reserve fund (the "**Mortgage Margin Reserve Fund**") and a related margin reserve discretionary fund (the "**Mortgage MRF Discretionary Fund**"), each of which shall be used to supplement payments received by the Issuer in respect of:

- (i) interest payments in respect of Mortgages purchased on the Closing Date which are set in accordance with the Mortgage Conditions and when calculated by PML as Administrator have a weighted average rate which is on average less than 3 per cent. above Mortgage MRF LIBOR in any future Collection Periods (after taking into account all hedging arrangements entered into by the Issuer and the Interest Rate Converted Mortgage Release Amounts expected on the immediately following Interest Payment Date); and
- (ii) interest payments in respect of any Additional Mortgages purchased on any Further Sale Date which are set in accordance with the Mortgage Conditions and when calculated by PML as Administrator (together with the Mortgages previously purchased on the Closing Date or any prior Further Sale Date) have a weighted average rate which is on average less than 3 per cent. above

Mortgage MRF LIBOR in any future Collection Periods (after taking into account all hedging arrangements entered into by the Issuer and the Interest Rate Converted Mortgage Release Amounts expected on the immediately following Interest Payment Date).

On the Closing Date:

- (a) the Mortgage Margin Reserve Fund Ledger will be credited with the Initial Mortgage MRF Required Amount; and
- (b) the Mortgage MRF Discretionary Fund Ledger will be credited with the Mortgage MRF Discretionary Amount,

in each case from part of the proceeds of the Noteholders' subscription for the Class S Notes on the Closing Date.

The Initial Mortgage MRF Required Amount is £0 (being equal to 0 per cent. of the aggregate Initial Principal Amount of the Notes) and the Mortgage MRF Discretionary Amount determined by PML as Administrator on the Closing Date is £300,000 (being equal to 0.04 per cent. of the aggregate Initial Principal Amount of the Notes).

On the Closing Date and on each Principal Determination Date (the "**Relevant Date**"), PML as Administrator will determine (in respect of the Closing Date) the Initial Mortgage MRF Required Amount and (in respect of each Principal Determination Date) the Mortgage MRF Required Amount in respect of the Mortgages outstanding on such Relevant Date. On each Interest Payment Date, PML as Administrator will debit from the Mortgage Margin Reserve Fund Ledger and credit to the Revenue Ledger the Quarterly MRF Release Amount applicable to the Mortgages for the Collection Period ending on the immediately preceding Principal Determination Date.

On each Interest Payment Date the Mortgage MRF Discretionary Fund Ledger may, at the discretion of PML as Administrator, be credited with the Mortgage MRF Discretionary Amount from Available Revenue pursuant to the Revenue Priority of Payments (in which case such Mortgage MRF Discretionary Amount shall be credited from the Revenue Ledger to the Mortgage MRF Discretionary Fund Ledger on such Interest Payment Date).

PML as Administrator will adjust its calculation of the Mortgage MRF Required Amount and the amount standing to the credit of the Mortgage Margin Reserve Fund Ledger each time it is proposed by the Sellers to sell Additional Mortgages to the Issuer during the Further Sale Period.

On each Further Sale Date, PML as Administrator will determine the difference (if positive) (the "**Additional Mortgage MRF Required Amount**") between: (a) the amount which would have been determined on the Closing Date or, as the case may be, the most recent Principal Determination Date in respect of the Mortgage MRF Required Amount if: (i) the Adjusted Relevant Aggregate Current Balance had been used in such determination instead of the Relevant Aggregate Current Balance; and (ii) the Adjusted Margin Shortfall had been used in such determination instead of the Margin Shortfall (the "**Adjusted Mortgage MRF Required Amount**"); and (b) the Mortgage MRF Required Amount determined by PML as Administrator on the Closing Date (in respect of any Further Sale Date occurring in the first Collection Period) or immediately preceding Principal Determination Date (in respect of any Further Sale Date occurring in a Collection Period other than the first Collection Period) (and excluding any Quarterly MRF Release Amount debited from the Mortgage Margin Reserve Fund Ledger on the Interest Payment Date following such Principal Determination Date).

If PML as Administrator determines that an Additional Mortgage MRF Required Amount is applicable in respect of any Additional Mortgages to be acquired by the Issuer from the Sellers on such Further Sale Date, PML as Administrator will transfer such Additional Mortgage MRF Required Amount from the Mortgage MRF Discretionary Fund (if a sufficient amount is standing to the credit thereof) to the Mortgage Margin Reserve Fund by debiting the Mortgage MRF Discretionary Fund Ledger and crediting the Mortgage Margin Reserve Fund in respect of such amount. It is an Additional Mortgage Condition that the amount standing to the credit of the Mortgage Margin Reserve Fund Ledger on any Further Sale Date is equal to or greater than the Adjusted Mortgage MRF Required Amount.

In this Prospectus:

"Adjusted Margin Shortfall" means, on any Further Sale Date in respect of the calculation of the Adjusted Mortgage MRF Required Amount, the interest rate that is the greater of (a) zero per cent. and (b):

- (i) Mortgage MRF LIBOR; plus
- (ii) 3 per cent; less
- (iii) the weighted average annual interest rate in respect of:
 - (a) all outstanding Mortgages as at: (a) the Closing Date (if the Adjusted Margin Shortfall is being determined on a Further Sale Date in the first Collection Period); or (b) the immediately preceding Principal Determination Date (if the Adjusted Margin Shortfall is being determined on a Further Sale Date in a Collection Period other than the first Collection Period); and
 - (b) any Additional Mortgages purchased since: (a) the Closing Date (if the Adjusted Margin Shortfall is being determined on a Further Sale Date in the first Collection Period); or (b) the immediately preceding Principal Determination Date (in respect of any Further Sale Date occurring in a Collection Period other than the first Collection Period), but in each case prior to such Further Sale Date; and
 - (c) any Additional Mortgages purchased on such Further Sale Date,

(in each case after taking into account any hedging arrangements in respect of any Mortgages which are Fixed Rate Mortgages and the Interest Rate Converted Mortgage Release Amounts expected on the immediately following Interest Payment Date).

"Adjusted Relevant Aggregate Current Balance" means, on any Further Sale Date in respect of the calculation of Adjusted Mortgage MRF Required Amount:

- (i)
 - (a) the Current Balance of all outstanding Mortgages as at the Closing Date (if the Adjusted Mortgage MRF Required Amount is being determined on a Further Sale Date in the first Collection Period); or
 - (b) the Current Balance of all outstanding Mortgages as at the immediately preceding Principal Determination Date (if the Adjusted Mortgage MRF Required Amount is being determined on a Further Sale Date in a Collection Period other than the first Collection Period); plus
- (ii)
 - (a) the Current Balance (as at the Closing Date) of any Additional Mortgages purchased since the Closing Date but prior to such Further Sale Date (if the Adjusted Mortgage MRF Required Amount is being determined on a Further Sale Date in the first Collection Period); or
 - (b) the Current Balance (as at the immediately preceding Principal Determination Date) of any Additional Mortgages purchased since the immediately preceding Principal Determination Date but prior to such Further Sale Date (if the Adjusted Mortgage MRF Required Amount is being determined on a Further Sale Date in a Collection Period other than the first Collection Period); plus
- (iii)
 - (a) the Current Balance (as at the Closing Date) of any Additional Mortgages purchased on such Further Sale Date (if the Adjusted Mortgage MRF Required Amount is being determined on a Further Sale Date in the first Collection Period); or

- (b) the Current Balance (as at the immediately preceding Principal Determination Date) of any Additional Mortgages purchased on such Further Sale Date (if the Adjusted Mortgage MRF Required Amount is being determined on a Further Sale Date in a Collection Period other than the first Collection Period).

"Initial Mortgage MRF Required Amount" means the Mortgage MRF Required Amount as at the Closing Date.

"LIBOR-Linked Reset Rate" means the three month LIBOR (or any replacement rate as determined by an Administrator in the event that the rate for the three-month London Inter-Bank Offered Rate for GBP deposits is discontinued or becomes unavailable) on the business day prior to each of the first of October, January, April and July.

"Margin Shortfall" means, on the Closing Date or on any Principal Determination Date, the interest rate that is the greater of (a) zero per cent. and (b):

- (i) Mortgage MRF LIBOR; plus
- (ii) 3 per cent.; less
- (iii) the weighted average annual interest rate in respect of all outstanding Mortgages as at:
 - (a) the Closing Date (if the Margin Shortfall is being determined on the Closing Date); or
 - (b) such Principal Determination Date (if the Margin Shortfall is being determined on a Principal Determination Date),

(in each case after taking into account any hedging arrangements in respect of any Mortgages which are Fixed Rate Mortgages and the Interest Rate Converted Mortgage Release Amounts expected on the immediately following Interest Payment Date).

"Mortgage MRF Required Amount" means, on the Closing Date or on any Principal Determination Date (the **"Relevant Date"**), the sum of all Monthly Mortgage Margin Requirements for each calendar month from such Relevant Date until the Final Maturity Date.

"Mortgage MRF Discretionary Amount" means, on the Closing Date or on each Interest Payment Date (prior to the Step-Up Date and where a Paragon Banking Group Company owns more than 50 per cent. of the Residual Certificates) an amount that PML as Administrator reasonably determines is required to be credited to the Mortgage MRF Discretionary Fund Ledger on the Closing Date from the Class S Notes or, as the case may be, each Interest Payment Date from the Revenue Ledger in order that the amount standing to the credit of the Mortgage Margin Reserve Fund is sufficient to fund the aggregate Additional Mortgage MRF Required Amounts (on any Further Sale Date by the debiting of the Mortgage MRF Discretionary Fund Ledger and the crediting of the Mortgage Margin Reserve Fund Ledger) in respect of any Additional Mortgages which PML as Administrator expects to be acquired by the Issuer from the Sellers on any Further Sale Date in the Collection Period commencing on the Closing Date or, in the case of each Interest Payment Date following the first Interest Payment Date, the immediately preceding Principal Determination Date, as reasonably determined by the Administrator.

"Mortgage MRF LIBOR" means the weighted average rate, as reasonably determined by the Administrator, as at the last Principal Determination Date, or for the first Collection Period, the Closing Date, or if calculated on a Principal Determination Date as at that Principal Determination Date of (a) in respect of LIBOR-Linked Mortgages the LIBOR-Linked Reset Rate and (b) in respect of SVR mortgages and Fixed Rate Mortgages, the Reference Rate (or the Alternative Base Rate).

"Monthly Mortgage Margin Requirement" means, on the Closing Date or on any Principal Determination Date (the **"Relevant Date"**) the product of: (a) the Relevant Aggregate Current Balance; (b) the Margin Shortfall as at such Relevant Date; and (c) the number of days from such Relevant Date until the end of the next calendar month divided by 365 and calculated by PML as Administrator as at such Relevant Date.

"Quarterly MRF Release Amount" means, on each Interest Payment Date, the difference between:

- (i) the sum of:
 - (a) the Mortgage MRF Required Amount determined by PML as Administrator as at the Principal Determination Date immediately preceding the previous Interest Payment Date or in respect of the first Collection Period, the Closing Date; and
 - (b) all amounts credited to the Mortgage Margin Reserve Fund Ledger from the Mortgage MRF Discretionary Fund Ledger during the Collection Period ending on the immediately preceding Principal Determination Date or in respect of the first Collection Period, the Closing Date; and
- (ii) the Mortgage MRF Required Amount determined by PML as Administrator on the immediately preceding Principal Determination Date.

"Relevant Aggregate Current Balance" means, on the Closing Date or on any Principal Determination Date: (i) the Current Balance of all outstanding Mortgages as at the Closing Date (if the Mortgage MRF Required Amount is being determined on the Closing Date); or (ii) the Current Balance of all outstanding Mortgages as at such Principal Determination Date (if the Mortgage MRF Required Amount is being determined on a Principal Determination Date).

Liquidity support provided by Conversion Margin Reserve Fund

On the Closing Date, the Issuer will establish a conversion margin reserve fund (the "**Conversion Margin Reserve Fund**") and a related conversion margin discretionary reserve fund (the "**Conversion MRF Discretionary Fund**"), each of which shall be used to supplement payments received by the Issuer in respect of interest payments in respect of Mortgages purchased on the Closing Date or on any Further Sale Date which become Interest Rate Converted Mortgages in respect of which a reduction in the annual interest rate applicable to the relevant Mortgage has occurred as a result of the conversion of such Mortgage.

On the Closing Date the Conversion MRF Discretionary Fund Ledger will be credited with the Initial Conversion MRF Discretionary Amount from part of the proceeds of the Noteholders' subscription for the Class S Notes on the Closing Date. The Initial Conversion MRF Discretionary Amount determined by PML as Administrator is £300,000 (being equal to 0.04 per cent. of the aggregate Initial Principal Amount of the Notes).

Following the Closing Date, PML as Administrator may (at its discretion) on each Interest Payment Date up to but excluding the Step-Up Date, fund the Conversion MRF Discretionary Fund in an amount up to the Conversion MRF Discretionary Amount from Available Revenue (to the extent available) in accordance with the provisions of the Revenue Priority of Payments.

It is condition to any Mortgage becoming an Interest Rate Converted Mortgage that the amount standing to the credit of the Conversion Margin Reserve Fund on the date of any conversion is equal to the Conversion MRF Required Amount, in which case PML as Administrator shall transfer the amount required to ensure that the amount standing to the credit of the Conversion Margin Reserve Fund Ledger is equal to the Conversion MRF Required Amount from the Conversion MRF Discretionary Fund to the Conversion Margin Reserve Fund (by crediting the Conversion Margin Reserve Fund Ledger and debiting the Conversion MRF Discretionary Fund Ledger).

On each Interest Payment Date, PML as Administrator will debit from the Conversion Margin Reserve Fund Ledger and credit to the Revenue Ledger the aggregate of the Interest Rate Converted Mortgage Release Amounts applicable to each Interest Rate Converted Mortgage for the Collection Period ending on the immediately preceding Principal Determination Date.

If on any Interest Payment Date, PML as Administrator determines that the amount credited to the Conversion Margin Reserve Fund Ledger of the Transaction Account in respect of any Interest Rate Converted Mortgage exceeds the Conversion MRF Required Amount (that would be applicable in respect of such Interest Rate Converted Mortgage if calculated by reference to the Current Balance of such Mortgage as at the Principal Determination Date immediately preceding such Interest Payment Date (instead of the Current Balance at the date of conversion), and by reference to the number of years in the remaining term of the Mortgage for which the Product Conversion Rate Reduction Amount is applicable

as at the Principal Determination Date immediately preceding such Interest Payment Date (instead of the term as at the date of conversion)) in respect of such Interest Rate Converted Mortgage, then the amount of such excess (the "**Conversion MRF Excess Amount**") shall be released from the Conversion Margin Reserve Fund Ledger and credited to the Revenue Ledger for application as Available Revenue.

If on any Interest Payment Date, PML as Administrator determines that any Proposed Interest Rate Converted Mortgage did not become an Interest Rate Converted Mortgage as a result of (i) the Interest Rate Converted Mortgage Conditions not being satisfied on any day in the Collection Period ending on the Principal Determination Date immediately preceding such Interest Payment Date or (ii) the relevant Borrower electing not to proceed with the conversion, then the PML as Administrator shall release the Conversion MRF Required Amount credited to the Conversion Margin Reserve Fund Ledger of the Transaction Account in respect of such Proposed Interest Rate Converted Mortgage and credit such amount (the "**Non-Proceeding Conversion Release Amount**") to the Revenue Ledger for application as Available Revenue.

In this Prospectus:

"**Conversion MRF Discretionary Amount**" means, on each Interest Payment Date (prior to the Step-Up Date and where a Paragon Banking Group Company owns more than 50 per cent. of the Residual Certificates) an amount that PML as Administrator reasonably determines is required to be credited to the Conversion MRF Discretionary Fund on each Interest Payment Date in order that the amount standing to the credit of the Conversion MRF Discretionary Fund Ledger is sufficient to fund the Conversion MRF Required Amount in respect any Proposed Interest Rate Converted Mortgage which any Administrator expects to be converted by such Administrator in the Collection Period commencing on the immediately preceding Principal Determination Date, as reasonably determined by the Administrator.

"**Interest Rate Converted Mortgage Release Amount**" means, on each Interest Payment Date in respect of any Interest Rate Converted Mortgage, (w) the outstanding Current Balance on the first day of the Collection Period ending on the immediately preceding Principal Determination Date of such Mortgage multiplied by (x) the Product Conversion Rate Reduction Amount multiplied by (y) the number of days during the Collection Period ending on the immediately preceding Principal Determination Date that such Mortgage was an Interest Rate Converted Mortgage divided by (z) 365.

"**Conversion MRF Required Amount**" means, in respect of any Interest Rate Converted Mortgage, an amount equal to the Current Balance of such Mortgage as at the date of conversion multiplied by the Product Conversion Rate Reduction Amount multiplied by the remaining term in years of the Mortgage for which the Product Conversion Rate Reduction Amount is applicable.

"**Product Conversion Rate Reduction Amount**" means, in respect of any Interest Rate Converted Mortgage, the reduction in the annual interest rate (after taking into account any hedging arrangements in respect of the Fixed Rate Mortgages) applicable to the relevant Mortgage which occurred as a result of the conversion of such Mortgage.

Basis Hedge Agreements

On the Closing Date, the Issuer will have entered into one or more ISDA Master Agreements (together with the Schedule and Credit Support Annex relating to such relevant ISDA Master Agreement) and any confirmation(s) evidencing one or more interest rate swap transactions thereunder (the "**Initial Basis Hedge Agreements**" and each an "**Initial Basis Hedge Agreement**") with Lloyds Bank plc, as the basis hedge provider (the "**Initial Basis Hedge Provider**"), each in accordance with the applicable criteria of each Rating Agency on the Closing Date to hedge the risk of a differential between the rate of interest receivable in respect of the Fixed Rate Mortgages acquired by it on the Closing Date, on the one hand, and the rate of interest payable on the Notes on the other hand.

Hedging arrangements may be provided by any bank or financial institution provided that on the date on which it makes such arrangements available to the Issuer, such bank or financial institution has a rating for its long-term or short-term debt obligations sufficient to maintain the then current 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 Basis Hedge Provider**" and any interest

rate hedging agreement being entered into by the Issuer with such financial institution being a "**Permitted Basis Hedge Agreement**").

In this Prospectus:

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

"**Basis Hedge Provider**" means any Initial Basis Hedge Provider and any Permitted Basis Hedge Provider.

OTHER STRUCTURAL FEATURES

MFA Pre-Funding Reserve

On the Closing Date, the Issuer will establish a reserve (the "**MFA Pre-Funding Reserve**") which shall be used by the Issuer to fund Mandatory Further Advances in respect of Mortgages purchased on the Closing Date or on any Further Sale Date.

On or prior to the earlier of the Principal Determination Date immediately preceding the Step-Up Date and the MFA Pre-Funding Reserve Ledger Release Date designated by PML as Administrator, the Issuer will be entitled to apply any amount standing to the credit of the MFA Pre-Funding Reserve Ledger of the Transaction Account in purchasing Mandatory Further Advances 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 (see "*Mortgage Administration – Further Advances – Discretionary Further Advances*") as described more fully below.

To the extent the MFA Pre-Funding Reserve Ledger Release Date has not occurred, clause 6.4.4 of the Administration Agreement may require PML as Administrator in certain circumstances, to debit on or before the Principal Determination Dates relating to the Interest Payment Dates falling in each of 15 February 2020, 15 February 2021, 15 February 2022 and 15 February 2023, amounts from the MFA Pre-Funding Reserve Ledger and credit such amounts to the Principal Ledger. Such amounts shall then be applied either to purchase Mandatory Further Advances or Additional Mortgages on or before the immediately following Interest Payment Date or as Available Redemption Funds in repayment of the Notes on the immediately following Interest Payment Date. The outstanding credit balance of the MFA Pre-Funding Reserve Ledger (if any) shall be debited from the MFA Pre-Funding Reserve Ledger and credited to the Principal Ledger the earlier of (x) the MFA Pre-Funding Reserve Ledger Release Date designated by PML as Administrator and (y) the Principal Determination Date immediately preceding the Step-Up Date. Following the crediting of such amounts to the Principal Ledger, such amounts shall be applied as Available Redemption Funds in repayment of the Notes on the immediately following Interest Payment Date, or in purchasing Additional Mortgages.

Class S VFN Drawdown Ledger

PML as Administrator will maintain the Class S VFN Drawdown Ledger pursuant to the Administration Agreement. The Class S VFN Drawdown Ledger will be funded from drawings under the Class S VFN as required by Conditions 18 (*Increasing the Principal Amount Outstanding of the Class S VFN and adjusting the Maximum Class S VFN Amount in respect of an Amortised Cost Adjustment*) and 19 (*Increasing the Principal Amount Outstanding of the Class S VFN and adjusting the Maximum Class S VFN Amount in respect of the discretionary funding of the General Reserve Fund, Class A and Class B Liquidity Reserve Fund and the Principal Deficiency Ledger*).

Amounts standing to the credit of the Class S VFN Drawdown Ledger will be applied by the Issuer on the Closing Date and each Further Sale Date to fund the Amortised Cost Adjustment in respect of Mortgages purchased on the Closing Date and each Further Sale Date.

In addition, but without prejudice thereto, the Class S VFN Holder may, at its discretion, make available to the Issuer further amounts under the Class S VFN:

- (i) if and to the extent that the General Reserve Fund is less than the General Reserve Fund Required Amount in order, when such amounts are credited to the General Reserve Fund Ledger, to replenish the General Reserve Fund to the General Reserve Fund Required Amount to restore such balance to the General Reserve Fund Required Amount and thus enable the Issuer to: (a) (subject to the other conditions applicable to the making of Discretionary Further Advances) fund any

Discretionary Further Advances; and (b) (subject to the other Additional Mortgage Conditions) acquire Additional Mortgages from the Sellers;

- (ii) if and to the extent that the Class A and Class B Note Liquidity Reserve Fund is less than the Class A and Class B Liquidity Reserve Fund Required Amount in order, when such amounts are credited to the Class A and Class B Note Liquidity Reserve Fund Ledger, to replenish the Class A and Class B Note Liquidity Reserve Fund to the Class A and Class B Liquidity Reserve Fund Required Amount to restore such balance to the Class A and Class B Liquidity Reserve Fund Required Amount and thus enable the Issuer to: (a) (subject to the other conditions applicable to the making of Discretionary Further Advances) fund any Discretionary Further Advances; and (b) (subject to the other Additional Mortgage Conditions) acquire Additional Mortgages from the Sellers; and
- (iii) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, to credit such amounts to the Principal Deficiency Ledger to restore such balance to zero and thus enable the Issuer to: (a) (subject to the other conditions applicable to the making of Discretionary Further Advances) fund any Discretionary Further Advances; and (b) (subject to the other Additional Mortgage Conditions) acquire Additional Mortgages from the Sellers.

Issue Services Fee Letter

Paragon Finance PLC (in such capacity, the "**Issue Services Provider**") has agreed to arrange the issue of the Notes on behalf of the Issuer. The Issue Services Provider will pay, on behalf of the Issuer, or reimburse to the Issuer, any expenses payable by the Issuer in connection with the issue of the Notes.

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

Agency Agreement

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

CASHFLOWS AND CASH MANAGEMENT

Transfer of Funds from the Collection Account

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

In this Prospectus:

"PML Collection Account" means the account of PML numbered 13312232 (Code 20-19-90) with Barclays Bank PLC (the **"PML Collection Account Bank"**) at its branch at Barclays Bank PLC, London Corporate Banking Centre, PO Box No 554, London, EC3P 3AH and/or such other account (or accounts) of PML which has (or have) been approved in writing by the Trustee in accordance with the Administration Agreement.

"PB Collection Account" (and together with the PML Collection Account, the **"Collection Accounts"**) means the account of Paragon Bank numbered 59506954 (Code 55-50-15) with NatWest Bank PLC (the **"PB Collection Account Bank"** and together with the PML Collection Account Bank, the **"Collection Account Banks"**) at its branch at 4 High Street, Solihull, West Midlands, B91 3TF and/or such other account (or accounts) of Paragon Bank which has (or have) been approved in writing by the Trustee in accordance with the Administration Agreement.

"Transaction Account" means an account of the Issuer with Citibank N.A., London Branch (the **"Account Bank"** and together with the Collection Account Bank, the **"Account Banks"**) at its branch at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB (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 pursuant to the terms of an account bank agreement (the **"Account Bank Agreement"**) dated on the Closing Date between the Account Bank, the Issuer, the Trustee and the Administrator (such Account Bank Agreement to also govern the provision of the Hedge Collateral Accounts to the Issuer by the Account Bank as described further in the section entitled *"Hedging Arrangements — Ratings of Basis Hedge Providers and transfer of Basis Hedge Agreements"* (other than where Hedge Collateral comprises securities)).

The Collection Accounts may be transferred from the Collection Account Banks to HSBC Bank plc or (in the case of the PB Collection Account) to Barclays Bank PLC following the Closing Date by PML as Administrator and/or any Seller without the consent of the Trustee or any other party, provided that at such time HSBC Bank plc or, as the case may be, Barclays Bank PLC has (a) (i) a short-term, issuer default rating by Fitch of at least F2 or (ii) a long-term issuer default rating by Fitch of at least BBB+; and (b) long-term, unsecured and unsubordinated debt rated at least Baa3 by Moody's or has at such time such other ratings as are consistent with the then current criteria of Moody's as being the minimum ratings that are required to support the then rating of the Most Senior Class of Rated Notes and subject to certain conditions (see the section entitled "Mortgage Administration" for further details).

The Transaction Account may be transferred from the Account Bank to HSBC Bank plc or to Barclays Bank PLC or to Wells Fargo Bank, N.A. following the Closing Date by PML as Administrator and/or any Seller without the consent of the Trustee or any other party, provided that at such time HSBC Bank plc or, as the case may be, Barclays Bank PLC or Wells Fargo Bank, N.A. has the requisite ratings or has at such time such other ratings as are consistent with the then current criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Rated Notes and subject to certain conditions (see the section entitled *"Mortgage Administration"* for further details).

Use of Ledgers – the Issuer

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

Principal Ledger

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

Revenue Ledger

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

- (i) amounts credited to the Principal Ledger and the Retained Principal Ledger;
- (ii) drawings under the Class S VFN which are to be used for the purposes of increasing the General Reserve Fund and the Class A and Class B Liquidity Reserve Fund;
- (iii) drawings under the Class S VFN in order to reduce any debit balance on the Principal Deficiency Ledger;
- (iv) drawings under the Class S VFN to fund the Amortised Cost Adjustment;
- (v) any Hedge Collateral received from a Basis Hedge Provider from time to time in respect of any Basis Hedge Agreement, including any interest on, and distributions in respect of, Hedge Collateral;
- (vi) any swap termination payments applied or to be applied by the Issuer in the purchase of one or more replacement hedging transactions;
- (vii) any swap replacement premia applied or to be applied by the Issuer in making any swap termination payment due from it to a Basis Hedge Provider;
- (viii) amounts retained by the Issuer in accordance with paragraph (xiii) of the Revenue Priority of Payments and credited to the Issuer Profit Ledger;
- (ix) any amounts in respect of Swap Tax Credits.

Amounts in respect of items (ii), (iii) and (iv) above will be credited to the Class S VFN Drawdown Ledger and then subsequently credited to the General Reserve Fund Ledger, the Class A and Class B Liquidity Reserve Fund Ledger and the Principal Ledger (as applicable).

MFA Pre Funding Reserve Ledger

It is expected that PML as Administrator will on the Closing Date credit to the "**MFA Pre-Funding Reserve Ledger**" an amount equal to 0.08% of the Initial Principal Amount of the Notes to be used by the Issuer for the purchase of Mandatory Further Advances from the Sellers, subject to clause 6.4.4 of the Administration Agreement, up until the earlier of the MFA Pre-Funding Reserve Ledger Release Date and the Principal Determination Date (determined by PML as Administrator) immediately preceding the Step-Up Date.

General Reserve Fund Ledger

PML as Administrator will maintain the "**General Reserve Fund Ledger**", which will record amounts credited to, and debited from, the General Reserve Fund. The General Reserve Fund will be funded from part of the proceeds of the Class S Notes in an amount equal to the General Reserve Fund Required Amount on the Closing Date and on each Interest Payment Date up to and including the Final Redemption Date from amounts to be applied to the General Reserve Fund in accordance with the Revenue Priority of Payments.

On each Interest Payment Date up to and including the Final Redemption Date (prior to service of an Enforcement Notice), PML as Administrator will, first, transfer, after fully utilising the Class A and Class B Liquidity Reserve Fund Ledger on such Interest Payment Date, to the General Reserve Fund (crediting the General Reserve Fund Ledger) from amounts standing to the credit of the Revenue Ledger on that date (debiting the Revenue Ledger) an amount equal to any Intra-period Amounts which have been debited to

the General Reserve Fund Ledger during the Interest Period ending on such Interest Payment Date and (if relevant) in respect of which the General Reserve Fund has not been replenished on an earlier Mortgage Payment Date during such Interest Period, second, debit (i) an amount equal to the General Reserve Fund Excess Amount from the General Reserve Fund Ledger to be applied as Available Revenue; and (ii) an amount equal to the General Reserve Fund Release Amount (if any) from the General Reserve Fund Ledger to be applied in meeting any Revenue Deficit against the relevant items in the Revenue Priority of Payments in the order in which they appear in the Revenue Priority of Payments and, third, following any such adjustments to the General Reserve Fund Ledger, apply (on behalf of the Issuer) the Available Revenue pursuant to the Revenue Priority of Payments and credit to the General Reserve Fund Ledger the amount of Available Revenue applied on such Interest Payment Date to replenish the General Reserve Fund up to the General Reserve Fund Required Amount pursuant to item (xiv) of the Revenue Priority of Payments.

On the Final Redemption Date only, all amounts standing to the credit of the General Reserve Fund Ledger (after first having applied any Class A and Class B Liquidity Reserve Fund Release Amounts in meeting any Class A and Class B Liquidity Deficit and then any General Reserve Fund Release Amount to meet any Revenue Deficit against the relevant items in the Revenue Priority of Payments in the order they appear in the Revenue Priority of Payments, and debiting such amounts from the Class A and Class B Liquidity Reserve Fund Ledger and/or the General Reserve Fund Ledger in accordance with the Revenue Priority of Payments, in each case on such Final Redemption Date) credited to the Principal Ledger and will be applied as Available Redemption Funds in accordance with the Principal Priority of Payments (see "*Key Structural Features – General Reserve Fund and General Reserve Fund Ledger*" above).

Class A and Class B Liquidity Reserve Fund Ledger

PML as Administrator will maintain the "**Class A and Class B Liquidity Reserve Fund Ledger**", which will record amounts credited to, and debited from, the Class A and Class B Liquidity Reserve Fund. The Class A and Class B Liquidity Reserve Fund will be funded from part of the proceeds of the Class S Notes in an amount equal to the Class A and Class B Liquidity Reserve Fund Required Amount on the Closing Date and on each Interest Payment Date up to but excluding the Class B Redemption Date from amounts to be applied to the Class A and Class B Liquidity Reserve Fund in accordance with the Revenue Priority of Payments. On each Interest Payment Date up to but excluding the Class B Redemption Date (prior to service of an Enforcement Notice), PML as Administrator will, first, transfer, on such Interest Payment Date, to the Class A and Class B Liquidity Reserve Fund (crediting the Class A and Class B Liquidity Reserve Fund Ledger) from amounts standing to the credit of the Revenue Ledger on that date (debiting the Revenue Ledger) an amount equal to any Intra-period Amounts which have been debited to the Class A and Class B Liquidity Reserve Fund Ledger during the Interest Period ending on such Interest Payment Date and (if relevant) in respect of which the Class A and Class B Liquidity Reserve Fund has not been replenished on an earlier Mortgage Payment Date during such Interest Period, second, debit (i) an amount equal to the Class A and Class B Liquidity Reserve Fund Excess Amount from the Class A and Class B Liquidity Reserve Fund Ledger to be applied as Available Revenue; and (ii) an amount equal to the Class A and Class B Liquidity Reserve Fund Release Amount (if any) from the Class A and Class B Liquidity Reserve Fund Ledger to be applied in meeting any Class A and Class B Liquidity Deficit against the relevant items in the Revenue Priority of Payments in the order in which they appear in the Revenue Priority of Payments and, third, following any such adjustments to the Class A and Class B Liquidity Reserve Fund Ledger, apply (on behalf of the Issuer) the Available Revenue pursuant to the Revenue Priority of Payments and credit to the Class A and Class B Liquidity Reserve Fund Ledger the amount of Available Revenue applied on such Interest Payment Date to replenish the Class A and Class B Liquidity Reserve Fund up to the Class A and Class B Liquidity Reserve Fund Required Amount pursuant to item (vii) of the Revenue Priority of Payments.

On the Class B Redemption Date only, all amounts standing to the credit of the Class A and Class B Liquidity Reserve Fund Ledger (after first having applied any Class A and Class B Liquidity Reserve Fund Release Amount in meeting any Class A and Class B Liquidity Deficit against the relevant items in the Revenue Priority of Payments in the order they appear in the Revenue Priority of Payments and debiting such amount from the Class A and Class B Liquidity Reserve Fund Ledger) will be credited to the Revenue Ledger and applied as Available Revenue in accordance with the Revenue Priority of Payments (see "*Key Structural Features – Class A and Class B Liquidity Reserve Fund and Class A and Class B Liquidity Reserve Fund Ledger*" below).

Interest Shortfall Ledger

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

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

Mortgage Margin Reserve Fund Ledger and Mortgage MRF Discretionary Fund Ledger

PML as Administrator, will deposit part of the proceeds of the issuance of the Class S Notes: (i) to be used for the purposes of establishing the Mortgage Margin Reserve Fund on the Closing Date in a ledger under the Transaction Account (the "**Mortgage Margin Reserve Fund Ledger**"); and (ii) to be used for the purposes of establishing the Mortgage MRF Discretionary Fund on the Closing Date, and topping up thereof from time to time, in a separate ledger from the Revenue Priority of Payments under the Transaction Account (the "**Mortgage MRF Discretionary Fund Ledger**").

On each Interest Payment Date, PML as Administrator may, at its discretion, debit the Revenue Ledger and credit the Mortgage MRF Discretionary Fund Ledger to fund the Mortgage MRF Discretionary Amount.

PML as Administrator, will, on each Interest Payment Date, cause the Quarterly MRF Release Amount to be debited from the Mortgage Margin Reserve Fund Ledger and credited to the Revenue Ledger for application in accordance with the Revenue Priority of Payments.

On each Further Sale Date, PML as Administrator shall debit the Mortgage MRF Discretionary Fund Ledger and credit the Mortgage Margin Reserve Fund Ledger in respect of Additional Mortgage MRF Required Amount in relation to any Additional Mortgages acquired by the Issuer from the Sellers on such Further Sale Date.

Conversion Margin Reserve Fund Ledger and Conversion MRF Discretionary Fund Ledger

PML as Administrator, will deposit part of the proceeds of the issuance of the Class S Notes to be used for the purposes of establishing the Conversion MRF Discretionary Fund on the Closing Date in a ledger under the Transaction Account (the "**Conversion MRF Discretionary Fund Ledger**").

On each Interest Payment Date, PML as Administrator may, at its discretion, debit the Revenue Ledger and credit the Conversion MRF Discretionary Fund Ledger in respect of the Conversion MRF Discretionary Amount received by the Issuer pursuant to the Revenue Priority of Payments.

On the conversion date in respect of any Proposed Interest Rate Converted Mortgage during a Collection Period, PML as Administrator shall debit the Conversion MRF Discretionary Fund Ledger and credit a separate ledger under the Transaction Account (the "**Conversion Margin Reserve Fund Ledger**") in an amount equal to the Conversion MRF Required Amount in respect of such Proposed Interest Rate Converted Mortgage.

PML as Administrator, will, on each Interest Payment Date, cause (i) the aggregate of the Interest Rate Converted Mortgage Release Amounts to be debited from the Conversion Margin Reserve Fund Ledger and credited to the Revenue Ledger for application in accordance with the Revenue Priority of Payments and (ii) any Conversion MRF Excess Amount or, as the case may be, any Non-Proceeding Conversion Release Amount to be debited from the Conversion Margin Reserve Fund Ledger and credited to the Revenue Ledger for application in accordance with the Revenue Priority of Payments.

Hedge Collateral Ledger

In the event that any Hedge Collateral is received by the Issuer from a Basis Hedge Provider, PML as Administrator will maintain a "**Hedge Collateral Ledger**" to which will be credited such amounts representing that Hedge Collateral including any interest thereon or distributions in respect thereof. The Hedge Collateral Ledger will be debited by the relevant amount in the event that Hedge Collateral is returned to the relevant Basis Hedge Provider or is applied (or is realised and applied) towards satisfaction of obligations of that Basis Hedge Provider, in each case in accordance with the relevant Basis Hedge

Agreement. In the event that such Hedge Collateral is applied towards satisfaction of obligations of such Basis Hedge Provider and is not to be applied by the Issuer in the purchase of one or more replacement hedging transactions, such amount shall be credited to the Revenue Ledger for application in accordance with the Revenue Priority of Payments.

Principal Deficiency Ledger

PML as Administrator will maintain a "**Principal Deficiency Ledger**" to which will be debited amounts representing principal losses incurred on the Mortgages, Principal Addition Amounts applied in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Mortgages and other amounts payable to the Collection Account Banks. The Principal Deficiency Ledger will be credited if and to the extent that funds standing to the credit of the Revenue Ledger are applied in making such reduction in accordance with the Revenue Priority of Payments.

Class S VFN Drawdown Ledger

PML as Administrator will maintain a "**Class S VFN Drawdown Ledger**" which will record (i) amounts funded on any Business Day by the Class S VFN prior to the Class S VFN Commitment Termination Date to be credited to the Class S VFN Drawdown Ledger in accordance with Conditions 17 (*Limitation of Liability of Trustee*) or 18 (*Increasing the Principal Amount Outstanding of the Class S VFN and adjusting the Maximum Class S VFN Amount in respect of an Amortised Cost Adjustment*) and (ii) withdrawals from such ledger on any Business Day to (a) fund any Amortised Cost Adjustments, (b) (at the discretion of PML as Administrator) fund the General Reserve Fund up to and including an amount equal to the General Reserve Fund Required Amount, (c) (at the discretion of PML as Administrator) fund the Class A and Class B Note Liquidity Reserve Fund up to and including an amount equal to the Class A and Class B Liquidity Reserve Fund Required Amount, and (d) (at the discretion of PML as Administrator) to credit such amounts to the Principal Deficiency Ledger if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger.

Retained Principal Ledger

PML as Administrator will maintain a "**Retained Principal Ledger**", and shall debit the Principal Ledger and credit the Retained Principal Ledger on each Interest Payment Date falling in the Further Sale Period, all amounts received by the Issuer pursuant to item (vi) of the Principal Priority of Payments and shall record as a debit on: (a) each Interest Payment Date, any Retained Principal Release Amount (as defined below) (and such amount shall be credited to the Principal Ledger); (b) any Further Sale Date (that is not an Interest Payment Date) any amounts standing to the credit of the Retained Principal Ledger applied as Initial Purchase Consideration in respect of any Additional Mortgages acquired by the Issuer from the Sellers on such Further Sale Date; and (c) on any Business Day to fund Mandatory Further Advances (after application of any amounts standing to the credit of the MFA Pre-Funding Reserve Ledger) or Discretionary Further Advances (as applicable).

If on any Principal Determination Date immediately preceding an Interest Payment Date during the Further Sale Period, the amount standing to the credit of the Retained Principal Ledger exceeds the Maximum Principal Retained Amount, the amount standing to the credit of the Retained Principal Ledger in excess of the Maximum Principal Retained Amount (the "**Retained Principal Release Amount**") will be applied on the immediately following Interest Payment Date toward the redemption of first Class A Notes, secondly Class B Notes, thirdly Class C Notes, fourthly Class D Notes and lastly Class Z Notes. For the avoidance of doubt, any excess is applied outside the Principal Priority of Payments but will be aggregated with the Available Redemption Funds to form the total funds available to redeem such classes of Notes.

On the Further Sale Period End Date, all amounts standing to the credit of the Retained Principal Ledger shall be debited therefrom and credited to the Principal Ledger.

In this Prospectus:

The "**Maximum Principal Retained Amount**" means, on any Principal Determination Date, an amount equal to 5 per cent. of the aggregate of the Current Balance of all Mortgage Loans in the Mortgage Portfolio.

Issuer Profit Ledger

PML as Administrator shall establish a ledger (the "**Issuer Profit Ledger**"), which shall record as a credit any amounts retained by the Issuer as profit in accordance with the Revenue Priority of Payments and the Enforcement Priority of Payments and as a debit any amount used to discharge any corporation tax liability of the Issuer.

Revenue Priority of Payments

Until the security for the Notes becomes enforceable, the following payments and provisions are required to be made out of the moneys standing to the credit of the Transaction Account and representing the credit balance on the Revenue Ledger ("**Available Revenue**") on each Interest Payment Date, (including all amounts received from each Basis Hedge Provider on that Interest Payment Date and subject to the exceptions set out in "*Application of Excess Hedge Collateral and Hedge Replacement Premium*" below and in particular except for any Hedge Collateral or proceeds thereof (until such time as and to the extent permitted by the relevant Basis Hedge Agreement such Hedge Collateral is applied (or is realised and applied) towards satisfaction of the obligations of that Basis Hedge Provider and only to the extent that such Hedge Collateral is not to be applied by the Issuer in the purchase of one or more replacement hedging transactions) and including the General Reserve Fund and the Class A and Class B Liquidity Reserve Fund where required and permitted as described in "*Key Structural Features – Credit Enhancement and Liquidity Support*" above), in the following order of priority (in each case only if and to the extent that payments and provisions of a higher priority have been made in full) (the "**Revenue Priority of Payments**"):

- (i)
 - (a) first, in payment of (together with any VAT thereon in accordance with the relevant agreement) any amounts due and payable by the Issuer to the Trustee; and
 - (b) second, *pro rata* according to the respective amounts thereof, payment of (in each case, together with any VAT thereon in accordance with the relevant agreement) any costs or expenses properly claimed (including, without limitation, the reimbursement of such fees costs and expenses properly paid by any agent on behalf of the Issuer) by the Agents under the Agency Agreement, 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), payment of amounts due and payable by the Issuer to the Intertrust Corporate Services Provider pursuant to the Intertrust Corporate Services Agreement, payment of amounts due and payable by the Issuer to the Account Bank pursuant to the Account Bank Agreement and payments of amounts due and payable by the Issuer to any Hedge Collateral Custodian (if applicable);
- (ii) *pro rata* according to the respective amounts thereof, payment of (in each case, together with any VAT thereon in accordance with the relevant agreement): (a) all fees, costs, expenses and commissions due and payable to the Administrators and/or the Sellers and/or any substitute administrator under the Administration Agreement; and/or any other person appointed to perform the services specified in the Administration Agreement (b) the commitment fee due and payable to the Substitute Administrator under the Substitute Administrator Agreement and/or any person appointed to perform the services specified in the Substitute Administrator Agreement; (c) all fees, costs and expenses due and payable to the Substitute Administrator Facilitator under the Substitute Administrator Facilitator Agreement; and (d) surveillance fees to the Rating Agencies;
- (iii) *pro rata* according to the respective amounts thereof, payment of any amounts due and payable to the Basis Hedge Providers under each Basis Hedge Agreement other than (a) any Hedge Provider Subordinated Amounts, (b) any Withholding Compensation Amounts and (c) any payments due and payable to a Basis Hedge Provider under any Basis Hedge Agreement entered into by the Issuer which are funded by a Hedge Replacement Premium;
- (iv) payment of interest due and payable and all arrears of interest remaining unpaid on the Class A Notes together with (if applicable) interest thereon;
- (v) if on that Interest Payment Date any Class A Note remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate Principal Liability Outstanding of the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes then an amount up to that excess shall be applied in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency

Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds;

- (vi) payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest) on the Class B Notes together with (if applicable) interest thereon;
- (vii) to credit the Class A and Class B Liquidity Reserve Fund Ledger up to the Class A and Class B Liquidity Reserve Fund Required Amount;
- (viii) if on that Interest Payment Date, any Class B Note remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate Principal Liability Outstanding of the Class C Notes, the Class D Notes and the Class Z Notes, then an amount up to that excess shall be applied in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds;
- (ix) payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest) on the Class C Notes together with (if applicable) interest thereon;
- (x) if on that Interest Payment Date, any Class C Note remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate Principal Liability Outstanding of the Class D Notes and the Class Z Notes, then an amount up to that excess shall be applied in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds;
- (xi) payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest) on the Class D Notes together with (if applicable) interest thereon;
- (xii) if on that Interest Payment Date, any Class D Note remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate Principal Liability Outstanding of the Class Z Notes, then an amount up to that excess shall be applied in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds;
- (xiii) provision for payment to the Issuer to retain as profit in the Issuer Profit Ledger of the Transaction Account an aggregate of £1,000, paid in equal instalments on each Interest Payment Date falling within the first accounting reference period of the Issuer (determined in accordance with Chapter 3, Part 15 Companies Act 2006), and £250 on each Interest Payment Date falling thereafter, which shall be credited to the Issuer Profit Ledger for the Issuer to retain as a profit for entering into the transaction (the "**Issuer Profit Amount**");
- (xiv) to credit the General Reserve Fund Ledger up to the General Reserve Fund Required Amount;
- (xv) (taking into account any reduction of the debit balance on the Principal Deficiency Ledger under paragraphs (v), (viii), (x) and (xii) above) provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds;
- (xvi) on any Interest Payment Date falling prior to the Step-Up Date, payment (at the Administrators discretion) of any Mortgage MRF Discretionary Amount and/or Conversion MRF Discretionary Amount (as applicable) by debiting the Revenue Ledger and crediting the Mortgage MRF Discretionary Fund Ledger or Conversion MRF Discretionary Fund Ledger (as applicable);
- (xvii) *pro rata* according to the respective amounts thereof (except as otherwise provided for in this Revenue Priority of Payments), payment of sums due and payable to third parties (each including

any value added tax chargeable thereon) under obligations incurred in the course of the Issuer's business and provision for and payment of the Issuer's liability (if any) to VAT and to corporation tax (to the extent that such corporation tax is not paid out of amounts retained by the Issuer in the Transaction Account as profit in accordance with paragraph (xiii));

- (xviii) *pro rata* according to the respective amounts thereof, payment of any Withholding Compensation Amounts and any Hedge Provider Subordinated Amounts, if any, due and payable to each Basis Hedge Provider in respect of any Basis Hedge Agreement other than any Hedge Provider Subordinated Amounts that are due and payable to a Basis Hedge Provider under any Basis Hedge Agreement or under any other hedging arrangements entered into by the Issuer which are funded by a Hedge Replacement Premium;
- (xix) on any Interest Payment Date falling on or after the Step-Up Date or the Final Redemption Date, in or towards repaying principal due on the Rated Notes in accordance with the Conditions (see Condition 5(a) (*Mandatory Redemption in Part from Available Redemption Funds*));
- (xx) payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest) on the Class Z Notes together with (if applicable) interest thereon;
- (xxi) payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest) on the Class S Notes together with (if applicable) interest thereon;
- (xxii) to pay principal *pari passu* and *pro rata* to the holders of the Class S Notes (subject to the principal payment not reducing the Principal Liability Outstanding of the Class S Notes below the aggregate of the General Reserve Fund Required Amount and the Class A and Class B Liquidity Reserve Fund Required Amount on such Interest Payment Date);
- (xxiii) to provide for amounts due on the relevant Interest Payment Date to pay interest (including any Deferred Interest) due and payable on the Class S VFN;
- (xxiv) to provide for amounts due on the relevant Interest Payment Date to repay principal due and payable on the Class S VFN;
- (xxv) provision for, at the option of the Issuer, a reserve to fund any purchases of hedging arrangements and/or related guarantees in the next Interest Period;
- (xxvi) provision for any amounts then due or overdue to the Issue Services Provider under the Issue Services Fee Letter (each including any value added tax chargeable thereon, as applicable);
- (xxvii) provision for payment to the Administrators or Paragon Corporate Services Provider of such fees as the Issuer and the Administrators or Paragon Corporate Services Provider (as the case may be) may agree (including, without limitation in the Paragon Corporate Services Letter) in respect of facilities or services provided to the Issuer by the Administrators or Paragon Corporate Services Provider (as the case may be) other than fees provided for above (each including any value added tax chargeable thereon, as applicable) subject to such fees not exceeding £5,000 on the relevant Interest Payment Date; and
- (xxviii) on any Interest Payment Date prior to (but excluding) the Step-Up Date any excess amounts *pro rata* and *pari passu* as RC1 Payments to the holders of the RC1 Residual Certificates and following the Step-Up Date, any excess amounts *pro rata* and *pari passu* as RC2 Payments to the holders of the RC2 Residual Certificates,

all as set out in a deed of sub-charge and assignment to be entered into between the Issuer, the Trustee, the Paragon Corporate Services Provider, the Intertrust Corporate Services Provider, the Sellers, the Substitute Administrator Facilitator, the Administrators, the Issue Services Provider, the Basis Hedge Providers, the Substitute Administrator and others (the "**Deed of Charge**").

If and to the extent that the provisions specified in paragraphs (xxvi) and (xxvii) inclusive above are made on an Interest Payment Date, the relevant amounts shall be paid to the persons entitled thereto on such Interest Payment Date to the extent that the amounts credited to the Transaction Account representing a credit balance on the Revenue Ledger are sufficient for such purpose.

Save for the General Reserve Fund, the Class A and Class B Liquidity Reserve Fund, the Mortgage Margin Reserve Fund, the Mortgage MRF Discretionary Fund, the Conversion Margin Reserve Fund and the Conversion MRF Discretionary Fund, the Issuer will not be required to accumulate surplus cash as security for any future payments on the Notes.

Principal Priority of Payments

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

- (i) the aggregate principal amount of Mandatory Further Advances funded by the Issuer during the relevant Collection Period (or expected to be funded 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 debiting amounts standing to the credit of the MFA Pre-Funding Reserve Ledger and crediting such amounts to the Principal Ledger in accordance with the Administration Agreement;
- (ii) the aggregate principal amount of Discretionary Further Advances funded by the Issuer during the relevant Collection Period (or expected to be funded on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period);
- (iii) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages and/or reimbursement of any amount payable to the Collection Account Banks in accordance with the direct debiting scheme and debited to the Principal Ledger;
- (iv) prior to the expiration of the Further Sale Period, to pay any principal due on the Class A Notes to redeem the Class A Notes down to the Class A Target Notional in accordance with the Conditions and the provisions of the Trust Deed;
- (v) prior to the expiration of the Further Sale Period, to pay any Initial Purchase Consideration in respect of Additional Mortgages acquired on any Further Sale Date during the relevant Collection Period and expected to occur prior to such Interest Payment Date (to the extent not funded prior to such Interest Payment Date from amounts standing to the credit of the Retained Principal Ledger or Principal Ledger);
- (vi) prior to the expiration of the Further Sale Period, to the extent not used under item (v) above, to credit to the Retained Principal Ledger in an amount up to the Maximum Principal Retained Amount as determined by PML as Administrator on the immediately preceding Principal Determination Date;
- (vii) in or towards repaying principal due on the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class Z Notes, the Class S Notes and the Class S VFN in accordance with the Conditions and the provisions of the Trust Deed; and
- (viii) any excess amounts as Available Revenue.

Retained Principal Release Amounts determined by PML as Administrator on the immediately preceding Principal Determination Date shall be applied in or towards repaying principal due on the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes outside the Principal Priority of Payments but in accordance with the Conditions and the provisions of the Trust Deed (see Condition 5(a) (*Mandatory Redemption in Part from Available Redemption Funds*)).

Enforcement Priority of Payments

The terms on which the security interests, referred to below in "*Security for the Notes*", will be held will provide that all moneys received or recovered after the security constituted by or pursuant to the Deed of Charge has become enforceable ("**Post-Enforcement Amounts**") shall (subject as provided therein, in particular the exceptions described in "*Application of Excess Hedge Collateral and Hedge Replacement*

Premium" below) be applied in the following order of priority (in each case, *pro rata* according to the respective amounts thereof) (the "**Enforcement Priority of Payments**" and, together with the Revenue Priority of Payments and the Principal Priority of Payments, the "**Payments Priorities**") on such dates from time to time as the Trustee may decide:

- (i)
 - (a) first, *pari passu* and *pro rata*, the remuneration then payable to any receiver appointed under the Deed of Charge and any costs, charges, liabilities and expenses incurred by such receiver together with interest as provided in the Deed of Charge; and amounts due from the Issuer to the Trustee together with interest thereon as provided in the Deed of Charge (in each case, together with any VAT thereon in accordance with the relevant agreement); and
 - (b) second, *pari passu* and *pro rata*, costs, fees or expenses properly claimed (including, without limitation, the reimbursement of such costs, fees and expenses properly paid by any agent on behalf of the Issuer) by the Agents under the Agency Agreement, by the Account Bank pursuant to the Account Bank Agreement and by any Hedge Collateral Custodian (if applicable) under any Hedge Collateral Custody Agreement; amounts due to Borrowers under the Mortgages in respect of Mandatory Further Advances; and surveillance fees to the Rating Agencies, (in each case, together with any VAT thereon in accordance with the relevant agreement);
- (ii) (a) certain fees and out-of-pocket expenses and commissions of the Administrators; (b) certain commissions previously received by the Issuer which have not previously been paid to the Seller; (c) all moneys due and payable to the Substitute Administrator under the Substitute Administrator Agreement (including the commitment fee payable to the Substitute Administrator) (in each case, together with any VAT thereon in accordance with the relevant agreement); (d) all moneys due and payable to the Substitute Administrator Facilitator under the Substitute Administrator Facilitator Agreement; and (e) all moneys due and payable to the Intertrust Corporate Services Provider under the Intertrust Corporate Services Agreement (in each case, together with any VAT thereon in accordance with the relevant agreement);
- (iii) any amounts due and payable by the Issuer to a Basis Hedge Provider other than (a) any Hedge Provider Subordinated Amount and (b) any Withholding Compensation Amounts;
- (iv) (a) all interest unpaid in respect of the Class A Notes (together with any unpaid interest thereon); (b) all principal moneys due in respect of the Class A Notes; and (c) any other amounts due in respect of the Class A Notes;
- (v) (a) all interest unpaid in respect of the Class B Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class B Notes; and (c) any other amounts due in respect of the Class B Notes;
- (vi) (a) all interest unpaid in respect of the Class C Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class C Notes; and (c) any other amounts due in respect of the Class C Notes;
- (vii) (a) all interest unpaid in respect of the Class D Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class D Notes; and (c) any other amounts due in respect of the Class D Notes;
- (viii) (a) all interest unpaid in respect of the Class Z Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class Z Notes; and (c) any other amounts due in respect of the Class Z Notes;
- (ix) payment of any Withholding Compensation Amounts and any Hedge Provider Subordinated Amounts, if any, due and payable to each Basis Hedge Provider in respect of any Basis Hedge Agreement or under any other hedging arrangements entered into by the Issuer;

- (x) (a) all interest unpaid in respect of the Class S Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class S Notes; and (c) any other amounts due in respect of the Class S Notes;
- (xi) (a) all interest unpaid in respect of the Class S VFN (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class S VFN; and (c) any other amounts due in respect of the Class S VFN;
- (xii) all amounts due and payable by the Issuer: (a) to the Paragon Corporate Services Provider under the Paragon Corporate Services Letter and the Deed of Charge; (b) to the Sellers under the Mortgage Sale Agreement, the Administration Agreement and the Deed of Charge (other than in respect of Deferred Purchase Consideration); (c) to the Issue Services Provider under the Issue Services Fee Letter (each including any value added tax chargeable thereon, as applicable);
- (xiii) provision for (a) payment to the Issuer of the Issuer Profit Amount and (b) payment to any relevant authority for any other Tax including financial transaction tax (which cannot be met out of amounts previously retained by the Issuer as profit under item (xiv)(a)); and
- (xiv) on any Interest Payment Date prior to (but excluding) the Step-Up Date to pay any excess amounts, *pro rata* and *pari passu* as RC1 Payments to the holders of the RC1 Residual Certificates and thereafter to pay any excess amounts, *pro rata* and *pari passu*, on such Interest Payment Date, as RC2 Payments to the holders of the RC2 Residual Certificates.

Application of Excess Hedge Collateral and Hedge Replacement Premium

Any amount attributable to the return of collateral to a Basis Hedge Provider and any Hedge Replacement Premium applied by the Issuer in making any swap termination payment due from the Issuer to a Basis Hedge Provider will be paid directly to the relevant Basis Hedge Provider and not in accordance with the Revenue Priority of Payments or the Enforcement Priority of Payments. Any swap termination payment applied by the Issuer in the purchase of one or more replacement hedging transactions shall be applied directly to such purchase and shall not be paid in accordance with the Revenue Priority of Payments or the Enforcement Priority of Payments. See further the section entitled "*Hedging Arrangements*".

If the Issuer receives any tax credit, allowance, set-off or repayment from the tax authorities of any jurisdiction relating to the deduction or withholding that gave rise to the payment by a Basis Hedge Provider of an "Additional Amount" (as defined under "*Hedging Arrangements*"), then an amount equal to the net cash received by the Issuer in respect of such tax credit, allowance, set-off or repayment being a "**Swap Tax Credit**" shall be paid directly to the Basis Hedge Provider and not in accordance with the Revenue Priority of Payments or the Enforcement Priority of Payments.

Estimations and Reconciliations

In circumstances where the Administrator Report or other relevant information is not available, such that the Administrators cannot determine the Revenue Receipts and Principal Receipts in respect of any Collection Period, the amount of Revenue Receipts and Principal Receipts for the purposes of such determination shall be estimated by reference to the three most recent Collection Periods. The Administrator will also use the Revenue Receipts and Principal Receipts calculated in this manner for the purpose of providing such information in relation to the Mortgages as may be required pursuant to the Basis Hedge Agreements to the relevant Basis Hedge Provider.

If an Administrator Report is subsequently delivered in respect of any subsequent Collection Period and for the Collection Periods where no such information was available, then: (i) the Revenue Receipts and the Principal Receipts will be calculated on the basis of the information in such Administrator Report; and (ii) one or more reconciliation payments in respect of a Reconciliation Amount may be required to be made by the Issuer on the related and subsequent Interest Payment Dates in order to account for any overpayment(s) and/or underpayment(s) made on any Interest Payment Date during the relevant period of estimations in accordance with Condition 4(h) (*Determinations and Reconciliation*) and the Administration Agreement.

DESCRIPTION OF THE NOTES, THE VARIABLE FUNDING NOTE AND RESIDUAL CERTIFICATES IN GLOBAL FORM

The issue of the Notes and the Residual Certificates is authorised by resolutions of the Board of Directors of the Issuer passed on 11 April 2018. The Notes and the Residual Certificates will be constituted by a trust deed (the "**Trust Deed**") expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee for the Noteholders (as defined in Condition 1(a)). The proceeds of the Notes and the Residual Certificates will be applied by the Issuer as described in "*Use of Proceeds*" below.

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

The Noteholders and the Residual Certificateholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Relevant Documents.

General

The Notes of each Class (other than the Class S VFN), as at the Closing Date, will be represented by a Global Note. Each of the RC1a Residual Certificates, RC1b Residual Certificates, RC2a Residual Certificates and RC2b Residual Certificates, as at the Closing Date, will be represented by a Global Residual Certificate. All capitalised terms not defined in this paragraph shall be as defined in the Conditions of the Notes or the Conditions of the Residual Certificates, as applicable. The Class S VFN Registrar will maintain a register in which it will register the holder of the Class S VFN as the owner of the Class S VFN.

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

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

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

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

Book-Entry Interests in respect of each Global Note will be recorded in denominations of £100,000 and for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000 (an "**Authorised Denomination**"). Ownership of Book-Entry Interests is limited to persons that have accounts with Euroclear or Clearstream, Luxembourg (the "**Participants**") or persons that hold interests in the Book-Entry Interests through Participants (the "**Indirect Participants**"), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly. Indirect Participants shall also include persons that hold beneficial interests through such Indirect Participants. Book-Entry Interests will not be held in definitive form. Instead, Euroclear and Clearstream, Luxembourg, as applicable, will credit the Participants' accounts with the respective Book-Entry Interests beneficially owned by such Participants on each of their respective book-entry registration and transfer systems. The accounts initially credited will be designated by the Joint Lead Managers. Ownership of Book-Entry Interests will be shown on, and transfers of Book-Entry Interests or the interests therein will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg (with respect to the interests of their Participants) and on the records of Participants or Indirect Participants (with respect to the interests of Indirect Participants). The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may therefore impair the ability to own, transfer or pledge Book-Entry Interests.

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

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

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

Purchasers of Book-Entry Interests in a Global Note or Global Residual Certificate will hold Book-Entry Interests in such Global Note or Global Residual Certificate, as applicable, relating thereto. Investors may hold their Book-Entry Interests in respect of the Global Notes and/or Global Residual Certificates directly through Euroclear or Clearstream, Luxembourg (in accordance with the provisions set forth under

"*Transfers and Transfer Restrictions*", below), if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. Euroclear and Clearstream, Luxembourg will hold Book-Entry Interests in the Global Notes and Global Residual Certificates on behalf of their account holders through securities accounts in the respective account holders' names on Euroclear's and Clearstream, Luxembourg's respective book-entry registration and transfer systems.

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

Payments on the Global Notes and the Global Residual Certificates

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

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

Information Regarding Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg

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

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

Euroclear and Clearstream, Luxembourg each provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deal with domestic securities markets in several countries through established depository and custodial relationships. An electronic bridge has been

established between the two systems of Euroclear and Clearstream, Luxembourg across which their respective account holders may settle trades with each other.

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

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

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

Redemption

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

Cancellation

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

Transfers and Transfer Restrictions

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

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

Issuance of Definitive Notes and Definitive Residual Certificates

Holders of Book-Entry Interests in the Global Notes or Global Certificates will be entitled to receive Definitive Notes in registered form (Definitive Notes) in exchange for their respective holdings of Book-Entry Interests if (a) Euroclear or Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease to do business and no alternative clearing system satisfactory to the Trustee is available or (b) as a result of any amendment to, or change in, the laws or regulations of the

United Kingdom (or any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of a Global Note or Global Residual Certificate which would not be required if the Global Note or Global Residual Certificate, as applicable, were in definitive registered form and a certificate to such effect signed by an authorised director of the Issuer is delivered to the Trustee.

Any Definitive Notes or Definitive Residual Certificates issued in exchange for Book-Entry Interests in the Global Notes or Global Residual Certificates, as applicable, will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg, as the case may be. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to ownership of the relevant Book-Entry Interests. Holders of Definitive Notes or Definitive Residual Certificates issued in exchange for Book-Entry Interests in the Global Notes or Global Residual Certificates, as applicable will not be entitled to exchange such Definitive Note or Definitive Residual Certificate for Book-Entry Interests in such Global Notes or Global Residual Certificates, as applicable. Any Notes or Residual Certificates issued in definitive form will be issued in registered form only within 30 days of the occurrence of the relevant event (but not earlier than the first day following the expiry of 40 days after the Closing Date) and will be subject to the provisions set forth under "*Transfers and Transfer Restrictions*" above and provided that no transfer shall be registered for a period of 15 days immediately preceding any due date for payment in respect of the Note or, as the case may be, the due date for redemption. Definitive Notes will not be issued in an Authorised Denomination.

Action in Respect of the Global Notes, Global Residual Certificates and the Book-Entry Interests

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

Reports

The Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received relating to the Issuer, the Global Notes, the Global Residual Certificates or the Book-Entry Interests. Any notice shall be deemed to have been duly given to the relevant Noteholders if sent to each of Euroclear and Clearstream, Luxembourg (the "**Clearing Systems**") for communication by them to the holders of the relevant Notes and shall be deemed to be given on the date on which it was so sent and (so long as the relevant Notes are admitted to trading and listed on the Official List) any notice shall also be published in accordance with the relevant guidelines of the London Stock Exchange.. See also Condition 12 (*Notices*) of the Notes.

Class S Variable Funding Note

The Class S VFN will be issued in dematerialised registered form and no certificate evidencing entitlement to the Class S VFN will be issued. The Issuer will also maintain a register, to be kept on the Issuer's behalf by the Class S VFN Registrar, in which the Class S VFN will be registered in the name of the Class S VFN Holder. Transfers of the Class S VFN may be made only through the register maintained by the Issuer and are subject to the transfer restrictions set out in Condition 1(d) (*Title to the Notes*).

SECURITY FOR THE NOTES

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

- (1) a first fixed sub-charge over the Mortgages (including any Additional Mortgages) purchased by the Issuer from the Sellers under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment in security of the benefit of the guarantee;
- (2) an assignment by way of security of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (3) an assignment by way of security of the Issuer's rights under each of the Mortgage Sale Agreement, the Intertrust Corporate Services Agreement, the Paragon Corporate Services Letter, the Issue Services Fee Letter, the Administration Agreement, the Substitute Administrator Agreement, the Substitute Administrator Facilitator Agreement, the CRR Deed of Covenant, the Deed Poll, the Agency Agreement, the Collection Account Declarations of Trust, the Cross-collateral Mortgage Rights Deeds, the Subscription Agreement, the Account Bank Agreement, the Hedge Collateral Custody Agreement (if applicable), the Basis Hedge Agreements (without prejudice to, and after giving effect to, any contractual netting provisions contained in the Hedge Agreements) and other hedging arrangements entered into by the Issuer;
- (4) an assignment by way of security of the Issuer's rights to all moneys standing to the credit of the Transaction Account 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 first fixed charge over any Authorised Investments and any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and
- (6) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not already subject to fixed security.

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

In this Prospectus, "**Secured Creditors**" means any receiver, the Trustee, the Noteholders, the Substitute Administrator, the Substitute Administrator Facilitator, each Seller, each Legal Title Holder, each Administrator, the Issue Services Provider, the Intertrust Corporate Services Provider, the Paragon Corporate Services Provider, the Agents, the Class S VFN Registrar, the Account Bank, any Hedge Collateral Custodian (if applicable) and each Basis Hedge Provider.

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

The Deed of Charge will contain a provision whereby the Trustee and the Issuer may agree, without the consent of any of the other parties thereto, to waive the requirement of the Issuer to maintain its "centre of main interests" (as such term is defined in Article 3(I) of Regulation (EU) No. 2015/848 the EU Insolvency Regulations)) in England and Wales, provided that, the Trustee has received (i) from an Administrator a certificate confirming, in its reasonable opinion that such waiver would not result in a downgrade of the current ratings of the Notes and (ii) from Moody's and Fitch, confirmation that such waiver would not result in a downgrade of the then current ratings of the Notes (or in the case of Fitch only, provided that Fitch have confirmed to PML as Administrator that its policy is not to provide any ratings confirmations, the PML as Administrator confirms in writing to the Trustee that they have notified Fitch of the proposed waiver and Fitch has not raised any objections thereto).

The Deed of Charge is governed by English law.

TERMS AND CONDITIONS OF THE NOTES

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

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

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

Paragon Mortgages (No.25) PLC (the "**Issuer**") has issued the "**Notes**", which comprise:

- (i) the "**Class A Notes**" which comprise the £600,000,000 Class A Notes;
- (ii) the "**Class B Notes**" which comprise the £33,500,000 Class B Notes;
- (iii) the "**Class C Notes**" which comprise the £30,000,000 Class C Notes;
- (iv) the "**Class D Notes**" which comprise the £24,700,000 Class D Notes;
- (v) the "**Class Z Notes**" which comprise the £17,648,000 Class Z Notes;
- (vi) the "**Class S Notes**" which comprise the £10,923,000 Class S Notes;
- (vii) the "**Class S VFN**" which comprise the £7,952,955 Class S VFN,

pursuant to a trust deed (the "**Trust Deed**") dated on or about 26 April 2018 or such later date agreed between the Issuer and the Joint Lead Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed and any other person or persons from time to time acting as trustee under the Trust Deed) as trustee of the Holders (as defined in Condition 1(d)) for the time being of the Class A Notes (together the "**Class A Noteholders**"), the Holders for the time being of the Class B Notes (together the "**Class B Noteholders**"), the Holders for the time being of the Class C Notes (together the "**Class C Noteholders**"), the Holders for the time being of the Class D Notes (together the "**Class D Noteholders**"), the Holders for the time being of the Class Z Notes (together the "**Class Z Noteholders**") the Holders for the time being of the Class S Notes (together the "**Class S Noteholders**") and the Holder for the time being of the Class S VFN (the "**Class S VFN Holder**") and together with the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class Z Noteholders and the Class S Noteholders, the "**Noteholders**").

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

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

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

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

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

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

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

The Class S VFN will be in dematerialised registered form.

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

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

The Class S VFN will have a minimum denomination of £100,000 and may be issued and redeemed in integral multiples of £1. No certificate evidencing entitlement to the Class S VFN will be issued. The Class S VFN will be issued on the Closing Date with a nominal principal amount of £7,952,955 and a Principal Amount Outstanding of £7,952,955 will be subscribed for on the Closing Date.

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

The Issuer will cause to be kept at the Specified Office of Citibank, N.A., London Branch as registrar (the "**Registrar**" which expression shall include its successors as registrar under the Agency Agreement) a register (the "**Register**") on which shall be entered the names and addresses of the holders of the Notes (other than the Class S VFN) and the particulars of such Notes held by them and all transfers and redemptions of such Notes.

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

For so long as any Note is represented by a Global Note, transfers and exchanges of beneficial interests in that Global Note and entitlement to payments under that Global Note will be effected

subject to and in accordance with the rules and procedures from time to time of Euroclear and/or Clearstream, Luxembourg.

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

Title to the Class S VFN shall only pass by and upon registration of the transfer in the Class S VFN Register provided that no transferee shall be registered as a new Class S VFN Holder unless (a) the prior written consent of the Issuer has been obtained and (b) such transferee has certified to, *inter alios*, the Class S VFN Registrar that it is (i) a person falling within paragraph 3 of Schedule 2A to the Insolvency Act 1986, (ii) independent of the Issuer within the meaning of regulation 2(1) of the Taxation of Securitisation Companies Regulations 2006 and (iii) a Qualifying Noteholder. The Issuer shall procure that the register in respect of the Class S VFN (the "Class S VFN Register") is kept by the Class S VFN Registrar.

"Qualifying Noteholder" means:

- (i) a person which is beneficially entitled to interest in respect of the VFN and is:
 - (A) company resident in the United Kingdom for United Kingdom tax purpose; or
 - (B) company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account payments of interest in respect of the Notes in computing the chargeable profits (for the purposes of section 19 of the Corporation Tax Act 2009 (the "CTA")) of that company; or
 - (C) a partnership each member of which is:
 - (1) a company resident in the United Kingdom; or
 - (2) (a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account payments of interest in respect of the Notes in computing the chargeable profits (for the purposes of section 19 of the CTA) the whole of any share of a payment of interest in respect of the Notes that is attributable to it by reason of Part 17 of the CTA; or
- (ii) a person which falls within any of the other descriptions in section 935 or 936 of the Income Tax Act 2007 (ITA 2007) and satisfies any conditions set out therein in order for the interest to be an excepted payment for the purposes of section 930 ITA 2007.

In these Conditions, the "Holder" of a Note at any time means the person in whose name such Note is registered at that time in the Register or Class S VFN Register (as applicable) (or, in the case of a joint holding, the first named person).

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

2. Status and Relationship between the Classes of Notes

The Notes are obligations solely of the Issuer and are not obligations of, or guaranteed by, any other person. The Notes are secured by fixed and floating security over all of the Issuer's assets (the "Security") as more particularly described in a deed of sub-charge and assignment (the "Deed of Charge") dated the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages (2010) Limited, Paragon Bank Plc, Intertrust Management Limited, Homeloan Management Limited (the "Substitute Administrator"), the Issue Services Provider, the Account Bank and the Basis Hedge Provider.

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

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class Z Noteholders, the Class S Noteholders and the Class S VFN Holder as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case (a) to have regard only to the interests of the Class A Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class Z Noteholders, the Class S Noteholders and/or the Class S VFN Holder (b) (subject to (a)) to have regard only to the interests of the Class B Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Class B Noteholders the Class C Noteholders, the Class D Noteholders, the Class Z Noteholders, the Class S Noteholders and/or the Class S VFN Holder, (c) (subject to (a) and (b)) to have regard only to the interests of the Class C Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Class C Noteholders, the Class D Noteholders, the Class Z Noteholders, the Class S Noteholders and/or the Class S VFN Holder, (d) (subject to (a), (b) and (c)) to have regard only to the interests of the Class D Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Class D Noteholders and the Class Z Noteholders, the Class S Noteholders and/or the Class S VFN Holder, (e) (subject to (a), (b), (c) and (d)) to have regard only to the interests of the Class Z Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Class Z Noteholders and the Class S Noteholders and/or the Class S VFN Holder, (f) (subject to (a), (b), (c), (d) and (e)) to have regard only to the interests of the Class S Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Class S Noteholders and the Class S VFN Holder, (g) (subject to (a), (b), (c), (d), (e) and (f)) to have regard only to the interests of the Class S VFN Holder if, in the Trustee's opinion, there is a conflict between the interests of the Class S VFN Holder and the Residual Certificateholders and (h) (subject to (a), (b), (c), (d), (e), (f) and (g)) (i) prior to the Step-Up Date to have regard only to the interests of the RC1 Residual Certificateholders if, in the Trustee's opinion, there is a conflict between the interests of the RC1 Residual Certificateholders and the RC2 Residual Certificateholders and (ii) on and following the Step-Up Date to have regard only to the interests of the RC2 Residual Certificateholders if, in the Trustee's opinion, there is a conflict between the interests of the RC1 Residual Certificateholders and the RC2 Residual Certificateholders.

3. **Covenants of the Issuer**

- (a) So long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents or with the prior written consent of the Trustee:
 - (i) carry on any business other than as described in the Prospectus dated 23 April 2018 relating to the issue of the Notes and the Residual Certificates (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, funding Mandatory Further Advances and Discretionary Further Advances and purchasing Additional Mortgages;
 - (B) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Notes, the Residual Certificates, the Subscription Agreement and the other agreements relating to the issue of the Notes (or any of them), the Residual Certificates (or any of them), the

Agency Agreement, the CRR Deed of Covenant, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Substitute Administrator Facilitator Agreement, the Mortgages, the Deed of Charge, the Collection Account Declarations of Trust, each Basis Hedge Agreement, the Issue Services Fee Letter, any other hedging arrangements entered into by the Issuer from time to time, the Intertrust Corporate Services Agreement, the Paragon Corporate Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Cross-collateral Mortgage Rights Deeds, the Account Bank Agreement, the Hedge Collateral Custody Agreement (if applicable), the Deed Poll and all other agreements and documents comprised in the Security for the Notes and the Residual Certificates (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;
 - (D) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem Notes in accordance with their respective terms and conditions; and
 - (E) perform any act incidental to or necessary in connection with (A), (B), (C) or (D) above;
- (ii) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Agency Agreement, the Account Bank Agreement, the Hedge Collateral Custody Agreement (if applicable), the Administration Agreement, Deed of Charge, the Trust Deed, the Notes, the Residual Certificates, the Issue Services Fee Letter, the Intertrust Corporate Services Agreement, the Paragon Corporate Services Letter, each Basis Hedge Agreement, the Substitute Administrator Agreement and the Substitute Administrator Facilitator Agreement;
 - (iii) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
 - (iv) prejudice its eligibility for its corporation tax liability to be calculated in accordance with regulation 14 of the Taxation of Securitisation Companies Regulation 2006;
 - (v) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
 - (A) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Notes and the performance and observance of every covenant in the Trust Deed and in these Conditions on the part of the Issuer to be performed or observed;
 - (B) immediately after giving effect to such transaction, no Event of Default (as such term is defined in these Conditions) shall have occurred and be continuing;
 - (C) the Trustee is satisfied that the interests of the Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;

- (D) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and
 - (E) the then current ratings of the Notes are not adversely affected;
 - (vi) 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;
 - (vii) in a manner which adversely affects the then current ratings of the Notes, have any employees or premises or have any subsidiary; or
 - (viii) have an interest in any bank account, other than the Transaction Account and the Collection Accounts (as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it.
- (b) So long as any of the Notes remains outstanding the Issuer will procure that there will at all times be one or more persons appointed as administrator of the Mortgages (each an "**Administrator**"). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England and Wales. An Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee and the Issuer. The appointment of an Administrator may be terminated by the Trustee or the Issuer if, among other things, such Administrator is in breach of its obligations under the Administration Agreement, which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Most Senior Class and such breach is not remedied or deemed to be remedied in accordance with the terms of the Administration Agreement. Upon the termination of the appointment of an Administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement, but will have no liability under the Mortgage Sale Agreement.

In these Conditions, "**Most Senior Class**" means the Class A Notes or, if there are no Class A Notes then outstanding, the Class B Notes or, if there are no Class A Notes or Class B Notes then outstanding, the Class C Notes or, if there are no Class A Notes, Class B Notes or Class C Notes then outstanding, the Class D Notes or, if there are no Class A Notes, Class B Notes or Class C Notes or Class D Notes then outstanding, the Class Z Notes or, if there are no Class A Notes, Class B Notes, Class C Notes, Class D Notes or Class Z Notes then outstanding, the Class S Notes, or, if there are no Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class Z Notes or Class S Notes then outstanding, the Class S VFN or, if there are no Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class Z Notes, Class S Notes or Class S VFN then outstanding, prior to the Step-Up Date, the RC1 Residual Certificates and, on and following the Step-Up Date, the RC2 Residual Certificates.

4. **Interest**

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

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

Subject to Condition 4(b), such accrued interest in respect of each Note ("**Normal Interest**") is due and payable in arrear on 15 August 2018 and thereafter quarterly on each subsequent 15 November, 15 February, 15 May and 15 August or if any such day is not a Business Day (as defined below), the next succeeding Business Day (each such day an "**Interest Payment Date**").

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

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

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

(b) ***Deferral of Interest on the Notes, Additional Interest, Default Interest and Allocation of Interest***

- (i) On each Interest Payment Date relating to any class of Notes (other than the Class A Notes or, should they be the Most Senior Class of Notes, the other classes of Notes) the Normal Interest which has accrued on each class of Notes (other than the Class A Notes or, should they be the Most Senior Class of Notes, the other classes of Notes) during the Interest Period ending on (but excluding) that Interest Payment Date shall be due and payable on that Interest Payment Date only to the extent of the amount to be applied in payment of that Normal Interest on that Interest Payment Date in accordance with paragraphs (vi)(A), (vii)(A), (viii)(A), (ix)(A), (x)(A) and (xi)(A) below and the remainder of such Normal Interest shall be deferred and from then onwards be treated as Deferred Interest (as defined below) instead of Normal Interest. Payments of Normal Interest due on an Interest Payment Date in respect of the Most Senior Class of Notes will not be deferred.

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

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

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

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

- (iv) Interest shall accrue on the aggregate outstanding amount of Normal Interest, Deferred Interest and Additional Interest in respect of a Note (being the "**Overdue Interest**") on

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

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

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

- (v) Subject to Condition 4(c), on each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class A Notes or, should they be the Most Senior Class of Notes, the other classes of Notes will be applied as follows:
 - (A) *first*, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the amount of Normal Interest then due on each of those Notes; and
 - (B) then, (in the case of a class of Notes other than the Class A Notes, if that Class has become the Most Senior Class of Notes) in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
 - (C) then, (in the case of a class of Notes other than the Class A Notes, if that Class has become the Most Senior Class of Notes) in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and
 - (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.

- (vi) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class B Notes (when not the Most Senior Class of Notes) will be applied as follows:
 - (A) *first*, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the amount of Normal Interest then due on each of those Notes; and
 - (B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
 - (C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and

- (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.
- (vii) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class C Notes (when not the Most Senior Class of Notes) will be applied as follows:
- (A) *first*, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the amount of Normal Interest then due on each of those Notes; and
 - (B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
 - (C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and
 - (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.
- (viii) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class D Notes (when not the Most Senior Class of Notes) will be applied as follows:
- (A) *first*, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the amount of Normal Interest then due on each of those Notes; and
 - (B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
 - (C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and
 - (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.
- (ix) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class Z Notes (when not the Most Senior Class of Notes) will be applied as follows:
- (A) *first*, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the amount of Normal Interest then due on each of those Notes; and
 - (B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
 - (C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and

- (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.
- (x) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class S Notes (when not the Most Senior Class of Notes) will be applied as follows:
- (A) *first*, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the amount of Normal Interest then due on each of those Notes; and
 - (B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
 - (C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and
 - (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.
- (xi) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class S VFN (when not the Most Senior Class of Notes) will be applied as follows:
- (A) *first*, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the amount of Normal Interest then due on each of those Notes; and
 - (B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
 - (C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and
 - (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.

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

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

- (i) In these Conditions:

"**Step-Up Date**" means the Interest Payment Date falling in May 2023;

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

"Note Interest Rate Margin" means in relation to:

- (A) each Class A Note, 0.65 per cent. per annum up to and excluding the Step-Up Date and thereafter 0.975 per cent. per annum;
- (B) each Class B Note, 0.95 per cent. per annum up to and excluding the Step-Up Date and thereafter 1.425 per cent. per annum;
- (C) each Class C Note, 1.30 per cent. per annum up to and excluding the Step-Up Date and thereafter 1.95 per cent. per annum;
- (D) each Class D Note, 1.60 per cent. per annum up to and excluding the Step-Up Date and thereafter 2.40 per cent. per annum;
- (E) each Class Z Note, 2.60 per cent. per annum;
- (F) each Class S Note, 4.0 per cent. per annum; and
- (G) each Class S VFN, 4.0 per cent. per annum;

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

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

"Quotation Time" means 11.00 a.m. London time on the relevant Interest Determination Date;

"Reference Banks" means the principal London office of four major banks in the London inter-bank market which the Issuer (as approved by the Trustee) may appoint from time to time;

"Reference Rate" means:

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

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

"Reference Quotations" means:

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

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

- (ii) In relation to the Notes, at or about the Quotation Time on each Interest Determination Date:
- (A) the Reference Agent shall determine the Reference Rate on the basis of Reference Quotations using the Reference Screen in respect of the Notes; or
 - (B) if the Reference Agent is unable to determine a Reference Rate under paragraph (A) above, the Reference Agent shall determine that Reference Rate using the Reference Banks (if two or more Reference Banks are appointed by the Issuer) if, upon the Reference Agent requesting the relevant Reference Quotations from the principal London office of each of the Reference Banks, at least two of such Reference Banks provide the relevant details of those Reference Quotations to the Reference Agent; or
 - (C) if only one Reference Bank appointed by the Issuer provides the Reference Agent with the relevant Reference Quotations under paragraph (B) above, the Reference Agent shall determine the relevant Reference Rate using the Reference Quotations of that Reference Bank and Reference Quotations of any additional bank which the Trustee may (but shall be under no obligation to do so) indicate to the Reference Agent is, in the opinion of the Trustee, suitable to be and shall be treated as an additional Reference Bank for such purpose on that Interest Determination Date; or
 - (D) if no Reference Bank has been appointed, or if Reference Banks have been appointed but none provides the Reference Agent with the relevant Reference Quotations under paragraph (B) above, the Reference Agent shall determine the relevant Reference Rate using the Reference Quotations of two other banks which the Trustee may (but shall be under no obligation to do so) indicate to the Reference Agent are, in the opinion of the Trustee, suitable to be and shall be treated as Reference Banks for such purpose on that Interest Determination Date; or
 - (E) if the Trustee does not provide the indication contemplated under paragraph (C) above or does not provide either or both of the indications contemplated under paragraph (D) above (as applicable), or the relevant additional bank under paragraph (C) above or either or both of the other banks under paragraph (D) above (as applicable) does not or do not provide the relevant Reference Quotations, then the Reference Agent shall determine the relevant Reference Rate to be the most recent Reference Rate for that class which was determined under either paragraph (A) or (B) above.
- (iii) The Rate of Interest for each class of Notes for each Interest Period shall be the aggregate of:
- (A) the applicable Note Interest Rate Margin; and
 - (B) the Reference Rate for that class as determined under paragraph (ii) above on the Interest Determination Date relating to that Interest Period.
- (iv) There shall be no maximum or minimum Rate of Interest, provided that the Rate of Interest shall not be less than zero.
- (d) ***Determination of Rate of Interest and Calculation of Interest Payments and Other Interest Amounts***
- (i) Where a paragraph of these Conditions indicates that an amount is to be calculated in accordance with this Condition 4(d)(i), that amount shall be the product of the following formula (using the figures indicated in that paragraph) rounded to the nearest £0.01 (0.005 being rounded upwards):

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

Where the Calculation Reference Period shall be 365.

- (ii) The Reference Agent will, as soon as practicable after the Quotation Time on each Interest Determination Date relating to a Note:
- (A) first determine the Rate of Interest applicable to that Note under Condition 4(c) for the Interest Period relating to that Interest Determination Date; and
 - (B) then, separately for each class of Notes to which that Interest Determination Date relates, calculate an amount in respect of that class in accordance with Condition 4(d)(i) using that Rate of Interest as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period and:
 - (1) in the case of the first Interest Determination Date for that class, using the aggregate of the Initial Principal Amount of that class of Notes as the Calculation Amount; and
 - (2) in the case of each other Interest Determination Date for that class, using as the Calculation Amount the aggregate Principal Liability Outstanding which will remain in respect of that class of Notes after the application of any Available Redemption Funds on the first day of the Interest Period to which that Interest Determination Date relates, such Available Redemption Funds being the Principal Payment in respect of that Note that is paid on such date; and
 - (C) then, in relation to each such class, calculate the aggregate amount of Normal Interest which will accrue on each Note in that class during that Interest Period by apportioning the amount calculated in relation to that class under paragraph (B) above between the Notes in that class *pro rata* to the Principal Amount Outstanding which will remain in respect of each Note in that class after the application of any Available Redemption Funds on the first day of the Interest Period to which that Interest Determination Date relates, rounding each amount so apportioned down to the nearest £0.01.

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

- (iii) On (or as soon as practicable after) the last Business Day of the month preceding the month in which an Interest Payment Date falls, the Issuer shall determine (or cause PML as Administrator to determine):
- (A) the amount, if any, of Normal Interest which will be paid on each Note on that Interest Payment Date;
 - (B) the amount, if any, of Deferred Interest which will be paid on each Class B Note, Class C Note, Class D Note, Class Z Note, Class S Note or Class S VFN on that Interest Payment Date;
 - (C) the amount, if any, of Deferred Interest which will have accrued and remain outstanding on each Class B Note, Class C Note, Class D Note, Class Z Note, Class S Note and Class S VFN on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date);
 - (D) the amount, if any, of Additional Interest which will have accrued on each Class B Note, Class C Note, Class D Note, Class Z Note, Class S Note and Class S VFN during the Interest Period ending on (but excluding) that Interest Payment Date by:
 - (1) separately calculating for each Class B Note, Class C Note, Class D Note, Class Z Note, Class S Note and Class S VFN an amount in respect of such Note in accordance with Condition 4(d)(i) using the Rate of Interest

applicable to Additional Interest in respect of that Interest Period as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period, and using the aggregate amount of Deferred Interest outstanding in respect of that class of Notes as at the end of the first day of that Interest Period as the Calculation Amount; and

- (2) then apportioning the amount calculated in relation to that class under paragraph (1) above between the Notes in that class *pro rata* to the aggregate amount of Deferred Interest outstanding in relation to each Note in that class, rounding each amount so apportioned down to the nearest £0.01;
 - (E) the amount, if any, of Additional Interest which will be paid on each Class B Note, Class C Note, Class D Note, Class Z Note, Class S Note and Class S VFN on that Interest Payment Date;
 - (F) the amount, if any, of Additional Interest which will have accrued and remain outstanding on each Class B Note, Class C Note, Class D Note, Class Z Note, Class S Note and Class S VFN on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date);
 - (G) the amount, if any, of Default Interest which will have accrued on each Note during the Interest Period ending on (but excluding) that Interest Payment Date by:
 - (1) separately calculating for each class of Notes an amount in respect of that class in accordance with Condition 4(d)(i) using the Rate of Interest applicable to Default Interest in respect of that Interest Period as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period, and using the aggregate amount of Overdue Interest outstanding in respect of that class of Notes as at the end of the first day of that Interest Period as the Calculation Amount; and
 - (2) then apportioning the amount calculated in relation to that class under paragraph (1) above between the Notes in that class *pro rata* to the aggregate amount of Overdue Interest outstanding in relation to each Note in that class, rounding each amount so apportioned down to the nearest £0.01;
 - (H) the amount, if any, of Default Interest which will be paid on each Note on that Interest Payment Date; and
 - (I) the amount, if any, of Default Interest which will have accrued and remain outstanding on each Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date).
- (e) ***Publication of Rate of Interest and Interest Payments***

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to each class of Notes for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Administrators and, for so long as any Notes are listed by the U.K. Listing Authority and admitted to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**"), the London Stock Exchange, and will cause the same to be published in accordance with Condition 12 on or as soon as possible after the date of commencement of the relevant Interest Period.

The Issuer will cause the Deferred Interest (if any), the Additional Interest (if any) and the Default Interest (if any) applicable to the Class B Notes, Class C Notes, Class D Notes, Class Z Notes, Class S Notes and/or Class S VFN (as the case may be) for each Interest Period to be notified to the Trustee, the Paying Agents and (for so long as the Class B Notes, Class C Notes, Class D Notes, Class Z Notes and/or Class S Notes (as the case may be) are listed by the U.K. Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange, and will

cause the same to be published in accordance with Condition 12 no later than the second Business Day prior to the relevant Interest Payment Date.

The Interest Payment, Deferred Interest, Additional Interest, Default Interest and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a shortening of the relevant Interest Period.

(f) ***Determination or Calculation by Trustee***

If the Reference Agent at any time for any reason does not determine the Rate of Interest or calculate an Interest Payment for a Note or Notes of a particular class in accordance with paragraph (d) above, the Trustee (or an agent on its behalf) may (but shall be under no obligation to do so) determine the Rate of Interest for such Note or Notes at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in paragraph (c) above, but subject to the terms of the Trust Deed), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee (or an agent on its behalf) may (but shall be under no obligation to do so) calculate the Interest Payment for such Note or Notes in accordance with paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

(g) ***Reference Banks and Reference Agent***

The Issuer will procure that, so long as any of the Notes remains outstanding, there will at all times be a Reference Agent and the Issuer shall use reasonable endeavours to appoint Reference Banks or, as the case may be, additional or other Reference Banks pursuant to Conditions 4(c)(ii)(C) or 4(c)(ii)(D), in each case if the Reference Screen is not available. The Issuer reserves the right at any time to terminate the appointment of the Reference Agent or of any Reference Bank. Notice of any such termination will be given to Noteholders. If any person shall be unable or unwilling to continue to act as a Reference Bank or the Reference Agent (as the case may be), or if the appointment of any Reference Bank or the Reference Agent shall be terminated, the Issuer will, with the approval of the Trustee, appoint a successor Reference Bank or Reference Agent (as the case may be) to act as such in its place, **provided that** neither the resignation nor removal of the Reference Agent shall take effect until a successor Reference Agent approved by the Trustee has been appointed.

(h) ***Determinations and Reconciliation***

(i) In the event that an Administrator Report is not prepared with respect to a Collection Period (the "**Determination Period**"), then the Administrators shall use the Administrator Report in respect of the three most recent Collection Periods (or, where there are not at least three previous Administrator Reports, all previous Administrator Reports) for the purposes of calculating the amounts available to the Issuer to make payments, as set out in this Condition 4(h) (*Determinations and Reconciliation*). If the Administrator Report relating to the Determination Period is subsequently received, the Administrators will make the reconciliation calculations and reconciliation payments as set out in Condition 4(h)(iii). Any: (i) calculations properly done on the basis of such previous Administrator Reports; (ii) payments made under any of the Notes and Relevant Documents in accordance with such calculations; (iii) reconciliation calculations; and (iv) reconciliation payments made as a result of such reconciliation calculations, each in accordance with Condition 4(h)(ii), 4(h)(iii) and/or 4(h)(iv) shall be deemed to be done in accordance with the provisions of the Relevant Documents and will not in themselves lead to an Event of Default and no liability will attach to the Administrators in connection with the exercise by them of their powers, duties and discretion for such purposes.

(ii) In respect of any Determination Period, the Administrators shall:

(A) determine the Interest Determination Ratio by reference to the three most recently received Administrator Reports (or, where there are not at least three previous Administrator Reports, all previous Administrator Reports received in the preceding Collection Periods);

- (B) calculate the Revenue Receipts for such Determination Period as the product of:
 - (i) the Interest Determination Ratio; and (ii) all payments received by the Issuer during such Determination Period; and
 - (C) calculate the Principal Receipts for such Determination Period as the product of:
 - (i) 1 minus the Interest Determination Ratio; and (ii) all payments received by the Issuer during such Determination Period.
- (iii) Following any Determination Period, upon delivery of the Administrator Reports in respect of such Determination Period, the Administrators shall reconcile the calculations made in accordance with Condition 4(h) above to the actual collections set out in the Administrator Reports as follows:
- (A) if the Reconciliation Amount is a positive number, the Administrators shall on the immediately following Interest Payment Date pay or provide for such amount by allocating amounts standing to the credit of the Revenue Ledger as Available Principal; and
 - (B) if the Reconciliation Amount is a negative number, the Administrators shall on the immediately following Interest Payment Date pay or provide for such amount by allocating amounts standing to the credit of the Principal Ledger as Available Revenue.
- (iv) If amounts standing to credit of the Revenue Ledger or Principal Ledger, as the case may be, are insufficient to pay or provide for the applicable Reconciliation Amount in full on the relevant Interest Payment Date the Administrators shall reallocate amounts standing to the credit of the Revenue Ledger or Principal Ledger (as applicable) in accordance with Condition 4(h)(iii)(A) or 4(h)(iii)(B) respectively in respect of each subsequent Collection Period (such Reconciliation Amounts to be applied accordingly on the immediately following Interest Payment Date) until such Reconciliation Amount is paid or provided for in full.
- (v) If the Administrators are required to provide for a Reconciliation Amount in determining Available Revenue and Available Principal in respect of any Interest Payment Date, the Administrators shall pay or provide for such Reconciliation Amount in accordance with the terms of the Administration Agreement and the Administrators shall promptly notify the Issuer and the Trustee of such Reconciliation Amount.

In this Condition 4(h):

"Interest Determination Ratio" means: (i) the aggregate Revenue Receipts calculated in the three preceding Administrator Reports (or such smaller number of preceding Administrator Reports as may be available on the date the Interest Determination Ratio is calculated); divided by (ii) the aggregate of the Revenue Receipts and the Principal Receipts calculated in such Administrator Reports;

"Administrator Report" means a report to be provided by the Administrators in respect of each Collection Period in accordance with the terms of the Administration Agreement;

"Available Revenue" means the moneys standing to the credit of the Transaction Account and representing the credit balance on the Revenue Ledger;

"Available Principal" means the moneys standing to the credit of the Transaction Account and representing the credit balance on the Principal Ledger;

"Reconciliation Amount" means in respect of a Determination Period: (i) the actual Principal Receipts as determined in accordance with the available Administrator Reports; less (ii) the Principal Receipts in respect of such Determination Period, determined in accordance with Condition 4(h)(ii)(C);

"Revenue Receipts" means, in relation to a Collection Period, the amount credited (or in relation to a Determination Period, the actual amount that should have been credited) to the Revenue Ledger for such Collection Period; and

"Principal Receipts" means, in relation to a Collection Period, the amount credited (or in relation to a Determination Period, the actual amount that should have been credited) to the Principal Ledger for such Collection Period.

5. **Redemption and Purchase**

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

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

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

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

The amount allocated to a Note under paragraph (ii) above (and rounded down to the nearest £0.01) shall be the **"Principal Payment"** in respect of that Note on the Principal Determination Date relating to that Interest Payment Date.

On each Interest Payment Date an amount equal to:

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

- (ii) the Class B Available Redemption Funds (as determined on the preceding Principal Determination Date) allocated to Class B Notes as described above shall be paid from the Transaction Account (and debited to the Principal Ledger) and applied in redemption of the Class B Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of the Class B Notes;
- (iii) the Class C Available Redemption Funds (as determined on the preceding Principal Determination Date) allocated to Class C Notes as described above shall be paid from the Transaction Account (and debited to the Principal Ledger) and applied in redemption of the Class C Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of the Class C Notes;
- (iv) the Class D Available Redemption Funds (as determined on the preceding Principal Determination Date) allocated to Class D Notes as described above shall be paid from the Transaction Account (and debited to the Principal Ledger) and applied in redemption of the Class D Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of the Class D Notes;
- (v) the Class Z Available Redemption Funds (as determined on the preceding Principal Determination Date) allocated to Class Z Notes as described above shall be paid from the Transaction Account (and debited to the Principal Ledger) and applied in redemption of the Class Z Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of the Class Z Notes;
- (vi) the Class S Available Redemption Funds (as determined on the preceding Principal Determination Date) allocated to Class S Notes as described above shall be paid from the Transaction Account (and debited, in the case of amounts specified in limb (i)(x) of the definition of Class S Available Redemption Funds, to the Principal Ledger) and applied in redemption of the Class S Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of the Class S Notes; and
- (vii) the Class S VFN Available Redemption Funds (as determined on the preceding Principal Determination Date) allocated to Class S VFN as described above shall be paid from the Transaction Account (and debited, in the case of amounts specified in limb (i)(x) of the definition of Class S VFN Available Redemption Funds, to the Principal Ledger) and applied in redemption of the Class S VFN in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of the Class S VFN.

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

"Available Redemption Funds" on any Principal Determination Date means:

- (i) the aggregate of:
 - (A) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation: (a) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted to, a person other than the Issuer; and (b) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the "**Collection Period**"));
 - (B) 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;

- (C) on the occurrence of a Further Sale Period End Date, all amounts standing to the credit of the Retained Principal Ledger on such Principal Determination Date;
- (D) any part of the amount deducted pursuant to paragraphs (ii)(A), (ii)(B), (ii)(C), (ii)(D) and (ii)(E) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making the relevant payments in respect of which such amount was so deducted; and
- (E) on the earlier of (x) the MFA Pre-Funding Reserve Ledger Release Date and (y) the Principal Determination Date immediately preceding the Step-Up Date, any amount which is debited from the MFA Pre-Funding Reserve Ledger and credited to the Principal Ledger on such date;
- (F) to the extent that the MFA Pre-Funding Reserve Ledger Release Date has not occurred, any amounts debited from the MFA Pre-Funding Reserve Ledger and credited to the Principal Ledger on or before the Principal Determination Date immediately preceding the Interest Payment Dates falling in each of 15 February 2020, 15 February 2021, 15 February 2022 and 15 February 2023 pursuant to clause 6.4.4 of the Administration Agreement;
- (G) on the Final Redemption Date only, all amounts standing to the credit of the General Reserve Fund (after first having applied any Class A and Class B Liquidity Reserve Fund Release Amounts in meeting any Class A and Class B Liquidity Deficit and then any General Reserve Fund Release Amount in meeting any Revenue Deficit against the relevant item in the Revenue Priority of Payments in the order they appear in the Revenue Priority of Payments and debiting such amounts from the Class A and Class B Liquidity Reserve Fund Ledger and/or the General Reserve Fund Ledger in accordance with the Revenue Priority of Payments, in each case on such Final Redemption Date);
- (H) on any Principal Determination Date following the Step-Up Date, the Additional Available Redemption Funds (if any); and
- (I) amounts representing the principal element (as reasonably determined by PML as Administrator) of the Portfolio Option Purchase Price received by the Issuer upon sale of the Mortgages comprising the Mortgage Portfolio further to exercise of the Portfolio Option,

less

(ii) the aggregate of:

- (A) Principal Addition Amounts to be applied to fund a Senior Expenses Deficit;
- (B) the aggregate principal amount of Mandatory Further Advances funded by the Issuer during the relevant Collection Period (or expected to be funded 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 amounts standing to the credit of the MFA Pre-Funding Reserve Ledger;
- (C) the aggregate principal amount of Discretionary Further Advances funded by the Issuer during the relevant Collection Period (or expected to be funded on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period);
- (D) the aggregate Initial Purchase Consideration of Additional Mortgages purchased by the Issuer during the relevant Collection Period plus the amount which PML as Administrator has determined should be credited to the Retained Principal Ledger on the immediately following Interest Payment Date pursuant to item (vi) of the Principal Priority of Payments, in order to purchase Additional Mortgages in the Collection Period commencing on such Principal Determination Date; and

- (E) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages and/or reimbursement of any amount payable to the Collection Account Banks in accordance with the direct debiting scheme and debited to the Principal Ledger.

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

"Additional Available Redemption Funds" means on the Principal Determination Date falling immediately prior to the Step-Up Date and each Principal Determination Date thereafter, the amount of Available Revenue estimated by the Issuer to be, on the immediately succeeding Interest Payment Date, applied in or towards the redemption of the Notes following the application of the Revenue Priority of Payments set out in Clause 6.1.2(s) of the Deed of Charge.

"Class A Available Redemption Funds" means, on any Principal Determination Date in relation to an Interest Payment Date falling prior to the occurrence of a Further Sale Period End Date, the lesser of:

- (i) the Available Redemption Funds; and
- (ii) the aggregate Principal Liability Outstanding of the Class A Notes less the Class A Target Notional on the immediately following Interest Payment Date, subject to a floor of zero,

plus any Class A Retained Principal Release Amount; and

on any Principal Determination Date in relation to an Interest Payment Date falling on or following the occurrence of a Further Sale Period End Date, the lesser of:

- (iii) the Available Redemption Funds; and
- (iv) the aggregate Principal Liability Outstanding of the Class A Notes.

"Class A Retained Principal Release Amount" means, on any Principal Determination Date in relation to an Interest Payment Date falling prior to the occurrence of a Further Sale Period End Date, the lesser of:

- (i) the Retained Principal Release Amount; and
- (ii) the aggregate Principal Liability Outstanding of the Class A Notes following the application of the Available Redemption Funds pursuant to limbs (i) and (ii) of the definition of Class A Available Redemption Funds.

"Class A Target Notional" means, on each Interest Payment Date, the product of: (a) the Principal Liability Outstanding of the Class A Notes as at the Closing Date, and (b) the Class A Schedule Multiplier applicable at the relevant Interest Payment Date. Following the Interest Payment Date in May 2023, the Class A Target Notional will be no longer applicable. For these purposes **"Class A Schedule Multiplier"** means:

Interest Payment Date	Class A Schedule Multiplier
August 15, 2018	100.000%
November 15, 2018	100.000%
February 15, 2019	100.000%
May 15, 2019	100.000%
August 15, 2019	96.868%
November 15, 2019	93.819%
February 17, 2020	90.828%
May 15, 2020	87.938%
August 17, 2020	85.089%
November 16, 2020	82.229%

February 15, 2021	79.536%
May 17, 2021	76.827%
August 16, 2021	74.285%
November 15, 2021	71.778%
February 15, 2022	69.299%
May 16, 2022	66.959%
August 15, 2022	64.597%
November 15, 2022	62.182%
February 15, 2023	59.976%
May 15, 2023	57.000%

"**Class B Available Redemption Funds**" means, on any Principal Determination Date in relation to an Interest Payment Date falling prior to the occurrence of a Further Sale Period End Date, the lesser of:

- (i) the Available Redemption Funds less the Class A Available Redemption Funds; and
- (ii) the aggregate Principal Liability Outstanding of the Class B Notes,
plus any Class B Retained Principal Release Amount; and

on any Principal Determination Date in relation to an Interest Payment Date falling on or following the occurrence of a Further Sale Period End Date, the lesser of:

- (iii) the Available Redemption Funds less the Class A Available Redemption Funds; and
- (iv) the aggregate Principal Liability Outstanding of the Class B Notes.

"**Class B Retained Principal Release Amount**" means, on any Principal Determination Date in relation to an Interest Payment Date falling prior to the occurrence of a Further Sale Period End Date, the lesser of:

- (i) the Retained Principal Release Amount less the Class A Retained Principal Release Amount; and
- (ii) the aggregate Principal Liability Outstanding of the Class B Notes following the application of the Available Redemption Funds pursuant to limbs (i) and (ii) of the definition of Class B Available Redemption Funds.

"**Class C Available Redemption Funds**" means, on any Principal Determination Date in relation to an Interest Payment Date falling prior to the occurrence of a Further Sale Period End Date, the lesser of:

- (i) the Available Redemption Funds less the sum of the Class A Available Redemption Funds and the Class B Available Redemption Funds; and
- (ii) the aggregate Principal Liability Outstanding of the Class C Notes,
plus any Class C Retained Principal Release Amount; and

on any Principal Determination Date in relation to an Interest Payment Date falling on or following the occurrence of a Further Sale Period End Date, the lesser of:

- (iii) the Available Redemption Funds less the sum of the Class A Available Redemption Funds and the Class B Available Redemption Funds; and
- (iv) the aggregate Principal Liability Outstanding of the Class C Notes.

"**Class C Retained Principal Release Amount**" means the lesser of:

- (i) the Retained Principal Release Amount less the Class A Retained Principal Release Amount and the Class B Retained Principal Release Amount; and

- (ii) the aggregate Principal Liability Outstanding of the Class C Notes following the application of the Available Redemption Funds pursuant to limbs (i) and (ii) of the definition of Class C Available Redemption Funds.

"Class D Available Redemption Funds" means, on any Principal Determination Date in relation to an Interest Payment Date falling prior to the occurrence of a Further Sale Period End Date, the lesser of:

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

plus any Class D Retained Principal Release Amount; and

on any Principal Determination Date in relation to an Interest Payment Date falling on or following the occurrence of a Further Sale Period End Date, the lesser of:

- (iii) the Available Redemption Funds less the sum of the Class A Available Redemption Funds, the Class B Available Redemption Funds and the Class C Available Redemption Funds; and
- (iv) the aggregate Principal Liability Outstanding of the Class D Notes.

"Class D Retained Principal Release Amount" means the lesser of:

- (i) the Retained Principal Release Amount less the Class A Retained Principal Release Amount, the Class B Retained Principal Release Amount and the Class C Retained Principal Release Amount; and
- (ii) the aggregate Principal Liability Outstanding of the Class D Notes following the application of the Available Redemption Funds pursuant to limbs (i) and (ii) of the definition of Class D Available Redemption Funds.

"Class Z Available Redemption Funds" means, on any Principal Determination Date in relation to an Interest Payment Date falling prior to the occurrence of a Further Sale Period End Date, the lesser of:

- (i) the Available Redemption Funds less the sum of the Class A Available Redemption Funds, the Class B Available Redemption Funds, the Class C Available Redemption Funds and the Class D Available Redemption Funds; and
- (ii) the aggregate Principal Liability Outstanding of the Class Z Notes,

plus any Class Z Retained Principal Release Amount; and

on any Principal Determination Date in relation to an Interest Payment Date falling on or following the occurrence of a Further Sale Period End Date, the lesser of:

- (iii) the Available Redemption Funds less the sum of the Class A Available Redemption Funds, the Class B Available Redemption Funds, the Class C Available Redemption Funds and the Class D Available Redemption Funds; and
- (iv) the aggregate Principal Liability Outstanding of the Class Z Notes.

"Class Z Retained Principal Release Amount" means the lesser of:

- (i) the Retained Principal Release Amount less the Class A Retained Principal Release Amount, the Class B Retained Principal Release Amount, the Class C Retained Principal Release Amount and the Class D Retained Principal Release Amount; and

- (ii) the aggregate Principal Liability Outstanding of the Class Z Notes following the application of the Available Redemption Funds pursuant to limbs (i) and (ii) of the definition of Class Z Available Redemption Funds.

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

- (i) the sum of:
 - (x) the Available Redemption Funds less the sum of the Class A Available Redemption Funds, the Class B Available Redemption Funds, the Class C Available Redemption Funds, the Class D Available Redemption Funds and the Class Z Available Redemption Funds; and
 - (y) the amount (if any) received by the Issuer pursuant to item (xxii) of the Revenue Priority of Payments for application in repayment of principal due and payable on the Class S Notes; and
- (ii) the aggregate Principal Liability Outstanding of the Class S Notes,

where the amount specified in (i)(y) above shall be applied first in redemption of the Class S Notes.

"Class S VFN Available Redemption Funds" on any Principal Determination Date means the lesser of:

- (i) the sum of:
 - (x) the Available Redemption Funds less the sum of the Class A Available Redemption Funds, the Class B Available Redemption Funds, the Class C Available Redemption Funds, the Class D Available Redemption Funds, the Class Z Available Redemption Funds and the Class S Available Redemption Funds; and
 - (y) the amount (if any) received by the Issuer pursuant to item (xxiv) of the Revenue Priority of Payments for application in repayment of principal due and payable on the Class S VFN; and
- (ii) the aggregate Principal Liability Outstanding of the Class S VFN,

where the amount specified in (i)(y) above shall be applied first in redemption of the Class S VFN.

"Maximum Principal Retained Amount" means, on any Principal Determination Date, an amount equal to 5 per cent. of the aggregate of the Current Balance of all Mortgage Loans in the Mortgage Portfolio.

"MFA Pre-Funding Reserve Ledger Release Date" means the Principal Determination Date immediately preceding any Interest Payment Date from the Closing Date to (and excluding) the Step-Up Date so designated by PML as Administrator.

"Retained Principal Release Amount" means on any Principal Determination Date (prior to the application of the Payments Priorities), the amount by which the amount standing to the credit of the Retained Principal Ledger exceeds the Maximum Principal Retained Amount, as such amount is debited to the Retained Principal Ledger and credited to the Principal Ledger.

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

- (i) On (or as soon as practicable after) each Principal Determination Date, the Issuer shall determine (or cause the Administrators to determine) (x) the amount of any Principal Payment in respect of each Note of a particular class due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding and the Principal Liability Outstanding of each Note of a particular class after deducting any Principal Payment due to be made in respect of each Note of that class on the next

Interest Payment Date, and (z) the fraction in respect of each Note of a particular class expressed as a decimal rounded upwards to the seventh place (the "**Pool Factor**"), of which the numerator is the Principal Amount Outstanding of a Note of that particular class (as referred to in (y) above) and the denominator is the principal amount (expressed as an integer) of that Note upon issue. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Liability Outstanding of a Note, the Principal Amount Outstanding of a Note and the Pool Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

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

The "**Principal Amount Outstanding**" of a Note on any date shall be the Initial Principal Amount of that Note less the aggregate amount of all Principal Payments in respect of that Note that have become due and payable (whether or not paid) prior to such date.

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

- (ii) The Issuer, by not later than two Business Days prior to the relevant Interest Payment Date, will cause each determination of a Principal Payment, Principal Amount Outstanding, Principal Liability Outstanding and Pool Factor to be notified to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the relevant Notes are listed by the U.K. Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange and will cause details of each determination of a Principal Payment, Principal Liability Outstanding, Principal Amount Outstanding and Pool Factor to be published in accordance with Condition 12 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Notes of a particular class on any Interest Payment Date a notice to this effect will be given to the Noteholders of that class.
- (iii) If the Issuer does not at any time for any reason determine (or cause PML as Administrators to determine) a Principal Payment, the Principal Amount Outstanding, the Principal Liability Outstanding or the Pool Factor applicable to Notes of a particular class in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding, Principal Liability Outstanding and Pool Factor may be determined by the Trustee or its agent (but the Trustee shall be under no obligation to do so) in accordance with this paragraph (b) and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) ***Redemption for Taxation or Other Reasons***

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either:

- (i) on the next Interest Payment Date:
 - (A) the Issuer or any Paying Agent would be required to deduct or withhold from any payment of principal or interest in respect of any Notes; or
 - (B) the Issuer or any Basis Hedge Provider would be required to deduct or withhold from amounts payable by it under any Basis Hedge Agreement,

any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any other jurisdiction or any political sub-division thereof or any authority thereof or therein; or

- (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period; or
- (iii) the Issuer would, by virtue of a change in tax law (or the application or official interpretation thereof) applicable in the Issuer's jurisdiction, not be taxed in accordance with Regulation 14 of The Taxation of Securitisation Companies Regulations (SI2006/3296),

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

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

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

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

- (i) the Issuer has given written notice in accordance with Condition 12 not more than 90 days and not less than 20 days before that Interest Payment Date to the Trustee and the Noteholders of its intention to redeem the Notes under this Condition 5(d); and
- (ii) if an Event of Default has occurred or occurs on or before that Interest Payment Date, no Enforcement Notice has been served; and
- (iii) the Issuer will be in a position on that Interest Payment Date to discharge (and so certifies to the Trustee):
 - (A) all its liabilities in respect of the Notes to be redeemed by the Issuer on that Interest Payment Date (including, in each case, all accrued Normal Interest, Deferred Interest, Additional Interest and Default Interest outstanding); and
 - (B) all amounts required under the Deed of Charge to be paid in priority to or *pari passu* with those liabilities;
- (iv) if that Interest Payment Date will fall prior to the Step-Up Date, then on that Interest Payment Date the aggregate Principal Liability Outstanding of all of the Notes is less than 10 per cent. of the aggregate Initial Principal Amount of all of the Notes; and
- (v) more than 50 per cent. of the Residual Certificates are held by a member of the Paragon Banking Group.

(e) ***Mandatory Redemption in full pursuant to a Portfolio Purchase***

- (i) On giving not more than 60 days' nor less than 20 Business days' notice to the Noteholders in accordance with Condition 12 (*Notice*) and the Trustee, upon the occurrence of a Portfolio Purchase in accordance with the provisions of the Deed Poll, the consideration

received by the Issuer will be applied as Available Revenue in accordance with the Revenue Priority of Payments and as Available Principal in accordance with the Principal Priority of Payments (as applicable) on the immediately succeeding Interest Payment Date with the result that the Rated Notes and the Class Z Notes will be redeemed in full and the Class S Notes and the Class S VFN may (subject to availability of funds for such purpose) be redeemed in full or in part, in accordance with this Condition 5(e) (*Mandatory Redemption in full pursuant to a Portfolio Purchase*) (including, in each case, all accrued Normal Interest, Deferred Interest, Additional Interest and Default Interest outstanding).

- (ii) Any Note redeemed pursuant to this Condition will be redeemed at an amount equal to the Principal Amount Outstanding of the relevant Note to be redeemed together with accrued (and unpaid) interest on the Principal Amount Outstanding of the relevant Note up to but excluding the Interest Payment Date on which the redemption occurred.

(f) ***Redemption on Maturity***

If not otherwise redeemed, the Notes of each class will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in May 2050 (the "**Final Maturity Date**").

(g) ***Purchases***

The Issuer may not purchase any Notes.

(h) ***Cancellation***

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

(i) ***Certification***

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

6. **Payments**

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

In these Conditions:

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

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

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

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

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

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

"Record Date" means, in connection with any payment, one day before the due date for the relevant payment; and

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

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

Interest Payments and Principal Payments in respect of each Note:

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

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

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

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

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

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

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

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

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

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

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

(f) ***Partial payments***

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

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

The initial Principal Paying Agent is Citibank, N.A., London Branch at its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. The Issuer may at any time (with the previous written approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, **provided that** it will at all times maintain a Paying Agent having a specified office in the City of London (the "**London Paying Agent**") and, in the case of the Paying Agent for the Notes, require that such Paying Agent's office for administering payments in respect of such Notes is located outside the United States or its possessions. Notice of any such termination or appointment and of any change in the office through which any Paying Agent will act will be given in accordance with Condition 12.

7. **Taxation**

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

Notwithstanding any other provision in these Conditions, the Issuer shall be permitted to withhold or deduct any amounts required by the rules of U.S. Internal Revenue Code of 1986 Sections 1471 through 1474 (or any amended or successor provisions), pursuant to any inter-governmental agreement, or implementing legislation adopted by another jurisdiction in connection with these provisions, or pursuant to any agreement with the US Internal Revenue Service ("**FATCA withholding**"). The Issuer will have no obligation to pay additional amounts or otherwise indemnify a holder for any FATCA withholding deducted or withheld by the Issuer, a Paying Agent or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

8. **Prescription**

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

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

9. **Events of Default**

The Trustee at its discretion may, or if so requested (1) in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Most Senior Class of Notes outstanding or (2) if so requested by an Extraordinary Resolution of the holders of the Most Senior Class of Notes (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) shall (but, in the case of the occurrence of any of the events mentioned in

paragraph (iii) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the holders of the Most Senior Class of Notes) and, in the case of the event mentioned in paragraph (i) below in relation to any payment of: (x) Normal Interest on any Class of Notes (other than the Class A Notes or, should they be the Most Senior Class of Notes, the other Classes of Notes); and (y) Deferred Interest, Additional Interest or Default interest on any Class of Notes (other than the Class A Notes) as the case may be, only if the Trustee has issued a certificate (based on information provided to it by the Administrator or the Substitute Administrator) to the effect that the Issuer had, on the due date for payment of the amount of interest in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such interest (after payment of all sums which it is permitted under the Deed of Charge to pay in priority thereto or *pari passu* therewith) give notice (an "**Enforcement Notice**") to the Issuer that the Notes are, and each Note shall accordingly forthwith become, immediately due and repayable at their/its Principal Liability Outstanding together with all 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 Most Senior Class of Notes outstanding 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 Most Senior Class of Notes outstanding or any of them; or
- (ii) the occurrence of an Issuer Insolvency Event; or
- (iii) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied.

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

"Issuer Insolvency Event" means:

- (a) an order is made or an effective resolution is passed for winding up the Issuer except a winding-up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the holders of the Most Senior Class of Notes;
- (b) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or
- (c) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becomes insolvent.

10. **Enforcement and Limited Recourse**

(a) **Enforcement**

At any time after the Notes become due and repayable at their Principal Liability Outstanding pursuant to Condition 9 the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the Security for the Notes and to enforce repayment of the Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Most Senior Class of Notes or it shall have been so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

Notwithstanding the foregoing if the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Trustee will not be entitled to dispose of the Charged Property unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders (other than the Class S Noteholders and Class S VFN Holder) and Residual Certificateholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Noteholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

(b) **Limited Recourse**

If at any time following:

- (a) the occurrence of either:
 - (i) the Interest Payment Date falling in May 2050 or any earlier date upon which all of the Notes of each Class are due and payable; or
 - (ii) the service of an Enforcement Notice; and
- (b) Realisation of the Charged Property and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable Payments Priorities,

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

For the purposes of this Condition 10:

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

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

11. **Replacement of Notes**

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer and the Registrar may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

12. **Notices**

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

- (a) if information concerned in such notice shall appear on the relevant page of the Reuters Screen (presently page PBGPM25) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Noteholders (the "**Relevant Screen**"), and in such case such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen; or
- (b) if published in the *Financial Times* or, if such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other leading daily newspaper or newspapers printed in the English language as the Trustee shall approve in advance having (individually or in combination) a general circulation in the United Kingdom, Europe and in each such case such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above; or
- (c) if sent to them by first class post (or its equivalent) or (if posted to an address outside the United Kingdom) by airmail at the respective addresses on the Register, and in such case such notice will be deemed to have been given on the fourth day after the date of posting; or
- (d) whilst the Notes then held by those Noteholders are represented by a Global Note to Euroclear and/or Clearstream, Luxembourg for communication by them to those Noteholders, and in such case such notice shall be deemed to have been given to the relevant Noteholders on the day of such delivery to Euroclear and/or Clearstream, Luxembourg, as appropriate; or
- (e) any other method or methods of giving notice sanctioned in advance by the Trustee if, in the Trustee's sole opinion, such other method or methods is/are reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges, competent listing authorities and/or quotation systems on or by which the Notes (other than the Class S VFN) are then listed, quoted and/or traded and **provided that** notice of such other method or methods is/are given to those Noteholders in such manner as the Trustee shall require,

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

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

13. **Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver**

The Trust Deed contains provisions for convening meetings of all Noteholders or Noteholders holding Notes of the same class (the "**Relevant Noteholders**") and all Residual Certificateholders or Residual Certificateholders holding Residual Certificates of the same Class (the "**Relevant**

Residual Certificateholders") to consider any matter affecting the interests of those Relevant Noteholders or Relevant Residual Certificateholders, as applicable, including, among other things, the sanctioning by Extraordinary Resolution of a modification of their Notes (including these Conditions as they relate to their Notes), modification of their Residual Certificates (including the Residual Certificates Conditions as they relate to their Residual Certificates) or the provisions of any of the Relevant Documents.

In these Conditions a "**Basic Terms Modification**" means a modification of certain terms including, among other things, a modification which would have the effect of altering the date of maturity of any of the Notes, or postponing any day for payment of interest in respect of any of the Notes or modifying the method of calculating the Principal Payment (including any premium) or reducing, cancelling or increasing the amount of principal payable in respect of any of the Notes, or reducing the rate of interest applicable to any of the Notes, or altering the majority required to pass an Extraordinary Resolution, or altering the currency of payment of any of the Notes or Residual Certificates, or altering the date or priority of redemption of any of the Notes or Residual Certificates, provided that a Base Rate Modification effected pursuant to, and in accordance with, Condition 15 will not constitute a Basic Terms Modification.

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

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

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

- (a) no Extraordinary Resolution involving a Basic Terms Modification that is passed by the holders of one or more classes of Notes or Residual Certificates shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes and Residual Certificates (to the extent that there are outstanding Notes or Residual Certificates in such other classes);
- (b) no Extraordinary Resolution to approve any matter other than a Basic Terms Modification of any class of Notes or Residual Certificates shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes or Residual Certificates ranking senior to such class (to the extent that there are outstanding Notes or Residual Certificates ranking senior to such class) unless the Trustee considers that the

interests of each of the other classes of Notes or Residual Certificates ranking senior to such class would not be materially prejudiced by the implementation of such first mentioned Extraordinary Resolution;

- (c) any resolution passed at a meeting of Noteholders or Residual Certificateholders of one or more classes of Notes or Residual Certificate, as applicable, duly convened and held in accordance with the Trust Deed shall be binding upon all Noteholders or Residual Certificateholders of such class, as applicable, whether or not present at such meeting and whether or not voting and, except in the case of a meeting relating to a Basic Terms Modification, any resolution passed at a meeting of the holders of the Most Senior Class of Notes duly convened and held as aforesaid shall also be binding upon the holders of all the other classes of Notes and Residual Certificates and will override any resolution to the contrary of the other classes of Notes or Residual Certificates; and
- (d) an Extraordinary Resolution passed at any meeting of Relevant Noteholders or Relevant Residual Certificateholders shall be binding on all those Relevant Noteholders or Relevant Residual Certificateholders, as applicable, whether or not they are present at the meeting.

Any resolution passed by way of Electronic Consents given by holders through the relevant clearing system(s) in accordance with these Conditions and the Trust Deed shall also be binding on the relevant Noteholders or relevant Residual Certificateholders, as applicable.

The Trustee may agree, without the consent of the Noteholders or the Residual Certificateholders:

- (A) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, the Notes (including these Conditions), the Residual Certificates (including the Residual Certificates Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or the Residual Certificateholders, as applicable; or
- (B) to any modification of the Notes (including the Conditions), the Residual Certificates (including these Residual Certificates Conditions) or any of the Relevant Documents which, in the Trustee's opinion, is to correct a manifest error or is of a formal, minor or technical nature. The Trustee may also, without the consent of the Noteholders or the Residual Certificateholders, determine that any Event of Default or any condition, event or act which with the giving of notice and/or lapse of time and/or the issue of a certificate would constitute an Event of Default shall not, or shall not subject to specified conditions, be treated as such.

Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and the Residual Certificateholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders and the Residual Certificateholders in accordance with Condition 12 or Residual Certificates Condition 11 (as applicable) as soon as practicable thereafter.

14. **Additional Right of Modification**

Notwithstanding any of the provisions of Condition 13 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*), the Trustee shall be obliged, without any consent or sanction of the Noteholders, Residual Certificateholders or, subject to Condition 14(g)(C) below, any of the other Secured Creditors, to concur with the Issuer in making any modification (other than in respect of a Basic Terms Modification) to these Conditions, the Residual Certificates Conditions or any other Relevant Document to which it is a party or in relation to which it holds security that the Issuer considers necessary:

- (a) for the purpose of complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies which may be applicable from time to time, provided that:
 - (i) the Issuer (or PML as Administrator on its behalf) certifies in writing to the Trustee that such modification is necessary to comply with such criteria or, as the case may be, is solely to implement and reflect such criteria; and

(ii) in the case of any modification to a Relevant Document proposed by any of the Basis Hedge Providers or PML as Administrator in order (x) to remain eligible to perform its role in such capacity in conformity with such criteria and/or (y) to avoid taking action which it would otherwise be required to take to enable it to continue performing such role (including, without limitation, posting collateral or advancing funds):

(A) the relevant Basis Hedge Provider or PML as Administrator, as the case may be, certifies in writing to the Issuer or the Trustee that such modification is necessary for the purposes described in paragraph (ii)(x) and/or (y) above (and in the case of a certification provided to the Issuer, the Issuer shall certify to the Trustee that it has received the same from the relevant Basis Hedge Provider or the relevant Administrator, as the case may be);

(B) either:

(I) the relevant Basis Hedge Provider or PML as Administrator, as the case may be, obtains from each of the Rating Agencies written confirmation (or certifies in writing to the Issuer and the Trustee that it has been unable to obtain written confirmation, but has received oral confirmation from an appropriately authorised person at each of the Rating Agencies) that such modification would not result in a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency and would not result in any Rating Agency placing any Notes on rating watch negative (or equivalent) and, if relevant, delivers a copy of each such confirmation to the Issuer and the Trustee; or

(II) the Issuer (or PML as Administrator on its behalf) certifies in writing to the Trustee that the Rating Agencies have been informed of the proposed modification and none of the Rating Agencies has indicated that such modification would result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency or (y) such Rating Agency placing any Notes on rating watch negative (or equivalent); and

(C) the relevant Basis Hedge Provider or PML as Administrator, as the case may be, pays all costs and expenses (including legal fees) incurred by the Issuer and the Trustee in connection with such modification;

(b) in order to enable the Issuer and/or the Basis Hedge Providers to comply with:

(i) any obligation which applies to it under Articles 9, 10 and 11 of Regulation (EU) 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012 (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from relevant supervisory regulators) ("**EMIR**"); or

(ii) any other obligation which applies to it under EMIR,

provided that the Issuer (or PML as Administrator on its behalf) or the relevant Basis Hedge Provider, as appropriate, certifies to the Trustee in writing that such modification is required solely for the purpose of enabling it to satisfy such obligation and has been drafted solely to such effect;

(c) for the purpose of complying with any changes in the requirements of Article 405 of Regulation (EU) No. 575/2013 (the "**CRR**"), Article 17 of the Alternative Investment Fund Managers Directive ("**AIFMD**"), Article 254 of Regulation (EU) 2015/35 (the

"**Solvency II Regulation**") and Article 51 of Regulation (EU) No 231/2013 (the "**AIFMR**") or Section 15G of the Securities Exchange Act of 1934, as added by section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, after the Closing Date, including as a result of the adoption of Regulatory Technical Standards in relation to the CRR, the AIFMR, the Solvency II Regulation or any other risk retention legislation or regulations or official guidance in relation thereto, provided that the Issuer (or PML as Administrator on its behalf) certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect;

- (d) for the purpose of enabling the Notes (other than the Class S VFN) to be (or to remain) listed on the London Stock Exchange, provided that the Issuer (or PML as Administrator on its behalf) certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect;
- (e) for the purposes of enabling the Issuer or any other person that is party to a Relevant Document (a "**Transaction Party**") to comply with Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code ("**FATCA**") (or any voluntary agreement entered into with a taxing authority in relation thereto), provided that the Issuer (or PML as Administrator on its behalf) or the relevant Transaction Party, as applicable, certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect;
- (f) for the purpose of complying with any changes in the requirements of the CRA Regulation after the Closing Date, including as a result of the adoption of Regulatory Technical Standards in relation to the Credit Rating Agencies Regulation or regulations or official guidance in relation thereto, provided that the Issuer (or an Administrator on its behalf) certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect;
- (g) for the purposes of enabling the Issuer (or PML as Administrator on its behalf) to transfer (i) the Transaction Account from the Account Bank to HSBC Bank plc, Barclays Bank PLC or Wells Fargo Bank N.A.; (ii) the PML Collection Account from the Collection Account Bank to HSBC Bank plc, or (iii) the PB Collection Account from the PB Collection Account Bank to HSBC Bank plc or Barclays Bank PLC provided that in each case the Issuer (or PML as Administrator on its behalf) certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect and that the conditions stipulated in clause 6.5.3 of the Administration Agreement have been satisfied;

(h)

(the certificate to be provided by the Issuer (or PML as Administrator on its behalf), the relevant Basis Hedge Provider or the relevant Transaction Party, as the case may be, pursuant to paragraphs (a) to (g) above being a "**Modification Certificate**"), provided that:

- (A) at least 30 calendar days' prior written notice of any such proposed modification has been given to the Trustee;
- (B) the Modification Certificate in relation to such modification shall be provided to the Trustee both at the time the Trustee is notified of the proposed modification and on the date that such modification takes effect; and
- (C) the consent of each Secured Creditor (other than any Noteholder or Residual Certificateholder) which is party to the Relevant Document has been obtained,

and provided further that, other than in the case of a modification pursuant to Condition 14(b)(i), Condition 14(b)(ii) or Condition 14(g):

- (D) other than in the case of a modification pursuant to Condition 14(a)(ii), either:
 - (I) the Issuer (or PML as Administrator on its behalf) obtains from each of the Rating Agencies written confirmation (or certifies in the Modification Certificate that it has been unable to obtain written confirmation, but has received oral confirmation from an appropriately authorised person at each of the Rating Agencies) that such modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency or (y) such Rating Agency placing any Notes on rating watch negative (or equivalent); or
 - (II) the Issuer (or PML as Administrator on its behalf) certifies in the Modification Certificate that it has informed the Rating Agencies of the proposed modification and none of the Rating Agencies has indicated that such modification would result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency or (y) such Rating Agency placing any Notes on rating watch negative (or equivalent);
- (E) (I) the Issuer has provided at least 30 calendar days' notice to the Noteholders and Residual Certificateholders of each Class of the proposed modification in accordance with Condition 12 (*Notices*) and Residual Certificates Condition 12 (*Notices*) and by publication on Bloomberg on the "Company News" screen relating to the Notes and the Residual Certificates, and (II) Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes, or if there are no Notes outstanding, Residual Certificateholders representing at least 10 per cent. of the number of the Most Senior Class of Residual Certificates, then outstanding have not contacted the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes or Residual Certificates (as the case may be) may be held) within such notification period notifying the Principal Paying Agent or the Issuer that such Noteholders or Residual Certificateholders (as the case may be) do not consent to the modification;

If (other than in the case of a modification pursuant to Condition 14(b)(i), Condition 14(b)(ii) or Condition 14(g) Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding, or if there are no Notes outstanding, Residual Certificateholders representing at least 10 per cent. of the number of the Most Senior Class of Residual Certificates, have notified the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes or Residual Certificates (as applicable) then outstanding is passed in favour of such modification in accordance with Condition 13 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*) or Residual Certificates Condition 13 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*).

Objections made in writing other than through the applicable clearing system must be accompanied by evidence to the Trustee's satisfaction (having regard to prevailing market

practices) of the relevant Noteholder's holding of the Notes or Residual Certificateholder's holding of the Residual Certificates.

Other than where specifically provided in this Condition 14 (*Additional Right of Modification*) or any Relevant Document:

- (a) when implementing any modification pursuant to this Condition 14 (*Additional Right of Modification*) (save to the extent the Trustee considers that the proposed modification would constitute a Basic Terms Modification), the Trustee shall not consider the interests of the Noteholders, Residual Certificateholders, any other Secured Creditor or any other person and shall act and rely solely and without further investigation on any certificate or evidence provided to it by the Issuer or the relevant Transaction Party, as the case may be, pursuant to this Condition 14 (*Additional Right of Modification*) and shall not be liable to the Noteholders, Residual Certificateholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and
- (b) the Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Trustee would have the effect of (i) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the Relevant Documents and/or these Conditions and/or the Residual Certificates Conditions.

Any such modification shall be binding on all Noteholders and Residual Certificateholders and shall be notified by the Issuer as soon as reasonably practicable to:

- (c) so long as any of the Notes rated by the Rating Agencies remains outstanding, each Rating Agency;
- (d) the Secured Creditors; and
- (e) the Noteholders in accordance with Condition 12 (*Notices*) and the Residual Certificateholders in accordance with Residual Certificates Condition 12 (*Notices*).

15. **Base Rate Modification**

- (a) Notwithstanding the provisions of Condition 13 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*), the Trustee shall be obliged, without any consent or sanction of the Noteholders or any of the other Secured Creditors, to concur with the Issuer in making any modification to these Conditions or any other Relevant Document to which it is a party or in relation to which it holds security or entering into any new, supplemental or additional documents that the Issuer considers necessary for the purpose of changing the base rate from LIBOR in respect of all Classes of Notes but not only some Classes of Notes (the "**Applicable Base Rate**") to an alternative base rate (any such rate, an "**Alternative Base Rate**") and making such other amendments to these Conditions or any other Relevant Document as are necessary or advisable in the reasonable judgment of the Issuer to facilitate the changes envisaged pursuant to this Condition 15 (*Base Rate Modification*) (for the avoidance of doubt, this may include changing the base rate referred to in any interest rate hedging agreement, for the purpose of aligning any such hedging agreement with the proposed Base Rate Modification pursuant to paragraph (c)(D) below, the Mortgage Margin Reserve Fund, the Conversion Margin Reserve Fund and the Rate of Interest Maintenance Adjustment) (a "**Base Rate Modification**"), **provided that** the Issuer, or, as the case may be, PML as Administrator on behalf of the Issuer certifies to the Trustee in writing (such certificate, a "**Base Rate Modification Certificate**") that:
 - (i) the Issuer has provided written notice of the proposed Base Rate Modification to the Noteholders of each Class including all the details required by Condition

15(c) below and that Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding have not contacted the Issuer or the Principal Paying Agent in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within the prescribed notification period notifying the Issuer or Principal Paying Agent that such Noteholders do not consent to the Base Rate Modification; and

- (ii) the Issuer has obtained the consent of any of the other Secured Creditors whose consent is required to be obtained in order to make the Base Rate Modification; and
- (iii) the Sellers or PML as Administrator have agreed to pay, or to put the Issuer in funds to pay, all fees, costs and expenses (including legal fees and costs associated with any amendments to hedging agreements) incurred by the Issuer and the Trustee or any other party to any Relevant Documents in connection with the Base Rate Modification; and
- (iv) the Base Rate Modification is being undertaken due to any one or more of the following (and not for any other reason):
 - (1) a material disruption to the Applicable Base Rate, a material change in the methodology of calculating the Applicable Base Rate or the Applicable Base Rate ceasing to exist or be published; or
 - (2) the insolvency or cessation of business of the administrator of the Applicable Base Rate (in circumstances where no successor administrator has been appointed); or
 - (3) a public statement by the administrator of the Applicable Base Rate that it will cease publishing the Applicable Base Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Applicable Base Rate) with effect from a date no later than 6 months after the proposed effective date of such Base Rate Modification; or
 - (4) a public statement by the supervisor of the administrator of the Applicable Base Rate that the Applicable Base Rate has been or will be permanently or indefinitely discontinued (or there will be a material change in the methodology of calculating the Applicable Base Rate) with effect from a date no later than 6 months after the proposed effective date of such Base Rate Modification; or
 - (5) a public statement by the supervisor of the administrator of the Applicable Base Rate that means the Applicable Base Rate will be prohibited from being used or that its use is subject to restrictions or adverse consequences with effect from a date no later than 6 months after the proposed effective date of such Base Rate Modification; or
 - (6) it becomes unlawful for any Paying Agent, the Issuer or the Administrators to calculate any payments due to be made to any Noteholder using the Applicable Base Rate; or
 - (7) the reasonable expectation of PML as Administrator that any of the events specified in sub-paragraphs (1), (2) or (6) will occur or exist within six months of the proposed effective date of such Base Rate Modification; or
 - (8) a change in the generally accepted market practice in the publicly listed asset backed floating rate notes market to refer to a base rate endorsed in a public statement by the Bank of England, the Financial Conduct Authority or the Prudential Regulation Authority or any relevant

committee or other body established, sponsored or approved by any of the foregoing, including the Working Group on Sterling Risk-Free Rates, despite the continued existence of the Applicable Base Rate; and

- (v) the Alternative Base Rate is any one or more of the following:
 - (1) a base rate published, endorsed, approved or recognised by (the administrator of the Applicable Base Rate, the supervisor of the administrator of the Alternative Base Rate or other relevant authority) or any stock exchange on which the Notes (other than the Class S VFN) are listed (or any relevant committee or other body established, sponsored or approved by any of the foregoing); or
 - (2) the Sterling Over Night Index Average or the Broad Treasuries Repo Financing Rate (or any rate which is derived from, based upon or otherwise similar to either of the foregoing); or
 - (3) a base rate utilised in a material number of publicly listed new issues of Sterling-denominated asset backed floating rate notes prior to the effective date of such Base Rate Modification; or
 - (4) a base rate utilised in a publicly-listed new issue of Sterling-denominated asset backed floating rate notes where the originator of the relevant assets is one of the Sellers or an affiliate of the Sellers; or
 - (5) such other base rate as PML as Administrator reasonably determines.
- (b) The Issuer, or PML as Administrator on the Issuer's behalf, shall (i) provide the Trustee with an initial draft of the Base Rate Modification Certificate at least 45 calendar days prior to the date on which it is proposed that the Base Rate Modification would take effect and (ii) provide the Trustee with a signed copy of the final Base Rate Modification Certificate on the date on which the Base Rate Modification takes effect.
- (c) The Issuer shall provide written notice of the proposed Base Rate Modification to the Noteholders of each Class, at least 35 calendar days' prior to the date on which it is proposed that the Base Rate Modification would take effect, in accordance with Condition 12 (*Notice*) and by publication on Bloomberg on the "Company News" screen relating to the Notes (such notice, the "**Base Rate Modification Noteholder Notice**"). The Base Rate Modification Noteholder Notice shall include the following:
 - (A) details of how the Noteholders of the Most Senior Class of Notes then outstanding may object to the proposed Base Rate Modification and the notification period during which they may do so (which shall commence at least 35 calendar days prior to the date on which it is proposed that the Base Rate Modification would take effect and continue for a period not less than 30 calendar days); and
 - (B) confirmation of the sub-paragraph(s) of Condition 15(a)(iv) under which the Base Rate Modification is being proposed; and
 - (C) confirmation of which Alternative Base Rate is proposed to be adopted pursuant to Condition 15(a)(v); and
 - (D) details of any consequential modifications that the Issuer has agreed will be made to any hedging agreement to which it is a party for the purpose of aligning any such hedging agreement with the proposed Base Rate Modification, if the proposed Base Rate Modification takes effect. The Issuer shall use reasonable endeavours to agree modifications to each hedging agreement where commercially appropriate so that the transaction is hedged following the Base Rate Modification to a similar extent as prior to the Base Rate Modification, and that such modifications shall take effect within 30 calendar days following the Base Rate Modification taking effect. If (i) no modifications are proposed to be

made to hedging agreements; and/or (ii) modifications will be made to hedging agreements but will not result in the transaction being similarly hedged; and/or (iii) modifications to any hedging agreement would take effect later than 30 calendar days following the Base Rate Modification taking effect, the Issuer shall set out in the Base Rate Modification Noteholder Notice detailed reasons why this is the case; and

- (E) details of any consequential modifications that the Issuer has agreed to any calculations and/or determinations in respect of (i) the Mortgage Margin Reserve Fund or Conversion Margin Reserve Fund or similar such covenant or (ii) to any Mortgage Conditions in respect of the Mortgages in relation to the interest rate(s) on the underlying portfolio of assets for the purpose of aligning any such rates in such covenants or conditions with the proposed Base Rate Modification, if the proposed Base Rate Modification takes effect. The Issuer shall use reasonable endeavours to agree modifications to the calculations and/or determinations in respect of the Mortgage Margin Reserve Fund or Conversion Margin Reserve Fund or similar such covenant or to any Mortgage Conditions in respect of the Mortgages where commercially appropriate to maintain an equivalent level of protection as provided by the Mortgage Margin Reserve Fund and Conversion Margin Reserve Fund or similar such covenant or to any Mortgage Conditions in respect of the Mortgages prior to the proposed Base Rate Modification and that such modifications shall take effect within 30 calendar days following the Base Rate Modification taking effect. If (i) no modifications are proposed to be made to any calculations and/or determinations in respect of the Mortgage Margin Reserve Fund or Conversion Margin Reserve Fund or similar such covenant or to any Mortgage Conditions in respect of the Mortgages; and/or (ii) modifications will be made to any calculations and/or determinations in respect of the Mortgage Margin Reserve Fund or Conversion Margin Reserve Fund or similar such covenant or to any Mortgage Conditions in respect of the Mortgages but will not result in an equivalent level of protection; and/or (iii) modifications to any calculations and/or determinations in respect of the Mortgage Margin Reserve Fund or Conversion Margin Reserve Fund or similar such covenant or to any Mortgage Conditions in respect of the Mortgages would take effect later than 30 calendar days following the Base Rate Modification taking effect, the Issuer shall set out in the Base Rate Modification Noteholder Notice detailed reasons why this is the case; and
- (F) details of the adjustment which the Issuer proposes to make (if any) to the margin payable on the Notes which are the subject of the Base Rate Modification in order to, so far as reasonably and commercially practicable, preserve what would have been the Rate of Interest on the Notes had no such Base Rate Modification been effected (the "**Rate of Interest Maintenance Adjustment**") provided that:
- (i) in the event that it has become generally accepted market practice in the securitisation, Eurobond or swaps market to use a particular rate of interest maintenance mechanism in the context of a transition from the Applicable Base Rate to the Alternative Base Rate, then the Issuer shall use reasonable endeavours to propose to make the adjustment required by such generally adopted rate of interest maintenance mechanism as the Rate of Interest Maintenance Adjustment, or otherwise the Issuer shall set out in the Base Rate Modification Noteholder Notice detailed reasons why this is not a commercial and reasonable approach in relation to the Notes and the proposed Base Rate Modification; or
 - (ii) in the event that (i) above does not apply, the Issuer shall use reasonable endeavours to propose an alternative Rate of Interest Maintenance Adjustment as reasonably determined by PML as Administrator and shall set out detailed reasons for the proposal or otherwise the Issuer shall set out in the Base Rate Modification Noteholder Notice detailed reasons why this is not a commercial and reasonable approach in relation to the Notes and the proposed Base Rate Modification; and

- (iii) if any Rate of Interest Maintenance Adjustment is proposed, the Rate of Interest Maintenance Adjustment applicable to each class of Notes other than the Most Senior Class of Notes shall be at least equal to that applicable to the Most Senior Class of Notes. In circumstances where the Issuer proposes a lower Rate of Interest Maintenance Adjustment on any class of Notes other than the Most Senior Class than that which is proposed for the Most Senior Class of Notes or another class of Notes which ranks senior to the class of Notes to which the lower Rate of Interest Maintenance Adjustment is proposed to be made, the Base Rate Modification will not be made unless an Extraordinary Resolution is passed in favour of such modification in accordance with Condition 13 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*) by the Noteholders of each class of Notes then outstanding to which the lower Rate of Interest Maintenance Adjustment is proposed to be made; and
 - (iv) for the avoidance of doubt, the Rate of Interest Maintenance Adjustment may effect an increase or a decrease to the margin over the Alternative Base Rate; and
- (G) confirmation that either:
- (I) the Issuer, or, as the case may be, PML as Administrator, on behalf of the Issuer, has obtained from each of the Rating Agencies written confirmation (or it has been unable to obtain written confirmation, but has received oral confirmation from an appropriately authorised person at each of the Rating Agencies) that the proposed Base Rate Modification would not result in a downgrade, withdrawal or suspension of the then current ratings assigned to the Rated Notes by such Rating Agency and would not result in any Rating Agency placing any Rated Notes on rating watch negative (or equivalent) and, if relevant, it has appended a copy of each such confirmation to the Base Rate Modification Certificate; or
 - (II) the Rating Agencies have been informed of the proposed modification and neither of the Rating Agencies has indicated that such modification would result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency or (y) such Rating Agency placing any Notes on rating watch negative (or equivalent).
- (d) If Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding have notified the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within the notification period referred to in Condition 15(c)(A) that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes then outstanding is passed in favour of such modification in accordance with Condition 13 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*) provided that (A) in circumstances where the Issuer proposes a lower Rate of Interest Maintenance Adjustment on any Class of Notes other than the Most Senior Class than that which is proposed for the Most Senior Class of Notes or another Class of Notes which ranks senior to the Class of Notes to which the lower Rate of Interest Maintenance Adjustment is proposed to be made, such Extraordinary Resolution shall be passed by the Noteholders of the Most Senior Class of Notes then outstanding and by the Noteholders of each Class of Notes then outstanding to which the lower Rate of Interest Maintenance Adjustment is proposed to be made, and (B) in other circumstances, such Extraordinary Resolution shall be passed by Noteholders of the Most Senior Class of Notes then outstanding.
- (e) Other than where specifically provided in this Condition 15 (*Base Rate Modification*) or any Relevant Document:

- (i) when implementing any modification pursuant to this Condition 15 (*Base Rate Modification*), the Trustee shall not consider the interests of the Noteholders, any other Secured Creditor or any other person and shall act and rely solely and without further investigation, on any Base Rate Modification Certificate or evidence provided to it by the Issuer (or PML as Administrator on behalf of the Issuer) or the relevant Transaction Party, as the case may be, pursuant to this Condition 15 (*Base Rate Modification*) and shall not be liable to the Noteholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and
 - (ii) the Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Trustee would have the effect of (A) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (B) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the Relevant Documents and/or these Conditions.
- (f) Any Base Rate Modification shall be binding on all Noteholders and shall be notified by the Issuer as soon as reasonably practicable to:
- (i) so long as any of the Notes rated by the Rating Agencies remains outstanding. Each Rating Agency;
 - (ii) the Secured Creditors; and
 - (iii) the Noteholders in accordance with Condition 12 (*Notices*) and the Residual Certificateholders in accordance with Residual Certificates Condition 12 (*Notices*).
- (g) Following the making of a Base Rate Modification, if it becomes generally accepted market practice in the publicly listed asset backed floating rate notes market to use a base rate of interest (the "**Accepted Market Base Rate**") which is different from the Alternative Base Rate which had already been adopted by the Issuer in respect of the Notes pursuant to a Base Rate Modification, the Issuer is entitled to propose a further Base Rate Modification pursuant to this Condition 15 (*Base Rate Modification*).

16. **Indemnification of the Trustee**

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

17. **Limitation of Liability of Trustee**

The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Administrators or any of their affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

Clause 7 of the Substitute Administrator Agreement limits the liability of the Substitute Administrator to zero unless such liability results from the negligence or wilful misconduct of the

Substitute Administrator under the Substitute Administrator Agreement or any other Relevant Document, in its role as:

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

in which case such liability shall be limited, prior to invocation (as replacement Administrator), in any calendar year to the aggregate amount of all fees paid to HML in the 12 consecutive months immediately following the date of the Substitute Administration Agreement (and, to the extent the Substitute Administration Agreement is terminated prior to the date falling 12 consecutive months immediately following the date of the Substitute Administrative Agreement, the aggregate of all fees paid to HML on and prior to such date of termination) and after invocation, the aggregate amount of fees paid to the Substitute Mortgage Administrator (as replacement Administrator) pursuant to the Administration Agreement over the course of the calendar year during which such liability has arisen (the "**Liability Cap**"). The Noteholders will have no recourse to the Trustee in any circumstances whatsoever for any liability which would have been recoverable but for the effect of Clause 7 of the Substitute Administrator Agreement.

18. **Increasing the Principal Amount Outstanding of the Class S VFN and adjusting the Maximum Class S VFN Amount in respect of an Amortised Cost Adjustment**

- (a) If the Issuer (or PML as Administrator on behalf of the Issuer) receives a notice from either Seller prior to the Class S VFN Commitment Termination Date notifying the Issuer that on any Further Sale Date there are insufficient funds standing to the credit of the Class S VFN Drawdown Ledger to fund the Amortised Cost Adjustment on such date, the Issuer (or PML as Administrator on its behalf) shall notify (by serving a Notice of Increase) the Class S VFN Holder requesting that the Class S VFN Holder further funds the Class S VFN on the next Further Sale Date or other Business Day specified in the Notice of Increase in an amount equal to the lower of:
 - (i) the Amortised Cost Adjustment less the amounts standing to the credit of the Class S VFN Drawdown Ledger available to pay such Amortised Cost Adjustment; and
 - (ii) the Maximum Class S VFN Amount less the current Principal Amount Outstanding of the Class S VFN (taking into account any likely reductions to the Principal Amount Outstanding of the Class S VFN on the following Interest Payment Date).
- (b) The Class S VFN Holder, upon receipt of such a notice from the Issuer or PML as Administrator (on behalf of the Issuer) prior to the Class S VFN Commitment Termination Date requesting that the Class S VFN Holder further funds the Class S VFN, shall make such further funding (the "**Further Class S VFN Funding**"), provided that the Issuer has complied with the requirements of Condition 18(d) below.
- (c) The proceeds of the Further Class S VFN Funding shall be applied by the Issuer to the Class S VFN Drawdown Ledger to be used towards the Amortised Cost Adjustment on the Further Sale Date.
- (d) The Class S VFN Holder shall advance the amount of such Further Class S VFN Funding to the Issuer for value on the relevant Principal Determination Date or other Business Day specified in the Notice of Increase, if the following conditions are satisfied:
 - (i) not later than 2.00 p.m. one Business Day prior to the proposed date for the making of such Further Class S VFN Funding (or such lesser time as may be agreed by the Class S VFN Holder), the Class S VFN Holder has received from the Issuer a completed and irrevocable Notice of Increase (or other written direction to advance such funds) therefore, receipt of which shall oblige the Class S VFN Holder to accept the amount of the Further Class S VFN Funding therein requested on the date therein stated upon the terms and subject to the conditions contained therein;

- (ii) as a result of the making of such Further Class S VFN Funding, the aggregate amount of drawings made under the Class S VFN plus all Further Class S VFN Funding made in respect of the relevant Class S VFN (provided that no reference shall be made in respect of any principal amount due on the relevant Class S VFN which has already been repaid) would not exceed the Maximum Class S VFN Amount;
- (iii) either:
 - (A) the Issuer confirms in the Notice of Increase that no Event of Default has occurred or will occur as a result of the Further Class S VFN Funding; or
 - (B) the Class S VFN Holder agrees in writing (notwithstanding any matter mentioned at 18(d)(i) above) to make such Further Class S VFN Funding available; and
- (iv) the proposed date of such Further Class S VFN Funding falls on a Business Day prior to the Class S VFN Commitment Termination Date.

In this Condition, the expression:

"Class S VFN Commitment Termination Date" means the date on which the commitment of the Class S VFN Holder in respect of the Class S VFN will be extinguished, such date being the earlier to occur of:

- (a) the Final Maturity Date; or
- (b) an Event of Default.

"Maximum Class S VFN Amount" means, for the Class S VFN, £7,952,955 (less any Further Class S VFN Fundings made by the Class S VFN Holder pursuant to Condition 19) or such other amount as may be agreed from time to time by the Issuer and the Class S VFN Holder, and notified to the Trustee.

"Notice of Increase" means a notice, substantially in the form set out in the Trust Deed.

19. **Increasing the Principal Amount Outstanding of the Class S VFN and adjusting the Maximum Class S VFN Amount in respect of the discretionary funding of the General Reserve Fund, Class A and Class B Liquidity Reserve Fund and the Principal Deficiency Ledger**

- (a) If the Issuer (or PML as Administrator on behalf of the Issuer) determines that:
 - (i) amounts standing to the credit of the General Reserve Fund are less than the General Reserve Fund Required Amount;
 - (ii) amounts standing to the credit of the Class A and Class B Note Liquidity Reserve Fund are less than the Class A and Class B Liquidity Reserve Fund Required Amount; or
 - (iii) there is a balance of less than zero on the Principal Deficiency Ledger,

the Issuer (or PML as Administrator on its behalf) may notify (by serving a Notice of Increase) the holder of the Class S VFN Holder requesting that the Class S VFN Holder further funds the Class S VFN on the relevant Interest Payment Date or other Business Day specified in the Notice of Increase in an amount equal to:

- (A) in respect of (i) above, the General Reserve Fund Required Amount less all amounts standing to the credit of the General Reserve Fund;

- (B) in respect of (ii) above, the Class A and Class B Liquidity Reserve Fund Required Amount less all amounts standing to the credit of the Class A and Class B Note Liquidity Reserve Fund; or
 - (C) in respect of (iii) above, the balance of the Principal Deficiency Ledger; and
- (b) The Class S VFN Holder, upon receipt of such a notice from the Issuer or PML as Administrator (on behalf of the Issuer) prior to the Class S VFN Commitment Termination Date requesting that the Class S VFN Holder further funds the Class S VFN, shall notify the Issuer whether the Class S VFN Holder is prepared to make a Further Class S VFN Funding.
 - (c) Should the Class S VFN Holder agree to the request, the proceeds of the Further Class S VFN Funding shall be applied by the Issuer towards (i) funding the General Reserve Fund up to and including an amount equal to the General Reserve Fund Required Amount, (ii) funding the Class A and Class B Note Liquidity Reserve Fund up to and including an amount equal to the Class A and Class B Liquidity Reserve Fund Required Amount, and (iii) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, to credit such amounts to the Principal Deficiency Ledger.
 - (d) Should the Class S VFN Holder accept the request to further fund the Class S VFN, the Class S VFN Holder shall advance the amount of such Further Class S VFN Funding to the Issuer for value on the relevant Interest Payment Date or other Business Day specified in the Notice of Increase, if the following conditions are satisfied:
 - (i) not later than 2.00 p.m. one Business Days prior to the proposed date for the making of such Further Class S VFN Funding (or such lesser time as may be agreed by the Class S VFN Holder), the Class S VFN Holder has received from the Issuer a completed and irrevocable Notice of Increase (or other written direction to advance such funds) therefore receipt of which shall oblige the Class S VFN Holder to accept the amount of the Further Class S VFN Funding therein requested on the date therein stated upon the terms and subject to the conditions contained therein;
 - (ii) either
 - (A) the Issuer confirms in the Notice of Increase that no Event of Default has occurred or will occur as a result of the Further Class S VFN Funding; or
 - (B) the Class S VFN Holder agrees in writing (notwithstanding any matter mentioned at 18(iii)(A) above) to make such Further Class S VFN Funding available; and
 - (iii) the proposed date of such Further Class S VFN Funding falls on a Business Day prior to the Class S VFN Commitment Termination Date.

20. **Non-Responsive Rating Agency**

- (a) In respect of the exercise of any power, duty, trust, authority or discretion as contemplated hereunder or in relation to the Notes and any of the Relevant Documents, the Trustee shall be entitled but not obliged to take into account any written confirmation or affirmation (in any form acceptable to the Trustee) from the relevant Rating Agencies that the then current ratings of the Notes will not be reduced, qualified, adversely affected or withdrawn thereby (a "**Rating Agency Confirmation**").
- (b) If a Rating Agency Confirmation or other response by a Rating Agency is a condition to any action or step under any Transaction Document and a written request for such Rating Agency Confirmation or response is delivered to each Rating Agency by or on behalf of the Issuer (copied to the Trustee) and:

- (i) (A) one Rating Agency (such Rating Agency, a "**Non-Responsive Rating Agency**") indicates that it does not consider such Rating Agency Confirmation or response necessary in the circumstances or that it does not, as a matter of practice or policy, provide such Rating Agency Confirmation or response or (B) within 30 days of delivery of such request, no Rating Agency Confirmation or response is received and/or such request elicits no statement by such Rating Agency that such Rating Agency Confirmation or response could not be given; and
- (ii) one Rating Agency gives such Rating Agency Confirmation or response based on the same facts,

then such condition to receive a Rating Agency Confirmation or response from each Rating Agency shall be modified so that there shall be no requirement for the Rating Agency Confirmation or response from the Non-Responsive Rating Agency if the Issuer provides to the Trustee a certificate signed by two directors certifying and confirming that each of the events in paragraphs (i)(A) or (B) and (ii) above has occurred. If no such Rating Agency Confirmation is forthcoming and two directors of the Issuer have certified the same in writing to the Trustee (an "**Issuer Certificate**"), the Trustee shall be entitled (but not obliged) to assume from a written certificate of an Administrator to the Trustee (an "**Administrator Certificate**") that such proposed action:

- (A) (while any of the Notes remain outstanding) has been notified to the Rating Agencies;
- (B) would not adversely impact on the Issuer's ability to make payment when due in respect of the Notes;
- (C) would not affect the legality, validity and enforceability of any of the Transaction Documents or any Security; and
- (D) (while any of the Notes remain outstanding) the then current rating of the Notes would not be reduced, qualified, adversely affected or withdrawn,

upon which confirmation from the Rating Agencies, Issuer Certificate and/or Administrator Certificate and the Trustee shall be entitled to rely absolutely without liability to any person for so doing. In being entitled to take into account any such confirmation from the Rating Agencies, it is agreed and acknowledged by the Trustee that this does not impose or extend any actual or contingent liability for each of the Rating Agencies to the Trustee, the Noteholders or any other person or create any legal relations between each of the Rating Agencies and the Trustee, the Noteholders or any other person whether by way of contract or otherwise.

21. **Notifications and Other Matters to be Final**

Notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Notes, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator(s) 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(s), the Principal Paying Agent, the other Paying Agents (if any) and all Noteholders and (subject as aforesaid) no liability to the Issuer, the Administrator or the Noteholders shall attach to the Reference Banks, the Reference Agent, the Issuer, the Administrator(s) or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

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

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

23. **Governing Law and Jurisdiction**

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

TERMS AND CONDITIONS OF THE RESIDUAL CERTIFICATES

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

1. Issue, Form, Denomination and Title

(a) *Issue of the Residual Certificates to Residual Certificate Holders pursuant to the Trust Deed*

Paragon Mortgages (No.25) PLC (the "**Issuer**") has issued the "**Residual Certificates**", which comprise:

- (i) the 200 "**RC1 Residual Certificates**" which comprise:
 - (A) the "**RC1a Residual Certificates**"; and
 - (B) the "**RC1b Residual Certificates**"; and
- (ii) the 200 "**RC2 Residual Certificates**" which comprise:
 - (A) the "**RC2a Residual Certificates**"; and
 - (B) the "**RC2b Residual Certificates**",

pursuant to a trust deed (the "**Trust Deed**") dated on or about 26 April 2018 or such later date agreed between the Issuer and the Joint Lead Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed and any other person or persons from time to time acting as trustee under the Trust Deed) as trustee of the Holders (as defined in Residual Certificates Condition 1(d)) for the time being of the RC1a Residual Certificates (together the "**RC1a Residual Certificateholders**"), the RC1b Residual Certificates (together the "**RC1b Residual Certificateholders**" and, together with the RC1a Residual Certificateholders, the "**RC1 Residual Certificateholders**"), the RC2a Residual Certificates (together the "**RC2a Residual Certificateholders**") and the RC2b Residual Certificates (together the "**RC2b Residual Certificateholders**" and, together with the RC2a Residual Certificateholders, the "**RC2 Residual Certificateholders**" and the RC1 Residual Certificateholders together with the RC2 Residual Certificateholders, the "**Residual Certificateholders**").

In these Residual Certificates Conditions "**class**" shall be a reference to a class of the Residual Certificates being each or any of the RC1 Residual Certificates and the RC2 Residual Certificates and "**classes**" shall be construed accordingly.

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

(b) *Form of the Residual Certificates*

Residual Certificates will be represented by one or more permanent global residual certificates in fully registered form without interest coupons (each such global residual certificate in relation to a class of those Residual Certificates being a "**Global Residual Certificate**").

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

The beneficial interests represented by the Global Residual Certificate will be exchanged for Residual Certificates of the relevant class in definitive registered form (each such Residual Certificate a "**Definitive Residual Certificate**") only upon the occurrence of certain limited circumstances specified in the Global Residual Certificates.

(c) ***Title to the Residual Certificates***

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

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

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

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

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

2. **Status and Relationship between the Classes of Residual Certificates**

The Residual Certificates are obligations solely of the Issuer and are not obligations of, or guaranteed by, any other person. The Residual Certificates are secured by fixed and floating security over all of the Issuer's assets (the "**Security**") as more particularly described in a deed of sub-charge and assignment (the "**Deed of Charge**") dated the Closing Date between the Issuer, the Trustee, Paragon Finance plc, Paragon Mortgages (2010) Limited, Paragon Bank Plc, Intertrust

Management Limited, Homeloan Management Limited (the "**Substitute Administrator**"), the Issue Services Provider, the Account Bank and the Basis Hedge Provider.

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

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Residual Certificateholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case (a) to have regard only to the interests of the Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Noteholders and the interests of the Residual Certificateholders, (b) (subject to (a)) prior to the Step-Up Date to have regard only to the interests of the RC1 Residual Certificateholders if, in the Trustee's opinion, there is a conflict between the interests of the RC1 Residual Certificateholders and the RC2 Residual Certificateholders and (c) (subject to (a)) on and following the Step-Up Date to have regard only to the interests of the RC2 Residual Certificateholders if, in the Trustee's opinion, there is a conflict between the interests of the RC1 Residual Certificateholders and the RC2 Residual Certificateholders.

The Trustee shall for all purposes treat the holders of the RC1a Residual Certificates and the RC1b Residual Certificates together as one Class and treat the holders of the RC2a Residual Certificates and the holders of the RC2b Residual Certificates together as one Class (including for the purposes of meetings).

3. **Covenants of the Issuer**

- (a) So long as any of the Residual Certificates remain outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents or with the prior written consent of the Trustee:
 - (i) carry on any business other than as described in the Prospectus dated 23 April 2018 relating to the issue of the Notes and the Residual Certificates (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, funding Mandatory Further Advances and Discretionary Further Advances and purchasing Additional Mortgages;
 - (B) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Notes, the Residual Certificates, the Subscription Agreement and the other agreements relating to the issue of the Notes, the Residual Certificates (or any of them), the Agency Agreement, the CRR Deed of Covenant, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Substitute Administrator Facilitator Agreement, the Mortgages, the Deed of Charge, the Collection Account Declarations of Trust, each Basis Hedge Agreement, the Issue Services Fee Letter, any other hedging arrangements entered into by the Issuer from time to time, the Intertrust Corporate Services Agreement, the Paragon Corporate Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Cross-collateral Mortgage Rights Deeds, the Account Bank Agreement, the Hedge Collateral Custody Agreement (if applicable) and all other agreements and documents comprised in the Security for the Notes and the Residual Certificates (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;
 - (D) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem Notes in accordance with their respective terms and conditions; and
 - (E) perform any act incidental to or necessary in connection with (A), (B), (C) or (D) above;
- (ii) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Agency Agreement, the Account Bank Agreement, the Hedge Collateral Custody Agreement (if applicable), the Administration Agreement, Deed of Charge, the Trust Deed, the Notes, the Residual Certificates, the Issue Services Fee Letter, the Intertrust Corporate Services Agreement, the Paragon Corporate Services Letter, each Basis Hedge Agreement, the Substitute Administrator Agreement and the Substitute Administrator Facilitator Agreement;
 - (iii) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
 - (iv) prejudice its eligibility for its corporation tax liability to be calculated in accordance with regulation 14 of the Taxation of Securitisation Companies Regulation 2006;
 - (v) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
 - (A) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Notes and the performance and observance of every covenant in the Trust Deed and in these Residual Certificates Conditions on the part of the Issuer to be performed or observed;
 - (B) immediately after giving effect to such transaction, no Event of Default (as such term is defined in these Residual Certificates Conditions) shall have occurred and be continuing;
 - (C) the Trustee is satisfied that the interests of the Residual Certificateholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
 - (D) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and
 - (E) the then current ratings of the Notes are not adversely affected;
 - (vi) 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;

- (vii) in a manner which adversely affects the then current ratings of the Notes, have any employees or premises or have any subsidiary; or
- (viii) have an interest in any bank account, other than the Transaction Account and the Collection Accounts (as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it.

- (b) So long as any of the Residual Certificate remains outstanding the Issuer will procure that there will at all times be one or more persons appointed as administrator of the Mortgages (each an "**Administrator**"). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England and Wales. An Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee and the Issuer. The appointment of an Administrator may be terminated by the Trustee or the Issuer if, among other things, such Administrator is in breach of its obligations under the Administration Agreement, which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Most Senior Class and such breach is not remedied or deemed to be remedied in accordance with the terms of the Administration Agreement. Upon the termination of the appointment of an Administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement, but will have no liability under the Mortgage Sale Agreement.

In these Residual Certificates Conditions, "**Most Senior Class**" means the Class A Notes or, if there are no Class A Notes then outstanding, the Class B Notes or, if there are no Class A Notes or Class B Notes then outstanding, the Class C Notes or, if there are no Class A Notes, Class B Notes or Class C Notes then outstanding, the Class D Notes or, if there are no Class A Notes, Class B Notes or Class C Notes or Class D Notes then outstanding, the Class Z Notes or, if there are no Class A Notes, Class B Notes, Class C Notes, Class D Notes or Class Z Notes then outstanding, the Class S Notes, or, if there are no Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class Z Notes or Class S Notes then outstanding, the Class S VFN, or, if there are no Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class Z Notes, Class S Notes or Class S VFN then outstanding, prior to the Step-Up Date, the RC1 Residual Certificates and, on and following the Step-Up Date, the RC2 Residual Certificates.

4. **Residual Payments**

(a) ***Rights to Residual Payments***

Each Residual Certificate represents an entitlement to Residual Payments being, in each case, payments of Deferred Purchase Consideration for the purchase of the Mortgage Portfolio, payable to the Residual Certificateholders from time to time.

Each RC1a Residual Certificate represents an entitlement to receive RC1a Payments, each RC1b Residual Certificate represents an entitlement to receive RC1b Payments, each RC2a Residual Certificate represents an entitlement to receive RC2a Payments and each RC2b Residual Certificate represents an entitlement to receive RC2b Payments.

Residual Payments will be payable on Interest Payment Dates, determined in accordance with the Conditions of the Notes.

For the purposes of these Residual Certificates Conditions:

"**Interest Payment Date**" means the date determined as an Interest Payment Date in accordance with the Conditions of the Notes;

"**Paragon Bank Allocation**" means, on each Principal Determination Date, a fraction, the numerator of which is the aggregate Current Balance of all Mortgages in the Mortgage Portfolio originated by Paragon Bank and the denominator of which is aggregate Current Balance of all Mortgages in the Mortgage Portfolio;

"PML Allocation" means, on each Principal Determination Date, a fraction, the numerator of which is the aggregate Current Balance of all Mortgages in the Mortgage Portfolio originated by PML and the denominator of which is aggregate Current Balance of all Mortgages in the Mortgage Portfolio;

"RC1a Payment Amount" means for each RC1a Residual Certificate, on each Interest Payment Date (or, in respect of the Enforcement Priority of Payments, on any relevant day), the RC1a Payment for that date, divided by 100;

"RC1a Payments" means, on each Interest Payment Date (or, in respect of the Enforcement Priority of Payments, on any relevant day), an amount equal to the product of the PML Allocation and the amount available for payment to the Holders of the RC1 Residual Certificates in accordance with the relevant Payments Priority;

"RC1b Payment Amount" means for each RC1b Residual Certificate, on each Interest Payment Date (or, in respect of the Enforcement Priority of Payments, on any relevant day), the RC1b Payment for that date, divided by 100;

"RC1b Payments" means, on each Interest Payment Date (or, in respect of the Enforcement Priority of Payments, on any relevant day), an amount equal to the product of the Paragon Bank Allocation and the amount available for payment to the Holders of the RC1 Residual Certificates in accordance with the relevant Payments Priority;

"RC1 Payment Amounts" means the RC1a Payment Amount and the RC1b Payment Amount;

"RC1 Payments" means the RC1a Payments and the RC1b Payments;

"RC2a Payment Amount" means for each RC2a Residual Certificate, on each Interest Payment Date (or, in respect of the Enforcement Priority of Payments, on any relevant day), the RC2a Payment for that date, divided by 100;

"RC2a Payments" means, on each Interest Payment Date (or, in respect of the Enforcement Priority of Payments, on any relevant day), an amount equal to the product of the PML Allocation and the amount available for payment to the Holders of the RC2 Residual Certificates in accordance with the relevant Payments Priority;

"RC2b Payment Amount" means for each RC2b Residual Certificate, on each Interest Payment Date (or, in respect of the Enforcement Priority of Payments, on any relevant day), the RC2b Payment for that date, divided by 100;

"RC2b Payments" means, on each Interest Payment Date (or, in respect of the Enforcement Priority of Payments, on any relevant day), an amount equal to the product of the Paragon Bank Allocation and the amount available for payment to the Holders of the RC2 Residual Certificates in accordance with the relevant Payments Priority;

"RC2 Payment Amounts" means the RC2a Payment Amount and the RC2b Payment Amount;

"RC2 Payments" means the RC2a Payments and the RC2b Payments;

"Residual Payment Amounts" means the RC1 Payment Amounts and the RC2 Payment Amounts; and

"Residual Payments" means the RC1 Payments and the RC2 Payments.

(b) ***Determination of Residual Payments and Residual Payment Amounts***

On (or as soon as practicable after) the last Business Day of the month preceding the month in which an Interest Payment Date falls, the Issuer shall determine (or cause the Administrators to determine) the Residual Payments and, in respect of (a) each RC1a Residual Certificate, the RC1a Payment Amount, (b) each RC1b Residual Certificate, the RC1b Payment Amount, (c) each RC2a Residual Certificate, the RC2a Payment Amount and (d) each RC2b Residual Certificate, the RC2b Payment Amount.

(c) ***Publication of Residual Payments and Residual Payment Amounts***

The Administrators will cause the Residual Payments and the Residual Payment Amounts (if any) for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents and will cause the same to be published in accordance with Condition 12 on or as soon as possible after the date of commencement of the relevant Interest Period.

(d) ***Determination or Calculation by Trustee***

If PML as Administrator at any time for any reason does not determine the Residual Payments or a Residual Payment Amount in accordance with paragraph (b) above, the Trustee (or an agent on its behalf) may (but shall be under no obligation to do so) calculate or cause to be calculated the Residual Payments or a Residual Payment Amount in accordance with paragraph (a) above, and each such determination or calculation shall be deemed to have been made by the Administrators.

(e) ***Termination of Payments and cancellation of Residual Certificates***

Following the redemption in full of the Notes and the realisation of the Charged Property, and payment of the proceeds on accordance with the relevant Payments Priority, no more Residual Payments will be made by the Issuer and the Residual Certificates shall be cancelled.

The Trustee will not be required to comply with any request or direction from the holders of the Residual Certificates or any Class of them (whether pursuant to Residual Certificates Condition 8 or 9 or otherwise) if the Issuer shall have certified in writing to the Trustee (upon which certificate the Trustee may rely without any duty or obligation to investigate or verify if the same is correct) that no further amounts are payable to the holders of the Residual Certificates in accordance with this Residual Certificates Condition 4(e).

5. **Payments**

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

In these Conditions:

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

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

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

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

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

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

"**Record Date**" means, in connection with any payment, one day before the due date for the relevant payment; and

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

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

Residual Payments in respect of each Residual Certificate:

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

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

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

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

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

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

- (i) a payment not being made, a transfer not being initiated or a Cheque not being mailed on the due date for a payment as a result of that due date not being a Local Business Day;
- (ii) a Cheque mailed in accordance with this Condition 5 arriving after the due date for payment or being lost in the mail;
- (iii) the relevant Paying Agent having not received before the relevant Record Date written notice of a valid mailing address outside the United States and its possessions for the Payee; and
- (iv) the relevant Paying Agent having not received before the relevant Record Date written notice of a Permitted Account for the Payee.

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

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

(f) ***Partial payments***

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

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

The initial Principal Paying Agent is Citibank, N.A., London Branch at its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. The Issuer may at any time (with the previous written approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, **provided that** it will at all times maintain a Paying Agent having a specified office in the City of London (the "**London Paying Agent**") and, in the case of the Paying Agent for the Residual Certificates, require that such Paying Agent's office for administering payments in respect of such Notes is located outside the United States or its possessions. Notice of any such termination or appointment and of any change in the office through which any Paying Agent will act will be given in accordance with Condition 12.

6. **Taxation**

All payments in respect of the Residual Certificates 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 to make any payment in respect of the Residual Certificates 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 Residual Certificates in respect of such withholding or deduction.

Notwithstanding any other provision in these Conditions, the Issuer shall be permitted to withhold or deduct any amounts required by the rules of U.S. Internal Revenue Code of 1986 Sections 1471 through 1474 (or any amended or successor provisions), pursuant to any inter-governmental agreement, or implementing legislation adopted by another jurisdiction in connection with these provisions, or pursuant to any agreement with the US Internal Revenue Service ("**FATCA withholding**"). The Issuer will have no obligation to pay additional amounts or otherwise indemnify a holder for any FATCA withholding deducted or withheld by the Issuer, a Paying Agent or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

7. **Prescription**

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

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

8. **Events of Default**

Subject to Residual Certificates Condition 4(e) and provided all of the Notes have been redeemed in full, the Trustee at its discretion may, or if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Most Senior Class of Residual Certificates outstanding (subject to being indemnified and/or secured and/or prefunded to its satisfaction) shall (but, in the case of the occurrence of any of the events mentioned in paragraph (iii) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the holders of the Most Senior Class of Residual Certificates and, in the case of the event mentioned in paragraph (i) below, only if the Trustee has issued a certificate (based on information provided to it by the Administrators or the Substitute Administrator) to the effect that the Issuer had, on the due date for payment of the amount in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such amount (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 any RC1 Payments or RC2 Payments pursuant to the Residual Certificates are, and each Residual Certificate shall accordingly forthwith become, immediately due and payable 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 amount due on the Most Senior Class of Residual Certificates outstanding or any of them;
or
- (ii) the occurrence of an Issuer Insolvency Event; or
- (iii) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Residual Certificates or the Trust Deed or the Deed

of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied.

The Trustee shall send the Principal Paying Agent a copy of any Enforcement Notice or other notice which the Trustee gives to the Issuer under this Condition 8 for release into the Clearing Systems and notification to the Residual Certificateholders.

"Issuer Insolvency Event" means:

- (a) an order is made or an effective resolution is passed for winding up the Issuer except a winding-up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the holders of the Most Senior Class of Notes;
- (b) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or
- (c) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becomes insolvent.

9. **Enforcement and Limited Recourse**

(a) **Enforcement**

At any time after the Residual Certificates become due and payable pursuant to Condition 8 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 Residual Certificates and to enforce payment under the Residual Certificates and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed in writing by the holders of at least one-quarter of the Most Senior Class of Residual Certificates and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

Notwithstanding the foregoing if the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Trustee will not be entitled to dispose of the Charged Property unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders (other than the Class S Noteholders and Class S VFN Holder) and Residual Certificateholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the

Noteholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith.

No Residual Certificateholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

(b) **Limited Recourse**

If at any time following:

- (a) the occurrence of either:
 - (i) the Interest Payment Date falling in May 2050 or any earlier date upon which all of the Notes of each Class are due and payable; or
 - (ii) the service of an Enforcement Notice; and
- (b) Realisation of the Charged Property and application in full of any amounts available to pay amounts outstanding under the Residual Certificates in accordance with the applicable Payments Priorities,

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

For the purposes of this Condition 9:

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

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

10. **Replacement of Residual Certificates**

If any Residual Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer and the Registrar may reasonably require. Mutilated or defaced Residual Certificates must be surrendered before replacements will be issued.

11. **Notices**

All notices to Residual Certificateholders or any category of them shall be deemed to have been duly given to those Residual Certificateholders, (a) whilst the Residual Certificates then held by those Residual Certificateholders are represented by a Global Residual Certificate to Euroclear and/or Clearstream, Luxembourg for communication by them to those Residual Certificateholders, and in such case such notice shall be deemed to have been given to the relevant Residual Certificateholders on the day of such delivery to Euroclear and/or Clearstream, Luxembourg, as appropriate.

12. **Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver**

The Trust Deed contains provisions for convening meetings of all Noteholders or Noteholders holding Notes of the same class (the **"Relevant Noteholders"**) and all Residual Certificateholders or Residual Certificateholders holding Residual Certificates of the same Class (the **"Relevant Residual Certificateholders"**) to consider any matter affecting the interests of those Relevant

Noteholders or Relevant Residual Certificateholders, as applicable, including, among other things, the sanctioning by Extraordinary Resolution of a modification of their Notes (including the Conditions as they relate to their Notes), modification of their Residual Certificates (including these Residual Certificates Conditions as they relate to their Residual Certificates) or the provisions of any of the Relevant Documents.

In these Residual Certificates Conditions a "**Basic Terms Modification**" means a modification of certain terms including, among other things, a modification which would have the effect of altering the date of maturity of any of the Notes or Residual Certificates, or postponing any day for payment of interest in respect of any of the Notes or reducing, cancelling or increasing the amount of principal payable in respect of any of the Notes, or reducing the rate of interest applicable to any of the Notes, or altering the majority required to pass an Extraordinary Resolution, or altering the currency of payment of any of the Notes or Residual Certificates, or altering the date or priority of redemption of any of the Notes or Residual Certificates.

The quorum at any meeting of the Relevant Residual Certificateholders for passing an Extraordinary Resolution of the Relevant Residual Certificateholders shall be one or more persons holding or representing greater than 50 per cent. of the number of the Residual Certificates of the relevant Class or Classes then outstanding held by the Relevant Residual Certificateholders or, at any adjourned meeting, one or more persons being or representing the Relevant Residual Certificateholders whatever the number of the Residual Certificates so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution by the Relevant Residual Certificateholders shall be one or more persons holding or representing over 75 per cent. of the number of the Residual Certificates of the relevant Class or Classes then outstanding held by the Relevant Noteholders, or at any adjourned such meeting one or more persons holding or representing over 25 per cent. of the number of the Residual Certificates of the relevant Class or Classes then outstanding held by the Relevant Residual Certificateholders. The quorum at any meeting of the Relevant Residual Certificateholders of any class of Residual Certificates for all business other than voting on an Extraordinary Resolution shall be one or more persons holding or representing not less than 5 per cent. of the number of the Residual Certificates of the relevant Class or Classes then outstanding held by the Relevant Noteholders or at any adjourned such meeting, one or more persons being or representing the Relevant Residual Certificateholders, whatever the number of the Residual Certificateholders held by the Relevant Residual Certificateholders. While any Residual Certificates are represented by a Global Residual Certificate or all such Residual Certificates are held by the same person, the holder of that Global Residual Certificate or that person (as the case may be) or their respective proxy shall be deemed to constitute a quorum for the purposes of meetings of or including the Relevant Residual Certificateholders of those Residual Certificates.

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

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

- (a) no Extraordinary Resolution involving a Basic Terms Modification that is passed by the holders of one class of Notes or Residual Certificates shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes (to the extent that there are outstanding Notes in such other classes);
- (b) no Extraordinary Resolution to approve any matter other than a Basic Terms Modification of any class of Notes or Residual Certificates shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes ranking senior to such class (to the extent that there are outstanding Notes ranking senior to such class) unless the Trustee considers that the interests of each of the other classes of Notes

ranking senior to such class would not be materially prejudiced by the implementation of such first mentioned Extraordinary Resolution;

- (c) any resolution passed at a meeting of Noteholders or Residual Certificateholders of one or more classes of Notes or Residual Certificate, as applicable, duly convened and held in accordance with the Trust Deed shall be binding upon all Noteholders and/or Residual Certificateholders of such class, as applicable, whether or not present at such meeting and whether or not voting and, except in the case of a meeting relating to a Basic Terms Modification, any resolution passed at a meeting of the holders of the Most Senior Class of Notes duly convened and held as aforesaid shall also be binding upon the holders of all the other classes of Notes and Residual Certificates and will override any resolution to the contrary of the other classes of Notes and/or Residual Certificates; and
- (d) an Extraordinary Resolution passed at any meeting of Relevant Noteholders and/or Relevant Residual Certificateholders shall be binding on all those Relevant Noteholders and/or Relevant Residual Certificateholders, as applicable, whether or not they are present at the meeting.

Any resolution passed by way of Electronic Consents given by holders through the relevant clearing system(s) in accordance with these Conditions and the Trust Deed shall also be binding on the relevant Noteholders and/or relevant Residual Certificateholders, as applicable.

The Trustee may agree, without the consent of the Noteholders or the Residual Certificateholders:

- (A) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, the Notes (including the Conditions), these Residual Certificates (including these Residual Certificates Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders and/or the Residual Certificateholders, as applicable; or
- (B) to any modification of the Notes (including the Conditions), the Residual Certificates (including these Residual Certificates Conditions) or any of the Relevant Documents which, in the Trustee's opinion, is to correct a manifest error or is of a formal, minor or technical nature. The Trustee may also, without the consent of the Noteholders or the Residual Certificateholders, determine that any Event of Default or any condition, event or act which with the giving of notice and/or lapse of time and/or the issue of a certificate would constitute an Event of Default shall not, or shall not subject to specified conditions, be treated as such.

Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and the Residual Certificateholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders and the Residual Certificateholders in accordance with Condition 12 and/or Residual Certificates Condition 11, as applicable, as soon as practicable thereafter.

13. **Additional Right of Modification**

Notwithstanding any of the provisions of Condition 13 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*), the Trustee shall be obliged, without any consent or sanction of the Noteholders, Residual Certificateholders, or, subject to Residual Certificates Condition 13(g)(C) below, any of the other Secured Creditors, to concur with the Issuer in making any modification (other than in respect of a Basic Terms Modification) to the Conditions, these Residual Certificates Conditions or any other Relevant Document to which it is a party or in relation to which it holds security that the Issuer considers necessary:

- (a) for the purpose of complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies which may be applicable from time to time, provided that:

- (i) the Issuer (or PML as Administrator on its behalf) certifies in writing to the Trustee that such modification is necessary to comply with such criteria or, as the case may be, is solely to implement and reflect such criteria; and
 - (ii) in the case of any modification to a Relevant Document proposed by any of the Basis Hedge Providers or PML as Administrator in order (x) to remain eligible to perform its role in such capacity in conformity with such criteria and/or (y) to avoid taking action which it would otherwise be required to take to enable it to continue performing such role (including, without limitation, posting collateral or advancing funds):
 - (A) the relevant Basis Hedge Provider or PML as Administrator, as the case may be, certifies in writing to the Issuer or the Trustee that such modification is necessary for the purposes described in paragraph (ii)(x) and/or (y) above (and in the case of a certification provided to the Issuer, the Issuer shall certify to the Trustee that it has received the same from the relevant Basis Hedge Provider or the relevant Administrator, as the case may be);
 - (B) either:
 - (I) the relevant Basis Hedge Provider or PML as Administrator, as the case may be, obtains from each of the Rating Agencies written confirmation (or certifies in writing to the Issuer and the Trustee that it has been unable to obtain written confirmation, but has received oral confirmation from an appropriately authorised person at each of the Rating Agencies) that such modification would not result in a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency and would not result in any Rating Agency placing any Notes on rating watch negative (or equivalent) and, if relevant, delivers a copy of each such confirmation to the Issuer and the Trustee; or
 - (II) the Issuer (or PML as Administrator on its behalf) certifies in writing to the Trustee that the Rating Agencies have been informed of the proposed modification and none of the Rating Agencies has indicated that such modification would result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency or (y) such Rating Agency placing any Notes on rating watch negative (or equivalent); and
 - (C) the relevant Basis Hedge Provider or PML as Administrator, as the case may be, pays all costs and expenses (including legal fees) incurred by the Issuer and the Trustee in connection with such modification;
- (b) in order to enable the Issuer and/or the Basis Hedge Providers to comply with:
- (i) any obligation which applies to it under Articles 9, 10 and 11 of Regulation (EU) 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012 (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from relevant supervisory regulators) ("**EMIR**"); or
 - (ii) any other obligation which applies to it under EMIR,

provided that the Issuer (or PML as Administrator on its behalf) or the relevant Basis Hedge Provider, as appropriate, certifies to the Trustee in writing that such modification is required solely for the purpose of enabling it to satisfy such obligation and has been drafted solely to such effect;

- (c) for the purpose of complying with any changes in the requirements of Article 405 of Regulation (EU) No. 575/2013 (the "**CRR**"), Article 17 of the Alternative Investment Fund Managers Directive ("**AIFMD**"), Article 254 of Regulation (EU) 2015/35 (the "**Solvency II Regulation**") and Article 51 of Regulation (EU) No 231/2013 (the "**AIFMR**") or Section 15G of the Securities Exchange Act of 1934, as added by section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, after the Closing Date, including as a result of the adoption of Regulatory Technical Standards in relation to the CRR, the AIFMR, the Solvency II Regulation or any other risk retention legislation or regulations or official guidance in relation thereto, provided that the Issuer (or PML as Administrator on its behalf) certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect;
- (d) for the purpose of enabling the Notes (other than the Class S VFN) to be (or to remain) listed on the London Stock Exchange, provided that the Issuer (or PML as Administrator on its behalf) certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect;
- (e) for the purposes of enabling the Issuer or any other person that is party to a Relevant Document (a "**Transaction Party**") to comply with Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code ("**FATCA**") (or any voluntary agreement entered into with a taxing authority in relation thereto), provided that the Issuer (or an Administrator on its behalf) or the relevant Transaction Party, as applicable, certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect;
- (f) for the purpose of complying with any changes in the requirements of the CRA Regulation after the Closing Date, including as a result of the adoption of Regulatory Technical Standards in relation to the Credit Rating Agencies Regulation or regulations or official guidance in relation thereto, provided that the Issuer (or PML as Administrator on its behalf) certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect; and
- (g) for the purposes of enabling the Issuer (or PML as Administrator on its behalf) to transfer (i) the Transaction Account from the Account Bank to HSBC Bank plc, Barclays Bank PLC or Wells Fargo Bank N.A.; (ii) the PML Collection Account from the Collection Account Bank to HSBC Bank plc, or (iii) the PB Collection Account from the PB Collection Account Bank to HSBC Bank plc or Barclays Bank PLC provided that in each case the Issuer (or PML as Administrator on its behalf) certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect and that the conditions stipulated in clause 6.5.3 of the Administration Agreement have been satisfied;

(the certificate to be provided by the Issuer (or PML as Administrator on its behalf), the relevant Basis Hedge Provider or the relevant Transaction Party, as the case may be, pursuant to paragraphs (a) to (g) above being a "**Modification Certificate**"), provided that:

- (A) at least 30 calendar days' prior written notice of any such proposed modification has been given to the Trustee;
- (B) the Modification Certificate in relation to such modification shall be provided to the Trustee both at the time the Trustee is notified of the proposed modification and on the date that such modification takes effect; and
- (C) the consent of each Secured Creditor (other than any Noteholder or Residual Certificateholder) which is party to the Relevant Document has been obtained,

and provided further that, other than in the case of a modification pursuant to Condition 13(b)(i), Condition 13(b)(ii) or Condition 13(g):

- (D) other than in the case of a modification pursuant to Condition 13(a)(ii), either:
 - (I) the Issuer (or PML as Administrator on its behalf) obtains from each of the Rating Agencies written confirmation (or certifies in the Modification Certificate that it has been unable to obtain written confirmation, but has received oral confirmation from an appropriately authorised person at each of the Rating Agencies) that such modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency or (y) such Rating Agency placing any Notes on rating watch negative (or equivalent); or
 - (II) the Issuer (or PML as Administrator on its behalf) certifies in the Modification Certificate that it has informed the Rating Agencies of the proposed modification and none of the Rating Agencies has indicated that such modification would result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency or (y) such Rating Agency placing any Notes on rating watch negative (or equivalent);
- (E) (I) the Issuer has provided at least 30 calendar days' notice to the Noteholders and Residual Certificateholders of each Class of the proposed modification in accordance with Condition 12 (*Notices*) and Residual Certificates Condition 11 (*Notices*) and by publication on Bloomberg on the "Company News" screen relating to the Notes and the Residual Certificates, and (II) Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes, or if there are no Notes outstanding, Residual Certificateholders representing at least 10 per cent. of the number of the Most Senior Class of Residual Certificates, then outstanding have not contacted the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes or Residual Certificates (as the case may be) may be held) within such notification period notifying the Principal Paying Agent or the Issuer that such Noteholders or Residual Certificateholders (as the case may be) do not consent to the modification

If (other than in the case of a modification pursuant to Residual Certificates Condition 13(b)(i), Residual Certificates Condition 13(b)(ii) or Residual Certificates Condition 13(g)) Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding, or if there are no Notes outstanding, Residual Certificateholders representing at least 10 per cent. of the number of the Most Senior Class of Residual Certificates, have notified the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes or Residual Certificates (as applicable) then outstanding is passed in favour of such modification in accordance with Condition 13 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*) or Residual Certificates Condition 12 (*Meetings of Noteholders and Residual Certificateholders; Modifications; Consents; Waiver*).

Objections made in writing other than through the applicable clearing system must be accompanied by evidence to the Trustee's satisfaction (having regard to prevailing market

practices) of the relevant Noteholder's holding of the Notes or Residual Certificateholder's holding of the Residual Certificates.

Other than where specifically provided in this Residual Certificates Condition 13 (*Additional Right of Modification*) or any Relevant Document:

- (a) when implementing any modification pursuant to this Residual Certificates Condition 13 (*Additional Right of Modification*) (save to the extent the Trustee considers that the proposed modification would constitute a Basic Terms Modification), the Trustee shall not consider the interests of the Noteholders, Residual Certificateholders, any other Secured Creditor or any other person and shall act and rely solely and without further investigation on any certificate or evidence provided to it by the Issuer or the relevant Transaction Party, as the case may be, pursuant to this Residual Certificates Condition 13 (*Additional Right of Modification*) and shall not be liable to the Noteholders, Residual Certificateholders any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and
- (b) the Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Trustee would have the effect of (i) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the Relevant Documents and/or Conditions and/or these Residual Certificates Conditions.

Any such modification shall be binding on all Noteholders and Residual Certificateholders and shall be notified by the Issuer as soon as reasonably practicable to:

- (c) so long as any of the Notes rated by the Rating Agencies remains outstanding, each Rating Agency;
- (d) the Secured Creditors; and
- (e) the Noteholders in accordance with Condition 12 (*Notices*).

14. **Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to realise the Security and to obtain repayment of the Notes or payment on the Residual Certificates unless indemnified and/or secured and/or prefunded to its satisfaction. For the avoidance of doubt, whenever the Trustee is bound, under the provisions of the Trust Deed, to act at the request or direction of the Noteholders and/or the Residual Certificateholders, the Trustee shall nevertheless not be so bound unless first indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other party to the Relevant Documents without accounting for any profit resulting from such transactions. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Administrators or any of their affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

15. **Limitation of Liability of Trustee**

The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Administrators or any of their affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

Clause 7 of the Substitute Administrator Agreement limits the liability of the Substitute Administrator to zero unless such liability results from the negligence or wilful misconduct of the

Substitute Administrator under the Substitute Administrator Agreement or any other Relevant Document, in its role as:

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

in which case such liability shall be limited, prior to invocation (as replacement Administrator), in any calendar year to the aggregate amount of all fees paid to HML in the 12 consecutive months immediately following the date of the Substitute Administration Agreement (and, to the extent the Substitute Administration Agreement is terminated prior to the date falling 12 consecutive months immediately following the date of the Substitute Administrative Agreement, the aggregate of all fees paid to HML on and prior to such date of termination) and after invocation, the aggregate amount of fees paid to the Substitute Administrator (as replacement Administrator) pursuant to the Administration Agreement over the course of the calendar year during which such liability has arisen (the "**Liability Cap**"). The Residual Certificateholders will have no recourse to the Trustee in any circumstances whatsoever for any liability which would have been recoverable but for the effect of Clause 7 of the Substitute Administrator Agreement.

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

Notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Residual Certificates, whether by the Issuer, the Administrator(s) or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Administrator(s), the Principal Paying Agent, the other Paying Agents (if any) and all Residual Certificateholders and (subject as aforesaid) no liability to the Issuer, the Administrator or the Residual Certificateholders shall attach to the Issuer, the Administrator(s) 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 Residual Certificates confer no rights on any person pursuant to the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Residual Certificates, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

18. **Governing Law and Jurisdiction**

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

USE OF PROCEEDS

The gross proceeds from the issue of the Notes on the Closing Date will be £724,723,955.00. Commissions will be payable to the Joint Lead Managers under the Subscription Agreement in connection with the issue of certain classes of the Notes as described in "*Subscription and Sale*" below. These commissions, together with certain other expenses of the Issuer, will be paid on behalf of or reimbursed to the Issuer by the Issue Services Provider as described in "*Key Structural Features – Other Structural Features – Issue Services Fee Letter*".

The net proceeds from the issue of the Notes, which will be approximately £723,718,368.34 (after payment of the sums paid by the Issue Services Provider to the Issuer in respect of such commissions and certain other expenses on the Closing Date), will be applied towards payment to the Seller of the purchase price for the Mortgages to be purchased pursuant to the Mortgage Sale Agreement on the Closing Date and creating the Class A and Class B Liquidity Reserve Fund, the General Reserve Fund, the Mortgage Margin Reserve Fund, the Mortgage MRF Discretionary Fund the Mortgage Conversion MRF Discretionary Fund and the MFA Pre-Funding Reserve on the Closing Date.

RATINGS

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

class of Notes	Rating	
	Moody's	Fitch
Class A	Aaa(sf)	AAAsf
Class B	Aa1(sf)	AAsf
Class C	A1(sf)	A-sf
Class D	Baa1(sf)	BBB-sf
Class Z	Unrated	Unrated
Class S	Unrated	Unrated
Class S VFN	Unrated	Unrated
RC1a Residual Certificates	Unrated	Unrated
RC1b Residual Certificates	Unrated	Unrated
RC2a Residual Certificates	Unrated	Unrated
RC2b Residual Certificates	Unrated	Unrated

Certain risks relating to the ratings of the Notes are described in "*Risk Factors – The Issuer's ability to meet its obligations under the Notes*" above. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

ESTIMATED AVERAGE LIVES OF THE NOTES

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

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

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

- (a) the portfolio of £760,813,566.95 mortgages to be purchased by the Issuer consists of Mortgages acquired on the Closing Date, having the characteristics defined in a combined loan by loan list of the Provisional Mortgage Pool and those not included in the Provisional Mortgage Pool;
- (b) the Issuer exercises its rights to redeem the Notes on the Interest Payment Date on which the aggregate Principal Liability Outstanding of all of the Notes is less than 10 per cent. of the aggregate of the Initial Principal Amount of the Notes;
- (c) in addition to the Scheduled payments derived from the Mortgages detailed in paragraph (a) above, the Mortgages are subject to prepayments at annualised rates expressed as a percentage of the Current Balance of the Mortgages ("CPR") indicated in the relevant column headings in the table below;
- (d) there are no enforcements after the Closing Date;
- (e) there are no Further Advances or conversions in respect of the Mortgages;
- (f) the Mortgages continue to be fully performing;
- (g) no principal deficiency arises;
- (h) the portfolio composition of Mortgage characteristics remains the same throughout the life of the Notes;
- (i) the Notes will be redeemed in accordance with the Conditions;
- (j) the benchmark interest rates remains flat at the following value: three-month LIBOR at 0.6 per cent and SVR rate at 5.35 per cent;
- (k) the day count for interest accrual on all classes of bonds is ACT/365 and the day count for interest accrual on the Provisional Mortgage Pool is ACT/365;
- (l) the Provisional Pool Date is assumed to be 31 March 2018;
- (m) the Closing Date is 26 April 2018;
- (n) the ratios of the Initial Principal Amount of each class of notes to the aggregate Initial Principal Amount of the Notes is the following: Class A: 85.00 per cent., Class B: 4.75 per cent., Class C: 4.25 per cent., Class D: 3.50 per cent. and Class Z: 2.50 per cent;
- (o) all Available Principal remaining after paying the Class A Notes down to the applicable Class A Target Notional will be used to purchase Additional Mortgages during the Further Sale Period, which is assumed to end immediately after the Step-Up Date; and
- (p) the Additional Mortgages acquired during the Further Sale Period have the same the same characteristics as the Mortgages in the Closing Date Mortgage Portfolio (in particular (i) the scheduled amortisation profile of the Mortgage Portfolio remains as specified as at closing and is not affected by additional loans and (ii) the interest rate profile of the Mortgage Portfolio remains as specified as at closing and is not affected by Additional Mortgages.

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

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

The actual characteristics and performance of the Mortgages are likely to differ from the assumptions used in constructing the tables set forth below, which are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios. For example, it is not expected that the Mortgages will prepay at a constant rate until maturity, that all of the Mortgages will prepay at the same rate or that there will be no defaults or delinquencies on the Mortgages. Any difference between such assumptions and the actual characteristics and performance of the Mortgages will cause the weighted average life of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated percentage of CPR.

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

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

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

Estimated average life of the Notes in years assuming call option exercised in May 2023

Class	0% CPR	5% CPR	10% CPR	15% CPR	20% CPR	25% CPR	30% CPR
A Notes	5.01	4.59	4.21	4.21	4.21	4.21	4.21
B Notes	5.05	5.05	5.05	5.05	5.05	5.05	5.05
C Notes	5.05	5.05	5.05	5.05	5.05	5.05	5.05
D Notes	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Z Notes	5.05	5.05	5.05	5.05	5.05	5.05	5.05

Estimated average life of the Notes in years assuming call option not exercised in May 2023 but clean-up call exercised

Class	0% CPR	5% CPR	10% CPR	15% CPR	20% CPR	25% CPR	30% CPR
A Notes	12.14	8.12	6.02	5.60	5.33	5.14	5.01
B Notes	18.74	15.43	12.62	11.10	9.99	9.19	8.58
C Notes	19.24	16.02	13.30	11.78	10.73	9.77	9.20
D Notes	19.32	16.06	13.31	11.82	10.82	9.81	9.31
Z Notes	19.32	16.06	13.31	11.82	10.82	9.81	9.31

The average lives of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the above assumptions and estimates will prove in any way to be realistic and the above estimated average lives must therefore be viewed with caution. In addition, a number of factors may be relevant to the Portfolio Option Holder's decision whether or not to exercise the Portfolio Option at the relevant time which will, in turn, have an effect on the average lives of the Notes.

EARLY REDEMPTION OF THE NOTES

The Portfolio may be sold by the Issuer pursuant to the Deed Poll.

Portfolio Option

The Portfolio Option Holder may, by giving written notice to the Issuer at any time after the Portfolio Option Commencement Date, (such notice to be given not more than 90 days nor less than 45 days prior to the immediately succeeding Interest Payment Date), purchase or procure that a Third Party Purchaser purchases all (but not part) of the Mortgages on the immediately succeeding Interest Payment Date.

For the avoidance of doubt, pursuant to the definition of Portfolio Option Holder, where the Paragon Banking Group holds (where the RC2 Residual Certificates are represented by Registered Residual Certificates) 50 per cent. or more in number of the RC2 Residual Certificates or (where the RC2 Residual Certificates are represented by a Global Residual Certificate) the beneficial interest in 50 per cent. or more in number of the RC2 Residual Certificates, the Portfolio Option is not exercisable by any party and the Notes may only be redeemed in accordance with Conditions 5(a) to (d).

The Portfolio Option Holder will exercise the Portfolio Option in accordance with the terms of the Deed Poll. Neither the Sellers, any Legal Title Holder or any other member of the Paragon Banking Group will provide any representations or warranties in relation to those Mortgages. The Issuer will provide limited representations in relation to its title to the Mortgages.

In connection with the exercise of the Portfolio Option, the Portfolio Option Holder or the Third Party Purchaser (as applicable) will agree with the Issuer to either (i) deposit an amount equal to the Portfolio Option Purchase Price in either an escrow account in the name of the purchaser or in any other account (including the Transaction Account) as may be agreed between the Issuer and the Portfolio Option Holder or (as applicable) the Third Party Purchaser or (ii) provide irrevocable payment instructions for an amount equal to the Portfolio Option Purchase Price, provided that such deposit shall be made or irrevocable payment instructions shall be given by no later than (x) four Business Days prior to the Target Portfolio Purchase Completion Date or (y) such other date as the Issuer, at its sole discretion and the Portfolio Option Holder or (as applicable) the Third Party Purchaser may agree, provided further that the Portfolio Option Purchase Price or, as applicable, irrevocable payment instructions must be received by the Issuer in sufficient time to enable the Issuer to fully repay the Notes and any accrued interest pursuant to Condition 5(e) (*Mandatory Redemption in full pursuant to a Portfolio Purchase*).

The exercise of the Portfolio Option will also be subject to the following conditions:

- (a) either (i) each of the purchasers of the legal and beneficial title in the Mortgages is resident for tax purposes in the United Kingdom, or (ii) each of the Issuer, the Legal Title Holders and the Sellers, having received tax advice (such advice to be obtained prior to the execution of any binding agreement in relation to the transfer of the Mortgages) from an appropriately qualified and experienced United Kingdom tax adviser in the form and substance satisfactory to it (acting reasonably), or such other comfort as may reasonably be required by it (including, without limitation, any clearance or other confirmation granted by HM Revenue and Customs), is satisfied that sale of legal and beneficial title in the relevant Mortgages will not expose the Issuer, the Legal Title Holders or the Sellers to a risk of loss in consequence of United Kingdom income tax being required to be withheld from amounts paid in respect of the Mortgages;
- (b) either (i) the purchaser of the legal title to the Mortgages has all the appropriate licences, approvals, authorisations, consents, permissions and registrations (including any approvals, authorisations, consents, permissions and registrations required to be maintained under the FSMA and any rules and regulations of the FCA) required to administer mortgage loans such as the Mortgages (the "**Relevant Authorisations**") or (ii) the purchaser of the beneficial interest in the Mortgages has appointed a servicer who has the Relevant Authorisations; and
- (c) the purchaser of the beneficial interest in the Mortgages shall not be permitted to transfer the beneficial interest in the Mortgages to any further purchaser until the transfer of the legal title to the Mortgages in favour of the purchaser of legal title to the Mortgages is perfected unless such transfer of beneficial interest is made to an entity which is within charge to UK Corporation tax.

The tax advice referred to in (a) above shall be obtained at the cost of the Portfolio Option Holder.

In connection with the exercise of the Portfolio Option, the beneficial title to the Mortgages will be transferred on the Target Portfolio Purchase Completion Date. However, the perfection of the transfer of the legal title to the Mortgages and the giving of notices of such transfer to the Borrowers may take place promptly after the Target Portfolio Purchase Completion Date.

In this Prospectus:

"Deed Poll" means the deed poll dated on or about the Closing Date, executed by the Issuer, in favour of the Portfolio Option Holder from time to time.

"Portfolio Option" means the option granted to the Portfolio Option Holder pursuant to the Deed Poll to require the Issuer to (x) sell beneficial interest in the Mortgages in the Mortgage Portfolio, and (y) sell legal title or, if, at the time the option is exercised, the Issuer does not hold legal title to the Mortgages in the Mortgage Portfolio, procure that the Legal Title Holders sell legal title in the Mortgages in the Mortgage Portfolio, to the Portfolio Option Holder or a Third Party Purchaser, or (in case of legal title) a nominee of either of them.

"Portfolio Option Commencement Date" means the Interest Payment Date falling in February 2023.

"Portfolio Option Holder" means, a person other than a Paragon Banking Group Company (a) (where the RC2 Residual Certificates are represented by Definitive Residual Certificates) the person who holds greater than 50 per cent. of the RC2 Residual Certificates or (where the RC2 Residual Certificates are represented by a Global Residual Certificate) the Residual Certificateholder who holds the beneficial interest in more than 50 per cent. of the RC2 Residual Certificates or (b) where (i) no person holds greater than 50 per cent. of the RC2 Residual Certificates or, as applicable, beneficial interest in more than 50 per cent. of the RC2 Residual Certificates and (ii) the Paragon Banking Group holds (where the RC2 Residual Certificates are represented by Definitive Residual Certificates) less than 50 per cent. in number of the RC2 Residual Certificates or (where the RC2 Residual Certificates are represented by a Global Residual Certificate) the beneficial interest in less than 50 per cent. in number of the RC2 Residual Certificates, the person who holds the greatest number of the RC2 Residual Certificates or, as applicable, the beneficial interest in the greatest number of the RC2 Residual Certificates.

For the avoidance of doubt, where the Paragon Banking Group holds (where the RC2 Residual Certificates are represented by Definitive Residual Certificates) 50 per cent. or more in number of the RC2 Residual Certificates or (where the RC2 Residual Certificates are represented by a Global Residual Certificate) the beneficial interest in 50 per cent. or more in number of the RC2 Residual Certificates, the Portfolio Option shall not be exercisable by any party.

"Portfolio Purchase" means a purchase of the Mortgages by either the Portfolio Option Holder or the Third Party Purchaser pursuant to the exercise of the Portfolio Option.

"Target Portfolio Purchase Completion Date" means the date identified as the date on which the Portfolio Purchase is expected to be completed pursuant to the terms of the Deed Poll, which, for the avoidance of doubt shall be an Interest Payment Date following the Portfolio Option Commencement Date.

"Third Party Purchaser" means a third party purchaser of the beneficial and/or legal title to the Mortgages as nominated by the Portfolio Option Holder.

"Portfolio Option Purchase Price" means the purchase price payable by the Portfolio Option Holder or the Third Party Purchaser, as applicable, in respect of the Portfolio Purchase shall be an amount equal to the greater of:

- (a) the aggregate Current Balance of the Mortgages, plus any accrued interest to the purchase date, (less any provisions in respect thereof) comprising the Mortgage Portfolio determined as at the Principal Determination Date immediately preceding the Target Portfolio Purchase Completion Date; and
- (b) an amount equal to:
 - (i) the amount required by the Issuer to pay in full all amounts payable under items (i) to (iv), (vi), (ix), (xi), (xvii), (xviii) and (xx) of the Revenue Priority of Payments and items (i) to (iii) and (vii) (other than any principal repayment in respect of the Class S Notes and the

Class S VFN) (inclusive) of the Principal Priority of Payments, in each case on the immediately following Interest Payment Date,

less

- (ii) any Available Revenue and Available Principal otherwise available to the Issuer, (x) excluding any amounts standing to the credit of (A) the Class A and Class B Liquidity Reserve Fund and (B) the General Reserve Fund (other than, in each case, (to the extent there is a debit on the Principal Deficiency Ledger) the amount of the Class A and Class B Liquidity Reserve Fund and the General Reserve Fund that is required to be applied as Available Principal on the Target Portfolio Purchase Completion Date to cure any debit on the Principal Deficiency Ledger) and (y) determining Available Revenue and Available Principal without the crediting of any Available Revenue to (A) the Principal Deficiency Ledger (to reduce any balance in respect thereof) or (B) the Principal Ledger in respect of any Available Redemption Funds; and

- (c) zero,

in each case, plus (i) the Issuer's costs and expenses associated with transferring its interests in any Mortgage to the Portfolio Option Holder or its nominee (if any) and (ii) an amount agreed between the Issuer and the Portfolio Option Holder in respect of costs anticipated to be incurred by the Issuer after the Target Portfolio Purchase Completion Date.

Prospective investors should note that paragraph (b) of the definition of the Portfolio Optional Purchase Price does not include payment of principal and/or interest on the Class S Notes and the Class S VFN. Redemption of the Class S Notes and the Class S VFN in such a scenario will be subject to the availability of (i) funds standing to the credit of the Class A and Class B Liquidity Reserve Fund and the General Reserve Fund at such time (following the application of such funds to cure any debit on the Principal Deficiency Ledger) and (ii) any Available Revenue remaining to the credit of the Revenue Ledger on such Target Portfolio Purchase Completion Date following repayment in full of items (i) to (iv), (vi), (ix), (xi), (xvii), (xviii) and (xx) of the Revenue Priority of Payments.

THE ISSUER

The Issuer was incorporated in England and Wales on 15 September 2015 (registered number 9777963) and is a public limited company under the Companies Act 2006 (as amended). The registered office of the Issuer is at 51 Homer Road, Solihull, West Midlands, B91 3QJ. The telephone number of the Issuer's registered office is +44(0)121 712 2323.

The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,999 shares of which are partly paid to £0.25 each, 1 of which is fully paid and all of which are beneficially owned by Holdings (see the section entitled "*Holdings*" below).

The Issuer was established as a special purpose vehicle for the purposes of issuing asset backed securities. The Issuer has no subsidiaries. The Seller does not own directly or indirectly any of the share capital of Holdings or the Issuer.

The Issuer has not engaged, since its incorporation, in any material activities nor commenced operations (other than (i) those incidental to its registration as a public limited company under the Companies Act 2006 (as amended) and its change of name from Pianotrail plc to Paragon Mortgages (No.25) plc, effective on 5 February 2016, as a data controller under the Data Protection Act 1998, and to the proposed issue of the Notes and Residual Certificates and the authorisation of the other Relevant Documents referred to in this Prospectus to which it is or will be a party, and other matters which are incidental or ancillary to the foregoing). The Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at the date of this Prospectus. The Issuer has no employees.

The accounting reference date of the Issuer is 30 September.

Since the date of incorporation of the Issuer, while the Issuer has not commenced operations, no statutory or non-statutory accounts within the meaning of sections 434 and 435 of the Companies Act 2006 (as amended) in respect of any financial year of the Issuer have been prepared.

Pursuant to the Administration Agreement and a letter agreement from the Issuer to PML (in such capacity, the "**Paragon Corporate Services Provider**") to be dated the Closing Date (the "**Paragon Corporate Services Letter**"), PML will, unless and until certain events occur, agree to provide certain administrative, accounting and tax services and such additional services as required to the Issuer. The Issuer will agree to pay the Paragon Corporate Services Provider, for the provision of the services provided pursuant to the Paragon Corporate Services Letter, a fee payable in arrear on or after the first Business Day after each Interest Payment Date and calculated on the basis of an apportionment, according to the average gross value of Mortgages under management during the relevant period, of the direct costs incurred by the Paragon Corporate Services Provider in respect of those services, together with the central service and utility costs borne by the Paragon Corporate Services Provider and together with such further amount as may from time to time be agreed between the Paragon Corporate Services Provider and the Issuer, subject to a maximum quarterly fee equal to £5,000 in respect of each Interest Period. Amounts owing to the Paragon Corporate Services Provider under the Paragon Corporate Services Letter will be subordinated in the manner described in the section entitled "*Cashflows and Cash Management*" above.

Under the corporate services agreement between the Share Trustee, Holdings, the Issuer, the Seller and the Intertrust Corporate Services Provider to be dated the Closing Date (the "**Intertrust Corporate Services Agreement**"), Intertrust Management Limited as Intertrust Corporate Services Provider, will provide to the Issuer certain directors and other corporate services not provided by the Paragon Corporate Services Provider in consideration for the payment by the Issuer of an annual fee to the Intertrust Corporate Services Provider. The registered address of the Intertrust Corporate Services Provider is 35 Great St. Helen's London EC3A 6AP, which is also the business address for each of Intertrust Directors 1 Limited, Intertrust Directors 2 Limited and Helena Whitaker.

Directors and secretary

The following table sets out the directors of the Issuer and their respective business addresses and occupations.

<u>Name</u>	<u>Business address</u>	<u>Business Occupation</u>
Intertrust Directors 1 Limited	35 Great St. Helen's London EC3A 6AP	Corporate Director
Intertrust Directors 2 Limited	35 Great St. Helen's London EC3A 6AP	Corporate Director
Helena Whitaker	35 Great St. Helen's London EC3A 6AP	Director
James Paul Giles	51 Homer Road, Solihull, West Midlands B91 3QJ	Director

The directors of each of Intertrust Directors 1 Limited and Intertrust Directors 2 Limited and their principal activities are as follows:

<u>Name</u>	<u>Business address</u>	<u>Principal activities/business occupation</u>
Claudia Wallace	35 Great St. Helen's London EC3A 6AP	Director
Helena Whitaker	35 Great St. Helen's London EC3A 6AP	Director
Susan Abrahams	35 Great St. Helen's London EC3A 6AP	Director
Neil Townson	35 Great St. Helen's London EC3A 6AP	Director

The company secretary of the Issuer is Pandora Sharp whose principal office is at 51 Homer Road, Solihull, West Midlands B91 3QJ.

HOLDINGS

Holdings was incorporated in England and Wales on 26 November 2015 (registered number 9891178) as a private limited company under the Companies Act 2006 (as amended). The registered office of Holdings is 51 Homer Road, Solihull, West Midlands B91 3QJ. The telephone number of Holdings' registered office is +44(0)121 712 2323.

The issued share capital of Holdings comprises one ordinary share of £1.

The entire beneficial interest in the share of Holdings is beneficially owned by Intertrust Corporate Services Limited (the "**Share Trustee**") by way of a discretionary trust.

Holdings holds the entire beneficial interest in the issued share capital of the Issuer.

The Seller does not own directly or indirectly any of the share capital of Holdings, neither of the Seller nor any company connected with the Seller can direct the Share Trustee, and none of such companies has any control, direct or indirect, over Holdings or the Issuer.

Holdings has not engaged in any other activities since its incorporation other than changing its name from Tansydove Limited to Paragon Mortgages (No. 25) Holdings Limited and those incidental to the authorising of the Relevant Documents to which it is or will be a party and other matters which are incidental to those activities. Holdings has no employees.

Directors

The directors of Holdings and their respective business addresses and occupations are:

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Intertrust Directors 1 Limited	35 Great St. Helen's London EC3A 6AP	Corporate Director
Intertrust Directors 2 Limited	35 Great St. Helen's London EC3A 6AP	Corporate Director
Helena Whitaker	35 Great St. Helen's London EC3A 6AP	Director
James Paul Giles	51 Homer Road, Solihull, West Midlands B91 3QJ	Director

The directors of Intertrust Directors 1 Limited and Intertrust Directors 2 Limited and their respective occupations are:

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Claudia Wallace	35 Great St. Helen's London EC3A 6AP	Director
Helena Whitaker	35 Great St. Helen's London EC3A 6AP	Director
Susan Abrahams	35 Great St. Helen's London EC3A 6AP	Director
Neil Townson	35 Great St. Helen's London EC3A 6AP	Director

The company secretary of Holdings is Pandora Sharp, whose registered office is at 51 Homer Road, Solihull, West Midlands B91 3QJ.

The accounting reference date of Holdings is 30 September.

THE SELLERS AND LEGAL TITLE HOLDERS

Paragon Mortgages (2010) Limited

PML was incorporated in England (registered number 6595834) as a private limited company under the Companies Act 2006 on 19 May 2008 as Paragon Mortgages (No. 30) Limited and changed its name on 22 March 2010 to Paragon Mortgages (2010) Limited. The registered office of PML is at 51 Homer Road, Solihull, West Midlands, B91 3QJ and its telephone number is 0121 712 2323. PML is a direct subsidiary of Paragon Bank PLC, whose registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ.

The principal objects of PML are set out in clause 3 of its Memorandum of Association and include investing in and/or acquiring mortgage loans and other similar investments, borrowing or raising money in such manner as PML 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 PML's property or assets. PML has agreed in the Relevant Documents to observe certain restrictions on its business activities.

PML is a special purpose vehicle for originating mortgages.

PML is not authorised by the FCA in respect of consumer credit activities: to the extent that any credit agreements would be considered regulated credit agreements under the FSMA, PML is exempt from the requirement to hold permission to exercise, or to have the rights to exercise, a lender's rights and duties under a regulated credit agreement under Article 60B(2) of the Regulated Activities Order as it has delegated to PFPLC its rights and duties under the credit agreements pursuant to Article 60I of the Regulated Activities Order. PML is registered under the Data Protection Act 1998 as a data controller.

Paragon Bank PLC

Paragon Bank PLC is a public limited company incorporated under the laws of England, registered number 5390593 and is a wholly owned direct subsidiary of PBG. The registered office of Paragon Bank is 51 Homer Road, Solihull, West Midlands, B91 3QJ. Paragon Bank was incorporated on 12 March 2005 as Paragon Mortgages (No. 24) PLC and on 31 January 2014 changed its name to Paragon Bank PLC. Paragon Bank's principal activities are the taking of retail deposits and the provision of finance, principally the origination of buy to let mortgages, regulated mortgage contracts and regulated credit agreements.

Paragon Bank is authorised by the PRA and regulated by the PRA and FCA. Paragon Bank is authorised in respect of, inter alia, deposit taking, consumer credit activities and regulated mortgages activities. Paragon Bank is registered under the Data Protection Act 1988 as a data controller.

THE WAREHOUSER

PFFL was incorporated in England and (registered number 8081264) as a private limited company under the Companies Act 2006 (as amended on 24 May 2012 as Antglen Limited and on 31 August 2012 changed its name to Paragon Fifth Funding Limited. The registered office of PFFL is at 51 Homer Road, Solihull West Midlands B91 3QJ and its telephone number is 0121 712 2323. The entire share capital of PFFL is beneficially owned by Intertrust Corporate Services Limited on a discretionary trust. Neither Seller owns directly or indirectly any of the share capital of PFFL and neither the Sellers nor any company connected with the Sellers can direct the trustee, and none of such companies has any control direct or indirect, over PFFL.

HEDGING ARRANGEMENTS

Interest rate basis hedging arrangements

On the Closing Date, the Issuer will have entered into hedging arrangements under the Initial Basis Hedge Agreements which satisfy the applicable criteria of the Rating Agencies on the Closing Date to hedge any Fixed Rate Mortgages which are acquired by it on the Closing Date. The Issuer may also enter into hedging arrangements under Permitted Basis Hedge Agreements which satisfy the applicable criteria of the Rating Agencies to hedge any Additional Mortgages which are Fixed Rate Mortgages which may be acquired by the Issuer in accordance with the terms of the Mortgage Sale Agreement on any date up to the Further Sale Period End Date.

If the aggregate principal amount received from borrowers in respect of Mortgages which are Fixed Rate Mortgages upon early redemption, enforcement or sale of such Mortgages (whether in full or in part) during any Collection Period is equal to or greater than £10,000,000, then the Administrators shall, as far as it is able to do so, on behalf of the Issuer, (a) exercise the right of the Issuer to terminate in full or in part one or more swap or other hedging transactions entered into by the Issuer with the Basis Hedge Providers, provided that the Administrators shall not exercise such right, if: (i) as a result of such termination, a termination payment shall be payable by the Issuer to any Basis Hedge Provider on any Interest Payment Date; and (ii) on such Interest Payment Date, the Issuer would not have sufficient funds available to it to pay in full any amount under items (i) to (xi) (inclusive) of the Revenue Priority of Payments, (b) execute such additional swap or other hedging transactions required to offset the fixed rate interest risk arising from the redemption of such Mortgages as may be agreed with the relevant Basis Hedge Provider or (c) with the consent of the relevant Basis Hedge Provider, arrange for the sale or transfer of such swap or other hedging transactions to another Paragon Banking Group Company.

Hedging arrangements may be provided by any Permitted Basis Hedge Provider provided that on the date on which it enters into such Permitted Basis Hedge Agreement with the Issuer, such bank or financial institution has, in the case of Fitch, a short-term issuer default rating or derivative counterparty rating (DCR) (if assigned and applicable) or long-term issuer default rating, and, in the case of Moody's, a counterparty risk assessment (CRA) or rating assigned to its senior unsecured debt, sufficient to maintain the then current 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.

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

Ratings of Basis Hedge Providers and transfer of Basis Hedge Agreements

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

Where a Basis Hedge Provider provides collateral in accordance with the terms of any Basis Hedge Agreement, such collateral ("**Hedge Collateral**") will, upon receipt by the Issuer, be credited to the Hedge Collateral Ledger (created to record such amounts) and be held in hedge collateral accounts (the "**Hedge Collateral Accounts**") in the name of the Issuer on behalf of the relevant Basis Hedge Provider, provided by (other than in the case of Hedge Collateral comprising securities) the Account Bank pursuant to the Account Bank Agreement or in hedge collateral investments in the name of the Issuer on behalf of the relevant Basis Hedge Provider in accordance with the terms of the relevant Basis Hedge Agreement. Where any Basis Hedge Provider provides Hedge Collateral comprising securities, a hedge collateral custody account will be established by the Issuer with a suitably rated counterparty in their capacity as hedge collateral custodian (the "**Hedge Collateral Custodian**"), pursuant to an agreement entered into at such time between, inter alios, the Hedge Collateral Custodian and the Issuer (the "**Hedge Collateral Custody Agreement**"), which governs the operation of the hedge collateral custody account. Any Hedge Collateral provided by a Basis Hedge Provider will not form part of the amounts to be applied under the Revenue Priority of Payments, Principal Priority of Payments or Enforcement Priority of Payments except to the extent that such Hedge Collateral is applied in or towards satisfaction of amounts due by the relevant Basis Hedge Provider to the Issuer in accordance with the terms under which the Hedge Collateral was provided and only to the extent that such Hedge Collateral is not to be applied by the Issuer in the purchase of one or more replacement hedging transactions.

Any Basis Hedge Provider may, at its own expense and in accordance with the terms of the relevant Basis Hedge Agreement, transfer its obligations in respect of any Basis Hedge Agreement to another entity.

Termination payments upon early termination of hedging arrangements

Under the terms of the Administration Agreement the Issuer may be required to terminate all or part of any swap or other hedging arrangement entered into with the Basis Hedge Providers due to the early redemption, enforcement or sale of Fixed Rate Mortgages prior to the redemption of the Notes. Furthermore, termination of any swap or other hedging arrangement (including any Basis Hedge Agreement) may occur independently of an Event of Default under the Notes.

A Basis Hedge Agreement may be terminated by the relevant Basis Hedge Provider in circumstances including, broadly, where the Issuer is in default by reason of failure by the Issuer to make payments, where it becomes illegal for a Basis Hedge Provider to perform its obligations under the relevant Basis Hedge Agreement, where a Withholding Compensation Amount is due to the relevant Basis Hedge Provider and there is any shortfall in the amount actually received, and where certain insolvency-related or corporate reorganisation events affect the Issuer and in the event that proceedings are taken against the Issuer by the Trustee to enforce payment of the Notes.

A Basis Hedge Agreement may be terminated by the Issuer in circumstances including, broadly, where the relevant Basis Hedge Provider is in default by reason of failure by the relevant Basis Hedge Provider to make payments, where it becomes illegal for the Issuer to perform its obligations under the relevant Basis Hedge Agreement, where the relevant Basis Hedge Provider is otherwise in breach of the relevant Basis Hedge Agreement or has/have made a misrepresentation and where certain insolvency-related or corporate reorganisation events affect the Basis Hedge Provider.

Any termination of a Basis Hedge Agreement (whether in full or in part) may give rise to a termination payment due either to or from the Issuer. Any such payment due from the Issuer to the relevant Basis Hedge Provider will rank in order of priority as described in the section entitled "*Cashflows and Cash Management*", as applicable, and for the purposes of the relevant priority of payments "**Hedge Provider Subordinated Amounts**" means in relation to a Basis Hedge Agreement the amount, if any, due to the relevant Basis Hedge Provider on that Interest Payment Date pursuant to Section 6(e) of the relevant Basis Hedge Agreement (but only to the extent that such amount cannot be satisfied by the application of Hedge Collateral) in connection with a termination of that Basis Hedge Agreement where such termination has arisen as a result of an Event of Default under the relevant Basis Hedge Agreement where that Basis Hedge Provider is the Defaulting Party or as a result of an Additional Termination Event under the relevant Basis Hedge Agreement which results from a downgrade by one or more Rating Agencies of that Basis Hedge Provider and the failure by that Basis Hedge Provider to take one or more of the actions specified in the relevant Basis Hedge Agreement (and for these purposes Event of Default, Defaulting Party and such Additional Termination Events have the meanings indicated in that Basis Hedge Agreement).

Where the Issuer enters into a further hedge agreement to replace all or part of any Basis Hedge Agreement which terminates early, the Issuer shall upon receipt apply the amount, if any, received in consideration for

entry into that replacement Basis Hedge Agreement (the "**Hedge Replacement Premium**") in or towards payment of any termination payment then payable by the Issuer to the relevant Basis Hedge Provider in respect of that Basis Hedge Agreement which has terminated early and the remainder of that amount, if any, shall be credited to the Revenue Ledger.

Any termination payment due to the Issuer in respect of a hedging transaction which is being terminated at the option of the Issuer due to the early redemption, enforcement or sale of a Fixed Rate Mortgage prior to the final redemption of the Notes will not be payable in full immediately but will be payable to the Issuer in the form of an annuity on each Interest Payment Date until the date on which the relevant swap or hedging agreement would have expired had it not been terminated early.

Withholding Compensation Amounts

If a Basis Hedge Provider or the Issuer is required to make any deduction or withholding, for or on account of any present or future tax, levy, impost, duty charge, assessment or fee that is imposed by any government or taxing authority from any amounts payable by it under the Basis Hedge Agreement on any Interest Payment Date, then under the terms of the relevant Basis Hedge Agreement (i) the Basis Hedge Provider (as applicable) will be obliged to pay additional amounts ("**Additional Amounts**") to ensure that the Issuer receives the full amount it would otherwise have received from the relevant Basis Hedge Provider, and (ii) the Issuer shall make such payment after such withholding or deduction has been made (such withholding or deduction, a "**Withheld Amount**") and shall not be obliged to make any additional payments to the relevant Basis Hedge Provider (as applicable) in respect of such withholding or deduction.

However, under each Basis Hedge Agreement, the Issuer will agree that on each Interest Payment Date it will, subject to and in accordance with the Revenue Priority of Payments or the Enforcement Priority of Payments, as applicable, pay to the relevant Basis Hedge Provider an amount or amounts ("**Withholding Compensation Amounts**") equal to (i) any Additional Amounts so paid by the relevant Basis Hedge Provider (as applicable) to the Issuer on such Interest Payment Date together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the relevant Basis Hedge Provider under the relevant Basis Hedge Agreement on any previous Interest Payment Date, and (ii) any Withheld Amount on such Interest Payment Date, together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Withheld Amount applicable to any previous Interest Payment Date (provided that there will be no double counting in relation to any tax credit, allowance set-off or repayment received by the Issuer and paid directly to the relevant Basis Hedge Provider).

To the extent such Withholding Compensation Amounts are not paid by the Issuer, the Basis Hedge Provider has the right to terminate the hedging arrangements.

The Hedge Agreement Credit Support Documents

Each Basis Hedge Provider will enter into a 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) with the Issuer (an "**Approved Credit Support Document**") in support of its obligations under the relevant Basis Hedge Agreement. The Basis Hedge Provider will enter in an Approved Credit Support Document on or around the Closing Date in support of its obligations under the Basis Hedge Agreement.

Pursuant to the terms of each Approved Credit Support Document, if at any time a Basis Hedge Provider is required to provide collateral in respect of any of its obligations under the relevant Basis Hedge Agreement, the Approved Credit Support Document will provide that, from time to time and subject to the conditions specified in the Approved Credit Support Document and the Basis Hedge Agreement, the Basis Hedge Provider will make transfers of cash and/or securities by way of collateral to the Issuer in support of its obligations under the relevant Basis Hedge Agreement and the Issuer will be obliged to return such collateral when required in accordance with the terms of the Approved Credit Support Document.

Any amount attributable to the return of collateral to a Basis Hedge Provider and any Hedge Replacement Premium applied by the Issuer in making a swap termination payment due from the Issuer to a Basis Hedge Provider will be paid directly to the relevant Basis Hedge Provider and not in accordance with the Revenue Priority of Payments or the Enforcement Priority of Payments (see also "*Cashflows and Cash Management*").

THE INITIAL BASIS HEDGE PROVIDER

Lloyds Bank PLC Overview

Lloyds Bank plc ("**Lloyds Bank**"), was incorporated under the laws of England and Wales on 20 April 1865 (registration number 2065). Lloyds Bank's registered office is at 25 Gresham Street, London EC2V 7HN, United Kingdom. Lloyds Bank is authorised by the Prudential Regulation Authority ("**PRA**") and regulated by the Financial Conduct Authority ("**FCA**") and the PRA. Lloyds Bank is a wholly owned subsidiary of Lloyds Banking Group plc (together with its subsidiary undertakings from time to time, "**Lloyds Banking Group**").

Lloyds Banking Group is a leading provider of financial services, to individual and business customers in the UK. The businesses of Lloyds Banking Group are in or owned by Lloyds Bank. Lloyds Banking Group owns Lloyds Bank directly which in turn owns HBOS plc directly.

Additional information, including copies of the most recent publicly available financial results of Lloyds Bank and Lloyds Banking Group, is available from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN or from the following internet website address: <http://www.lloydsbankinggroup.com>. The information on this website does not form part of this Prospectus.

THE MORTGAGES

Origination of the Mortgages

The Mortgages which will be sold to the Issuer on the Closing Date have been originated by Paragon Mortgages (2010) Limited ("**PML**") and will be sold to the Issuer by PML. Additional Mortgages originated by PML or Paragon Bank plc ("**Paragon Bank**" and together with PML, the "**Sellers**") may be sold to the Issuer by the Sellers in the period up to (but excluding) the Further Sale Period End Date, subject to certain conditions being satisfied (see the section below entitled "*Acquisition of Mortgages*").

Introduction of Mortgage Business

The Sellers derive their mortgage lending business through intermediaries and by applications directly from members of the public.

Information on the Mortgages

General

The Mortgages will all have had original maturities of between five years and 30 years. No Mortgage will fall to be repaid later than 30 April 2048.

All the Mortgages upon origination consist, or will consist, of mortgage loans which meet or will meet certain lending criteria, and are secured by charges over freehold or leasehold properties located in England or Wales governed by English law (the "**Mortgages**"). The Issuer will have the benefit of warranties by the relevant Seller in relation to the Mortgages sold by it to the Issuer, including warranties in relation to the lending criteria applied in advancing the loans.

The properties which are the subject of the Mortgages (the "**Properties**") are residential properties located in England or Wales. In the case of leasehold, the lease has, where permitted under the lending criteria, at least 30 years to run beyond the term of the relevant Mortgage.

The borrowers in respect of the Mortgages are either individuals resident in the United Kingdom (Mortgages where the borrowers are individuals being "**Individual Mortgages**") or limited liability companies incorporated in England and resident in the United Kingdom (Mortgages where the borrowers are such limited liability companies being "**Corporate Mortgages**").

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

In the event of a specified material breach (potentially including unauthorised alteration to or change of use of the mortgage security, or change of operational control of a corporate borrower), the 2017 Mortgage Conditions provide for the following:

- Obligation on the borrower to make a capital repayment to reduce the capital balance, relative to any tracked measurement of loan to value (LTV).
- Variation of the interest rate in the event of specified breach.
- Variation of the monthly payment in the event of specified breach.

All of the Mortgages are investment home mortgages (each an "**Investment Home Mortgage**"), which relate to property purchased by the borrower and expected to be occupied by tenants.

The properties in respect of Investment Home Mortgages, are required by the applicable Mortgage Conditions to be used for residential purposes. It will normally be the intention that these properties will be let under an assured shorthold tenancy and in all cases that the occupier will have no statutory security of tenure. However, if the occupier's tenancy has been approved by the lender, the lender will not be able to sell with vacant possession if it wishes to enforce its security, until such time as the tenancy comes to an end (see "*Risk Factors – Other matters – Risks associated with non-owner occupied Properties*" above).

Repayment Types

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

Some Mortgages, when originated, provided for Interest-only to be paid monthly during their term, with no scheduled payment of principal prior to maturity ("**Interest-only Mortgages**") and some mortgages provide that the Issuer or the Administrators can convert the Mortgage from an Interest-only Mortgage to a Repayment Mortgage after the initial fixed rate or the LIBOR based initial margin period, subject to a 28 day notice period ("**Optional Repayment Mortgages**"). If the Administrators or the Issuer opt to convert the mortgage to a repayment basis, the monthly instalment requires both interest and principal to be paid by the borrower. The payment schedule applicable to such a Mortgage is structured so that the principal element of the instalments is small in the early years but increases in size during the life of the Mortgage until full repayment by maturity.

The Sellers recommend (but may not require) that borrowers arrange term life assurance in connection with Interest-only Mortgages and Optional Repayment Mortgages. The ability of any particular borrower to repay an Interest-only Mortgage may depend on such borrower's ability to refinance the Property or obtain funds from another source (such as a pension policy or unit trust or an endowment policy). Neither the Sellers, the Administrators, the Warehouser nor the Legal Title Holders has verified that the borrower has any such ability or other source of funds and has not obtained security over the borrower's right in respect of any such other source of funds. The ability of a borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the borrower's equity in the Property, the financial condition of the borrower, tax laws and general economic conditions at the time. Moreover, the Mortgage Conditions in respect of Interest-only Mortgages do not require a borrower to put in place alternative funding arrangements.

Mortgage Interest Rate Types

Each Mortgage will be one of the following:

- (i) a Mortgage under which for a fixed period or periods the rate of interest payable by the borrower is not capable of being reset monthly or quarterly at will by the Issuer or the relevant Administrator but the borrower is required to pay interest at a fixed rate or a series of fixed rates (being, during each such period, a "**Fixed Rate Mortgage**"). After the fixed rate period, the relevant Mortgage reverts to the Seller's standard variable rate or to a variable margin over three-month London Inter-Bank Offered Rate for GBP deposits (or any replacement rate as determined by an Administrator in the event that the rate for the three-month London Inter-Bank Offered Rate for GBP deposits is discontinued or becomes unavailable) determined quarterly;
- (ii) a Mortgage under which the borrower is required for a fixed period to pay interest at a fixed margin over the three-month London Inter-Bank Offered Rate for GBP deposits (or any replacement rate as determined by an Administrator in the event that the rate for the three-month London Inter-Bank Offered Rate for GBP deposits is discontinued or becomes unavailable) determined quarterly (being, during each period in which interest accrues in that manner, a "**LIBOR-Linked Mortgage**"). After the LIBOR based initial margin period, the Mortgage reverts to the relevant Seller's standard variable rate or to a variable margin over three-month London Inter-Bank Offered Rate for GBP deposits (or any replacement rate as determined by an Administrator in the event that the rate for the three-month London Inter-Bank Offered Rate for GBP deposits is discontinued or becomes unavailable) (determined quarterly);
- (iii) a Mortgage which is not at the relevant time a Fixed Rate Mortgage, a LIBOR-Linked Mortgage or a Non-Reversionary LIBOR-Linked Mortgage and under which the rate of interest payable by the borrower is variable or at a variable margin over the three month London Inter-Bank Offered Rate for GBP deposits (or any replacement rate as determined by an Administrator in the event that the rate for the three-month London Inter-Bank Offered Rate for GBP deposits is discontinued or becomes unavailable) determined quarterly and in each case is capable of being reset by the

Issuer or the relevant Administrator (being, during each period in which interest accrues in that manner, a "**Standard Variable Rate Mortgage**"); and

- (iv) Mortgages under which the borrower is required to pay interest at a minimum margin over the three-month London Inter-Bank Offered Rate for GBP deposits (or any replacement rate as determined by an Administrator in the event that the rate for the three-month London Inter-Bank Offered Rate for GBP deposits is discontinued or becomes unavailable) determined quarterly (being, during each period in which interest accrues in that manner, a "**Non-Reversionary LIBOR-Linked Mortgage**").

Interest on the Mortgages is payable monthly at rates which are currently set by or on behalf of the Sellers (subject to the restrictions mentioned above) and, except in certain limited circumstances in which the Trustee or the Substitute Administrator will be entitled (but not obliged, in the case of the Trustee) to take over this function, will be set by the relevant Administrator on behalf of the Issuer after the sale and sub-charge of the Mortgages.

Redemption Provisions

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

The majority of Mortgages are subject to a minimum early repayment charge of the equivalent of between one and three months' interest should the Mortgage be redeemed within three years of completion. However, where a Mortgage has a fixed rate, or offers new borrowers an incentive (as with a discounted rate or similar) early repayment charges are more substantial in order to ensure incentives are effectively repaid should this occur. Approximately 12.61 per cent. of the Provisional Mortgage Pool comprises Mortgages that do not contain any early repayment charges as at the Provisional Pool Date.

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

Acquisition of Mortgages

Acquisition of Mortgages on Closing Date

Prior to the Closing Date, the Mortgages in the Closing Date Mortgage Portfolio are beneficially owned by either Paragon Fifth Funding Limited ("**PFFL**" and the "**Warehouse**") (the "**PFFL Mortgages**") or PML (the "**PML Mortgages**") (and held on the balance sheet of such companies). Prior to the Closing Date, the legal title in certain PML Mortgages originated by PML has been acquired by Paragon Bank. Legal title in the Mortgages in the Closing Date Mortgage Portfolio is held by PML (in the case of the PFFL Mortgages) or PML or Paragon Bank (in the case of the PML Mortgages), in each case as the "**Legal Title Holders**".

On the Closing Date, PML will purchase the beneficial interest in the PFFL Mortgages in the Closing Date Mortgage Portfolio from the Warehouse and then (also on the Closing Date) PML will sell the PFFL Mortgages and the PML Mortgages in the Closing Date Mortgage Portfolio to the Issuer pursuant to a mortgage sale agreement entered into on the Closing Date (the "**Mortgage Sale Agreement**").

Acquisition of Additional Mortgages following Closing Date

Each Seller may (but is not obliged to) sell to the Issuer in the period from the Closing Date further Mortgages up to (but excluding) the Further Sale Period End Date, to the extent that the relevant conditions to purchase in the Mortgage Sale Agreement are satisfied (such Mortgages being "**Additional Mortgages**"). In the case of any Additional Mortgages, the Legal Title Holder shall be the relevant Seller. The Sellers may sell Additional Mortgages to the Issuer on any Business Day during the Further Sale Period. Where PML sells further Mortgages to the Issuer, PML may purchase Mortgages from PFFL (if any) prior to selling such Mortgages to the Issuer in accordance with the Mortgage Sale Agreement.

Any purchase of Additional Mortgages by the Issuer will be subject to (amongst other things) (the "**Additional Mortgage Conditions**"):

- (a) the relevant Further Sale Date falls on a date which is prior to the Step-Up Date;

- (b) no Seller Asset Warranty (as at such Further Sale Date) is breached in respect of any Additional Mortgages to be acquired by the Issuer from the Sellers on such Further Sale Date and neither Seller is in breach of its obligation to repurchase Mortgages and their related security which are in breach of any Seller Asset Warranty given by the Sellers (see "*Repurchases of the Mortgages*" below);
- (c) following the addition of the Additional Mortgages to the Mortgage Portfolio on the relevant Further Sale Date, the weighted average Current LTV Ratio of all Mortgages in the Mortgage Portfolio will not exceed 75 per cent.;
- (d) either: (x) the weighted average interest rate applicable to the Current Balance of all Mortgages in the Mortgage Portfolio (including any Additional Mortgages acquired on such Further Sale Date) after taking into account any Basis Hedge Agreements and the Interest Rate Converted Mortgage Release Amounts expected on the immediately following Interest Payment Date is not less than Mortgage MRF LIBOR plus 3 per cent. or (y) if such weighted average interest rate is less than Mortgage MRF LIBOR plus 3 per cent, the amount standing to the credit of the Mortgage Margin Reserve Fund on such Further Sale Date is equal to or greater than the Adjusted Mortgage MRF Required Amount;
- (e) the amount standing to the credit of the MFA Pre-Funding Reserve Ledger or the Principal Ledger is sufficient to cover Mandatory Further Advances;
- (f) PML as Administrator will within 30 days of the relevant Further Sale Date, arrange for the Issuer to enter into Basis Hedge Agreements to hedge the fixed-floating interest rate exposure in relation to such Additional Mortgage;
- (g) following the addition of the Additional Mortgages to the Mortgage Portfolio, the aggregate of the outstanding Current Balance of any Mortgage in the Mortgage Portfolio with a Current LTV Ratio of more than 77 per cent. will not exceed 15 per cent. of the aggregate Current Balance of all of the Mortgages in the Mortgage Portfolio on the relevant Further Sale Date;
- (h) following the addition of the Additional Mortgages to the Mortgage Portfolio, the aggregate outstanding Current Balance of Mortgages whose related Properties are in London is not greater than 40 per cent. of the aggregate Current Balance of the Mortgages in the Mortgage Portfolio on the relevant Further Sale Date;
- (i) following the addition of the relevant Additional Mortgages to the Mortgage Portfolio, the aggregate outstanding Current Balance of Mortgages whose related Properties are in the South East of England is not greater than 40 per cent. of the aggregate Current Balance of the Mortgages in the Mortgage Portfolio on the relevant Further Sale Date;
- (j) following the addition of the relevant Additional Mortgages to the Mortgage Portfolio, the aggregate outstanding Current Balance of Mortgages whose related Properties are in a single geographic region other than London and South East of England is not greater than 20 per cent. of the aggregate Current Balance of the Mortgages in the Mortgage Portfolio on the relevant Further Sale Date;
- (k) following the addition of the relevant Additional Mortgages to the Mortgage Portfolio, the weighted average Rental Cover to all the Mortgage Loans in the Mortgage Portfolio is not less than 145 per cent.;
- (l) the remaining fixed rate period applicable to each Additional Mortgage that is a Fixed Rate Mortgage will not be longer than 5 years and 6 months as at the relevant Further Sale Date;
- (m) other than in respect of Non-Reversionary LIBOR-Linked Mortgages, the reversionary interest rate of the relevant Additional Mortgage is either (i) three month LIBOR (or any replacement rate as determined by an Administrator in the event that the rate for three-month London Inter-Bank Offered Rate for GBP Deposits is discontinued or becomes unavailable) plus a variable margin which is equal to or greater than 4.5 per cent. or (ii) the relevant Legal Title Holder's standard variable rate;

- (n) following the addition of the relevant Additional Mortgages to the Mortgage Portfolio, the aggregate outstanding Current Balance of Mortgage Loans that are paying or reverting at a later date to the relevant Seller's standard variable rate is not greater than 75 per cent. of the aggregate Current Balance of the Mortgage Loans in the Portfolio on such Further Sale Date;
- (o) the amount standing to the credit of the Principal Ledger on the relevant Further Sale Date is sufficient to enable the Issuer to redeem the Class A Notes down to the Class A Target Notional on the next following Interest Payment Date;
- (p) no Further Sale Period Termination Event has occurred or would occur as a result of the sale and purchase of the relevant Additional Mortgage(s);
- (q) no Additional Mortgage to be purchased is an Arrears Mortgage;
- (r) as at the relevant Further Sale Date, (where the Residual Certificates are represented by Definitive Residual Certificates) more than 50 per cent. of the Residual Certificates are held by a Paragon Banking Group Company or (where the Residual Certificates are represented by a Global Residual Certificate) the beneficial interest in more than 50 per cent. of the Residual Certificates is held by a Paragon Banking Group Company;
- (s) there was no debit balance on the Principal Deficiency Ledger following amounts having been applied in accordance with the Payments Priorities on the preceding Interest Payment Date;
- (t) following the addition of the Additional Mortgages to the Mortgage Portfolio, the aggregate Current Balance of all Additional Mortgages purchased by the Issuer since the Closing Date shall not exceed 30 per cent. of the Current Balance of the Mortgages sold to the Issuer on the Closing Date unless an agreed upon procedures review (an "**AUP Review**") on a sample of the Additional Mortgages purchased since the Closing Date has been carried out following the Principal Determination Date when the aggregate Current Balance of all Additional Mortgages purchased since the Closing Date exceeded 20 per cent. of the Current Balance of all Mortgages sold to the Issuer on the Closing Date on substantially the same terms and with results to the same required standard as the AUP Review which was carried out prior to the Closing Date or on such other terms and with such results to such other required standard as would be required if such AUP Review was being carried out for the same purpose as the AUP Review was undertaken prior to the Closing Date;
- (u) following the addition of the Additional Mortgages to the Mortgage Portfolio, such Additional Mortgages shall not cause the aggregate outstanding Current Balance of the Non-Reversionary LIBOR-Linked Mortgages to be greater than 20 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio on such Further Sale Date;
- (v) on such Further Sale Date Additional Mortgages which are Fixed Rate Mortgages may only be purchased by the Issuer where the weighted average swap rate calculated by PML as Administrator by reference to the interest swap rates and notional values disclosed in (a) the Basis Hedge Agreements as at the Principal Determination Date immediately preceding such Further Sale Date (or in the case of any Further Sale Date occurring in the first Collection Period, the Closing Date) and (b) the Basis Hedge Agreements (if any) entered into by the Issuer since the Principal Determination Date immediately preceding such Further Sale Date (or in the case of the first Collection Period, the Closing Date), does not exceed 4 per cent.;
- (w) on each Further Sale Date, Additional Mortgages which are Paragon Bank Depositor Mortgages may only be purchased by the Issuer where the sum of all Paragon Bank Mortgage Excess Amounts in respect of all Paragon Bank Depositor Mortgages in the Mortgage Portfolio together with the Additional Mortgages to be purchased on such Further Sale Date does not exceed 0.50 per cent. of the Current Balance of all Mortgage Loans in the Mortgage Portfolio together with the Additional Mortgages to be purchased on such Further Sale Date;
- (x) on each Further Sale Date Additional Mortgages which are Fixed Rate Mortgages may only be purchased by the Issuer where the product (calculated by the Administrator) of (a) the weighted average time in years to the end of the fixed rate period in respect of the Fixed Rate Mortgages in the Portfolio together with the Additional Mortgages which are Fixed Rate Mortgages to be purchased on such Further Sale Date and (b) the Current Balance of the Fixed Rate Mortgages in

the Portfolio together with the Fixed Rate Loans to be purchased on such Further Sale Date divided by the Current Balance of the Mortgages in the Portfolio together with the Additional Mortgages to be purchased on such Further Sale Date, does not exceed two; and

- (y) on each Further Sale Date, the sum of (a) the notional value of the outstanding Basis Hedge Agreements entered into by the Issuer on or before the Principal Determination Date immediately preceding such Further Sale Date (or in the case of the first Collection Period, the Closing Date), and (b) the notional value of any Basis Hedge Agreements entered into by the Issuer since the Principal Determination Date immediately preceding such Further Sale Date (or in the case of any Further Sale Date occurring in the first Collection Period, the Closing Date) must not exceed or be less than (by greater than £10 million), the sum of the Current Balance of: (A) all Fixed Rate Mortgages as at the Principal Determination Date immediately preceding such Further Sale Date (or in the case of the first Collection Period, the Closing Date); and (B) any Additional Mortgages which are Fixed Rate Mortgages purchased since the Principal Determination Date immediately preceding such Further Sale Date (or in the case of any Further Sale Date occurring in the first Collection Period, the Closing Date); and
- (z) that PML and/or PBG and/or any holding company or subsidiary of PBG (a "**Paragon Banking Group Company**") are the Administrators and no Administrator Termination Event has occurred in respect of PML or Paragon Bank (or any Paragon Banking Group Company) in its capacity as an Administrator.

In this Prospectus:

"Further Sale Date" means, if applicable, in relation to any sale and purchase of Additional Mortgages, each date on which a sale and purchase is completed subject to, and in accordance with, the terms of the Mortgage Sale Agreement.

"Paragon Bank Mortgage Excess Amount" means for each Paragon Bank Depositor Mortgage the lesser of (a) the Current Balance of such Paragon Bank Depositor Mortgage and (b) the excess above £85,000 of the aggregate deposit balances with Paragon Bank by such Paragon Bank Depositor Mortgage borrower.

"Paragon Bank Depositor Mortgage" means a mortgage where Paragon Bank is the Legal Title Holder and the borrower also holds a deposit with Paragon Bank in excess of £85,000.

"Purchase Date" means: (a) in relation to the sale and purchase of the Mortgages on the Closing Date, the Closing Date; and (b) in relation to any sale and purchase of Additional Mortgages, if any, the relevant Further Sale Date.

Consideration for purchase of Mortgages

The purchase consideration in respect of the Mortgages purchased on the Closing Date will be paid on the Closing Date, and, in respect of the Additional Mortgages which may be purchased on any Business Day during the Further Sale Period, will be paid (a) on such date of purchase from amounts standing to the credit of the Retained Principal Ledger or the Principal Ledger (in each case, if available) during the relevant Collection Period provided that the amount standing to the credit of the Principal Ledger on the relevant Further Sale Date is sufficient to enable the Issuer to redeem the Class A Notes down to the Class A Target Notional on the next following Interest Payment Date or (b) otherwise from Available Principal on the next following Interest Payment Date in accordance with item (v) of the Principal Priority of Payments. The purchase consideration payable by the Issuer to the Sellers in respect of the relevant Mortgages purchased from the Seller shall equal the Initial Purchase Consideration plus the relevant Deferred Purchase Consideration.

The "**Initial Purchase Consideration**" shall be: (i) the then principal balance in respect of the Mortgages sold by the relevant Seller on the relevant Purchase Date; plus (ii) the difference between the current balance of the loans in the portfolio and their carrying value for accounting purposes determined on the amortised cost basis, as defined in International Financial Reporting Standards applicable at the time of the relevant Purchase Date, the measurement and recognition criteria of which are applied by the Issuer in accordance with UK GAAP on the relevant Purchase Date (the "**Amortised Cost Adjustment**" and the amount of such adjustment being the "**Amortised Cost Adjustment Amount**").

The "**Deferred Purchase Consideration**" shall consist of RC1 Payments and RC2 Payments (together, the "**Residual Payments**") and shall be payable to the relevant Residual Certificateholders on each Interest Payment Date subject to and as specified in the applicable priority of payments and shall be an amount equal to the remaining balance (if any) of the moneys available on such Interest Payment Date for application in accordance with the Revenue Priority of Payments or the Enforcement Priority of Payments, as applicable. RC1a Payments will be paid to the RC1a Residual Certificateholders, RC1b Payments will be paid to the RC1b Residual Certificateholders, RC2a Payments will be paid to the RC2a Residual Certificateholders and RC2b Payments will be paid to the RC2b Residual Certificateholders in accordance with the Residual Certificates Conditions.

Legal title to each of the Mortgages originated by PML has since origination either remained with and will remain with PML or has been transferred to and will remain with Paragon Bank and legal title to each of the Mortgages originated by Paragon Bank has since origination remained with Paragon Bank and will remain with Paragon Bank, in each case until completion of the transfers of the Mortgages (and, in the case of registered land, their registration at the Land Registry) and notification to any borrower or guarantor. Until these steps are taken, the sale of the Mortgages will take effect in equity only. Save in the circumstances to be set out in the Administration Agreement and described in "*Perfection of title*" below, neither the Issuer nor the Trustee will apply to the Land Registry or the Central Land Charges Registry to register or record the Issuer as the new registered proprietor of any Mortgages or register or record any interest of the Issuer or the Trustee in respect of the Mortgages, and accordingly in relation to the relevant Mortgages the situation described above as regards title thereto will continue to apply.

Perfection of title

The sales by the Sellers to the Issuer of the Mortgages will only be perfected by the execution of transfers of the Mortgages, the carrying out of requisite registration or recording and giving of notice to any borrower or guarantor in the circumstances set out below. Neither the Issuer nor the Trustee will be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages. For so long as the Legal Title Holders retain legal title to a Mortgage, a third party dealing with the Sellers and/or the Legal Title Holders could obtain legal title free of the interests of the Issuer and the Trustee. For so long as a Legal Title Holder retains legal title to a Mortgage, it must be joined as a party to any legal proceedings against any borrower or in relation to the enforcement of that Mortgage. In this regard the Legal Title Holders have undertaken for the benefit of the Issuer and the Trustee that they will lend their name to, and take such other steps as may reasonably be required in connection with, any such proceedings.

Further, the rights of the Issuer and the Trustee may be or become subject to interests of third parties and direct rights of borrowers against the Legal Title Holder: for example, a later encumbrance or transfer of the Mortgages, and/or equities created or arising before the transfer of the legal title is perfected: for example, rights of set-off (or other analogous rights) as between the relevant borrowers and the relevant Legal Title Holder and the rights of borrowers to redeem their Mortgages by repaying the relevant loan directly to the relevant Legal Title Holder. 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 a Legal Title Holder of its contractual obligations or fraud, negligence or mistake on the part of the relevant Legal Title Holder, the Issuer or their respective personnel or agents.

Until a borrower is notified of the sale of its Mortgage to the Issuer, the borrower may continue making payments to (or as directed by) the relevant Legal Title Holder. Following delivery of a notice to a borrower informing it of the sale of its Mortgage to the Issuer, the Borrower would no longer be entitled to obtain a good receipt from the relevant Legal Title Holder as mortgagee. Under the Mortgage Sale Agreement, the Legal Title Holders and the Sellers have undertaken that if at any time they receive (or there is received to their order) any property, interest, right or benefit agreed to be sold to the Issuer it will hold the same on trust for the Issuer as the beneficial owner thereof. Furthermore under the Collection Account Declarations of Trust the Sellers 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 Accounts are held on trust for the Issuer until they are transferred to the Transaction Account. Notice to borrowers in respect of the Mortgages would also prevent the Mortgages from being amended by the Legal Title Holders and the Sellers or the borrowers without the involvement of the Issuer.

Upon the occurrence of certain events including:

- (i) the valid service of an Enforcement Notice or a Protection Notice (each as to be defined in the Deed of Charge);
- (ii) the termination of each Paragon Bank's and PML's role as Administrators under the Administration Agreement;
- (iii) the relevant Legal Title Holder and/or the Seller being required, by an order of a court of competent jurisdiction, or by a regulatory authority of which the relevant Legal Title Holder and/or the Seller, as applicable, is a member or with whose instructions it is customary for the relevant Legal Title Holder and/or the Seller, as applicable, to comply, to perfect the transfer of legal title to the Mortgages;
- (iv) any change occurring in the law after the Closing Date rendering it necessary by law to perfect the transfer of legal title to the relevant Mortgages;
- (v) the security under the Deed of Charge or any material part of such security being in jeopardy and the Trustee deciding to take action to reduce materially such jeopardy; and
- (vi) the occurrence of the Final Maturity Date where the Issuer's obligations to redeem the Notes in accordance with the Relevant Documents and the Conditions of the Notes have not been met,

the Issuer or the Trustee will have the right to perfect legal title to the relevant Mortgages by executing transfers of the Mortgages in the appropriate form (if necessary pursuant to irrevocable powers of attorney) effecting the necessary registrations, recordings and notifications and giving notice to the borrowers and any guarantors in respect of such Mortgages. The right of the Issuer and the Trustee to exercise the powers of the registered proprietor, registered owner or beneficial owner of the Mortgages pending registration or recording will be secured by irrevocable powers of attorney granted by the Legal Title Holders in favour of the Issuer, the relevant Administrator and the Trustee.

Searches and Warranties in respect of the Mortgages

Neither the Issuer nor the Trustee has made or caused to be made (or will make or cause to be made) on its behalf in relation to the Mortgages purchased by the Issuer any of the enquiries, searches or investigations which a prudent purchaser of the relevant security would normally make, other than a search, prior to completion of the purchase by the Issuer of the Mortgages on the Closing Date and on any Business Day during the Further Sale Period upon which Additional Mortgages are purchased by the Issuer against the relevant Seller and the relevant Legal Title Holder in the relevant file held by the Registrar of Companies. Neither the Issuer nor the Trustee has made nor will make any enquiry, search or investigation prior to the making of any Further Advance or at any time in relation to compliance by the Legal Title Holders, the Sellers, the Administrators 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 each Further Sale Date or any other security or the insurance contracts relating to the Properties and the Mortgages referred to herein.

In relation to all of the foregoing matters and the circumstances in which advances were made to borrowers prior to the purchase by the Issuer of the relevant Mortgages, the Issuer and/or the Trustee will rely entirely on the warranties to be given by the relevant Seller to the Issuer and the Trustee contained in the Mortgage Sale Agreement.

The warranties given by each Seller in respect of mortgages sold by it to the Issuer as at the relevant date of purchase (being either the Closing Date or, in the case of any Additional Mortgage, any Further Sale Date falling within the Further Sale Period on which Additional Mortgages are purchased by the Issuer from each Seller pursuant to the Mortgage Sale Agreement include the following (the "**Seller Asset Warranties**"):

- (i) the particulars of each Mortgage (as set out in the annexures to the Mortgage Sale Agreement or, in respect of any Additional Mortgage, as set out in the additional mortgage offer notice (substantially in the form scheduled to the Mortgage Sale Agreement) pursuant to which that

Additional Mortgage is offered to the Issuer) are complete, true and accurate in all material respects;

- (ii) subject to the completion of any registration or recording of the Mortgage which may be pending at the Land Registry of England and Wales, each Mortgage is legally owned by the relevant Legal Title Holder;
- (iii) PML is the beneficial owner of the Mortgages in the Closing Date Mortgage Portfolio on the Closing Date;
- (iv) the relevant Seller is the beneficial owner of each Additional Mortgage on each Further Sale Date;
- (v) each Loan constitutes a valid and binding obligation of the Borrower;
- (vi) the first payment due from the Borrower in respect of the Mortgage has been received in full;
- (vii) subject to the completion of any registration or recording of the Mortgage which may be pending at the Land Registry of England and Wales, each Mortgage constitutes a valid and subsisting legal mortgage over the relevant Property which is either:
 - (a) a first legal mortgage in respect of all monies outstanding under the related Loan; or
 - (b) a second or subsequent legal mortgage over which no mortgage which is not a Mortgage has priority in respect of all monies outstanding under the related loan,
- (viii) the Mortgages and the other estates and interests sold by the Seller under the Mortgage Sale Agreement are free and clear of all mortgages, securities, charges, liens, encumbrances, diligences, claims and equities but subject:
 - (a) to the terms of the Mortgage Sale Agreement and the Deed of Charge; and
 - (b) in the case of the Mortgages registration or recording of which is pending at the Land Registry of England and Wales to the completion of such registration or recording,
- (ix) each Mortgage is secured on a freehold or leasehold residential, or mixed commercial/residential property which is situated in England or Wales;
- (x) all steps necessary with a view to perfecting the relevant Legal Title Holder's legal title to each Mortgage were duly taken at the appropriate time or are in the process of being taken without undue delay on its part or on the part of those within its control;
- (xi) no Mortgage is subject to any right of rescission, set off, lien, counterclaim or defence which would entitle the relevant Borrower to reduce the amount of any payment otherwise due under a Mortgage (where "**Mortgagee**" means the relevant Legal Title Holder and the Warehouse);
- (xii) prior to making the initial advance to a Borrower:
 - (a) the relevant Seller received from solicitors or licensed or qualified conveyancers acting for it a report on title or certificate of title to the relevant Property (the benefit of which is available to the owner for the time being of the relevant Mortgage) which either initially or after further investigation disclosed nothing which would cause a reasonably prudent mortgage lender to decline to proceed with the initial advance on the proposed terms; or
 - (b) where the mortgage loan made in relation to a Property is secured by a Mortgage which was made without there being a contemporaneous purchase of such Property by the Borrower, the relevant Seller carried out such written searches and investigations of title to the Property which a reasonably prudent mortgage lender would carry out in relation to the remortgaging of a property, which searches and investigations either initially or on further investigation disclosed nothing which would cause a reasonably prudent mortgage lender to decline to proceed with the initial advance on the proposed terms,
- (xiii) prior to making a Loan, a valuation was undertaken on behalf of the relevant Seller by a valuer approved by the relevant Seller (being a fellow or associate of the Royal Institution of Chartered

Surveyors or the Incorporated Society of Valuers and Auctioneers) which either initially or after further investigation disclosed nothing which would cause a reasonably prudent mortgage lender to decline to proceed with taking the mortgage or charge on the proposed terms;

- (xiv) subject to registration or recording at the Land Registry of England and Wales where required, at the date of the Mortgage each Property was held by the Borrower free from any encumbrance which would materially adversely affect either the title to the Property or the value of the Property for security purposes set out in any valuation report carried out for the relevant Seller;
- (xv) if the Property is not registered at the Land Registry of England and Wales and is not required to be registered, the relevant Borrower has a good and marketable title to the fee simple absolute in possession or a term of years absolute in the relevant Property or, if the Property is registered or is unregistered but is subject to first registration at the Land Registry of England and Wales, it has been registered or is in the course of registration with title absolute, in the case of freehold property, or absolute or good leasehold title, in the case of leasehold property and if the Property is not registered and is not required to be registered, it is comprised in either a fee simple absolute (if freehold) or a term of years (if leasehold) of not less than 30 years beyond the term of the Mortgage relating to such Property and is free from any encumbrance which would affect such title, and if the Property is registered, it has been registered with title absolute (if freehold) or good leasehold estate title of the requisite term (if leasehold) or is in the process of being so registered;
- (xvi) prior to making each initial advance or Discretionary Further Advance, the Lending Guidelines were satisfied so far as applicable (having regard to any further advance which could fall to be made) subject to such waivers as might be within the discretion of a reasonably prudent mortgage lender;
- (xvii) each advance has been made in all material respects on the terms of the mortgage documentation current at the date of the advance and such documents have not been subsequently varied in any material respect;
- (xviii) the relevant Borrower's consent is not required for the transfer or assignment of any Mortgage;
- (xix) interest is charged on each Mortgage at such rate as may be from time to time determined in accordance with the provisions of the Mortgage Conditions;
- (xx) as at the relevant Purchase Date, the maximum aggregate Current Balance of all Arrears Mortgages which may be purchased by the Issuer is £1,000,000;
- (xxi) other than in the case of an Arrears Mortgage or Mortgage on a Property where the Borrower has been written to in respect of an unauthorised letting, there are no outstanding claims in respect of any material breaches of the terms of any Mortgage;
- (xxii) the relevant Seller took (or instructed its solicitors to take) on or prior to the date of completion of each Mortgage all reasonable steps to ensure that any Property (which was not insured under the Block Buildings Policies maintained by it) was insured under a policy with an insurance company against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the valuer acting for it and that it was either a named insured or its interest was noted by the insurers;
- (xxiii) no Mortgage is or will be repayable later than 30 April 2048;
- (xxiv) since the registration of each Mortgage in the name of the relevant Seller and/or the relevant Legal Title Holder, full and proper accounts, correspondence files, books and records showing all transactions, payments, receipts, proceedings and notices relating to that Mortgage have been kept and all such accounts, books and records are up to date and in the possession of the Mortgagee or held to their order;
- (xxv) the Mortgagee has not received written notice of any claim calling into question in any material way its title to any Mortgage;
- (xxvi) all the title deeds to the Properties and the Mortgages are held by or to the order of the Mortgagee or have been lodged by the Mortgagee at the Land Registry of England and Wales;

- (xxvii) in the case of Individual Mortgages only, no Borrower is a current employee of a member of the Paragon Banking Group and each Borrower of an Individual Mortgage purchased pursuant to the Mortgage Sale Agreement is an individual;
- (xxviii) other than in the case of any Arrears Mortgage or any Mortgage on a Property where the Borrower has been written to in respect of an unauthorised letting, the Mortgagee has not knowingly waived or acquiesced in any breach of any of its rights under or in relation to a Mortgage other than such waivers as a reasonably prudent mortgage lender might make in accordance with the guidance set out in the Administration Manual;
- (xxix) no Mortgage is wholly or partly regulated by the CCA or by the FSMA as a regulated credit agreement under article 60B of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) or treated as such, or, to the extent that it is so regulated or partly regulated or treated as such, the Seller and the Legal Title Holder has complied with all of the relevant legal requirements of, and procedures set out in, the CCA or the FSMA and all secondary legislation made pursuant thereto and the FCA handbook, as applicable;
- (xxx) no Mortgage is wholly or partly regulated by the FSMA as a regulated mortgage contract as defined under article 61 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) or treated as such, or, to the extent that it is so regulated or partly regulated or treated as such, the Seller and the Legal Title Holder has complied with all of the relevant legal requirements of, and procedures set out in the FSMA and all secondary legislation made pursuant thereto and the FCA handbook, as applicable;
- (xxxi) no Mortgage (whether alone or with any related agreement) constitutes an unfair relationship for the purposes of sections 140A to 140C of the CCA;
- (xxxii) the amount outstanding under each Mortgage is a valid debt to the Legal Title Holder (as holder of the legal title to the Loan) from the Borrower arising from advances of money to the Borrower and, except for any Loan and its Related Security which is not binding by virtue of UTCCR or CRA, the terms of each Loan and its Related Security constitute valid, binding and legally enforceable obligations of the relevant parties except that (i) enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the courts' discretion in relation to equitable remedies and (ii) the warranty only applies in relation to interest and principal payable by the Borrower;
- (xxxiii) no agreement for any Mortgage is cancellable in whole or in part as a result of any non-compliance with the Financial Services (Distance Marketing) Regulations 2004 (as amended);
- (xxxiv) for so long as there is a breach of the applicable Mortgage Conditions no Mortgage will require the making of any Mandatory Further Advance;
- (xxxv) in relation to any Loan where the obligations of the Borrower are guaranteed by a guarantor, each guarantee or surety obligation in respect of such loan constitutes a valid and binding obligation of such guarantor and the benefit of such guarantee may be assigned to the Issuer and charged by the Issuer to the Trustee;
- (xxxvi) there is no obligation on the part of the Mortgagee of a Mortgage to make any further advances except in accordance with the relevant Mortgage Conditions;
- (xxxvii) the Insurance Contracts will apply to each of the Mortgages and to the extent that they apply to such Mortgages the Issuer will have the benefit of each such Insurance Contract and, as between the assignor and the assignee, any assignment or transfer of the rights and benefits under each such Insurance Contract by the Issuer to the Trustee will be valid and binding without notification to, or request for consent from, the relevant insurer;
- (xxxviii) no term of any Mortgage is an "unfair term" within the meaning of UTCCR or the CRA but this warranty shall only be construed to apply in respect of principal and interest due or charged on the Mortgage and not in respect any early repayment or prepayment charges;
- (xxxix) the relevant Legal Title Holder has at all relevant times held, and continues to hold, authorisation and appropriate permissions from the FCA for conducting all regulated activities specified in the

Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended) carried on by it in respect of each Mortgage;

- (xl) in the case of each Corporate Mortgage, the prescribed particulars of the Corporate Mortgage and any floating charge together with the instrument by which they were created were delivered to the Registrar of Companies for registration within 21 days after their creation in accordance with Section 859 of the Companies Act 2006 and a certificate of registration has been received in respect of such registration;
- (xli) in the case of Corporate Mortgages only, each Borrower is a private company incorporated with limited liability in England and Wales;
- (xlii) in the case of Corporate Mortgages only, the Mortgagee has not received written notice of any steps having been taken for the liquidation or winding up of, or the making of an administration order in relation to, any Borrower or of any steps having been taken to enforce any security over the assets of any Borrower;
- (xliii) in the case of Corporate Mortgages only, a search was conducted at Companies House in relation to the Borrower, which revealed that no notices of appointment of a liquidator, administrator, administrative receiver or receiver had been filed and that no resolution had been passed to wind up the Borrower;
- (xliv) none of the Mortgages, Loans (other than the Loans advanced to Borrowers that are not individuals), related security or Insurance Policies consist of or include any "stock" or "marketable securities" as such terms are defined in section 122 of the Stamp Act 1891 or "chargeable securities" for the purposes of section 99 of the Finance Act 1986, and none of the Mortgages, Loans, related security or Insurance Policies consist of or include a "chargeable interest" for the purposes of section 48 of the Finance Act 2003;
- (xlv) all Loans advanced to Borrowers that are not individuals are within the exemption conferred by section 79(4) of the Finance Act 1986;
- (xlvi) the underlying mortgage documentation used in respect of each Loan is governed by and subject to the laws of England and Wales;
- (xlvii) in the case of Individual Mortgages only, at origination, the relevant Borrower is resident in England and Wales; and
- (xlviii) each Loan is denominated in Sterling.

In this Prospectus:

"Borrower", in relation to each Individual Mortgage, means the person defined as the "Borrower" in the Mortgage Conditions applicable to that Individual Mortgage and, in relation to each Corporate Mortgage, means the company defined as the "Company" or the "Borrower" in the Mortgage Conditions applicable to that Corporate Mortgage.

"Lending Guidelines" means the lending guidelines set out in the section entitled "*Lending Guidelines*".

"Loan" means mortgage loans originated by PML or Paragon Bank (as applicable), the beneficial interests in which are sold to the Issuer pursuant to the Mortgage Sale Agreement.

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

The Mortgage Sale Agreement and all non-contractual obligations arising out of it is governed by, and shall be construed in accordance with, English law.

LENDING GUIDELINES

The guidelines provided by the Sellers to help introducers of mortgage loan business to the Sellers to assess the suitability of a potential borrower and of the security offered, set a standard in respect of the Mortgages which, at the time that any Mortgage was originated was not substantially different from the following (which although expressed in the present tense, should be read as applying at the time of origination). On occasions flexibility to the lending guidelines may have been applied for applications that may be outside of the guidelines detailed below. Such occasions are exceptional and when they occur approval of the case must be made by a senior underwriter or in certain circumstances the credit committee, and only made where there are other mitigating circumstances which ensure the application remains of the highest quality:

1. **Personal Details**

- 1.1 The maximum number of applicants who may be party to the mortgage is four.
- 1.2 All applicants must be a minimum of 18 years of age at completion.
- 1.3 The identity of each applicant or guarantor (where applicable) must be established in compliance with the current Joint Money Laundering Steering Group Guidance Notes.
- 1.4 The applicant must be resident in the United Kingdom, the Isle of Man, the Channel Islands or Gibraltar.

2. **Corporate Mortgages**

- 2.1 The applicant must be an unlisted limited liability company incorporated and trading under the laws of England and Wales, Scotland, Northern Ireland, the Isle of Man, the Channel Islands or Gibraltar.
- 2.2 The Originators may request references and/or any other information deemed necessary in connection with an application (such as company accounts, corporate searches at Companies Registry, the computerised index of winding up petitions, the manual index of High Court petitions for administration orders at the Central Registry of Winding Up Petitions, etc.).
- 2.3 All amounts payable under the corporate mortgage loan must be guaranteed by an individual who is a director of the applicant corporate borrower.

3. **Mortgage Requirements**

- 3.1 Applications in respect of a single investment home property will usually be limited in accordance with the following table:

<i>Loan Size</i>	<i>Maximum LTV</i>
<i>Up to £500,000</i>	<i>80 per cent. Excluding fees</i>
<i>Up to £1,000,000</i>	<i>75 per cent. Excluding fees</i>
<i>Up to £2,000,000</i>	<i>70 per cent. Excluding Fees</i>

- 3.2 Multiple applications for investment home properties will be considered up to a total of £10,000,000 per borrower(s).
- 3.3 The maximum term for a loan is 30 years, the minimum is 5 years.
- 3.4 Loans may be taken on either a capital repayment or an interest only basis, or a combination of the two.

4. **Property Details**

- 4.1 Loans must be secured on residential property which, following a valuation by the relevant Originators' valuer or a valuer appointed to act on the relevant Originators' behalf, or in the case

of a further advance application, an assessed valuation by reference to an applicable house price index, is considered to be suitable security.

4.2 The following are unacceptable to the Originators:

- Properties located other than in the U.K.
- Freehold flats and maisonettes (except in Scotland).
- Properties designated under the Housing Act 1985, the Housing (Scotland) Act 1987 or the Housing (Northern Ireland) Order 1983 (as amended).
- Properties having agricultural restrictions.
- Construction loans

4.3 The following will be considered by the Originators on an individual basis:

- Properties used for part commercial purposes.
- Properties with adjoining land used for commercial purposes or having agricultural or other planning restrictions.
- Properties on which buildings insurance is not available on block policy terms.
- Flats directly attached to or directly above commercial premises.
- Properties with an element of flying freehold.
- Self build properties (post completion).
- Local Authority flats being purchased under the Right to Buy Scheme.

4.4 Properties under 10 years old must have the benefit of an NHBC certificate or any other approved guarantee from an acceptable body. Architects' certificates must also be provided for each stage of construction together with Local Authority approval in respect of properties under 10 years old that do not have the benefit of an NHBC certificate or other approved guarantee from an acceptable body. Similar requirements may be imposed for converted properties.

4.5 Properties may be let on an assured shorthold tenancy basis (or, in Scotland, a short assured tenancy or, in Northern Ireland, an agreement which confers similar rights as an assured shorthold tenancy) or in circumstances where the occupier (which may include a body corporate, a charitable institution or public sector body) has no statutory security of tenure. Where the occupier is a body corporate, the maximum length of lease will normally be for a period no longer than 3 years. Where the occupier is a charitable institution or public sector body, the maximum length of lease will normally be for a period no longer than 5 years.

4.6 Where the tenure of the property is leasehold, the minimum length of the lease at the end of the mortgage term must be 35 years.

4.7 All properties must be insured for a minimum of the reinstatement amount shown on the valuation report, under a comprehensive insurance policy.

5. **Credit History**

5.1 A credit search will be carried out in respect of all applicants which must provide sufficient information to evidence a satisfactory credit profile. Where the search contains insufficient information to achieve this, further evidence will be required. This may include, for example, proof of mortgage payments, or satisfactory bank statements.

6. **Income and Employment Details: Mortgages originated prior to December 2016**

6.1 In the case of an investment home property, the Originators will seek to use the rental income generated from the property to be mortgaged within an affordability calculation. The normal

minimum rental value will be 130 per cent, or in certain circumstances 125 per cent, of the associated mortgage payment when calculated on an interest only basis at either the product rate or reference rate. The reference rate is based upon long term loan rates and is reviewed by the Company's Credit Committee on a quarterly basis. Its use removes anomalies in the affordability calculation which may be caused by, for example, specialist product rates, discounted rates, fixed rates etc.

6.2 Where rental income from an investment home property is deemed insufficient to fulfil paragraph 6.1 above, evidence of additional income will be required. This may include, for example, the latest or most recent P60, an employer's reference, audited accounts, bank statements or cash flow statements.

7. **Income and Employment Details: Mortgages originated after December 2016**

7.1 In the case of an investment home property, the Originators will seek to use the rental income generated from the property to be mortgaged within an affordability calculation.

(a) Limited Companies

For landlords operating in a limited company structure who are borrowing against a single self-contained property, the normal minimum rental value will be 125 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate.

For houses in multiple occupation, multi-unit properties and part commercial properties, the normal minimum rental value will be 130 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate.

(b) Individual Landlords: Basic Rate Tax Payers

For individual landlords who are on the basic tax rate at the time of application (and are reasonably expected to remain so for the foreseeable future) and are borrowing against a single self-contained property, the normal minimum rental value will be 125 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate.

For houses in multiple occupation, multi-unit properties and part commercial properties, the normal minimum rental value will be 130 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate

(c) Individual Landlords: Higher Rate Tax Payers

For individual landlords who are higher or additional rate tax payers at the time of application and are borrowing against a single self-contained property, the normal minimum rental value will be 140 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate.

For houses in multiple occupation, multi-unit properties and part commercial properties, the normal minimum rental value will be 145 per cent of the associated mortgage payment when calculated on an interest only basis at the reference interest rate.

(d) Reference Interest Rate

The reference interest rate for fixed rate mortgages of an initial term of 5 years or more is currently the higher of 4 per cent or the product charging rate, but this may vary with product change. The reference interest rate for all other mortgage products will be the higher of 5.5 per cent or the product charging rate plus 2%.

7.2 Where rental income from an investment home property is deemed insufficient to fulfil paragraph 7.1 above, evidence of income and expenditure will be required to demonstrate that there is sufficient disposable income to maintain the loan repayments. In all cases for landlords with no more than three properties upon completion of the purchase for which the current application is being made, the property rental income must be sufficient to meet 125% @ 5.5 per cent or the product charging rate plus 2 per cent, before the contribution of personal income. All income must be evidenced.

INSURANCE COVERAGE

The following is an overview of the various insurance contracts which are relevant to the Mortgages to be purchased by the Issuer and the activities of the Issuer and the Administrators in relation to such contracts.

Buildings Insurance

All Properties in respect of the Mortgages except those mentioned in the paragraphs below will be insured under the comprehensive block policy (the "**Block Policy**"), with the interests of PBG, the Issuer and the Trustee noted thereon. The Block Policy is a policy with AXA Insurance UK plc which carries on insurance business within the U.K. and whose address is 5 Old Broad Street, London EC2N 1AD. The premiums will be collected monthly by the relevant Administrator with the interest payments due on the Mortgages. In carrying out its role as an insurance mediator, PML is an appointed representative of Mortgage Trust Services PLC and complies with the provisions of the FCA's handbook for the sale of general insurance.

In the case of the Mortgages, where the borrower specifically requested permission to make his own insurance arrangements in relation to any Mortgage, or where such arrangements are dictated by the existence of a lease, the relevant Administrator will have taken all reasonable steps to ensure that the relevant Property is insured under a policy with an insurance company against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the Seller's valuer and that the Seller has become a named insured or its interest has been noted by the insurers.

The Issuer will also have the benefit of insurance, in the name of PBG (the "**Mortgage Impairment Contingency Policy**") and together with the Block Policy, the "**Insurance Contracts**") with Chubb Insurance Company of Europe S.A., an insurance company which carries on insurance business in the U.K. whose registered office is at 8th Floor, 82 King Street, Manchester M2 4WQ. The Mortgage Impairment Contingency Policy indemnifies the insured for damage to Property occurring as a direct result of the inadvertent failure of the borrower to effect or renew adequate insurance cover.

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

As is customary for insurances of this type, the insurances described above are subject to exclusions and deductibles.

Other Miscellaneous Insurances

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

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

HISTORICAL DATA RELATING TO PARAGON'S MORTGAGE BUSINESSES

The information given in the following tables relates to the mortgage business originated or acquired by the subsidiaries of PBG. Data for each year from the year ended September 2000 reflects the information for buy-to-let mortgages only. There has been no adjustment for the selection criteria used in compiling the Provisional Mortgage Pool and as such there can be no assurance that the experience of the Mortgages acquired by the Issuer will be similar.

Write-Off Recovery Analysis

Financial period	Average outstanding current balance £'000	Current balance write-off £'000	Bad debts recovered £'000	Net balances written off £'000	Gross New Lending £'000
Year to September 2017	9,640,206	6,003	0	6,003	1,399,593
Year to September 2016	9,407,677	4,337	0	4,337	1,158,816
Year to September 2015	8,899,001	8,783	0	8,783	1,325,483
Year to September 2014	8,372,473	7,999	0	7,999	656,625
Year to September 2013	8,161,455	10,471	0	10,471	359,624
Year to September 2012	8,099,831	8,823	0	8,823	188,848
Year to September 2011	8,144,326	5,937	0	5,937	132,758
Year to September 2010	8,302,531	20,025	0	20,025	14,630
Year to September 2009	8,733,371	11,184	0	11,184	25,441
Year to September 2008	9,486,378	3,334	0	3,334	907,931
Year to September 2007	8,545,543	1,601	0	1,601	4,061,871
Year to September 2006	6,083,564	1,380	0	1,380	3,038,000
Year to September 2005	4,526,555	0	0	0	1,668,000
Year to September 2004	3,527,421	0	0	0	1,637,000
Year to September 2003	1,877,434	251	34	217	997,000
Year to September 2002	1,117,315	0	0	0	890,000
Year to September 2001	763,535	0	0	0	650,000
Year to September 2000	612,246	9	5	4	487,000
Year to September 1999	512,627	9	1	8	
Year to September 1998	306,011	0	0	0	
Year to September 1997	148,071	0	0	0	
Year to September 1996	60,838	0	0	0	
Year to September 1995	13,473	0	0	0	
Year to September 1994	26	0	0	0	

Note 1: Information contained herein for the year ended September 2000 and for subsequent years are for buy-to-let mortgages only. Prior to this date, all mortgages are included.

Note 2: Current balance write-offs, bad debts recovered and net balances written off for year to September 1999 and year to September 2000 are for owner-occupied mortgages only. For buy-to-let mortgages, there have been no current balance write offs, bad debts recovered and net balances written off for year to September 1999 and year to September 2000.

Note 3: Prior to 2006, the policy was to write off the loans when the loss was crystallised. The policy has changed such that current balance write-offs from and including September 2006 are post sale of the property and net of recoveries currently achieved but do not take into account potential recoveries from other secured properties or as a result of pursuing the personal covenant of the borrower. This change in policy means that write-offs from and including September 2006 may include amounts in respect of previous periods.

Note 4: The Seller'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 or the appointment of a receiver of rent, and the property has been sold, the net loss, after any disposal proceeds and insurance receipts, is provisioned for in full.

Date	Total outstanding current balance £'000	Performing £'000	per cent.	>1<=3 months in arrears £'000	per cent.	>3<=6 months in arrears £'000	per cent.	>6<=9 months in arrears £'000	per cent.	>9<=12 months in arrears £'000	per cent.	>12 months in arrears £'000	per cent.	Possession/ ROR accounts £'000	per cent.
Year to September 2017	9,750,899	9,527,056	97.70%	12,588	0.13%	106	0.00%	614	0.01%	119	0.00%	393	0.00%	210,023	2.15%
Year to September 2016	9,529,513	9,285,382	97.44%	13,883	0.15%	1,501	0.02%	1,458	0.02%	0	0.00%	361	0.00%	226,928	2.38%
Year to September 2015	9,285,840	9,026,056	97.20%	9,817	0.11%	2,690	0.03%	638	0.01%	111	0.00%	1,298	0.01%	245,231	2.64%
Year to September 2014	8,511,870	8,236,761	96.80%	7,453	0.10%	1,665	0.00%	305	0.00%	920	0.00%	1,271	0.01%	263,495	3.10%
Year to September 2013	8,233,077	7,930,322	96.30%	14,637	0.20%	1,775	0.00%	897	0.00%	894	0.00%	2,345	0.03%	282,206	3.43%
Year to September 2012	8,089,833	7,727,280	95.50%	67,559	0.80%	1,098	0.00%	573	0.00%	221	0.00%	2,135	0.03%	290,967	3.60%
Year to September 2011	8,109,828	7,745,861	95.50%	64,255	0.80%	1,098	0.00%	1,493	0.00%	955	0.00%	1,953	0.02%	294,213	3.63%
Year to September 2010	8,178,825	7,814,195	95.50%	75,932	0.90%	6,498	0.10%	1,312	0.00%	1,214	0.00%	1,466	0.02%	278,208	3.40%
Year to September 2009	8,426,236	7,915,988	93.90%	148,014	1.80%	22,405	0.30%	5,021	0.10%	978	0.00%	5,643	0.07%	328,187	3.89%
Year to September 2008	9,040,505	8,747,747	96.80%	127,105	1.40%	14,298	0.20%	771	0.00%	230	0.00%	1,163	0.01%	149,191	1.65%
Year to September 2007	9,932,250	9,824,857	98.90%	59,455	0.60%	1,541	0.00%	793	0.00%	441	0.00%	337	0.00%	44,826	0.45%
Year to September 2006	7,158,836	7,073,380	98.80%	37,380	0.50%	2,475	0.00%	378	0.00%	320	0.00%	186	0.00%	44,717	0.62%
Year to September 2005	5,008,292	4,929,376	98.40%	39,066	0.80%	4,153	0.10%	234	0.00%	228	0.00%	1,484	0.03%	33,751	0.67%
Year to September 2004	4,044,818	3,999,334	98.90%	24,119	0.60%	3,317	0.10%	113	0.00%	339	0.00%	1,645	0.04%	15,951	0.39%
Year to September 2003	3,010,023	2,990,304	99.30%	13,575	0.50%	4,257	0.10%	778	0.00%	29	0.00%	722	0.02%	358	0.01%
Year to September 2002	1,317,459	1,312,094	99.60%	2,398	0.20%	1,060	0.10%	684	0.10%	414	0.00%	809	0.06%	0	0.00%
Year to September 2001	917,171	912,024	99.40%	2,211	0.20%	2,111	0.20%	337	0.00%	325	0.00%	123	0.01%	40	0.00%
Year to September 2000	609,899	604,875	99.20%	3,480	0.60%	792	0.10%	109	0.00%	144	0.00%	351	0.06%	148	0.02%
Year to September 1999	614,593	605,106	98.50%	7,021	1.10%	1,387	0.20%	638	0.10%	182	0.00%	44	0.01%	215	0.03%
Year to September 1998	410,661	405,528	98.80%	4,038	1.00%	746	0.20%	62	0.00%	28	0.00%	0	0.00%	259	0.06%
Year to September 1997	201,360	198,439	98.50%	2,361	1.20%	396	0.20%	58	0.00%	0	0.00%	0	0.00%	106	0.05%
Year to September 1996	94,781	93,987	99.20%	794	0.80%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Year to September 1995	26,894	26,894	100.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%

Year to September 1994	51	51	100.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
------------------------	----	----	---------	---	-------	---	-------	---	-------	---	-------	---	-------	---	-------

Note 1: Information contained herein for the year ended September 2000 and for subsequent years are for buy-to-let mortgages only; prior to that date all mortgages are included.

Note 2: Information contained herein for the year ended September 2004 and for subsequent years indicate receiver of rent with possessions; prior to that date, such figures are not available.

THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool, evidenced by the mortgages described below (the "**Provisional Mortgage Pool**") as at 31 January 2018 (the "**Provisional Pool Date**") consisted of 4,498 Mortgages having a Provisional Balance (as defined below) of £760,813,566.95.

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

The Mortgages to be purchased by the Issuer on the Closing Date will be Mortgages selected from the Provisional Mortgage Pool and from other mortgages not included in the Provisional Mortgage Pool. Therefore the information set out below in relation to the Provisional Mortgage Pool may not necessarily correspond to that for the Mortgages sold to the Issuer (see "*The Mortgages – Acquisition of Mortgages*" above).

All of the Mortgages forming part of the Provisional Mortgage Pool were originated between 2011 and 2017.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 30 years, with the latest scheduled maturity of any mortgage loan in the Provisional Mortgage Pool being not later than 30 April 2048.

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

Overview of the Provisional Mortgage Pool

Product	Overall
Aggregate Balance	760,813,566.95
Number of Properties	4,498
Weighted Average LTV	70.29%
Minimum LTV	2.87%
Maximum LTV	82.19%
Weighted Average Seasoning (years).....	2.19
Minimum Seasoning (years).....	0.17
Maximum Seasoning (years).....	7.07
Average Loan Size	169,144.86
Minimum Loan Size.....	4,032.64
Maximum Loan Size	2,188,437.50
Weighted Average Remaining Term (years).....	18.93
Minimum Remaining Term (years).....	0.42
Maximum Remaining Term (years)	24.92
% of Professional Landlords	61.27%
% Private Investor Landlords	38.73%
% of Owner Occupied	0.00%
% in London and South East	56.98%
Weighted Average Rental Cover for Professional Investors.....	1.63
Weighted Average Rental Cover for Private Investors	1.51

Loan to value ratios (LTV)

Loan to value ratios (%)	Provisional balance £	% of total	Number of mortgages	% of total
> 0 <= 25	2,092,566.95	0.28%	29	0.64%
> 25 <= 50.....	23,996,969.45	3.15%	148	3.29%
> 50 <= 55	26,744,583.73	3.52%	125	2.78%
> 55 <= 60.....	40,096,144.07	5.27%	195	4.34%
> 60 <= 65.....	56,783,318.27	7.46%	299	6.65%
> 65 <= 70.....	100,388,024.60	13.19%	496	11.03%
> 70 <= 75.....	164,750,810.45	21.65%	858	19.08%
> 75 <= 76.....	175,757,366.60	23.10%	1,045	23.23%
> 76 <= 77.....	108,533,581.95	14.27%	777	17.27%
> 77 <= 78.....	20,559,612.14	2.70%	198	4.40%
> 78 <= 79.....	2,238,261.55	0.29%	17	0.38%
> 79 <= 80.....	4,292,329.36	0.56%	32	0.71%
> 80 <= 81	22,830,333.87	3.00%	182	4.05%
> 81 <= 82.....	9,245,900.15	1.22%	78	1.73%

> 82	2,503,763.81	0.33%	19	0.42%
Total	<u>760,813,566.95</u>		<u>4,498</u>	
Average LTV weighted by Provisional Balance.....			70.29%	

Average LTV Weighted by Provisional Balance

The average loan to value (the "LTV") weighted by Provisional Balance is 70.29 per cent. There has been no revaluation of any of the Properties for the purposes of the issue of the Notes. The information contained in this loan-to-value ratio table has been prepared using either the valuations of each of the Properties made available to the Seller as at the date of the initial mortgage origination or, where a more recent valuation (which in a majority of cases will have been carried out in connection with a borrower's request for a Discretionary Further Advance of a Property) has been made available to the Seller before the Provisional Pool Date, this more recent valuation.

Product Summary by Rate Fixing Method

<u>Product</u>	<u>Provisional balance £</u>	<u>% of total</u>	<u>Number of mortgages</u>	<u>% of total</u>
Fixed (reverting to Libor plus a variable margin)	328,189,301.03	43.14%	1,946	43.26%
Fixed (reverting to SVR).....	285,148,649.97	37.48%	1,530	34.02%
LIBOR-Linked (reverting to Libor plus a variable margin).....	44,875,031.70	5.90%	241	5.36%
LIBOR-Linked plus a variable margin	84,671,527.43	11.13%	684	15.21%
Non Reversionary LIBOR-Linked	<u>17,929,056.82</u>	2.36%	<u>97</u>	2.16%
Total	<u>760,813,566.95</u>		<u>4,498</u>	

Product Summary by Repayment Method

<u>Repayment method</u>	<u>Provisional balance £</u>	<u>% of total</u>	<u>Number of mortgages</u>	<u>% of total</u>
Interest only (optional switching to repayment)	698,801,056.84	91.85%	3,955	87.93%
Repayment	<u>62,012,510.11</u>	8.15%	<u>543</u>	12.07%
Total	<u>760,813,566.95</u>		<u>4,498</u>	

Provisional Balance Outstanding

<u>Provisional Balance Outstanding (£)</u>	<u>Provisional balance £</u>	<u>% of total</u>	<u>Number of mortgages</u>	<u>% of total</u>
0.00 to 100,000.....	118,312,058.17	15.55%	1,558	34.64%
100,000.01 to 200,000.....	237,372,434.62	31.20%	1,665	37.02%
200,000.01 to 300,000.....	187,392,381.95	24.63%	773	17.19%
300,000.01 to 400,000.....	103,232,540.37	13.57%	304	6.76%
400,000.01 to 500,000.....	41,482,754.96	5.45%	93	2.07%
500,000.01 to 750,000.....	48,354,029.57	6.36%	83	1.85%
750,000.01 to 1,000,000.....	12,779,320.18	1.68%	14	0.31%
1,000,000.01 to 1,250,000.....	3,270,840.00	0.43%	3	0.07%
1,250,000.01 to 1,500,000.....	2,716,550.88	0.36%	2	0.04%
1,500,000.01 to 1,750,000.....	1,682,168.75	0.22%	1	0.02%
1,750,000.01 to 2,000,000.....	-	0.00%	-	0.00%
Over 2,000,000.....	<u>4,218,487.50</u>	0.55%	<u>2</u>	0.04%
Total	<u>760,813,566.95</u>		<u>4,498</u>	
Average Loan Size	169,144.86			

Property Tenure

Tenure	Provisional balance £	% of total	Number of mortgages	% of total
Freehold	540,208,164.66	71.00%	3,133	69.65%
Leasehold	220,605,402.29	29.00%	1,365	30.35%
Feudal	-	0.00%	-	0.00%
Total	760,813,566.95		4,498	

Seasoning of Mortgages by Year

Origination year	Provisional balance £	% of total	Number of mortgages	% of total
2011	13,622,164.97	1.79%	84	1.87%
2012	4,169,517.78	0.55%	33	0.73%
2013	98,192,486.46	12.91%	737	16.39%
2014	87,680,478.52	11.52%	588	13.07%
2015	158,539,272.41	20.84%	955	21.23%
2016	174,034,524.03	22.87%	989	21.99%
2017	224,575,122.78	29.52%	1,112	24.72%
2018	-	0.00%	-	0.00%
Total	760,813,566.95		4,498	
Weighted average seasoning (months)			26.26	

Maturity of Mortgages

Remaining term (years)	Provisional balance £	% of total	Number of mortgages	% of total
> 0 < 5	9,554,864.51	1.26%	68	1.51%
>= 5 < 10	49,217,581.99	6.47%	319	7.09%
>= 10 < 15	105,030,378.31	13.81%	636	14.14%
>= 15 < 20	201,792,189.81	26.52%	1,198	26.63%
>= 20 < 25	395,218,552.33	51.95%	2,277	50.62%
>= 25 < 30	-	0.00%	-	0.00%
>= 30	-	0.00%	-	0.00%
Total	760,813,566.95		4,498	
Weighted average remaining term to maturity (years)			18.93	

Loan Purpose

Use of proceeds	Provisional balance £	% of total	Number of mortgages	% of total
House / Flat purchase	294,587,060.22	38.72%	1,920	42.69%
Remortgage	466,226,506.73	61.28%	2,578	57.31%
Total	760,813,566.95		4,498	

Geographical Dispersion

Region	Provisional balance £	% of total	Number of mortgages	% of total
North	20,958,267.16	2.75%	202	4.49%
North West	69,356,151.63	9.12%	586	13.03%
Yorkshire & Humberside	40,162,786.32	5.28%	396	8.80%
East Midlands	37,984,358.68	4.99%	341	7.58%
West Midlands	41,679,249.77	5.48%	341	7.58%
East Anglia	21,622,383.27	2.84%	158	3.51%
South East (excl. GL)	276,301,039.02	36.32%	1,299	28.88%
South West	69,249,180.11	9.10%	432	9.60%
Greater London	157,180,381.77	20.66%	494	10.98%
Wales	26,319,769.22	3.46%	249	5.54%
Scotland	-	0.00%	-	0.00%

Northern Ireland	-	0.00%	-	0.00%
Total	760,813,566.95		4,498	

Interest Charging Rate

<u>Interest rate bands</u>	<u>Provisional balance £</u>	<u>% of total</u>	<u>Number of mortgages</u>	<u>% of total</u>
less than 2.01%	-	0.00%	-	0.00%
2.01% to 2.50%	36,939,028.73	4.86%	225	5.00%
2.51% to 3.00%	57,640,900.54	7.58%	341	7.58%
3.01% to 3.50%	149,833,545.86	19.69%	811	18.03%
3.51% to 4.00%	329,244,364.16	43.28%	1,825	40.57%
4.01% to 4.50%	68,072,214.06	8.95%	407	9.05%
4.51% to 5.00%	35,053,705.83	4.61%	213	4.74%
5.01% to 5.50%	82,865,749.40	10.89%	668	14.85%
5.51% to 6.00%	1,164,058.37	0.15%	8	0.18%
6.01% to 6.50%	-	0.00%	-	0.00%
6.51% to 7.00%	-	0.00%	-	0.00%
7.01% to 7.50%	-	0.00%	-	0.00%
7.51% to 8.00%	-	0.00%	-	0.00%
more than 8.00%	-	0.00%	-	0.00%
Total	760,813,566.95		4,498	
Weighted average interest charging rate.....			3.809%	

Number of Months in Arrears - Overall

<u>Number of months</u>	<u>Provisional balance £</u>	<u>% of total</u>	<u>Number of mortgages</u>	<u>% of total</u>
up to 1	760,813,566.95	100.00%	4,498	100.00%
> 1 <= 2.....	-	0.00%	-	0.00%
> 2 <= 3.....	-	0.00%	-	0.00%
> 3 <= 4.....	-	0.00%	-	0.00%
> 4 <= 5.....	-	0.00%	-	0.00%
> 5 <= 6.....	-	0.00%	-	0.00%
> 6 <= 12.....	-	0.00%	-	0.00%
more than 12	-	0.00%	-	0.00%
Total	760,813,566.95		4,498	
Weighted average no. of months in arrears (for arrears cases)			-	

Number of Months in Arrears - Receiver of Rent cases

<u>Number of months</u>	<u>Provisional balance £</u>	<u>% of total</u>	<u>Number of mortgages</u>	<u>% of total</u>
up to 1	-	0.00%	-	0.00%
> 1 <= 2.....	-	0.00%	-	0.00%
> 2 <= 3.....	-	0.00%	-	0.00%
> 3 <= 4.....	-	0.00%	-	0.00%
> 4 <= 5.....	-	0.00%	-	0.00%
> 5 <= 6.....	-	0.00%	-	0.00%
> 6 <= 12.....	-	0.00%	-	0.00%
more than 12	-	0.00%	-	0.00%
Total	-		-	
Weighted average no. of months in arrears (for arrears R of R cases)			-	

Occupancy

<u>Occupancy</u>	<u>Provisional balance £</u>	<u>% of total</u>	<u>Number of mortgages</u>	<u>% of total</u>
Owner occupied	-	0.00%	-	0.00%
Letting – professional.....	466,134,968.72	61.27%	2,768	61.54%
Letting - emerging professional.....	294,678,598.23	38.73%	1,730	38.46%
Total	760,813,566.95		4,498	

Letting Occupancy

<u>Letting type</u>	<u>Provisional balance £</u>	<u>% of total</u>	<u>Number of mortgages</u>	<u>% of total</u>
Corporate	178,507,526.70	23.46%	1,113	24.74%
Non Corporate.....	582,306,040.25	76.54%	3,385	75.26%
Total	760,813,566.95		4,498	

MORTGAGE ADMINISTRATION

Introduction

Each of PML and Paragon Bank will be appointed by each of the Issuer and (to the extent of its interest as a sub-chargee), the Trustee to be its agent to administer the Mortgages to which it holds legal title pursuant to an administration agreement to be entered into on the Closing Date (the "**Administration Agreement**"). It is expected that PML and Paragon Bank will each will sub-contract its obligations as Administrator to PFPLC following the Closing Date.

PFPLC is a public limited company incorporated under the laws of England, registered number 1917566 and is an indirect wholly owned subsidiary of PBG. The registered office of PFPLC is 51 Homer Road, Solihull, West Midlands, B91 3QJ. PFPLC was incorporated on 29 May 1985 as Jordans 274 Public Limited Company and on 25 June 1985 changed its name to The Home Loans Corporation plc and on 29 August 1985 changed its name to The National Home Loans Corporation plc and on 7 April 1997 changed its name to Paragon Finance PLC. PFPLC's principal activity is that of providing services to the Paragon Banking Group including in particular servicing mortgage loans on residential properties located across the United Kingdom. PFPLC is a direct subsidiary of Paragon Bank PLC.

The Administrators will each administer the relevant Mortgages with the diligence and skill that a reasonably prudent mortgage lender would apply in administering its own mortgages subject to the provisions of the Administration Agreement. The Administrators will each undertake that they will comply with any proper directions, orders and instructions which the Issuer or the Trustee may from time to time give to the Administrators in accordance with the provisions of the Administration Agreement. Save as provided therein, the Administration Agreement will be conditional upon completion of the sale and purchase of Mortgages referred to in the Mortgage Sale Agreement taking place. Subject to certain conditions, either of the Administrators appointments can be terminated by the Trustee in the event of a breach by that Administrator of the terms of the Administration Agreement which, in the opinion of the Trustee is materially prejudicial to the interests of the holders of the Most Senior Class of Notes or in the event of non-payment of amounts due and payable by the relevant Administrator, non-payment by the Issuer of principal or interest on the Notes as a result of an Administrator failing to comply with its covenants, the failure of an Administrator to provide the Substitute Administrator and the Trustee with the Administrator Report within three Business Days from the Principal Determination Date, or the insolvency of either of the Administrators, provided in each case that if the relevant event has occurred in relation to only one of the Administrators, (x) the event shall (in the case of the relevant event being an Administrator Termination Event as specified in limb (c) of the definition thereof) be deemed to be remedied, (y) (in the case of any Administrator Termination Event) for all purposes under the Relevant Documents no Administrator Termination Event shall have occurred and, for the avoidance of doubt, any termination of the Administrators that occurs with immediate effect on the occurrence of an Administrator Termination Event shall be deemed not to have occurred and (z) the event shall (in the case of any Administrator Termination Event) entitle the appointment of the defaulting Administrator only to be terminated, if the non-defaulting Administrator (in its absolute discretion) gives notice to the Trustee, the Substitute Administrator and the Issuer no later than the date falling 5 days after the occurrence of the relevant event and the non-defaulting Administrator takes over all the rights and obligations under the Relevant Documents of the relevant Administrator in relation to which the relevant event occurred (provided that in the case of the relevant event being an Administrator Termination Event under limbs (a), (b), (d) or (e) of the definition thereof, the non-defaulting Administrator has remedied the relevant event prior to giving such notice and the non-defaulting Administrator certifies to that effect, which certification the Trustee can rely on without further investigation or liability).

In addition, the Administrators' appointment will, unless the Trustee and the Issuer agree otherwise (or if the events set out in (a) and/or (b) below are applicable to one Administrator only, the other Administrator replaces the defaulting Administrator in the manner described above such that the events set out in (a) and/or (b) below are no longer continuing and the other Administrator certifies to that effect, which certification the Trustee can rely on without further investigation or liability), be terminated with immediate effect if at any time; (a) an Administrator does not have any authorisation under the FSMA which it is required to have in order to enable it to perform the services which it will agree in the Administration Agreement to perform without it; or (b) the Issuer carrying on a regulated activity in the United Kingdom in breach of Section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised and has not delegated the performance of such services to a person having

the necessary authorisations under the FSMA in accordance with the Administration Agreement (see "*Delegation by the Administrators*" below).

Mortgage Interest Rate

After completion of the sale and purchase of the Mortgages referred to in the Mortgage Sale Agreement and pursuant to the Administration Agreement, each Administrator (on behalf of the Seller and the relevant Legal Title Holder, the Issuer and (to the extent of its interest as sub-chargee) the Trustee) will set or calculate the rates of interest applicable to the Mortgages administered by it in accordance with the Mortgage Conditions (except in the case of Fixed Rate Mortgages and the LIBOR-Linked Mortgages) except in certain limited circumstances when the Trustee or the Issuer or a substitute administrator or the Substitute Administrator will be entitled (but not obliged, in the case of the Trustee) to do so.

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

In setting the interest rates on the Mortgages, the Administrators 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 Margin Reserve Fund and Conversion Margin Reserve Fund*" below.

Mortgage Margin Reserve Fund and Conversion Margin Reserve Fund

On each Further Sale Date, PML as Administrator will determine the Additional Mortgage MRF Required Amount in respect of the Additional Mortgages to be acquired by the Issuer from the Sellers on such Further Sale Date. It is an Additional Mortgage Condition that either: (x) the weighted average interest rate applicable to the Current Balance of all Mortgages in the Mortgage Portfolio (including any Additional Mortgages acquired on such Further Sale Date) after taking into account any Basis Hedge Agreements and the Interest Rate Converted Mortgage Release Amounts expected on the immediately following Interest Payment Date is not less than Mortgage MRF LIBOR plus 3 per cent. or (y) if such weighted average interest rate is less than Mortgage MRF LIBOR plus 3 per cent, the amount standing to the credit of the Mortgage Margin Reserve Fund on such Further Sale Date is equal to or greater than the Adjusted Mortgage MRF Required Amount.

On each Interest Payment Date, PML as Administrator will (a) determine the expected aggregate Additional Mortgage MRF Required Amounts for the current Collection Period and shall credit the Mortgage MRF Discretionary Amount to the Mortgage MRF Discretionary Fund to the extent received pursuant to the Revenue Priority of Payments and (b) debit from the Mortgage Margin Reserve Fund Ledger and credit to the Revenue Ledger the Quarterly MRF Release Amount applicable to the Mortgages for the Collection Period ending on the immediately preceding Principal Determination Date. Please see the section above entitled "*Key Structural Features – Credit Enhancement and Liquidity Support – Liquidity support provided by the Mortgage Margin Reserve Fund*".

The relevant Administrator shall, on the last Business Day of each month identify each Proposed Interest Rate Converted Mortgage. On each Interest Payment Date, PML as Administrator may credit the Conversion MRF Discretionary Fund with the Conversion MRF Discretionary Amount from the Revenue Ledger in order to credit the Conversion Margin Reserve Fund Ledger for the Proposed Interest Rate Converted Mortgage from the Conversion MRF Discretionary Fund Ledger on each Interest Payment Date, the relevant Administrator will credit to the Revenue Ledger the aggregate of the Interest Rate Converted Mortgage Release Amounts applicable to each Interest Rate Converted Mortgage on the immediately preceding Principal Determination Date. Please see the section above entitled "*Key Structural Features – Credit Enhancement and Liquidity Support – Liquidity support provided by Conversion Margin Reserve Fund*".

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 Accounts and then will be transferred on not later than the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

Under the "**PML 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 PML Collection Account are held on trust for the Issuer until they are applied in the manner described above. The PML Collection Account Declaration of Trust is and will be supplemental to, additional to and subject to each other declaration of trust made or to be made from time to time by PML in respect of amounts credited from time to time to the PML Collection Account which are not held on trust for the Issuer pursuant to the PML Collection Account Declaration of Trust.

Under the "**PB Collection Account Declaration of Trust**" (together with the PML Collection Account Declaration of Trust, the "**Collection Account Declarations of Trust**"), Paragon Bank 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 PB Collection Account are held on trust for the Issuer until they are applied in the manner described above. The PB Collection Account Declaration of Trust is and will be supplemental to, additional to and subject to each other declaration of trust made or to be made from time to time by Paragon Bank in respect of amounts credited from time to time to the PB Collection Account which are not held on trust for the Issuer pursuant to the PB Collection Account Declaration of Trust.

The Collection Accounts shall at all times be maintained with a bank (a) (i) with a short-term, issuer default rating by Fitch of at least F2 or (ii) has a long-term issuer default rating by Fitch of at least BBB+; and (b) whose long-term, unsecured and unsubordinated debt is rated at least Baa3 by Moody's or such ratings which are consistent with the then current criteria of Moody's as being the minimum ratings that are required to support the then rating of the Most Senior Class of Rated Notes. If the relevant bank ceases to satisfy the criteria mentioned above, the Administration Agreement will contain provisions requiring the Administrators and the Issuer to use commercially reasonable efforts to arrange for the transfer of the Collection Accounts to another bank which does satisfy such criteria within 30 calendar days of such occurrence (or such longer period as may be agreed to by the Trustee). If the Collection Accounts are transferred to another bank which satisfies such criteria (a) the Administrators shall arrange for all direct debit payments made by borrowers under the Mortgages and all other moneys in respect of the Mortgages purchased by the Issuer (including cheque payments, redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) to be made or paid into the new Collection Account and (b) the Seller shall execute a declaration of trust in the same terms, *mutatis mutandis*, as the Collection Account Declarations of Trust in respect of such new Collection Account.

PML as Administrator and/or any Seller may at any time transfer the Transaction Account to HSBC Bank plc, Barclays Bank PLC or Wells Fargo Bank, N.A. without the consent of the Trustee or any other party provided that at such time HSBC Bank plc, Barclays Bank PLC or, as the case may be, Wells Fargo Bank N.A. (i) has a short-term issuer default rating by Fitch of at least F1 or (ii) has a long-term issuer default rating by Fitch of at least A; and whose long-term, unsecured and unguaranteed debt is rated at least A3 by Moody's; or HSBC Bank plc, Barclays Bank PLC or, as the case may be, Wells Fargo Bank N.A. has at such time such other ratings as are consistent with the then current criteria of the relevant Rating Agencies as being the minimum ratings required to support the then current ratings of the Most Senior Class of Rated Notes.

The Administrators and/or the Seller may at any time transfer the Collection Accounts to HSBC Bank plc without the consent of the Trustee or any other party provided that at such time HSBC Bank plc (i) has a short-term issuer default rating by Fitch of at least F2 or (ii) a long-term issuer default rating by Fitch of at least BBB+; and whose long-term, unsecured and unguaranteed debt is rated at least Baa3 by Moody's; or HSBC Bank plc has at such time such other ratings as are consistent with the then current criteria of Moody's as being the minimum ratings required to support the then current ratings of the Most Senior Class of Rated Notes.

Upon the transfer of the Transaction Account to HSBC Bank plc, Barclays Bank PLC or, as the case may be, Wells Fargo Bank N.A., PML as Administrator will procure that (i) at the time the transfer is effective, the new account is charged to the Trustee in the same manner as the Transaction Account is charged to the Trustee pursuant to the Deed of Charge and HSBC Bank plc, Barclays Bank PLC or, as the case may be, Wells Fargo Bank N.A. shall be requested to acknowledge receipt of notice of such charge; (ii) the provisions of the Administration Agreement relating to the ratings and transfer of the Transaction Account

shall apply to such new bank account; (iii) the provisions of the Deed of Charge and the Administration Agreement relating to payments from the Transaction Account shall apply to such new bank account; and (iv) the arrangements for operation of such bank account shall be the same as in relation to the Transaction Account and PML as Administrator shall notify the Trustee of such transfer as soon as practicable and deliver to the Trustee a certificate confirming that conditions (i) to (iv) have been met as soon as reasonably practicable following the completion thereof.

Upon the transfer of the PML Collection Account to HSBC Bank plc or the PB Collection Account to Barclays Bank plc, the Administrators will notify the Trustee of such transfer as soon as reasonably practicable and procure that (a) all direct debit payments made by the borrowers under the Mortgages and all other moneys paid in respect of the Mortgages purchased by the Issuer (including cheque payments, redemption moneys and moneys recovered on the sale of Properties following enforcement of any Mortgage) are made or paid into the new PML Collection Account or the new PB Collection Account (as the case may be); (b) the Seller executes a declaration of trust in the same terms, *mutatis mutandis*, as the Collection Account Declaration of Trust in respect of such new PML Collection Account or the new PB Collection Account Declaration of Trust in respect of the PB Collection Account; and (c) (i) notice is given to HSBC Bank plc or Barclays Bank plc (as the case may be) of the new declarations of trust executed pursuant to (b) above and the assignment of the rights of the Issuer under such declarations of trust; (ii) the Trustee is provided with a copy of such notice and a copy of the new declarations of trust and the Administrators shall deliver to the Trustee a certificate confirming that conditions (a) to (c) have been met as soon as reasonably practicable following the completion thereof.

Arrears and Default Procedures

Each Administrator will endeavour to collect all payments due under or in connection with the Mortgages administered by it in accordance with its procedures from time to time having regard to the circumstances of the borrower in each case (but always acting as a reasonably prudent mortgage lender). The procedures may include one or more of appointing a receiver of rent, making arrangements whereby a borrower's payments may be varied, pursuing (including taking legal action against) one or more guarantors of the sums owing under the Mortgage, sale of the relevant Property with sitting tenants as an investment and taking legal action for possession and subsequent sale of the relevant Property with vacant possession.

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

In order to realise its security in respect of a property located in England or Wales, the relevant mortgagee (be it a Legal Title Holder, the Issuer, the Trustee or any receiver appointed by the Trustee (if the Trustee has taken enforcement action against the Issuer)) will need to obtain possession. Any action for possession of a Property the subject of a letting would include a claim not only against any tenants but also against the borrower to assist in defeating any subsequent attempt by the borrower to assert a right of occupation. In broad terms, a lender has the same (but no better) rights against a tenant (for example, to regain possession) as are enjoyed by the borrower as landlord. Where the tenant is an individual, he will, as an assured shorthold tenant, have a limited right to security of tenure in that although an order for possession must be made against the tenant (provided, in certain cases, prescribed notices have been served) it cannot take effect earlier than six months after the beginning of the tenancy in the case of a periodic tenancy, or, in the case of a fixed term tenancy, before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement. Where the tenant is other than an individual, an order for possession cannot take effect before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement. The borrower is permitted to grant a fixed term tenancy of up to 36 months provided that where the term exceeds 12 months the tenancy agreement provides for the borrower (and any receiver acting as the borrower's agent) to terminate the fixed term upon any lender who has taken the Property as security having the right to exercise its power of sale.

Once possession of the property has been obtained, the relevant mortgagee has a duty to the borrower to take reasonable care to obtain the best price reasonably obtainable at the time for the property. Any failure to do so will put the relevant mortgagee at risk of an action for breach of such duty by the borrower, although it is for the borrower to prove breach of such duty. There is also a risk that a borrower may also take court action to force the relevant mortgagee to sell the property within a reasonable time. The net proceeds of

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

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

Where the funds arising from application of the above procedures are insufficient to pay all amounts owing in respect of a Mortgage, such funds will be applied first in paying interest and costs, and secondly in paying principal owing in respect of such Mortgage. If an amount is still outstanding (the "**outstanding amount**") in respect of the Mortgage, a provision will be made for the outstanding amount (to the extent that it represents principal owing in respect of a Mortgage) in the Principal Deficiency Ledger, forming part of the Issuer's accounts, although circumstances may arise in which this provision is subsequently reduced.

Cross-collateral Mortgages and Cross-collateral Rights

The conditions of each of the Mortgages (each a "**Cross-collateral Mortgage**") provide, among other things, some "**Cross-collateral Rights**" which allow the relevant mortgagee of any such Cross-collateral Mortgage:

- (i) to declare immediately due and repayable each liability secured by that Cross-collateral Mortgage and to exercise the statutory power of sale under that Cross-collateral Mortgage if and when the mortgagee of any other Cross-collateral Mortgage in the name of the same mortgagor is entitled to declare immediately due and repayable any liability secured by that other Cross-collateral Mortgage; and
- (ii) to apply the proceeds of enforcement under the Cross-collateral Mortgages of the relevant mortgagor against all liabilities secured by the Cross-collateral Mortgages.

At or about the Closing Date the Issuer and the Trustee will enter into a "**PML Cross-collateral Mortgage Rights Accession Deed**" pursuant to which the Issuer shall become a party to a deed (being, together with the PML Cross-Collateral Mortgage Rights Accession Deed, the "**PML Cross-collateral Mortgage Rights Deed**") entered into by the Trustee, the Warehouse, PML and Paragon Bank, among others, to regulate the respective rights between each person who as the date of this Prospectus has or may have a beneficial and/or legal interest in any Mortgage that is a Cross-collateral Mortgage originated by PML that includes Cross-collateral Rights which may apply to one or more of the Mortgages.

In addition, at or about the Closing Date the Issuer, the Trustee and Paragon Bank will enter into the "**Paragon Bank Cross-collateral Mortgage Rights Deed**" (together with the PML Cross-collateral Mortgage Rights Deed, the "**Cross-collateral Mortgage Rights Deeds**") to regulate the respective rights between each person who as the date of this Prospectus has or may have a beneficial and/or legal interest in any Mortgage originated by Paragon Bank that is a Cross-collateral Mortgage that includes Cross-collateral Rights which may apply to one or more of the Mortgages.

The Cross-collateral Mortgage Rights Deeds seek to provide that each party thereto who is a beneficial owner of a Cross-collateral Mortgage (which, upon it becoming a party to the Cross-collateral Mortgage Rights Deeds, will include the Issuer) or has legal title to a Cross-collateral Mortgage: (i) shall only have Cross-collateral Rights in respect of Cross-collateral Mortgages that it beneficially owns; (ii) waives all rights to exercise Cross-collateral Rights in respect of other Cross-collateral Mortgages which are not beneficially owned by it; (iii) waives all rights to take any action or proceedings against any other beneficial owner of Cross-collateral Mortgages to exercise the Cross-collateral Rights of that other beneficial owner; (iv) waives any rights to the proceeds of enforcement of Cross-collateral Mortgages not beneficially owned by it; and (v) agrees that if it enforces a Cross-collateral Mortgage in respect of which Cross-collateral Rights attach, the proceeds of such enforcement after deduction of all related costs and expenses shall be applied by or on behalf of it in respect of the Cross-collateral Mortgages beneficially owned by it firstly to repay all amounts owing by the mortgagee under the enforced Cross-collateral Mortgage beneficially owned by it in accordance with the applicable Mortgage Conditions and, secondly, to the extent there are additional proceeds of enforcement, apply such proceeds in accordance with the approach of a reasonable, prudent mortgage lender.

Further Advances

Each further advance (each a "**Further Advance**") made on behalf of the Issuer in relation to the Mortgages will be either a Mandatory Further Advance or a Discretionary Further Advance (each as defined below).

In this Prospectus:

"**Mandatory Further Advance**" means each further advance in respect of a Mortgage representing any part of the original advance retained pending completion of construction or refurbishment.

"**Discretionary Further Advance**" means each further advance in respect of a Mortgage other than a Mandatory Further Advance.

Mandatory Further Advances

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

In all cases where a Mandatory Further Advance in respect of a Mortgage is to be made, the Issuer expects to fund such Mandatory Further Advance firstly from amounts standing to the credit of the MFA Pre-Funding Reserve Ledger and secondly from the principal moneys then held by it referred to in item (i) of the Principal Priority of Payments or item (i)(b) of the Enforcement Priority of Payments.

On the Closing Date it is expected that the Issuer will credit an amount equal to 0.08% of the Initial Principal Amount of the Notes to the MFA Pre-Funding Reserve Ledger of the Transaction Account.

To the extent the MFA Pre-Funding Reserve Ledger Release Date has not occurred, PML as Administrator may be required in certain circumstances, to debit, on or before the Principal Determination Dates relating to the Interest Payment Dates falling in each of 15 February 2020, 15 February 2021, 15 February 2022 and 15 February 2023, amounts from the MFA Pre-Funding Reserve Ledger and credit such amounts to the Principal Ledger. Such amounts shall then be applied either to purchase Mandatory Further Advances or Additional Mortgages on or before the immediately following Interest Payment Date or as Available Redemption Funds in repayment of the Notes on the immediately following Interest Payment Date.

The outstanding credit balance of the MFA Pre-Funding Reserve Ledger (if any) shall be debited from the MFA Pre-Funding Reserve Ledger and credited to the Principal Ledger on the earlier of (x) the Principal Determination Date immediately preceding any Interest Payment Date from the Closing Date to (and excluding) the Step-Up Date so designated by PML as Administrator (the "**MFA Pre-Funding Reserve Ledger Release Date**") and (y) the Principal Determination Date immediately preceding the Step-Up Date. Following the crediting of such amounts to the Principal Ledger, such amounts shall be applied as Available Redemption Funds in repayment of the Notes on the immediately following Interest Payment Date.

Discretionary Further Advances

Each Further Advance in respect of a Mortgage which is not a Mandatory Further Advance will be a Discretionary Further Advance. At its discretion PML as Administrator on behalf of the Issuer may decide to make a Discretionary Further Advance on the security of the Property subject to the Mortgage on the request of a borrower provided that certain conditions in the Administration Agreement are satisfied and (provided further that (among other things):

- (i) there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date;
- (ii) the General Reserve Fund is at least equal to the General Reserve Fund 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 Class S VFN in an amount which, when credited to the General Reserve Fund Ledger, is sufficient to replenish the General Reserve Fund to the General Reserve Fund Required Amount);
- (iii) 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;

- (iv) at the last Principal Determination Date, the Current Balance of Mortgages which are more than three months in arrears is less than 2 per cent. of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised within the 12 months immediately preceding such time);
- (v) neither the relevant Legal Title Holder nor the relevant Administrator has received notice that the relevant Borrower was or is in breach of the relevant Mortgage Conditions;
- (vi) on the immediately preceding Principal Determination Date, the weighted average Current LTV Ratio did not exceed 75 per cent.;
- (vii) on the last Principal Determination Date, the aggregate Current Balance of the Mortgages of the 20 largest borrowers did not exceed £40,000,000; and
- (viii) the amount standing to the credit of the Principal Ledger on the date of the Discretionary Further Advance is sufficient to enable the Issuer to redeem the Class A Notes down to the Class A Target Notional on the next following Interest Payment Date.

In addition, the Issuer may fund a Discretionary Further Advance to a borrower as part of its arrears and default procedures by capitalising certain outstanding arrears of interest payable by a borrower. The capitalisation of outstanding arrears constitutes a capitalisation for these purposes if the capitalised amount is added to the principal balance of the Mortgage and the relevant borrower's arrears are discharged (and a debit is made to the Principal Ledger and credit is made to the Revenue Ledger).

The Issuer is not entitled to agree to fund any Discretionary Further Advance unless it can fund it out of Available Redemption Funds.

In all cases where a Discretionary Further Advance is to be made, the Issuer may use principal moneys referred to in item (ii) of the Principal Priority of Payments.

Discretionary Further Advances (other than by way of capitalisation of arrears) will not be made or funded 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; and
- (iii) all Mandatory Further Advances which may be required to be made after the making of the relevant Discretionary Further Advance would, on the date of the relevant Discretionary Further Advance,

exceeds a combined aggregate cumulative limit of 16 per cent. of the aggregate of the Initial Principal Amount of the Notes.

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

Further Advances – general provisions

The Mortgage Sale Agreement provides that on each occasion that a Further Advance is made by or on behalf of and in the name of the relevant Legal Title Holder to a borrower under and on the security of a Mortgage using funds provided for that purpose by or on behalf of the Issuer and/or Trustee, then the relevant Seller agrees to sell and will immediately upon making such Further Advance be deemed to have sold to the Issuer all its rights and interest to that Further Advance in consideration for the provision of those funds.

If the Issuer does not wish, or is unable, to fund a Further Advance, the relevant Legal Title Holder may (but is not obliged to) make that Further Advance on the security of a second mortgage or standard security over the Property in question (postponed to the relevant Mortgage).

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

Conversion of Mortgages

The relevant Administrator may as part of an arrears management programme agree to convert a Mortgage to an Arrears Converted Mortgage at any time without limit and without any further condition or consent being required (and for the avoidance of doubt, such mortgage that is converted as part of an arrears management programme shall not be a Converted Mortgage).

The relevant Administrator may (but shall not be obliged to) agree to any request by a Borrower to convert his Mortgage (or, in the case of a default by a Borrower, may itself elect to convert such Borrower's Mortgage) to an Interest Rate Converted Mortgage provided that the Interest Rate Converted Mortgage Conditions are satisfied.

Each Administrator shall, on the last Business Day of each month identify each Proposed Interest Rate Converted Mortgage.

If (i) an Administrator Termination Event occurs in respect of any Administrator, or (ii) the Administrator is HML or any other substitute administrator is appointed as Administrator, no Mortgage may be converted by an Administrator to an Interest Rate Converted Mortgage and no Conversion MRF Required Amount shall be credited to the Conversion Margin Reserve Fund Ledger.

The Administrators may elect to convert a Mortgage administered by it to a Repayment Converted Mortgage and take steps to effect such conversion provided that following such conversion either (i) the aggregate Current Balance of such Repayment Converted Mortgages in the Mortgage Portfolio (as at the date of the conversion and without regard to any prepayment, repayment or redemption following the date of conversion) does not exceed 10 per cent. of the sum of (x) the aggregate Current Balance, as of the Closing Date, of the Mortgages included in the Mortgage Portfolio and (y) the aggregate Current Balance, as of the relevant Purchase Date on which they were acquired by the Issuer, of Additional Mortgages in the Mortgage Portfolio or (ii) where the aggregate Current Balance of such Repayment Converted Mortgages in the Mortgage Portfolio (as at the date of the conversion and without regard to any prepayment, repayment or redemption following the date of conversion) does exceed 10 per cent. of the sum of (x) the aggregate Current Balance, as of the Closing Date, of the Mortgages included in the Mortgage Portfolio and (y) the aggregate Current Balance, as of the relevant Purchase Date on which they were acquired by the Issuer, of Additional Mortgages in the Mortgage Portfolio, the Rating Agencies have confirmed that the conversion of such Mortgages will not adversely affect the then current ratings of the Rated Notes.

For the avoidance of doubt, any Mortgage may be converted to an Interest Rate Converted Mortgage and/or a Repayment Converted Mortgage, subject to satisfaction of the applicable conditions set out in the Administration Agreement.

The Trustee will not make any investigation as to the manner in which any Converted Mortgages or Additional Mortgages, if any, differ from the Mortgages purchased by the Issuer on the Closing Date, or on the date of such purchase of any Additional Mortgages, if any, or as to the compliance thereof with the criteria referred to herein.

In addition to the ability of the Administrators to convert Mortgages as described above, an Administrator, as a reasonably prudent lender, may make the variations to the Mortgages listed below (in each case, without condition and at the discretion of the relevant Administrator):

- (a) a change of a party to a Mortgage or a release of part of the land subject to the Mortgage;
- (b) any change in the frequency with which the interest payable in respect of the Mortgage is charged;

- (c) any change in the maturity date of any Mortgage (to be no later than 30 April 2048); and
- (d) any variation imposed by statute.

Insurance

Each Administrator will, on behalf of the Issuer, administer the arrangements for insurance in respect of, or in connection with, the Mortgages administered by it to which the Issuer is a party or in which the Issuer has an interest and will make claims on behalf of the Issuer under any such insurance policies when necessary. See "*Insurance Coverage*" above.

Reinvestment of Income

The Transaction Account shall at all times be maintained with a bank (a)(i) which has a short-term, issuer default rating by Fitch of at least F1; or (ii) which has a long-term issuer default rating by Fitch of at least A; and whose long-term, unsecured and unsubordinated debt is rated at least A3 by Moody's or (b) ratings are otherwise consistent with the then current criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Rated Notes. If such bank ceases to satisfy the criteria mentioned above, the Administration Agreement will contain provisions requiring PML as Administrator and the Issuer to use commercially reasonable efforts 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, may be invested (a) in Sterling denominated securities, bank accounts or other obligations of or rights against entities in respect of any monies in any entities for a period of not more than 30 days (other than in respect of any asset-backed securities, credit linked notes, swaps, other derivative instruments or synthetic securities) (i) which have a long-term issuer default rating by Fitch of at least A and whose long term unsecured and unguaranteed debt is rated at least A3 by Moody's and (ii) with a short term issuer default rating by Fitch of at least F1; or (b) in such other Sterling denominated securities, bank accounts or other obligations (other than in respect of any asset-backed securities, credit linked notes, swaps, other derivative instruments or synthetic securities) as would not adversely affect the then current ratings of the Most Senior Class of Rated Notes provided that any monies invested in entities for a period of more than 31 days are invested in an entity with (i) a long term issuer default rating by Fitch of at least AA- and whose long term unsecured and unguaranteed debt is rated at least A2 by Moody's and whose short term unsecured and unguaranteed debt is rated at least P-1 by Moody's and (ii) with a short term issuer default rating by Fitch of at least F1+ (each an "**Authorised Investment**"). Such investments and deposits must always be immediately repayable on demand or mature on or before the next Interest Payment Date or, if the Issuer will have insufficient available cash funds in the Revenue Ledger to make payments which are due and payable on the next Interest Payment Date, on that next Interest Payment Date and will be charged to the Trustee and form part of the security for the payment of principal and interest on the Notes.

Delegation by the Administrators

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

The consents and conditions referred to in the paragraph above will not be required in respect of any delegation to a holding company or subsidiary of PBG. It is expected that the Administrators will sub-contract their obligations to PFPLC following the Closing Date.

The sub-contracting or delegation arrangements in respect of the performance of the administration services by the Administrators described in the paragraphs above shall also apply to HML upon HML (in its capacity as Substitute Administrator) assuming the performance of the administration services as successor Administrator following the occurrence of an Administrator Termination Event.

Termination of the appointment of the Administrators

The appointment of each Administrator may be terminated while any of the following events is continuing (each an "**Administrator Termination Event**"):

- (a) certain payment defaults by an Administrator;
- (b) default by an Administrator in the performance or observance of its covenants and obligations under the Administration Agreement, which in the opinion of the Trustee is materially prejudicial to the holders of the Most Senior Class of Notes (except where, in the reasonable opinion of the Trustee, such default is incapable of remedy, when no such continuation and/or notice as is hereinafter mentioned will be required) such default continues unremedied for a period of 14 days after the earlier of that Administrator becoming aware of such default and receipt by that 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 that 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 that Administrator if within such 14 day period that Administrator terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Issuer or the Trustee may reasonably specify to remedy such default or to indemnify the Issuer and the Trustee against the consequences of such default;
- (c) the occurrence of an Insolvency Event (as defined below) in relation to an Administrator;
- (d) PML as Administrator fails to provide the Substitute Administrator and the Trustee with the Administrator Report within three Business Days from the Principal Determination Date; or
- (e) the Issuer fails to pay the principal or interest on the Notes when it is due and payable as a result of an Administrator failing to comply with its covenants or perform its other obligations under the Administration Agreement.

Following the occurrence of an Administrator Termination Events in paragraphs (b) and (c) above, the Issuer or Trustee may terminate the appointment of each Administrator by notice in writing to each Administrator with effect from a date specified in the notice (not earlier than the date of the notice) and following the occurrence of an Administrator Termination Events in paragraphs (a), (d) and (e) above, while HML is appointed as Substitute Administrator, the appointment of the Administrator will, unless the Administrators, the Trustee and the Issuer agree otherwise, terminate with immediate effect, in each case, save that the appointment of the Administrators shall continue to the extent required to ensure that the administration services under the Administration Agreement continue to be performed pending the Substitute Administrator's assumption of the performance of such services.

Any termination of the appointment of the Administrators following an Administrator Termination Event (as described above) is subject to the proviso that if the relevant event has occurred in relation to only one of the Administrators: (x) the event shall (in the case of the relevant event being an Administrator Termination Event as specified in limb (c) of the definition thereof) be deemed to be remedied, (y) (in the case of any Administrator Termination Event) for all purposes under the Relevant Documents no Administrator Termination Event shall have occurred and, for the avoidance of doubt, any termination of the Administrators that occurs with immediate effect on the occurrence of an Administrator Termination Event shall be deemed not to have occurred and (z) the event shall (in the case of any Administrator Termination Event) entitle the appointment of the defaulting Administrator only to be terminated, in the case of (x), (y) and (z), if the non-defaulting Administrator (in its absolute discretion), gives notice to the Trustee, the Substitute Administrator and the Issuer no later than the date falling 5 days after the occurrence of the relevant event and the non-defaulting Administrator takes over all the rights and obligations under the Relevant Documents of the relevant Administrator in relation to which the relevant event occurred (provided that in the case of the relevant event being an Administrator Termination Event under limbs (a), (b), (d) or (e) of the definition thereof, the non-defaulting Administrator has remedied the relevant event prior to giving such notice and the non-defaulting Administrator certifies to that effect, which certification the Trustee can rely on without further investigation or liability).

In addition the Administrators' appointment will, unless the Trustee and the Issuer agree otherwise be terminated with immediate effect if at any time:

- (a) an Administrator (or any sub-contractor or delegate of an Administrator appointed by that Administrator to perform the relevant services) does not have any authorisation under the FSMA which it is required to have in order to enable it to perform the services which it is to agree in the Administration Agreement to perform without it; or
- (b) the Issuer carries on a regulated activity in the United Kingdom in breach of section 19 of the FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.

If a default has occurred under the Administration Agreement which entitles the Issuer or the Trustee to terminate the appointment of the Administrators or the appointment of the Administrators has been terminated with immediate effect as described in the preceding paragraphs or if the Substitute Administrator's obligations have been terminated in accordance with the Substitute Administrator Agreement, then the Issuer (with the assistance of the Substitute Administrator Facilitator) or the Trustee may (i) appoint a third party to assume the performance of the Cash Bond Management Services only and (ii) by notice in writing to the Administrators terminate the appointment of the Administrators in respect of the Cash Bond Management Services only with effect from a date specified in the notice (not earlier than the date of the notice). If the Administrators' appointment is terminated in respect of the Cash Bond Management Services only, the appointment of the Administrators in respect of their remaining duties and obligations under the Administration Agreement shall continue.

In this Prospectus:

"Cash Bond Management Services" means the calculation of, and the issuance of any payment instructions on behalf of the Issuer in respect of, all amounts payable by the Issuer under the Relevant Documents, the Conditions of the Notes and the Conditions of the Residual Certificates; and

"Insolvency Event" means, in respect of a company, any of the following:

- (i) an order being made or an effective resolution being passed for winding up of such company;
- (ii) such company ceasing or threatening to cease to carry on its business or a substantial part of its business or stopping payment or threatening to stop payment of its debts or such company being deemed unable to pay its debts within the meaning of Section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended) or becoming unable to pay its debts as they fall due or the value of its assets falling to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becoming insolvent; or
- (iii) proceedings being initiated against such company under any applicable liquidation, administration, insolvency, composition, reorganisation (other than a reorganisation the terms of which have been approved by the Trustee and where such company is solvent) or other similar laws, save where such proceedings are being contested in good faith by any Administrator, or an administrative or other receiver, administrator or other similar official is appointed in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of such company, or a distress, execution, diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of such company and in any of the foregoing cases it shall not be discharged within 15 days; or if the company shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally.

The appointment of the Administrator under the Administration Agreement may also be terminated upon the expiry of not less than 6 months' notice of termination given by each Administrator to each of the Issuer and the Trustee, if:

- (a) the Issuer, the Trustee and the Substitute Administrator consent in writing;
- (b) a substitute administrator (which can include the Substitute Administrator) is appointed, such appointment to be effective not later than the date of termination of the appointment of any Administrator (and the Administrator shall notify the Rating Agencies in writing of the identity

of such substitute administrator), and such substitute administrator (if other than the Substitute Administrator) enters into an agreement substantially on the terms of the Administration Agreement;

- (c) such substitute administrator has experience of administering mortgages of residential property in England and Wales (if other than the Substitute Administrator) and is approved by the Trustee; and
- (d) PML as Administrator certifies that, in its reasonable opinion, the then current ratings of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes by the Rating Agencies would not be adversely affected as a result thereof unless otherwise agreed by an Extraordinary Resolution of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders and the Class D Noteholders respectively.

Substitute Administrator

Homeloan Management Limited ("**HML**") in its capacity as the substitute administrator (the "**Substitute Administrator**") has agreed pursuant to an agreement to be entered into on the Closing Date with the Issuer and the Trustee (the "**Substitute Administrator Agreement**") that it will agree to be a substitute administrator to perform the services under the Administration Agreement upon the termination of the appointment of the Administrators.

Termination of the appointment of the Substitute Administrator

HML may at any time prior to assuming the duties and obligations of the Administrators by serving notice in writing to the Issuer, terminate its appointment as Substitute Administrator (and shall be released from all obligations under the Substitute Administrator Agreement) if:

- (i) the Issuer fails to make any payment due to HML hereunder on the due date for payment thereof or within 20 Business Days thereafter;
- (ii) any amendment, addition or modification is made without HML's consent (such consent not to be unreasonably withheld or delayed) to the Relevant Documents which, in the reasonable opinion of HML, is materially prejudicial to HML without an appropriate increase in its fees being agreed by HML;
- (iii) provided that it has fully complied with its obligations under the Substitute Administrator Agreement, HML no longer holds the authorisations required for it lawfully to carry out all the obligations of the Administrators contemplated by the Administration Agreement and/or the Substitute Administrator Agreement, including any authorisations under FSMA and the CCA; or
- (iv) the Administrators fail to provide:
 - (a) certain information to the Substitute Administrator and such failure is not remedied within 15 Business Days of the date on which such information is required to be delivered or requested;
 - (b) any access to, amongst other things, the Administrators' office space, facilities, equipment, systems, software, and staff then in use by the Administrators; and
 - (c) any co-operation to the Substitute Administrator,

each as required under the Substitute Administrator Agreement.

The Issuer may at any time terminate the appointment of HML as Substitute Administrator if:

- (i) default is made by HML in the performance or observance of any of its covenants and obligations under the Substitute Administrator Agreement where, in the opinion of the Trustee, such default or breach is materially prejudicial to the interests of the Most Senior Class of Notes and such default is not remedied for a period of 30 days after the earlier of HML becoming aware of such default and receipt by HML of written notice from the Issuer or, following delivery of an Enforcement Notice, the Trustee requiring the same to be remedied;

- (ii) HML fails to assume the performance of the Cash Bond Management Services within 5 Business Days of being notified of the occurrence of an Administrator Termination Event;
- (iii) it is or will become unlawful for HML to perform or comply with any of its obligations under the Substitute Administrator Agreement; or
- (iv) an Insolvency Event occurs in relation to HML.

The appointment of HML as Substitute Administrator under the Substitute Administrator Agreement may be terminated by HML or the Issuer on the date falling 6 months after the date of receipt of a notice from HML or the Issuer, as the case may be, of an intention to terminate such appointment, provided that if upon such date a replacement Substitute Administrator which satisfies the applicable criteria of the Rating Agencies necessary to maintain the then current ratings of the Most Senior Class has not been appointed by the Issuer the appointment of HML as Substitute Administrator under the Substitute Administrator Agreement shall instead terminate on the earlier of:

- (a) the date falling 12 months after the date of receipt by the other parties to the Substitute Administration Agreement and the Substitute Administrator Facilitator of written notice from HML or the Issuer (each with a copy to the Substitute Administrator Facilitator and the Trustee), as the case may be, of an intention to terminate the Substitute Administrator Agreement; and
- (b) the date of appointment of a replacement Substitute Administrator which satisfies the applicable criteria of the Rating Agencies necessary to maintain the then current ratings of the Most Senior Class of Notes.

Under the Substitute Administrator Agreement HML's liability in contract, tort (including negligence or breach of statutory or regulatory duty) or otherwise howsoever, and whatever the cause thereof, arising by reason of or in connection with the Substitute Administrator Agreement, the Administration Agreement or any other Relevant Document prior to invocation shall be limited in any calendar year to the aggregate amount of all fees paid to HML in the 12 consecutive months immediately following the date of the Substitute Administration Agreement (and, to the extent the Substitute Administration Agreement is terminated prior to the date falling 12 consecutive months immediately following the date of the Substitute Administrative Agreement, the aggregate of all fees paid to HML on and prior to such date of termination) and after invocation (as replacement Administrator), the aggregate amount of fees paid to the Substitute Mortgage Administrator (as replacement Administrator) pursuant to the Administration Agreement over the course of the calendar year during which such liability has arisen. HML's liability shall not include any claim for any increased costs and expenses, loss of profit, business, contracts, revenues or anticipated savings or any special indirect or consequential damage whatsoever which liability is hereby excluded.

Substitute Administrator Facilitator

Intertrust Management Limited in its capacity as the substitute administrator facilitator (the "**Substitute Administrator Facilitator**") has agreed pursuant to an agreement to be entered into on the Closing Date with the Issuer and the Trustee (the "**Substitute Administrator Facilitator Agreement**") that it will, upon the occurrence of certain events in relation to the Substitute Administrator and/or Administrator (see "*Termination of the appointment of the Administrators*" and "*Termination of the appointment of the Substitute Administrator*" immediately above and the section entitled "*Transaction Overview – Triggers Tables – Non Rating Triggers Table*" for further information), assist the Issuer to appoint a successor Substitute Administrator and/or Administrator which has experience of administering mortgages of residential property in England and Wales and which, to the extent possible, satisfies the then applicable criteria of the Rating Agencies.

Administration Fees

The Administration Agreement will make provision for payments to be made to the Administrators and the Substitute Administrator.

The Issuer will pay to each Administrator fees for its services as an Administrator an "**Administration Fee**" at the rate of not more than 0.20 per cent. per annum, such fees being inclusive of any VAT and each such fee being calculated by applying such rate to the aggregate Interest Charging Balance of the outstanding Mortgages administered by that Administrator on the first day of the Collection Period which ends on the relevant Principal Determination Date and each such fee will be due quarterly in arrear on each

Interest Payment Date (or, in the case of the payment due on the first Interest Payment Date, on the then aggregate Interest Charging Balances on the Closing Date) and paid as specified in accordance with the applicable priority of payments. A higher fee at a rate agreed by the Issuer (but which does not exceed the rate then commonly charged by providers of mortgage administration services) may be payable to the Substitute Administrator appointed following termination of the Administrators' appointment as an Administrator.

The Issuer will pay to the Substitute Administrator fees for its services as follows:

- (i) prior to being appointed as an Administrator (in place of the Administrators), a project fee of £5,000 payable on the Closing Date and a "**Substitute Administrator Commitment Fee**" (exclusive of any VAT) in an amount equal to the greater of (a) £8,000 per annum and (b) 0.004 per cent. per annum of the daily average Interest Charging Balance of Mortgages in the Mortgage Portfolio during the relevant annual period, and such fee will be due annually in advance on the Closing Date and thereafter (following the anniversary of the Closing Date) on the Interest Payment Date falling in February of each year; and
- (ii) upon being appointed as Administrator (in place of the Administrators), the Administration Fee, such fees being exclusive of any VAT.

The Administrators and the Seller will be entitled to receive from the Issuer for their own account any commissions due to them from insurers out of premiums paid by borrowers as a result of their having placed buildings insurance in relation to the Mortgages with such insurers.

The administration fee and all costs and expenses of the Administrators (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 Administrators of their duties in relation to the Issuer, the Mortgages and the Notes.

"Interest Charging Balance" means, in relation to any Mortgage, the principal amount outstanding secured by that Mortgage as at the date of origination together with the amount of any further advances made, capitalised fees, capitalised interest and accrued interest which has become due and remains unpaid (and interest accrued thereon) since the date of origination less any amount applied to reduce the principal amount secured by that Mortgage since the date of origination, provided that (i) in relation to any Repayment Mortgage, the principal secured thereby shall for these purposes be deemed to be reduced at such intervals and by such amounts as correspond to the Seller's normal practice from time to time for determining the balance on which interest is charged for Repayment Mortgages and (ii) after completion of the enforcement procedures in relation to that Mortgage, any amount of principal secured by that Mortgage not then received shall not be treated as outstanding.

The Issuer will pay to the Substitute Administrator Facilitator fees for its services agreed in accordance with the Substitute Administrator Facilitator Agreement as follows:

- (i) a fixed amount per annum; and
- (ii) fees (if any) in respect of services provided to the Issuer to procure the appointment of a successor Administrator or successor Substitute Administrator.

Redemption

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

The Administration Agreement and all non-contractual obligations arising out of it are governed by, and shall be construed in accordance with, English law.

UNITED KINGDOM TAXATION

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of interest in respect of the Notes. It is based on the Issuer's understanding of current United Kingdom tax law and the published practice of HMRC, which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Noteholders who are in any doubt as to their tax position should consult their professional advisers. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

The following description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

The references to "interest" below mean "interest" as understood in United Kingdom tax law. The following statements do not take any account of any different definitions of "interest" which may prevail under any other law.

In this summary references to "Notes" and "Noteholder" excludes the Class S VFN and the Class S VFN Holder. The Class S VFN Holder is urged to consult its own tax advisers about the tax consequences of purchasing, holding and selling the Class S VFN under the laws of the United Kingdom, its political subdivisions and any other jurisdiction in which the Class S VFN Holder may be subject to tax.

Interest on the Notes

Withholding tax on payments of interest on the Notes

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes carry a right to interest and the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange. Securities will be treated as "listed on the London Stock Exchange" for this purpose if they are included in the Official List (within the meaning and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided therefore that the Notes carry a right to interest and are and continue to be so listed, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to any available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

ERISA CONSIDERATIONS FOR INVESTORS

The Notes may not be acquired by a "Benefit Plan Investor" or a governmental, church or non-U.S. plan which is subject to federal, state, local or non-U.S. laws which are similar to the prohibited transaction provisions of Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"). A Benefit Plan Investor is defined as (i) an employee benefit plan as defined in Section 3(3) of ERISA, which is subject to Title I of ERISA, (ii) a plan described in and subject to Section 4975 of the Code, or (iii) an entity whose underlying assets include plan assets by reason of a plan's investment in the entity under U.S. Department of Labor Regulations § 2510.3-101 (29 C.F.R. § 2510.3-101) as modified by Section 3(42) of ERISA. Each investor, in purchasing and holding the Notes shall be deemed to represent that it is not, and is not using the assets of, a Benefit Plan Investor or such a governmental, church or non-U.S. plan.

THE FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Merrill Lynch International, Lloyds Bank plc and Morgan Stanley & Co. International plc (together, the "Joint Lead Managers") have, pursuant to a subscription agreement dated on or about 23 April 2018 (to which, among others, the Sellers are also party) (the "Subscription Agreement") jointly and severally agreed, subject to certain conditions, to subscribe, or procure subscriptions, for a portion of the Class A Notes, the Class B Notes and the Class C Notes at the issue price indicated in the following table:

<u>Class of Notes</u>	<u>Issue price</u>	<u>Commission rate</u>
Class A.....	£375,000,000	0.05%
Class B.....	£31,800,000	0.05%
Class C.....	£28,500,000	0.05%

The Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Class A Notes, the Class B Notes and the Class C Notes. The Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Class A Notes, the Class B Notes and the Class C Notes. The Issuer has agreed to pay the Joint Lead Managers a combined selling, management and underwriting commission in respect of the Class A, the Class B Notes and the Class C Notes at the rate indicated in the above table against a percentage of the Initial Principal Amount of such Class A Notes, the Class B Notes and the Class C (as applicable) subscribed (or procured subscriptions for) by the Joint Lead Managers. The Issuer gives certain representations and warranties and undertakings to the Joint Lead Managers in the Subscription Agreement. The Subscription Agreement is subject to a number of conditions and may be terminated by the Joint Lead Managers in certain circumstances prior to payment for the Notes to the Issuer.

Paragon Finance PLC, has, pursuant to the Subscription Agreement, agreed with the Issuer, subject to certain conditions, to subscribe and pay for £225,000,000 of the Class A Notes, £1,700,000 of the Class B Notes, £1,500,000 of the Class C Notes and 100 per cent. of the Class D Notes, Class Z Notes, the Class S Notes and the Class S VFN at an issue price of 100 per cent. of the aggregate Initial Principal Amount of the Class D Notes, Class Z Notes, Class S Notes and Class S VFN, respectively, as at the Closing Date.

This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S) except pursuant to an exemption from the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold in offshore transactions in reliance on Regulation S.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering and the closing date within the United States or to, or for the account or benefit of, U.S. Persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. See the section entitled "*Transfer Restrictions and Issuer Representations*" below.

Except with the prior written consent of Paragon Bank PLC and where such sale falls within the exemption provided by Section 20 of the U.S. Risk Retention Rules, the Notes offered and sold by the Issuer may not be purchased by, or for the account or benefit of, any "U.S. Person" as defined in the U.S. Risk Retention Rules.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area.

For the purposes of this provision the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
- (b) a customer within the meaning of the IMD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

France

Each of the Joint Lead Managers has represented and agreed that in connection with the initial distribution of the Notes it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (b) qualified investors (*investisseurs qualifiés*) other than individuals, investing for their own account, all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411- 1 to D.411-3 of the French Code *monétaire et financier*.

Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**") and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 and the Legislative Decree No.385 of 1 September 1993, as amended (the "**Consolidated Banking Act**") (in each case as amended from time to time);
- (b) in compliance with Article 129 of the Consolidated Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which

the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

General

Each Joint Lead Manager has acknowledged that, save for approval of the Prospectus as a prospectus in accordance with Part VI of the FSMA, the application for the admission of the Notes to the Official List and admission to trading on the London Stock Exchange, no further action has been or will be taken in any jurisdiction by any person (including the relevant Joint Lead Manager) that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering material in relation to the Notes, in any country or jurisdiction where such further action for that purpose is required.

Each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

Offers and Sales by the Purchasers

The Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) may only be offered, sold, resold, delivered or transferred (i) outside the United States to a non-U.S. Person in an offshore transaction in reliance on Rule 903 or 904 of Regulation S or (ii) following the expiration of the distribution compliance period, pursuant to an applicable exemption from the registration requirements of the Securities Act and in accordance with any applicable securities law of any state of the United States.

Investor Representations and Restrictions on Resale

By its purchase of the Notes, each purchaser of the Notes (each initial purchaser, together with each subsequent transferee are referred to herein as the "**Purchaser**", which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented and agreed to the following (undefined terms used in this section that are defined in Regulation S are used herein as defined therein):

- (a) the Notes have not been and will not be registered under the Securities Act and such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will offer, resell, pledge or transfer such Notes only (i) to a purchaser who is not a U.S. Person (as defined in Regulation S) or an affiliate of the Issuer or a person acting on behalf of such an affiliate, and who is not acquiring the Notes for the account or benefit of a U.S. Person and who is acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; **provided, that** the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;
- (b) unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes (as applicable) from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (a) above, (iii) such transferee shall be deemed to have represented that such transferee is acquiring the Notes in an offshore transaction and that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing;
- (c) if the purchaser purchased the Notes during the initial syndication of the Notes, it (1) either (i) is not a Risk Retention U.S. Person or (ii) has obtained the prior written consent of Paragon Bank plc, (2) is acquiring such Note or a beneficial interest therein for its own account and not with a view to distribute such Notes and (3) is not acquiring such Note or a beneficial interest therein as part of a scheme to evade the requirements of the U.S. Risk Retention Rules (including acquiring such Note through a non-Risk Retention U.S. Person, rather than a Risk Retention U.S. Person, as part of a scheme to evade the 10 per cent. Risk Retention U.S. Person limitation in the exemption provided for in Section 20 of the U.S. Risk Retention Rules);
- (d) on each day from the date on which the purchaser or transferee acquires such Notes through and including the date on which the purchaser or transferee disposes of such Notes, it is not and will not be a Benefit Plan Investor or a governmental, church or non-U.S. plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, and that in purchasing and holding such Notes it is not, will not be acting on behalf of and will not be using the assets of a Benefit Plan Investor or any such governmental, church or non-U.S. plan; and
- (e) it will promptly (i) inform the Issuer if, during any time it holds a Note, there shall be any change in the acknowledgments, representations and agreements contained above or if they shall become false for any reason and (ii) deliver to the Issuer such other representations and agreements as to

such matters as the Issuer may, in the future, request in order to comply with applicable law and the availability of any exemption therefrom.

In addition, each purchaser of Notes from the Issuer, including beneficial interests therein, will be deemed, and in certain circumstances will be required, to have represented and agreed that it (1) is not a Risk Retention U.S. Person (unless it has obtained the prior written consent of Paragon Bank Plc), (2) is acquiring such Note or a beneficial interest therein for its own account and not with a view to distribute such Note, and (3) is not acquiring such Note or a beneficial interest therein as part of a scheme to evade the requirements of the U.S. Risk Retention Rules. Prospective investors should note that the definition of "U.S. person" in the U.S. Risk Retention Rules is substantially similar to, but not identical to, the definition of "U.S. person" in Regulation S.

The Issuer, the Registrar, the Arrangers, each Joint Lead Manager and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

The Notes and related documentation may be amended or supplemented from time to time to modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resales or transfer of securities such as the Notes generally, and that it will be deemed, by its acceptance of such Notes, to have agreed to any such amendment or supplement.

The Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries, and that those participants may further disclose to the Issuer the names and positions of holders of its securities.

Each Purchaser understands that (i) the sale of the Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) to it is being made in reliance on Regulation S, and (ii) the Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) may not be reoffered, resold, pledged or otherwise transferred except in accordance with the legend set forth below:

THIS NOTE HAS NOT BEEN REGISTERED AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND THE ISSUER (AS DEFINED IN THE TRUST DEED) HAS NOT BEEN REGISTERED AND DOES NOT INTEND TO REGISTER AS AN "INVESTMENT COMPANY" UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**") AND, AS A MATTER OF U.S. LAW, PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE CLOSING OF THE OFFERING THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE EXCEPT TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND IN PRINCIPAL AMOUNT OF NOT LESS THAN £100,000.

THE PURCHASER OF THIS NOTE OR ANY INTEREST IN THIS NOTE SHALL BE DEEMED TO HAVE REPRESENTED, WARRANTED AND AGREED THAT (I) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST IN THIS NOTE WILL NOT BE, A BENEFIT PLAN INVESTOR AS DEFINED IN SECTION 3(42) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), AND (II) IF IT IS OR MAY BECOME A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN WHICH IS NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, (THE "**CODE**"), ITS PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST IN THIS NOTE WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY U.S. FEDERAL, STATE OR LOCAL LAW OR ANY NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE. "**BENEFIT PLAN INVESTOR**," AS DEFINED IN SECTION 3(42) OF ERISA, INCLUDES (1) ANY EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF ERISA) THAT IS SUBJECT TO PART 4 OF TITLE I OF ERISA, (2) ANY PLAN DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE CODE, AND (3) ANY ENTITY WHOSE

UNDERLYING ASSETS INCLUDE PLAN ASSETS FOR THE PURPOSES OF ERISA OR SECTION 4975 OF THE CODE BY REASON OF A PLAN'S INVESTMENT IN THE ENTITY.

THE PURCHASER IS HEREBY NOTIFIED THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES, AND THAT THOSE PARTICIPANTS MAY FURTHER DISCLOSE TO THE ISSUER THE NAMES AND POSITIONS OF HOLDERS OF ITS SECURITIES.

PRIOR TO THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD, AN INTEREST IN THIS NOTE MAY BE HELD ONLY THROUGH EUROCLEAR OR CLEARSTREAM, LUXEMBOURG.

Because of the foregoing restrictions, purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.

GENERAL INFORMATION

- (a) It is expected that listing of the Notes (other than the Class S VFN) to the Official List of the UK Listing Authority will occur, and that the Notes (other than the Class S VFN) will be admitted to trading on the Regulated Market of the London Stock Exchange on or around 26 April 2018, subject only to the issue of the Global Notes. Prior to the official listing, however, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules. The listing of the Notes will be cancelled if the Global Notes are not issued. The Residual Certificates are not intended to be admitted to listing on the Official List nor to trading on the Regulated Market.
- (b) The following Notes and Residual Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg:

	Common Code	ISIN
Class A Notes	178581864	XS1785818649
Class B Notes.....	178582143	XS1785821437
Class C Notes.....	178582194	XS1785821940
Class D Notes	178582208	XS1785822088
Class Z Notes.....	178582224	XS1785822245
Class S Notes.....	178582232	XS1785822328
RC1a Residual Certificate	178607987	XS1786079878
RC1b Residual Certificate	178608274	XS1786082740
RC2a Residual Certificate	178608282	XS1786082823
RC2b Residual Certificate	178608312	XS1786083128

- (c) Since the date of its incorporation the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business other than the Subscription Agreement.
- (d) Since 15 September 2015 (being the date of incorporation of the Issuer), there has been: (a) no material adverse change in the financial position or prospects of the Issuer; and (b) no significant change in the financial or trading position of the Issuer.
- (e) So long as any Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the Regulated Market of the London Stock Exchange, the most recently published audited annual accounts of the Issuer from time to time shall be available at the Specified Office of the Principal Paying Agent in London. The Issuer does not intend to publish interim accounts from the date hereof. No statutory or non-statutory accounts within the meaning of sections 434 and 435 of the Companies Act 2006 (as amended) in respect of any financial year of the Issuer have been prepared.
- (f) There are no, and have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus, which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Issuer or the group of companies of which the Issuer is a member.
- (g) The registered office address of the Seller is at 51 Homer Road, Solihull, West Midlands, B91 3QJ.
- (h) Copies of the following documents may be inspected during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the Specified Office of the Principal Paying Agent in London:
- (i) the Memorandum and Articles of Association of the Issuer; and
 - (ii) the Trust Deed to constitute the Notes (including the forms of the Global Notes and Definitive Notes), the Mortgage Sale Agreement, the Administration Agreement, the Substitute Administrator Agreement, the Substitute Administrator Facilitator Agreement, the Deed of Charge, the Agency Agreement, the Collection Account Declaration of Trust, the Basis Hedge Agreement, the Issue Services Fee Letter, the Intertrust Corporate Services Agreement, the Paragon Corporate Services Letter, the Cross-collateral Mortgage Rights Deeds, the Account Bank Agreement, the CRR Deed of Covenant and Deed Poll.

- (i) PML as Administrator on behalf of the Issuer will make available (i) post issuance information in relation to each Mortgage and (ii) post issuance transaction information in the form of monthly and quarterly investor reports via the following website: www.paragonbank.co.uk and refer to 'bond investor reporting'. The website and the contents thereof do not form part of this Prospectus. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Mortgages.
- (j) The monthly investor reports will contain information in respect of the Mortgage Portfolio as set out in the Administration Agreement in respect of the Mortgages.
- (k) The quarterly investor reports will contain information as set out in the Administration Agreement including, but not limited to information in respect of the Mortgages, details relating to any repurchases of Mortgages by the Seller pursuant to the Mortgage Sale Agreement and details with respect to the rates of interest, Note principal and interest payments and other payments by the Issuer.
- (l) The credit ratings included or referred to in this Prospectus have been issued by the Rating Agencies, each of which is established in the European Union and is registered in accordance with the CRA Regulation.
- (m) The Issuer confirms that the Mortgages backing the issue of the Notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. However, regard should be had to the characteristics of the Mortgage Portfolio and the risks to which they (and the Issuer and the Notes) may be exposed. Consequently, investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.

GLOSSARY

The following terms used in this Prospectus are defined on the page numbers specified below:

DEFINED TERMS

£.....	x	Basis Hedge Provider.....	115
Accepted Market Base Rate	175	Benchmarks Regulation	iv
Account Bank.....	117	Benefit Plan Issuer	261
Account Bank Agreement	117	Block Policy.....	231
Account Banks	117	Book-Entry Interests	128
Additional Amounts	213	Borrower	226
Additional Available Redemption Funds	153	Brexit Vote.....	41
Additional Interest.....	59, 140	Business Day.....	140
Additional Mortgage Conditions	75, 217	Cash Bond Management Services.....	250
Additional Mortgage MRF Required Amount	110	CCA	28
Additional Mortgages.....	217	Charged Property	163, 191
Adjusted Margin Shortfall	111	Cheque	159, 187
Adjusted Mortgage MRF Required Amount	110	class.....	134, 181
Adjusted Relevant Aggregate Current Balance	111	Class A and Class B Liquidity Deficit	105
Administration Agreement	240	Class A and Class B Liquidity Reserve Fund.....	104
Administration Senior Fee.....	252	Class A and Class B Liquidity Reserve Fund Excess Amount	105
Administrator	139, 185	Class A and Class B Liquidity Reserve Fund Ledger	119
Administrator Certificate.....	179	Class A and Class B Liquidity Reserve Fund Release Amount	105
Administrator Report.....	149	Class A and Class B Liquidity Reserve Fund Required Amount.....	106
Administrator Termination Event.....	249	Class A Available Redemption Funds	153
Agency Agreement.....	116	Class A Noteholders	134
Agents.....	116	Class A Notes.....	56, 134
AIFM Regulation	99	Class A Retained Principal Release Amount	153
AIFM Regulations.....	v	Class A Schedule Multiplier	153
AIFMD	167, 195	Class A Target Notional.....	153
AIFMR	168, 195	Class B Available Redemption Funds.....	154
Alternate Base Rate	23	Class B Noteholders.....	134
Alternative Base Rate	170	Class B Notes.....	56, 134
Amortised Cost Adjustment	220	Class B Redemption Date	106
Amortised Cost Adjustment Amount	220	Class B Retained Principal Release Amount	154
Applicable Base Rate	170	Class C Available Redemption Funds.....	154
Approved Credit Support Document	213	Class C Noteholders.....	134
Arrangers	6	Class C Notes.....	56, 134
Arrears Converted Mortgage	82	Class C Retained Principal Release Amount	154
Arrears Mortgages.....	75	Class D Available Redemption Funds	155
Article 50.....	41	Class D Noteholders	134
Article 50 Notice	41	Class D Notes.....	56, 134
AUP Review	75, 219	Class D Retained Principal Release Amount	155
Authorised Denomination	129	Class S Available Redemption Funds	156
Authorised Investment.....	248	Class S Noteholders	134
Available Principal	125, 149	Class S Notes	134, <i>See</i>
Available Redemption Funds	151	Class S VFN.....	56, 134
Available Revenue	122, 149	Class S VFN Available Redemption Funds	156
Banking Act.....	37	Class S VFN Commitment Termination Date	177
Base Rate Modification	170	Class S VFN Drawdown Ledger.....	121
Base Rate Modification Certificate	170	Class S VFN Holders	134
Base Rate Modification Noteholder Notice.....	172	Class S VFN Register	136
Basel Committee	36	Class Z Available Redemption Funds.....	155
Basel III.....	36		
Basic Terms Modification	165, 192		
Basis Hedge Agreement	115		

Class Z Noteholders	134	Disputes	180, 198
Class Z Notes	56, 134	distributor.....	xii
Class Z Retained Principal Release Amount	155	EEA.....	xii, 36
classes.....	134, 181	Electronic Consents	63
Clearing Obligation	43	EMIR	22, 167, 194
Clearing Systems.....	132, 135, 182	Energy Efficiency Regulations 2015	35
Clearstream, Luxembourg	135, 182	Enforcement Notice	162, 189
Closing Date	iii, 134, 181	Enforcement Priority of Payments	126, 137, 183
Closing Date Mortgage Portfolio	iii	ERISA.....	255, 261
CMA.....	31	EU27	41
Code	22, 168, 195, 255, 261	Euroclear.....	135, 182
Collateral Obligation	43	Eurosystem.....	128
Collection Account.....	117	Eurosystem eligible collateral	vii
Collection Account Bank	117	Event of Default.....	162, 189
Collection Account Banks.....	117	FATCA	22, 168, 195
Collection Account Declarations of Trust ...	242	FATCA withholding	161, 189
Collection Period.....	151	FCA.....	v, 13, 214
Commission's Proposals	47	FCA Announcement	13
Common Depository.....	128, 135, 182	FCs.....	43
Common Safekeeper	128	Final Maturity Date.....	159
Conditions	134	Final Redemption Date	108
CONSOB.....	258	Financial Services Act	258
Consolidated Banking Act.....	258	Fitch	iv
Consumer Buy-to-Let Loan.....	28	Fixed Rate Mortgage.....	216
Conversion Margin Reserve Fund Ledger....	120	FSA	30
Conversion MRF Discretionary Amount	114	FSCS	20
Conversion MRF Discretionary Fund	113	FSMA	28
Conversion MRF Discretionary Fund Ledger	.....	FTT	47
.....	120	Further Advance.....	245
Conversion MRF Excess Amount	114	Further Class S VFN Funding.....	176
Conversion MRF Required Amount.....	114	Further Sale Date	220
Converted Mortgage.....	114	Further Sale Period	iii
Converted Mortgage Release Amount	114	Further Sale Period End Date.....	iii
Corporate Mortgages.....	215	Further Sale Period End Date.....	75
CPUTR.....	32	Further Sale Period Termination Event.....	75
CRA.....	30	GBP.....	x
CRA Regulation	iv	GBP LIBOR.....	52
CRD.....	36	General Reserve Fund.....	106
CRD IV	36	General Reserve Fund Excess Amount.....	108
Cross-collateral Mortgage	244	General Reserve Fund Ledger.....	118
Cross-collateral Mortgage Rights Deeds	244	General Reserve Fund Release Amount	107
Cross-collateral Rights	244	General Reserve Fund Required Amount	108
CRR.....	v, 99, 167, 195	Global Note.....	vii, 135
CRR Deed of Covenant	28	Global Residual Certificate	181
CTA.....	136	Hedge Collateral	212
Current Balance	109	Hedge Collateral Accounts	212
Current LTV Ratio	75	Hedge Collateral Custodian	212
Deed of Charge.....	124, 136, 182	Hedge Collateral Custody Agreement	212
Deed Poll	204	Hedge Collateral Ledger	120
Default Interest	141	Hedge Provider Subordinated Amounts.....	212
Deferred Interest.....	140	Hedge Replacement Premium.....	213
Deferred Purchase Consideration	221	HML	251
Definitive Note	135	HMOs	35
Definitive Residual Certificate	182	Holder	136, 182
Determination Period	148	ICSDs.....	v
DFA Pre-Funding Reserve Ledger Release Date	.....	IGAs.....	256
.....	156	IMD.....	xii
Discretionary Further Advance	245	Indirect Participants	129
Discretionary Further Advance Pre-Funding	.....	Individual Mortgages	215
Reserve Ledger.....	118	Initial Basis Hedge Agreement	114

Initial Basis Hedge Agreements	114	Mortgage Documentation	79
Initial Basis Hedge Provider	114	Mortgage Impairment Contingency Policy ...	231
Initial Mortgage MRF Required Amount	112	Mortgage Margin Reserve Fund ...	109, 113, 115
Initial Principal Amount	157	Mortgage MRF Discretionary Amount	112
Initial Purchase Consideration	220	Mortgage MRF Discretionary Fund	109
Insolvency Act	40	Mortgage MRF Discretionary Fund Ledger..	120
Insolvency Event	250	Mortgage MRF LIBOR	112
Insurance Contracts	231	Mortgage MRF Required Amount	112
Interest Charging Balance	253	Mortgage Payment Date	106
Interest Determination Date	143	Mortgage Portfolio	73
Interest Determination Ratio	149	Mortgage Sale Agreement	217
Interest Payment	146	Mortgagee	223
Interest Payment Date	139, 185	Mortgages	215
Interest Period	139	Most Senior Class	139, 185
Interest Rate Converted Mortgage	82	Net Stable Funding Ratio	36
Interest Rate Converted Mortgage Conditions	82	New Safekeeping Structure	128
Interest Shortfall Ledger	120	NFC-	43
Interest-only Mortgages	216	NFC+	43
Intertrust Corporate Services Agreement	206	Non-Proceeding Conversion Release Amount	114
<i>Intra-period Amounts</i>	104	.....	114
Investment Company Act	261	Non-Responsive Rating Agency	179
Investment Home Mortgage	215	Non-Reversionary LIBOR-Linked Mortgage	217
Issue Services Fee Letter	116	Normal Interest	139
Issue Services Provider	116	Note Interest Rate Margin	144
Issue Services Provider Fees	116	Noteholders	56, 134
Issuer	134, 181	Notes	56, 134
Issuer Certificate	179	Notice of Increase	177
Issuer Insolvency Event	162, 190	NSS	128, 135, 182
Issuer Profit Amount	123	Official List	v
Joint Lead Managers	i, 257	OFT	31
KID	xii	Ombudsman	32
LBSF	39	Optional Repayment Mortgage	216
Legal Title Holders	217	OTC	43
Lending Guidelines	226	outstanding amount	244
Liability Cap	176, 198	Overdue Interest	140
LIBOR	52	Paragon Bank	iii, 215
LIBOR-Linked Mortgage	216	PARAGON BANK	i
LIBOR-Linked Reset Rate 1	112	Paragon Bank Allocation	185
Liquidity Coverage Ratio	36	Paragon Bank Cross-collateral Mortgage Rights	244
Lloyds Bank	214	Deed	244
Lloyds Banking Group	214	Paragon Bank Depositor Mortgage	79
Loan	226	Paragon Bank Mortgage Excess Amount	79
Local Business Day	159, 187	Paragon Banking Group	x
London Business Day	140	Paragon Banking Group Company	83
London Paying Agent	161, 188	Paragon Banking Noteholder	vi
London Stock Exchange	147	Paragon Corporate Services Letter	206
LTV	236	Paragon Corporate Services Provider	206
Mandatory Further Advance	245	Participants	129
Margin Reserve Fund Ledger	120	Payee	159, 187
Margin Shortfall	112	Paying Agents	116
Markets in Financial Instruments Directive	v	Payment Date	159, 187
Maximum Class S VFN Amount	177	Payments Priorities	126, 137, 183
Maximum Principal Retained Amount	121, 156	PB Collection Account Declaration of Trust	242
Member State	x	PBG	v, 99
MFA Pre-Funding Reserve Ledger Release Date	245	Permitted Account	159, 187
.....	245	Permitted Basis Hedge Agreement	115
MiFID II	xii, 258	Permitted Basis Hedge Provider	114
Modification Certificate	168, 195	PFFL	217
Moody's	iv	PFFL Mortgages	217
Mortgage Conditions	215	PFPLC	v

PML.....	iii, 215	RC1a Payments.....	186
PML Allocation.....	186	RC1a Residual Certificates.....	181
PML Collection Account Declaration of Trust.....	242	RC1b Payment Amount.....	186
PML Cross-collateral Mortgage Rights Accession Deed.....	244	RC1b Payments.....	186
PML Cross-collateral Mortgage Rights Deed.....	244	RC1b Residual Certificateholders.....	181
PML Mortgages.....	217	RC2 Payment Amounts.....	186
Pool Factor.....	157	RC2 Payments.....	186
Portfolio Option.....	87, 204	RC2 Residual Certificates.....	181
Portfolio Option Commencement Date ..	87, 204	RC2a Payment Amount.....	186
Portfolio Option Holder.....	87, 204	RC2a Payments.....	186
Portfolio Option Purchase Price.....	89	RC2a Residual Certificateholders.....	181
Portfolio Purchase.....	88, 204	RC2a Residual Certificates.....	181
Post Enforcement Amounts.....	125	RC2b Payment Amount.....	186
PRA.....	15, 214	RC2b Payments.....	186
PRIIPs Regulation.....	xii	RC2b Residual Certificateholders.....	181
Principal Addition Amounts.....	109	RC2b Residual Certificates.....	181
Principal Amount Outstanding.....	157	Realisation.....	163, 191
Principal Deficiency Ledger.....	121	Reconciliation Amount.....	149
Principal Determination Date.....	151	Record Address.....	159, 187
Principal Ledger.....	118	Record Date.....	130, 160, 187
Principal Liability Outstanding.....	157	Reference Agent.....	116, 143
Principal Paying Agent.....	116	Reference Banks.....	144
Principal Payment.....	150	Reference Quotations.....	144
Principal Priority of Payments.....	125, 137, 183	Reference Rate.....	144
Principal Receipts.....	118, 150	Reference Screen.....	144
Proceedings.....	180, 198	Register.....	135, 182
Product Conversion Rate Reduction Amount.....	114	Registrar.....	116, 135, 182
Properties.....	215	Regulated Credit Agreement.....	28
Proposed Amendment.....	22	Regulated Market.....	v
Proposed Interest Rate Converted Mortgage..	83	Regulated Mortgage Contract.....	28
Prospectus.....	i, v	Regulation No. 11971.....	258
Prospectus Directive.....	v	Relevant Aggregate Current Balance.....	113
Provisional Balance.....	235	Relevant Authorisations.....	87, 203
Provisional Mortgage Pool.....	235	Relevant Date.....	112, 161, 189
Provisional Pool Date.....	235	Relevant Documents.....	138, 184
Purchase Date.....	220	Relevant Entity.....	xi
Purchaser.....	260	Relevant Information.....	xi
Qualifying Noteholder.....	136	Relevant Noteholders.....	164, 191
Quarterly MRF Release Amount.....	113	Relevant Persons.....	63
Quotation Deposits.....	144	Relevant Residual Certificateholders....	165, 191
Quotation Market.....	144	Relevant Screen.....	164
Quotation Time.....	144	Rental Cover.....	75
RC1b Residual Certificates.....	181	Renting Homes Act.....	33
RAO.....	28	Repayment Converted Mortgage.....	84
Rate of Interest.....	143	Repayment Mortgages.....	216
Rate of Interest Maintenance Adjustment ...	173	Required Amount Trigger.....	106
Rated Notes.....	v, 9, 56, 134	Residual Certificateholders.....	181
rating.....	12	Residual Certificates.....	v, 181
Rating Agencies.....	iv	Residual Certificates Conditions.....	181
Rating Agency Confirmation.....	178	Residual Payment Amounts.....	186
ratings.....	12	Residual Payments.....	186, 221
Ratings Confirmation.....	27	Retained Principal Ledger.....	121
RC1 Payment Amounts.....	186	Retained Principal Release Amount.....	121, 156
RC1 Payments.....	186	Revenue Deficit.....	108
RC1 Residual Certificateholders.....	181	Revenue Ledger.....	118
RC1 Residual Certificates.....	181	Revenue Priority of Payments.....	122, 137, 183
RC1a Payment Amount.....	186	Revenue Receipts.....	118, 149
		Reversionary Period.....	16
		Risk Retention U.S. Person.....	45
		Risk Retention U.S. Persons.....	44

RISK RETENTION U.S. PERSONS	i	Substitute Administrator Facilitator	252
RISK RETENTION U.S. PERSONS	viii	Substitute Administrator Facilitator Agreement	252
Secured Amounts	133	Swap Tax Credit	127
Secured Creditors	133	Target Portfolio Purchase Completion Date ..88, 204	
Securities Act	i, 261	Third Party Purchaser	88, 204
Securitisation Regulation.....	43	Transaction Account	117
Securitisation Regulations	47	Transaction Party	4, 168, 195
Security.....	133, 136, 182	Transfer Regulations	135, 182
Seller Asset Warranties	222	Trust Deed.....	128, 134, 181
Sellers	iii, 215	Trustee	85, 128, 134, 181
Senior Expenses Deficit	109	U.S. Person	136, 182
Sequential Order.....	56	U.S. Risk Retention Rules.....	v
Share Trustee.....	208	U.S. Risk Retention Rules.....	44
Significant Investor	vi	UCP.....	32
Solvency II Regulation	v, 99, 168, 195	UNFCOG	32
Specified Office.....	160, 187	UTCCR	30
SSPE.....	43	VAT	98
Standard Variable Rate Mortgage	217	Volcker Rule	vi, 100
Statistical Information	xi	Warehouser	217
Step-Up Date	143	Withdrawal Bill.....	41
Sterling	x	Withheld Amount.....	213
Subscription Agreement	257	Withholding Compensation Amounts	213
Substitute Administrator.....	136, 183, 251		
Substitute Administrator Agreement	251		
Substitute Administrator Commitment Fee..	253		

REGISTERED OFFICE OF THE ISSUER

Paragon Mortgages (No.25) PLC

51 Homer Road
Solihull
West Midlands B91 3QJ

ADMINISTRATORS

Paragon Mortgages (2010) Limited

51 Homer Road
Solihull
West Midlands B91 3QJ

Paragon Bank Plc

51 Homer Road
Solihull
West Midlands B91 3QJ

TRUSTEE

Citicorp Trustee Company Limited

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

REGISTRAR, REFERENCE AGENT, PRINCIPAL PAYING AGENT

Citibank, N.A., London Branch

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

LEGAL ADVISERS TO THE ISSUER AND THE ADMINISTRATOR

as to English law

Clifford Chance LLP

10 Upper Bank Street
Canary Wharf
London E14 5JJ

LEGAL ADVISERS TO THE JOINT LEAD MANAGERS

as to English law

Allen & Overy LLP

1 Bishops Square
London, E1 6AD

LEGAL ADVISERS TO THE TRUSTEE

as to English law

Simmons & Simmons LLP

CityPoint
One Ropemaker Street
London EC2Y 9SS

AUDITORS TO THE ISSUER

KPMG LLP
15 Canada Square
London E14 5GL